

AI: New Growth Wave in Technology Services

Recently, we have witnessed a sharp correction in IT stocks, with the NIFTY IT index declining ~25% YTD in CY26. This correction has been driven by rising concerns around AI-led disruption, including fears of workforce displacement and the emergence of startups claiming to fundamentally alter traditional service delivery models. The sector was already navigating a cyclical slowdown amid macroeconomic uncertainty, elevated investment requirements, and ongoing AI integration costs. Historically, enterprise technology spending has progressed through multiple structural cycles, each anchored in a significant shift in technology architecture and evolving business needs. These transitions have consistently reshaped the trajectory of enterprise workflows and operating models.

Evolution of the IT Sector

A) Outsourcing and Offshoring Cycle (2000–2008)

The first major growth cycle for the global IT services industry was driven by the outsourcing and offshoring model. Enterprises in developed markets, particularly in the US and Europe, are increasingly outsourcing software development, application maintenance, and infrastructure management to offshore vendors to reduce costs. India emerged as the largest beneficiary due to its large pool of skilled engineers and significant labour cost advantages.

B) Cost Optimisation Cycle (2009–2013)

Post the Subprime Crisis of 2008, enterprises primarily focused on cost control and operational efficiency. Enterprise spending slowed as companies postponed discretionary projects and prioritised efficiency-driven initiatives. However, outsourcing continued to grow as organisations sought to reduce IT operating costs. During this phase, IT vendors increasingly signed large managed services contracts, where vendors took over end-to-end management of IT infrastructure and applications. Growth rates moderated compared to the earlier outsourcing boom, but the industry remained resilient due to continued demand for cost optimisation.

C) Cloud Adoption Cycle (2014–2018)

The next major cycle was driven by the rapid adoption of cloud computing platforms. Enterprises began migrating their workloads from on-premise data centres to public cloud infrastructure offered by hyperscalers, such as Amazon Web Services, Microsoft Azure, and Google Cloud. This transition fundamentally changed the IT services industry, creating demand for services such as cloud migration, application re-platforming, and cloud-native development. Indian IT companies restructured themselves to capture this opportunity by building cloud consulting and implementation capabilities. Cloud adoption significantly expanded the addressable market for IT services and enabled more scalable and flexible enterprise IT infrastructure.

D) Digital Transformation Cycle (2019–2022)

Enterprise demand for technologies such as data analytics, mobile platforms, cybersecurity, IoT, and digital customer experience solutions. Therefore, IT companies invested heavily in digital capabilities to enhance customer engagement, automate business processes, and improve operational efficiency. The COVID-19 pandemic accelerated this trend as organisations rapidly digitised operations to support remote work and online services. Indian IT companies benefited from strong deal pipelines during this period, with several firms reporting double-digit revenue growth, driven by large digital transformation programs and increased enterprise technology spending.

E) AI and Automation Cycle (2023 – Present)

The current IT cycle is increasingly being driven by artificial intelligence, automation, and advanced data platforms. Enterprises are investing heavily in AI infrastructure, including GPUs, high-performance computing systems, and large-scale data platforms to support machine learning and generative AI applications. This new cycle is expected to reshape the IT services landscape by increasing demand for AI consulting, data engineering, and AI model deployment services. At the same time, automation and generative AI tools are improving productivity in software development, potentially creating deflationary pressures on traditional IT services pricing while simultaneously expanding the overall technology services market.

Top Picks:

| Company | Rating | Target Price (Rs) |
|--------------------|--------|-------------------|
| HCL Tech | BUY | 1,660 |
| Infosys | BUY | 1,600 |
| TCS | BUY | 3,155 |
| Coforge | BUY | 1,800 |
| Persistent Systems | BUY | 6,270 |
| Affle 3i | BUY | 1,645 |

