AXIS DIRECT

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Top Conviction Ideas
IT Services & Telecom

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IT Services: Q3FY26 Review

✓ Green Shoots Visible, Growth Trajectory Continues to Improve Sequentially

- From our coverage universe, IT companies have reported a broad-based growth ranging from -1.2% to 21.5% YoY in constant currency terms. In Q3FY26, the demand environment continues to remain stable while furloughs, seasonal weakness, and lower working days and one time labour law code impacted companies overall profitability growth, though it was offset by currency tailwinds and deal execution.
- **TCS, Infosys, and LTIMindtree Delivered Steady Growth:** In rupee terms, among the large-cap space, companies reported stable revenue performance. TCS posted a revenue growth of 4.9% YoY and 2% QoQ; net profit fell by 13%YoY and 12% QoQ, including re-structuring expenses, provisions, and labour law code. Infosys reported 8.9% YoY and 2.2% QoQ revenue growth despite the seasonal impact. Operating margins remained steady, while the profitability was impacted by the labour law code. LTIMindtree reported 11.5% YoY, led by higher utilisation, execution on digital & AI transformation, and favourable geographical mix.
- **Wipro Moderates, HCL Tech Posts Strong Revenue Growth:** Wipro saw an uptick in revenue of 5.5% YoY and 3.8% QoQ after reporting lower single-digit growth from the last consecutive quarters, led by ramp up of deals. HCL Tech clocked a strong 13.3% YoY revenue growth, led by growth in ER&D and the software business segment.
- **Tech Mahindra Exhibits improvement:** Tech Mahindra's performance improved 8% YoY, with operating margins continuing to expand on both a YoY and QoQ basis. While the BFSI segment lagged, all other verticals recorded sequential growth. During the quarter, the company reported a loss under other income, primarily due to forex-related losses.
- **Mid-Tier IT Players Show Mixed Revenue Trends; Coforge & Persistent Lead Growth:** Across the mid-tier IT players, Cyient's revenue fell 4% YoY in its DET segment, led by execution delays of projects and a decline in vertical (strategic units). LTTS reported a revenue increase of 10% YoY due to growth in its sustainable segment. In the geographical mix, Europe and India saw degrowth. KPIT Tech's revenue grew by 8% YoY; the quarter was impacted due to elevated costs and cannibalisation of certain solutions by the company.

IT Services: Q3FY26 Review

- Coforge and Persistent Systems reported revenue growth of 28% and 24% YoY, respectively, benefiting from agility in execution, sector-specific focus (particularly BFSI), and faster adoption of GenAI-powered solutions. This agility allowed them to convert deals faster and capture niche opportunities even in a weak demand environment.
- **Steady Margins Amid Cost Pressures and Optimisation Gains:** Operating margins continued to remain steady on a sequential basis across top tier companies on account of rising subcontracting costs, wage hikes, increased sales investment, though currency tailwinds supported to mitigate the downward impact while Tech Mahindra and HCL Tech saw a higher growth in margins, driven by cost efficiencies under the cost optimization program, AI automation, execution of projects despite SG&A expenses. Mid-tier firms such as Coforge and Persistent Systems continued to report relatively better margin resilience through AI-driven delivery efficiencies and faster deal execution, while KPIT Tech saw sequential weakness on the margin front, led by lower topline growth and Caresoft's acquisition cost. The overall sector continued to operate in a stable macro-environment due to cautious client spending and pricing pressure at a broader level.
- **Segment and Regional Growth; BFSI, Manufacturing, and Communication Services:** On the segmental front, BFSI, Healthcare, Manufacturing and Communication services saw healthier growth for broader large-cap players, while healthy momentum was seen in Energy, Resources & Utilities, Retail, Life Sciences and Auto-related verticals. Notably, AI emerged as a cross-vertical growth lever across players. Geographically, Europe and the rest of the world showed moderate performance, whereas North America and India remained soft.
- **Deal Wins Driven by AI, Cloud, and Emerging Technologies:** Despite ongoing uncertainties and stable demand, deal wins have remained resilient across the sector. Demand for emerging technologies like AI, Cloud Transformation, Data Analytics, and IoT continues to be robust, with many companies achieving record-high deal closures. Infosys secured $4.1 Bn in large deals, 57% of which were net new. LTTS secured a $200 Mn deal, while Wipro had deal bookings of $871 Mn. Mid-tier firms such as Coforge and Persistent outperformed in deal conversions, leveraging AI-led efficiencies, indicating improvement in macroeconomic conditions and sequential recovery.

