FIRST LIGHT

03 September 2025

RESEARCH

IT SERVICES

Uncertainty persists. All eyes on strength of FY27pick up.

BOB ECONOMICS RESEARCH | CURRENCY UPDATE

Fortnightly forex review

SUMMARY

IT SERVICES

- 1QFY26 commentary and guidance indicates that uncertainty continues to dog the sector. Do not see material FY26 upgrades
- While historical 5-year valuations look cheap, if one stretches that to 10 years they do not seem so. Especially when FY27 pick up may be at risk
- Reiterate underweight call. Nifty IT underperformance (~23ppt CYTD vis-à-vis Nifty) from here on would depend on domestic earnings trend

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INDIA ECONOMICS: CURRENCY UPDATE

INR depreciated to a record low in Aug'25 as the additional US tariffs took effect. Month end demand from importers and sustained FPI outflows from the domestic equity markets also contributed to the decline in the domestic currency. INR declined by 0.7% in Aug'25; however if seen in the context of a weaker dollar, the loss appears more pronounced. We expect some pressure on the rupee in the near-term as investors continue to seek clarity on impact of tariffs and developments surrounding trade negotiations. RBI intervention is likely to be limited to preventing sharp volatility in the exchange rate, with a higher tolerance for a weaker domestic currency. We are anticipating a range of 87.5-88.5/$ in the near-term. Over the longer-term, we continue to believe that robust macro-fundamentals should support the domestic currency.

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BOBCAPS Research
research@bobcaps.in

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IT SERVICES

02 September 2025

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Girish Pai | Lopa Notaria, CFA
research@bobcaps.in

1QFY26 results were mixed: Among **T**ier-1 on revenue, while Infosys surprised on the upside, TCS did on the downside. Most of other Tier-1s were broadly in line. EBIT margins missed estimates. In Tier-2, Coforge beat our revenue estimate. Others had revenue broadly in line while EBIT margins disappointed for most. The big positive surprises on order inflow TCV were with Wipro in Tier-1 and Mphasis in Tier-2. Greater details on each of the companies can be found in the links provided inside the note on page 4.

Guidance changes: Infosys, HCLT (among Tier-1s) and FirstSource (Tier-2) upped the lower end of the revenue guidance by 1ppt largely due to a good 1Q. HCLT lowered its margin guidance by 100bps.

Estimates changes: Post 1QFY26, the only material (>5%) changes that we have made to our FY27/FY28 earnings estimates (see Fig 10-Fig 22) – the basis of our valuations - have been with Coforge (upwards) and BIrlasoft (downwards).

Key points discussed on the calls: Efficiency driven vendor consolidation, continued macro uncertainty (which remained around the same levels as in April 2025), discretionary spending pressure, Manufacturing, retail verticals being under pressure while BFSI being among the better spots across most companies.

Upgrades downgrades: Post 1QFY26 we upgraded ratings for Infosys, Wipro and Mphasis (upgraded to HOLD from SELL) and FirstSource (upgrade to a BUY from HOLD). The rating upgrades to Wipro and Mphasis have also been driven by Target PE multiple upgrades on better-than-expected order inflow numbers. Infosys and FirstSource upgrades are largely due to stock price performance. Through this note we also upgrade HCLT to a HOLD from SELL largely due to price performance. Of the Tier-1 stocks all are HOLDS except LTIM. All Tier-2 stocks are SELLs except Eclerx and Mphasis (HOLDs) and FirstSource (BUY).

Our sectoral view is on page 2.

Recommendation snapshot

Ticker	Price	Target	Rating
BSOFT IN	368	339	SELL
COFORGE IN	1,724	1,478	SELL
ECLX IN	4,221	4,073	HOLD
FSOL IN	351	407	BUY
HCLT IN	1,455	1,389	HOLD
INFO IN	1,470	1,536	HOLD
LTIM IN	5,134	4,149	SELL
MPHL IN	2,788	2,684	HOLD
PSYS IN	5,306	3,918	SELL
TCS IN	3,085	3,304	HOLD
TECHM IN	1,481	1,662	HOLD
WPRO IN	249	256	HOLD
ZENT IN	768	599	SELL

Price & Target in Rupees | Price as of 29 Aug 2025

CURRENCY UPDATE

02 September 2025

Fortnightly forex review

Aditi Gupta
Economist

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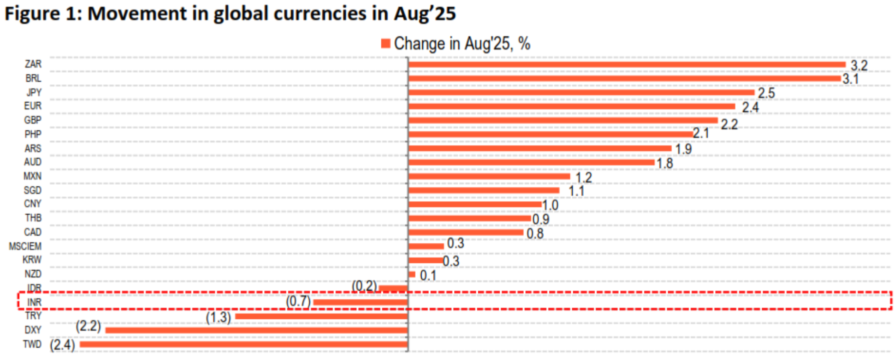
Movement in global currencies:

Global currencies gained against a weaker dollar. The dollar has been under pressure as investors have ramped up expectations of a 25bps rate cut in the Sep’25 meeting. This was supported by dovish comments from Fed officials, including the Fed Chair. At the same time, questions over Fed’s independence and legal disputes related to President Trump’s tariffs also weighed on investor sentiments. As a result, US yields dropped sharply, with short-term yields declining at a much sharper. DXY slipped by 2.2%. Major currencies ended higher, with EM currencies such as South African Rand (ZAR) and Brazil Real (BRL) gaining over 3%. Amongst AEs, the Japanese Yen (JPY) strengthened the most, amidst growing policy divergence with the US, with investors expecting a hawkish tilt from the BoJ soon. Currencies in Europe and UK also gained, despite political and fiscal concerns respectively, in each of these countries.

Figure 1: Movement in global currencies in Aug’25



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 29 Aug 2025 | Figures in brackets denote depreciation against the dollar

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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 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

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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

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