

FIRST LIGHT

16 September 2026

RESEARCH

IT SERVICES

Macro will weigh down as much as AI near term

SUMMARY

IT SERVICES

- ~15.5ppt OP of Nifty IT versus Nifty QTD is not presaging a growth pick up in the next 18 months or lower AI disruption risks, in our view
- Some Tier-2 PEs show unsustainably high growth scarcity premia. Tier-1s at similar size clocked much faster growth at lower PEs 20 yrs back
- Reiterate UW. Retain estimates and below consensus multiples which factor prolonged slow growth and AI disruption risk

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BOBCAPS Research
research@bobcaps.in



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Girish Pai
 Research Analyst
 Lopa Notaria, CFA
 Research Associate
 research@bobcaps.in

Points tackled in this note: (1) macro risks raise their head again (2) AI deflation headwind will play out at least till FY29. Believe slower AI capex will not make a difference near term (3) IT services players are being edged out in enterprise IT spend on lower bargaining power (4) Examining Tier-2 growth scarcity premium

2HFY27/FY28 looks subdued: Lowering of organic revenue for 2026 by global players implies a 2HFY27 growth uptick for Indian players is highly unlikely. Current adverse global macro (rise in commodities, rising DM bond yields, resurfacing of Tariff concerns) is likely to add to client anxieties that led to postponement of discretionary projects/delayed ramp ups in 2025/1H2026. If these do not subside by end of 2026, they are likely to adversely impact FY28 spending plans.

There is a structural overlay of AI deflation/disruption impact: Believe AI deflation risks will last till FY29 at least. Believe, clients are redistributing savings to other players in the IT ecosystem who have greater bargaining power. While Business AI has been touted to be the mega opportunity, we believe new players (AI labs, Hyperscalers and new entrants) will vie for the enterprise spend Believe slowing down of AI capex, as is being currently debated, is not going to have a positive impact on IT services spend near term

Unsustainable growth scarcity premium: In chasing pockets of growth, market, we believe, is giving unsustainable scarcity premium to certain Tier-2 players. Today's Tier-1s (at similar size 20 years back) delivered much faster growth and in a more benign demand environment but traded at lower PE multiples. Besides weaker growth, Tier-2s of today are facing a more hostile environment.

We stick to our low target PE multiples. Considering much weaker growth and more importantly AI disruption risks, we have used lower than consensus Target PE multiples (see valuation section inside). Based on this we now have 6 Sells and 6 Holds and 1 Buy. A reverse DCF analysis of Infosys (as an example) indicates CMP implies mid-single digit FCF growth over next 10 years and a similar terminal rate of growth. We do not think that is conservative enough.

Recommendation snapshot

Ticker	Price	Target	Rating
BSOFT IN	286	252	SELL
COFORGE IN	1,776	1,236	SELL
ECLX IN	1,895	1,855	HOLD
FSOL IN	283	343	BUY
HCLT IN	1,254	1,081	SELL
INFO IN	1,077	1,150	HOLD
LTM IN	4,347	4,042	SELL
MPHL IN	2,378	2,246	HOLD
PSYS IN	5,478	3,510	SELL
TCS IN	2,251	2,002	SELL
TECHM IN	1,576	1,625	HOLD
WPRO IN	170	178	HOLD
ZENT IN	440	427	HOLD

Price & Target in Rupees | Price as of 15 Sep 2026



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Name of the Research Entity: **BOB Capital Markets Limited**
 Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
 SEBI Research Analyst Registration No: **INH000000040 (Perpetual)**
 SEBI Stock Broker Registration No: **INZ000159332**
 SEBI Depository Participant Registration No: **IN-DP-728-2022**
 SEBI Merchant Banker Registration No: **INM000009926**
 Phone: +91-22-61389300
 Name of the Compliance Officer: Mr. Sameer Khobrekar
 Email ID: Compliance@bobcaps.in; Phone no.: +91-22-61389358
 For any queries or grievances, you may contact the Grievance Officer.
 Name of the Grievance Officer: Mr. Nilesh Mehta
 Email ID: head-customer@bobcaps.in; Phone no: 92288 60945

Brand Name: **BOBCAPS**
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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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