IT Services: Outlook

- **Moderate Growth:** Demand visibility for discretionary spends has gradually started improving. Though clients are selective while making a decision for these spends, as AI integration remains a key factor. Therefore, the focus continues on vendor consolidation and cost-optimisation deals.
- **Financial services & Healthcare Lead Growth; Auto and Select Verticals Lag:** Industry-wise, Financial services continues to remain a strong vertical, followed by Healthcare, manufacturing and communication services, while auto-related subsegments are expected to remain subdued for the next couple of quarters, led by weak demand in overseas markets.
- **Improved Utilisation and Operating Margins:** Many companies have improved utilisation as deal ramp-ups continue. Margins may improve slightly due to one-off costs (labour code) adjustments and operating efficiencies. Although weak demand and selective discretionary spend by clients could continue to taper down meaningful recovery.
- **Strong Demand for Emerging Tech to Accelerate:** Demand for newer technology services like generative AI, machine learning, IoT, and cloud transformations remains higher and is anticipated to move more swiftly as certain macroeconomic challenges ease.
- **Moderate IT Growth Driven by AI and Emerging Tech:** In large cap space, in CC terms, Infosys raised its revenue guidance for FY26 to 3-3.5% YoY vs 2-3% YoY in Q2FY26, while HCL Tech raised to 4%-4.5% YoY vs 3%-5% YoY in Q2FY26, signalling confidence in its business momentum though macro environment continues to remain stable. Mid-cap players like Persistent Systems and Coforge recorded relatively stronger sequential growth, benefiting from niche capabilities and momentum in specialised services such as BFSI, healthcare, and engineering transformation. Overall, the IT services sector is likely to report moderate growth in FY26, due to global economic uncertainties, evolving client demands, and the accelerating integration of AI into service delivery. The companies are actively foraying into strategic investments in emerging technologies and infrastructure, coupled with adaptive business models, positioning themselves to navigate these uncertainties and capitalise on long-term growth opportunities.

Short and Medium-term Outlook

The Indian IT services industry has shown some signs of growth in a few pockets of industry areas amidst macroeconomic uncertainties. It is anticipated that earnings growth will continue sequentially across large-cap players, while mid-cap players will continue to outperform. Overall, the long-term outlook remains robust, supported by operational efficiencies and broader economic recovery.

(a) Near-term demand visibility remains a key monitorable

(b) Stable macro environment could potentially moderate growth

(a) Broad-based growth, led by BFSI/ Manufacturing segments

(b) Deal wins remain resilient

(c) Cost optimisation initiatives to help gain margins.

Key monitorables – *(1) Development in macroeconomic conditions, (2) Ability to spend on automation by the world's largest economies.*