Source: Axis Securities Research

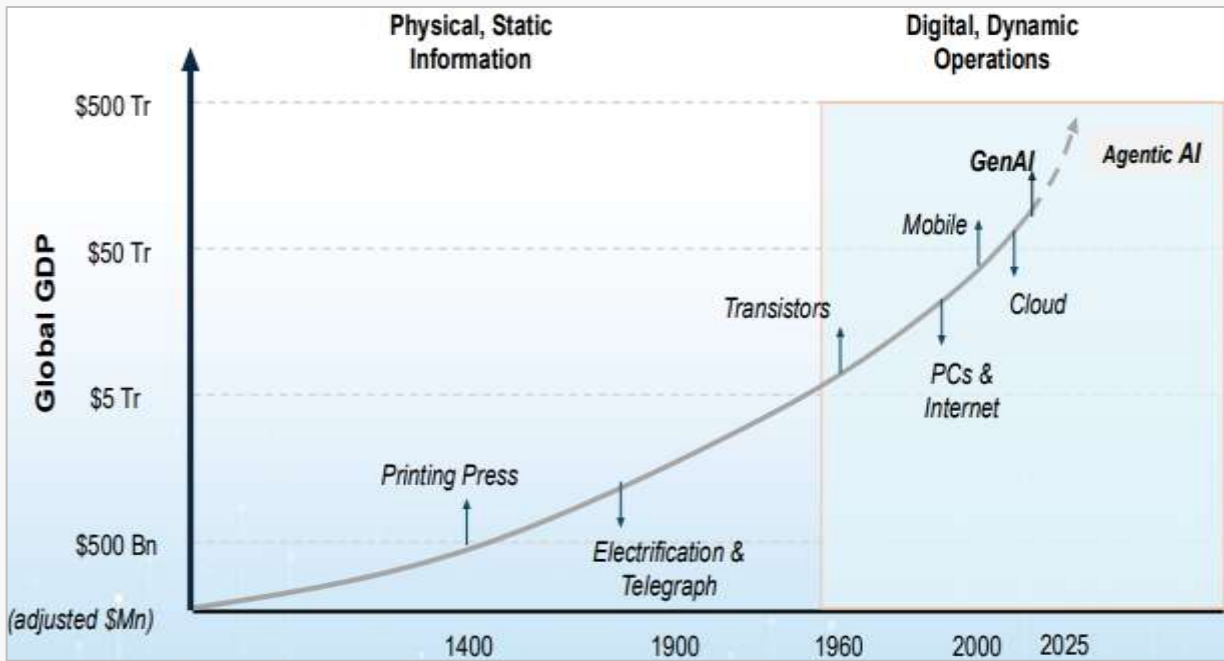
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Exhibit 1: Technological Shifts Over the Years

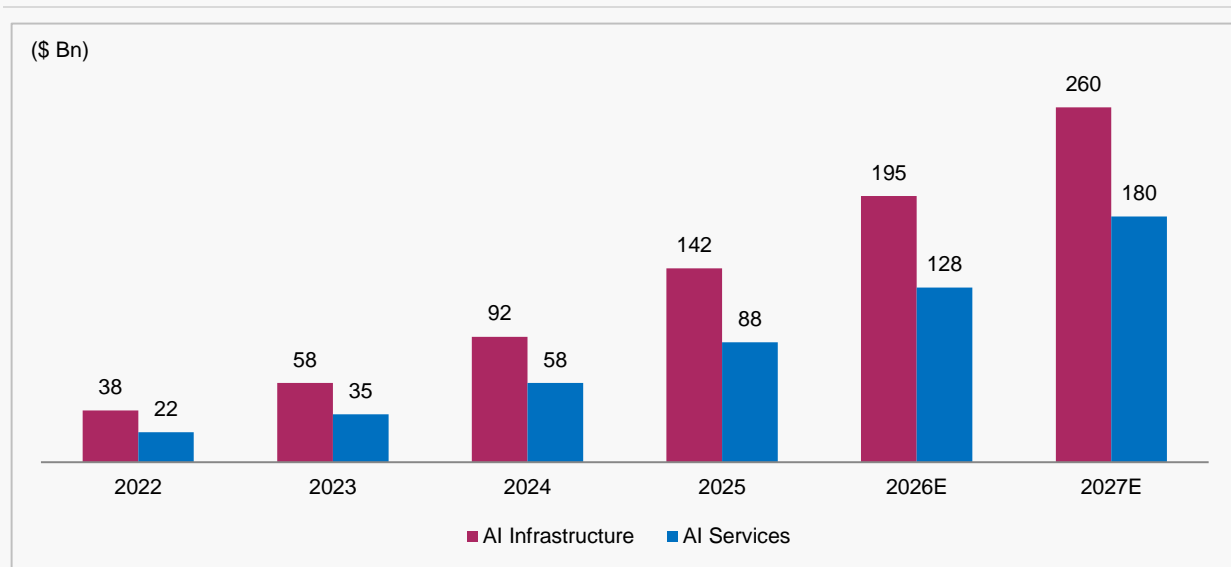


Source: Infosys PPT

Exhibit 2: Structural Shifts by AI integration



Source: Company, Axis Securities Research

Exhibit 3: Global Enterprise AI Investments


Source: Gartner Report, Axis Securities Research

Exhibit 4: Current Valuation

Despite limited earnings downside, Most of the IT service companies witnessed a significant correction in their stock prices from our coverage universe.

