



TM

IT Sector

04 April 2025

Subdued growth amid weak global macros, tight spends

4QFY25 RESULT PREVIEW

Industry

IT & ITES

Sector Rating (Prices as of 3 April 2025)

Company	CMP (Rs)	TP (Rs)	Reco.
TCS	3,403	4,485	HOLD
Infosys	1,497	2,073	HOLD
Wipro	256	252	SELL
HCL Tech	1,470	1,948	HOLD
Tech M	1,369	1,316	SELL
Sonata Software	341	672	BUY

Source: Systematix Institutional Research

We expect IT services companies within our coverage to report subdued growth during 4QFY25 on seasonal weakness and lower discretionary digital transformation spends. Indian IT companies, which are heavily reliant on the US market, continue to face challenges as the US grapples with ongoing macroeconomic uncertainties. Just as the IT sector pinned hopes on a rebound in discretionary spending, Trump-led administration's ongoing tariff updates, recession fears, cut in IT spends by Elon Musk-led DOGE are posing challenges to the business environment. As a result, discretionary tech investments and large-scale transformation deals are delayed, with clients reallocating their budgets towards cost takeout and vendor consolidation projects. For 4QFY25, we expect large-cap IT companies to report 0%-2% QoQ revenue decline in USD terms with the revenues of a) Tata Consultancy Services (TCS IN) expected to decline due to ramp-down in the BSNL deal, b) Infosys (INFY IN) and HCL Technologies (HCLT IN) likely to slip on seasonality, and c) Wipro (WPRO IN), Tech Mahindra (TECHM IN), and Sonata Software (SSOF IN) to fall due to company-specific challenges. EBIT margins are expected to remain largely stable, except for those impacted by seasonality or wage hikes (INFY and HCLT). The Nifty IT P/E multiple has fallen significantly to 26x and trades below its five-year average of 29x and close to its 10-year average of 23x. While near-term outlook remains tepid, particularly around macro shocks and deal conversion cycles, we are positive on the industry over the medium-to-long term, as enterprises prioritize digital transformational programs to stay competitive in an AI-driven landscape. The Fed's forecast of two 25bps interest rate cuts by end-2025 could boost demand visibility for FY27. Key aspects to watch for in 4Q: a) management commentary on recovery in discretionary spending, b) client budget allocations and any shift in priorities, c) impact of potential tariff threats, d) hiring trends for FY26, and e) progress in AI-driven initiatives and new deal opportunities. Our target prices for TCS, INFY, WPRO, HCLT, TECHM, and SSOF remain unchanged.

TCS: We expect TCS' revenue to fall slightly in USD terms, mainly due to ramp down of the BSNL deal and 4Q seasonality impact. However, we expect a resilient TCV and a steady revival in overall discretionary spends. Last quarter, India, Latin America, and MEA (Middle East Asia) markets predominantly contributed to growth, with the same muted in US, UK, Continental Europe and Asia-Pacific markets; a similar trend may continue to restrict the company's growth. We estimate 20bps QoQ expansion in EBIT margin as the tailwinds of ramp down in reduced equipment and software expenses from the BSNL deal will likely come with a lag.

INFY: Management's revenue guidance of 4.5-5% revenue growth in CC for FY25 factors in a) visible green shoots in the US BFSI market, b) order book execution of previously won small and large deals, c) furloughs in 4QFY25, and d) sustained improvement in the pricing environment due to project Maximus. Our estimate of 1.4% QoQ revenue decline in USD terms reflects the impact of seasonal furloughs and falls within the guided range. We expect ~50bps QoQ fall in EBIT margin, as the headwind from wage hike would be partially offset by the operational efficiency driven by project Maximus.

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HCLT: We expect HCLT to report a 0.8% QoQ revenue decline in USD terms, primarily due to seasonal weakness in its Products & Platforms (P&P) business. This downturn is expected to be partially cushioned by contributions from its recent Communications Technology Group (CTG) acquisition from Hewlett Packard Enterprise (HPE) acquisition within its IT services segment. EBIT margin is projected to contract ~147bps QoQ, largely mirroring the seasonal softness in the P&P segment. The margin pressure highlights the impact of changes in the revenue mix, where the lower-margin P&P business is experiencing a slowdown, weighing on the overall profitability.

WPRO: We expect 0.5% QoQ decline in WPRO's revenue, which falls within management's guided range of -1%-1% QoQ in constant currency. Pressure on new deal wins could impact the company's revenue growth during the quarter and hence the decline. EBIT margin should remain flat, as currency tailwinds provide some relief. However, the headwind from revenue decline could offset these benefits, likely limiting the profitability movement during the quarter.

TECHM: TECHM is expected to post QoQ USD revenue decline of 1.1%. We estimate TCV numbers could continue to hover at USD 500-600mn. EBIT margin could grow ~21bps QoQ due to currency tailwinds and cost optimization initiatives, partially offset by wage hike.