Telecom: Q3FY26 Review

✓ Sequential Growth Continues Across all Verticals

- **Airtel, Jio Drive Robust Telecom Revenue Growth:** Telecom companies continued to report strong revenue growth YoY in Q3FY26, driven by an increase in subscriber base across mobile and home segments, geographical verticals and digital adoption. Airtel's revenue rose 20% YoY to Rs 53,982 Cr, driven by premiumization and Africa business performance. However, net profit declined 42% YoY to Rs 8,503 Cr, impacted by a higher base (acquisition of Indus tower in Q3FY25) and the effects of the new labour law code. Reliance Jio's revenue grew 13% YoY to Rs 43,683 Cr, led by mobility and home broadband segments, with net profit up 12% YoY to Rs 7,629 Cr. The company continues to increase growth momentum as it deepens its 5G footprint and expands its home broadband reach.
- **Rapid 5G Adoption Boosts ARPU for Jio and Airtel:** Overall, Reliance Jio earmarked its customer base of 515 Mn users, Out of which 250 Mn are using 5G as of Q3FY26, making up more than half of the customer base, reflecting rapid network rollout and uptake, while Bharti Airtel clocked 181 Mn 5G subscribers out of its 466 Mn Indian users. The ARPU for Bharti Airtel stood at Rs 259 (+5.7% YoY; +1.2% QoQ), and for Jio it stood at Rs 214 (+5.1% YoY,+1.1% QoQ). Bharti Airtel continues to improve ARPU through focusing on higher post-paid customers, international roaming, and upgradation to smartphones from feature phones.
- **Airtel Moderates 5G Capex; Jio Continues Heavy Investment:** On the Capex front, Bharti Airtel's wireless business will moderate, since the bulk of the 5G rollout is now completed. Future Capex will be inclined towards transport infrastructure, fibre, enterprise investments, and scaling of home broadband services. Reliance Jio to continue the Capex trajectory significantly towards 5G infrastructure investment, scaling digital services, and supporting retail network growth.
- **Airtel Prioritises Data Centre and Digital Offerings via Partnerships:** Airtel, through its subsidiary Nextra, announced a partnership with Google to build a 1GW data centre, while Airtel Business secured a multi-year contract from Indian Railway Security Operations Centre (IRSOC) to deliver comprehensive, industry-leading security services to safeguard the digital backbone of India's railway network. The company entered into a strategic partnership with IBM to augment its recently launched Airtel Cloud.

Telecom Sector – Outlook

- **Indian Telecom Sector Poised for 10–12% Revenue Growth in FY26:** The Indian telecom sector is expected to see steady revenue growth of around 10–12% in FY26, supported by tariff hikes, rising ARPUs, and growing monetisation of 5G services.
- **Telecoms Shift from Network Investment to 5G Monetisation:** Telecom operators like Reliance Jio and Bharti Airtel are likely to shift from network investment toward capex moderation, shifting their focus to monetising their extensive 5G infrastructure through fixed wireless access, enterprise solutions, higher customer base, and premium data services.
- **Premium Plans, 5G, and AI Boost Telecom Growth:** The ARPU gains will be driven by premium plan adoption, increased data consumption, and rational pricing discipline, while subscriber growth in rural and underpenetrated areas is expected to add incremental volumes. The enterprise segment is set to benefit from 5G deployments, cloud-edge partnerships, and integration of AI into its digital platforms.
- **Telecom Giants Set for 5G-Led Profit and Cash Growth:** Subscriber additions, rising data consumption, and enhanced digital offerings by the leading operators are expected to drive profitability and improve free cash flows. Combined with lower capex, this should support debt reduction and strengthen their balance sheets. Competitive intensity is likely to stay moderated, with Vodafone Idea's slower 5G rollout limiting immediate price pressure. Overall, the coming quarter will be a year of 5G monetisation, margin expansion, and stronger cash generation for the major players in this sector.

Short and Medium-term Outlook

The Indian telecom industry is showing strong data consumption, and demand for data continues to accelerate. The future tariff hike will help ARPU increase meaningfully, contributing to improved operating margins and enhanced free cash flow generation.

(a) Operating margins decline

(b) Net customer addition will remain stable

(c) Delay in tariff hikes

(a) ARPU gain continued

(b) Demand for data accelerated

(c) Capex to remain moderate

Key monitorables – *(1) Conversion will help to gain ARPU, (2) Market share data.*

Top Conviction Ideas: IT Services

Stock	Reco.	TP	Recommendation Rationale
HCLTech HCL Technologies	BUY	Rs 1,880*	✓ **HCL Tech reported double digit Revenue and Margin Gains:** HCL Tech continued to witness consecutive growth on a sequential basis, driven by robust deal wins, cost optimisation initiatives, and strategic investments in GenAI capabilities. The company reported in-line Q3FY26 results, with revenue at Rs 33,872 Cr and EBIT margin at 18.6%, led by higher efficiency programme, Project Actian, software business seasonality and rupee depreciation. Net profit fell by 11% YoY due to lower other income sequentially. However, in CC terms, revenue grew by 4.4% YoY and 2.4% QoQ. ✓ **Robust Deal Wins and AI Initiatives:** The company reported net new bookings of $2.5 Bn and remains confident to sustain the run rate, reflecting sustained traction in large and transformation-led programs. The company focuses on vendor consolidation and AI-driven transformation engagements, strengthening its medium-term growth visibility. Management commentary on continued deal momentum and upgrading revenue guidance underpins confidence in revenue acceleration ahead. ✓ **Deal Wins and Client Mining to Drive Revenue and EBIT Growth:** The company is well-placed to deliver and encourage growth, given its multiple long-term contracts with the world's leading brands. HCL Tech anticipates seeing further improvement in YoY growth in coming quarters aided by large deal wins, achieving its near double-digit growth YoY target. We believe the company's revenue and EBIT to grow at a CAGR of 9% over FY25-27E on the back of continued deal wins despite a stable macro-environment, driven by AI integration, mining of large clients across end-user industries and greater ability to bag larger deals.