| Company Name | Current (TTM basis) | PE (x) 3 Year Average | 5 Year Average | Discount 3 Year | Discount 5 Year |
|-----------------------------|---------------------|--------------------------|----------------|-----------------|-----------------|
| Coforge | 29 | 52 | 48 | -44% | -39% |
| Cyient | 17 | 27 | 24 | -38% | -32% |
| HCL Technologies | 21 | 25 | 24 | -17% | -14% |
| Infosys | 17 | 24 | 27 | -30% | -37% |
| KPIT Technologies | 24 | 68 | 58 | -65% | -59% |
| L&T Technology Services | 27 | 37 | 39 | -26% | -29% |
| LTIMindtree | 24 | 34 | 35 | -30% | -31% |
| Persistent Systems | 40 | 57 | 52 | -29% | -23% |
| Tata Consultancy Services | 17 | 29 | 31 | -42% | -45% |
| Tech Mahindra | 27 | 35 | 30 | -21% | -10% |
| Wipro | 15 | 21 | 21 | -28% | -29% |
| Zensar Technologies | 17 | 25 | 24 | -33% | -32% |
| Happiest Minds Technologies | 27 | 51 | 54 | -46% | -49% |
| IndiaMART InterMESH | 20 | 46 | 51 | -56% | -60% |
| Affle 3i | 42 | 59 | 65 | -29% | -36% |

Source: Company, Axis Securities Research

Exhibit 5: Our Recommendations from the Coverage Universe

We believe the recent sharp correction in IT services stocks presents an attractive long-term buying opportunity in high-quality companies. Accordingly, we have revised our target prices across our coverage universe, incorporating the current pessimism and near-term earnings visibility challenges. **Within our coverage, our preferred picks are Infosys, HCL Tech, TCS, Coforge, Persistent Systems, and Affle 3i.**

| Company Name | Current Reco | Old TP | CMP | Implied PE | EPS of FY28E | New TP | upside |
|-----------------------------|--------------|--------|-------|------------|--------------|--------|--------|
| Coforge | BUY | 2,300 | 1,097 | 26 | 69 | 1,800 | 64% |
| Cyient | HOLD | 1,230 | 833 | 12 | 76 | 880 | 6% |
| HCL Technologies | BUY | 1,880 | 1,318 | 20 | 83 | 1,660 | 26% |
| Infosys | BUY | 1,820 | 1,226 | 20 | 80 | 1,600 | 31% |
| KPIT Technologies | HOLD | 1,130 | 659 | 16 | 44 | 710 | 8% |
| L&T Technology Services | HOLD | 4,600 | 3,302 | 20 | 182 | 3,530 | 7% |
| LTIMindtree | BUY | 7,300 | 4,200 | 21 | 231 | 4,940 | 18% |
| Persistent Systems | BUY | 7,170 | 4,625 | 32 | 196 | 6,270 | 36% |
| Tata Consultancy Services | BUY | 3,565 | 2,363 | 17 | 182 | 3,155 | 34% |
| Tech Mahindra | BUY | 1,870 | 1,350 | 20 | 87 | 1,730 | 28% |
| Wipro | HOLD | 290 | 189 | 14 | 14 | 200 | 7% |
| Zensar Technologies | HOLD | 760 | 559 | 15 | 39 | 590 | 6% |
| Happiest Minds Technologies | BUY | 520 | 371 | 15 | 30 | 450 | 22% |
| IndiaMART InterMESH | HOLD | 2,310 | 2,033 | 17 | 126 | 2,190 | 8% |
| Affle 3i | BUY | 2,200 | 1,300 | 30 | 55 | 1,645 | 26% |