•*Note: Target Price is based on our Q3FY26 Result Update Report*

Top Conviction Ideas: IT Services

Stock	Reco.	TP/CMP*	Recommendation Rationale
Tech Mahindra Ltd.	BUY	Rs 1,870*	✓ Financial Performance: Tech Mahindra continued to witness consecutive growth on a sequential basis, driven by robust deal wins, cost optimisation initiatives, and strategic investments in GenAI capabilities. The company reported largely in-line performance, with revenue of Rs 14,393 Cr and EBIT margin at 13.1%, reflecting early gains from operational efficiencies and offshore leverage. Net profit rose 13% YoY, supported by improved topline growth. ✓ Key Initiatives & AI Integration: During the quarter, EBIT margin expanded by 100 bps QoQ, backed by Project Fortius, emphasising fixed-price productivity gains and SG&A optimisation, while AI integration continues to scale across large enterprise deals through collaboration with Google Gemini Enterprise and the launch of the first US Makers Lab in Dallas. ✓ Deal Wins and Pipeline Strength: The company reported record quarterly bookings of $1.1 Bn, the highest in five years, driving 48% YoY growth in LTM deal wins. Management remains positive on the pipeline, despite the normal quarterly lumpiness. The company secured a strategic $500 Mn+ five-year contract with a leading European telecom provider. This deal focuses on application modernisation and AI-led efficiencies. ✓ Revenue Visibility Remains Intact: Management remains optimistic about scaling profitability and achieving 15% EBIT margin by FY27, reaffirming its medium-term commitment. While Q1 saw muted fresher hiring amid subdued demand, the company is prioritising bench utilisation, which should support margin expansion. Its strategic pivot to AI, disciplined cost execution, and expanding deal pipeline provide high conviction in its recovery and growth potential.

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Top Conviction Ideas: IT Services

Stock	Reco.	TP	Recommendation Rationale
Persistent Systems Ltd	BUY	Rs 7,170*	✓ **Strong Order Wins Enhance Revenue Visibility:** Persistent booked healthy order wins, the Total Contract Value (TCV) stood at $674 Mn, with new bookings at $369 Mn. Annual Contract Value (ACV) stood at $501 Mn, with new bookings contributing $255 Mn, consisting of a diversified mix of large and mid-sized deals, majorly in the BFSI, Software, Hi-Tech and Emerging Industries segments. Furthermore, the increasing share of new wins (across existing and new customers) in total TCV and ACV is expected to remain positive, resulting in revenue visibility in the long run. ✓ **Strong Vertical and Regional Growth Drives Performance:** On the segment front, growth was led by BFSI, which rose 30% YoY, followed by Software, Hi-Tech, and Emerging Industries, up 14.7% YoY, and Healthcare Life Sciences, which increased 7.4% YoY. The geographical performance in USD terms contributed to growth across North America/Europe/ROW, which grew by 18.6%/22%/37.9%, respectively, while India declined by 2.5% during the quarter. The management is focusing on new areas within healthcare services and BFSI, with an aim to deepen its presence across multiple sub-segments within these verticals. ✓ **AI Platforms Boost Engineering and Business Efficiency:** The company is pursuing an AI-led, platform-driven strategy focused on "AI for Technology" (enhancing engineering productivity), "AI for Business" (AI adoption and agentic AI development), and Enterprise Data Readiness for AI. Persistent has filed a total of 105 patents for SASVA. ✓ **Confident Growth Amid High Valuation:** Even though the valuation remains expensive, its distinctive value proposition and ability to conclude important strategic deals amid an uncertain environment provide confidence in its execution capabilities. Management is confident of achieving its $2 Bn revenue target by FY27 through a mix of organic and inorganic growth, driven by acquisitions and core efficiencies.