Source: Company, Axis Securities Research

Exhibit 6: Valuation Sheet

| Company Name | Market Cap (Rs Cr) | Sales (Rs Cr) | | | EBIT (Rs Cr) | | | PAT (Rs Cr) | | | EPS (Rs) | | | Book Value (Rs Cr) | | | ROE (x) | | | RoCE (x) | | |
|---------------------------------|--------------------|---------------|----------|----------|--------------|--------|--------|-------------|--------|--------|----------|-------|-------|--------------------|-------|-------|---------|-------|-------|----------|-------|-------|
| | | FY25 | FY26E | FY27E | FY25 | FY26E | FY27E | FY25 | FY26E | FY27E | FY25 | FY26E | FY27E | FY25 | FY26E | FY27E | FY25 | FY26E | FY27E | FY25 | FY26E | FY27E |
| Affle India Ltd | 18,293 | 2,266 | 2,734 | 3,451 | 386 | 508 | 629 | 381 | 475 | 595 | 27 | 34 | 43 | 210 | 244 | 287 | 14 | 15 | 16 | 14 | 15 | 16 |
| Coforge Ltd | 36,678 | 12,051 | 16,291 | 19,561 | 1,109 | 1,266 | 2,165 | 836 | 963 | 1,478 | 29 | 49 | 62 | 191 | 219 | 265 | 19 | 22 | 26 | 15 | 15 | 18 |
| Cyient Ltd | 9,222 | 7,360 | 7,266 | 8,257 | 876 | 681 | 885 | 653 | 601 | 716 | 61 | 54 | 64 | 498 | 506 | 544 | 14 | 11 | 12 | 12 | 10 | 11 |
| Happiest Minds Technologies Ltd | 5,662 | 2,061 | 2,358 | 2,804 | 266 | 329 | 451 | 185 | 243 | 359 | 12 | 16 | 24 | 103 | 113 | 131 | 12 | 15 | 19 | 13 | 14 | 18 |
| HCL Technologies Ltd | 3,55,926 | 1,17,055 | 1,28,799 | 1,39,129 | 21,420 | 22,959 | 25,323 | 17,399 | 17,051 | 20,295 | 64 | 63 | 75 | 257 | 320 | 394 | 25 | 22 | 21 | 23 | 20 | 20 |
| IndiaMART InterMESH Ltd | 12,206 | 1,388 | 1,556 | 1,715 | 490 | 502 | 546 | 551 | 561 | 655 | 91 | 93 | 108 | 361 | 454 | 562 | 28 | 23 | 21 | 23 | 19 | 17 |
| Infosys Ltd | 4,94,945 | 1,62,972 | 1,78,649 | 1,94,297 | 34,406 | 37,306 | 39,543 | 26,732 | 28,402 | 30,788 | 64 | 68 | 74 | 231 | 299 | 373 | 29 | 26 | 22 | 26 | 24 | 21 |
| KPIT Technologies Ltd | 18,015 | 5,842 | 6,407 | 7,425 | 1,007 | 1,064 | 1,283 | 844 | 849 | 987 | 31 | 30 | 36 | 107 | 126 | 154 | 33 | 24 | 26 | 29 | 23 | 24 |
| L&T Technology Services Ltd | 35,192 | 10,670 | 11,841 | 13,403 | 1,587 | 1,642 | 2,038 | 1,264 | 1,275 | 1,670 | 119 | 127 | 158 | 574 | 667 | 786 | 22 | 20 | 22 | 21 | 19 | 21 |
| LTIMindtree Ltd | 1,24,374 | 38,008 | 42,334 | 48,004 | 5,503 | 6,511 | 7,625 | 4,602 | 4,401 | 6,239 | 156 | 189 | 211 | 767 | 890 | 1,048 | 22 | 20 | 22 | 21 | 20 | 21 |
| Persistent Systems Ltd | 72,591 | 11,939 | 14,716 | 18,274 | 1,751 | 2,425 | 3,047 | 1,400 | 1,899 | 2,503 | 90 | 128 | 161 | 405 | 505 | 644 | 25 | 27 | 28 | 25 | 27 | 28 |
| Tata Consultancy Services Ltd | 8,52,299 | 2,55,324 | 2,64,700 | 2,95,490 | 62,165 | 66,336 | 76,862 | 48,553 | 44,475 | 59,128 | 136 | 149 | 165 | 262 | 307 | 427 | 52 | 48 | 45 | 48 | 44 | 42 |
| Tech Mahindra Ltd | 1,31,249 | 52,988 | 56,525 | 63,642 | 5,111 | 7,149 | 9,363 | 4,244 | 4,762 | 7,144 | 48 | 60 | 81 | 309 | 352 | 412 | 16 | 17 | 21 | 15 | 16 | 20 |
| Wipro Ltd | 1,97,505 | 89,088 | 92,438 | 99,864 | 15,063 | 14,616 | 16,448 | 13,193 | 12,603 | 14,305 | 13 | 12 | 14 | 79 | 85 | 92 | 17 | 15 | 15 | 15 | 14 | 15 |
| Zensar Technologies Ltd | 12,703 | 5,281 | 5,712 | 6,241 | 715 | 795 | 893 | 650 | 763 | 853 | 29 | 34 | 38 | 179 | 213 | 250 | 17 | 17 | 16 | 16 | 17 | 16 |

Source: Axis Securities Research

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