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Top Conviction Ideas: IT Services

Stock	Reco.	TP	Recommendation Rationale
Coforge Ltd	BUY	Rs 2,300*	✓ **Robust Performance led by BFSI and Emerging Verticals:** Coforge reported robust performance in Q3FY26, delivered a sequential revenue growth of 3.5% QoQ in USD terms and 5.1%/4.4% QoQ in INR/CC terms, respectively. Growth was led by the BFS, Healthcare and HiTech verticals. This growth was heavily supported by the expansion of key relationships while the company recorded Rs147 Cr in exceptional items, primarily due to the new labour code by the Government of India (Rs 118 Cr) and acquisition-related expenses (Encore). ✓ **Robust Deal Wins Drive Order Book Growth:** Total order intake stood at $593 Mn during the quarter, with six large deals signed across North America, Europe and APAC. The executable order book for the next 12 months rose 30.4% YoY to $1.7 Bn, reflecting strong revenue visibility. ✓ **AI-First Strategy Strengthens Competitive Positioning:** The company launched ForgeX, an integrated agentic AI engineering platform, deployed across clients like a global airline and a US financial services provider. With this, the company is transitioning from AI pilots to enterprise-scale, outcome-backed delivery, with AI deeply embedded across execution through other platforms such as Code Insight AI, BlueSwan, and Quasar. ✓ **Positive Outlook Supported by Deal Wins and AI Focus:** The management remains committed to setting new performance and capability benchmarks, aiming to be a leader in the evolving industry, especially with the pivot towards AI and maintaining the EBIT margin guidance of 14% in FY26. FY27 is likely to be an exceptional year driven by the 30% increase in the signed order book, muted supply side pressure and the integration of Cigniti and Encora.

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Top Conviction Ideas: Telecom

Stock	Reco.	TP	Recommendation Rationale
Bharti Airtel Ltd	BUY	Rs 2,530*	✓ **Robust Q3 Performance with Double-Digit Net Income Growth:** In Q3FY26, Revenue reported at Rs 53,982 Cr, up 19.6% YoY and 3.5% QoQ, led by strong performance in India and Africa business. EBITDA grew 252 bps YoY and 33 bps QoQ to Rs 30,783 Cr. EBIT grew 35% YoY and 6% QoQ to Rs 17,363 Cr. EBIT margin stood at 32.2% (+360 bps YoY, +75 bps QoQ). The company reported PAT of Rs 8,503 Cr, down 45.3% YoY, led by exceptional gains from the consolidation of Indus Tower in Q3FY25, while sequentially it was down by 1.7% QoQ due to the impact of the labour law code. ✓ **Postpaid Growth and Network Expansion Drive Airtel Performance:** During the quarter, in the postpaid segment, Bharti Airtel continued to maintain net additions of 0.6 Mn customers in Q3FY26, bringing its total customer base to 28.1 Mn. Additionally, the company expanded its nationwide network by installing 1,147 towers and 16,338 mobile broadband base stations. Smartphone data customers increased by 20.8 Mn YoY and 5.2 Mn QoQ, accounting for 79% of total mobile customers. Average mobile data usage per customer increased by 29.2% YoY to 29.8 GB/month. ✓ **Strategic Priorities on Data Centre and AI:** Through Nxtra (Subsidiary), the company plans to reach 1 GW capacity in the next three to four years, aiming for a 25% market share. Currently, AI is being embedded into core operations, including self-serving voice bots handling 70% of customer calls and automated power optimisation for radio layers. ✓ **Airtel Well-Positioned for Sustainable Long-Term Growth:** From a long-term perspective, Bharti Airtel remains well-positioned for sustainable growth, backed by its strong digital services portfolio, disciplined capital management, and focus on high-value customer segments. The company expects gradual ARPU improvement, 4G/5G expansion, and B2B growth to drive long-term profitability. We remain optimistic about its future growth.

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