SSOF: Our estimate of 4.1% QoQ decline in SSOF's IT services revenue bakes in the negative impact from a one-time client-specific issue with one of the Hi-Tech client. Consolidated revenue too is expected to fall 17.7% QoQ, as 4Q is seasonally weak in revenue terms for the domestic products business (~70% of revenue mix). EBITDA margin is expected to expand at ~123bps on consolidated basis to 7.7%, mainly due to the absence wage hikes and other one-time costs during the quarter.

Exhibit 1: IT companies under coverage – 4QFY25 estimates and highlights (Rs mn)

TCS	4QFY25E	3QFY25	4QFY24	YoY	QoQ	Comments
Net Revenue (USD mn)	7,500	7,539	7,363	1.9%	-0.5%	TCS is expected to post 0.5% QoQ decline in its USD revenue, likely due to the ramp down in the BSNL deal. We estimate EBIT margin of 24.7%, flattish QoQ, as tailwinds of reduced equipment and software expenses from BSNL deal ramp down will likely come with a lag.
Net Revenue (INR mn)	6,48,750	6,39,730	6,12,370	5.9%	1.4%	
EBIT	1,60,043	1,56,570	1,59,180	0.5%	2.2%	
PAT	1,28,029	1,23,800	1,24,340	3.0%	3.4%	
EBIT Margin	24.7%	24.5%	26.0%	-132	19	
EPS (Rs)	35.4	34.2	34.3	3.0%	3.4%	
Infosys	4QFY25E	3QFY25	4QFY24	YoY	QoQ	Comments
Net Revenue (USD mn)	4,870	4,939	4,564	6.7%	-1.4%	INFY USD revenue may fall by 1.4% QoQ, in line with the guided range, impacted by furloughs and seasonal weakness. We expect ~52bps QoQ decline in EBIT margin due to wage hikes, partially offset by project Maximus-driven operational efficiency.
Net Revenue (INR mn)	4,21,214	4,17,640	3,79,230	11.1%	0.9%	
EBIT	87,692	89,120	76,210	15.1%	-1.6%	
PAT	68,100	68,060	79,690	-14.5%	0.1%	
EBIT Margin	20.8%	21.3%	20.1%	72	-52	
EPS (Rs)	16.4	16.4	19.2	-14.5%	0.1%	
Wipro	4QFY25E	3QFY25	4QFY24	YoY	QoQ	Comments
Net Revenue (USD mn)	2,616	2,629	2,657	-1.5%	-0.5%	For WPRO, we are factoring in 0.5% QoQ decline (guidance -1%-1% CC) as the company could face some pressure on its new deal wins. Margins may stay flat during 4Q, as the headwind from revenue decline could offset the currency tailwind.
Net Revenue (INR mn)	2,26,710	2,23,188	2,22,083	2.1%	1.6%	
EBIT	39,625	38,966	35,373	12.0%	1.7%	
PAT	33,495	33,538	28,346	18.2%	-0.1%	
EBIT Margin	17.5%	17.5%	15.9%	155	2	
EPS (Rs)	3.2	3.2	2.7	18.2%	-0.1%	
HCL Technologies	4QFY25E	3QFY25	4QFY24	YoY	QoQ	Comments
Net Revenue (USD mn)	3,504	3,533	3,430	2.2%	-0.8%	HCLT may register 0.8% QoQ revenue decline, which we attribute to the weakness in its P&P business due to seasonality, partially offset by the impact of inorganic contribution in its IT services business. EBIT Margin is also estimated to fall by ~147bps QoQ, also due to seasonality in its P&P business.
Net Revenue (INR mn)	3,03,113	2,98,900	2,84,990	6.4%	1.4%	
EBIT	54,563	58,210	50,230	8.6%	-6.3%	
PAT	43,301	45,910	39,850	8.7%	-5.7%	
EBIT Margin	18.0%	19.5%	17.6%	38	-147	
EPS (Rs)	16.0	16.9	14.7	8.7%	-5.7%	
Tech Mahindra	4QFY25E	3QFY25	4QFY24	YoY	QoQ	Comments
Net Revenue (USD mn)	1,550	1,567	1,548	0.1%	-1.1%	TECHM's USD revenue is expected to decline by 1.1% QoQ, driven by softness in the Hi-tech vertical and seasonal downturn in the BPO segment, partially offset by tailwinds from seasonality in Comviva. EBIT margin is expected to grow by 20bps QoQ due to currency tailwinds and cost optimization initiatives, partially offset by wage hikes.
Net Revenue (INR mn)	1,34,093	1,32,856	1,28,713	4.2%	0.9%	
EBIT	13,909	13,502	9,464	47.0%	3.0%	
PAT	11,446	9,832	6,610	73.2%	16.4%	
EBIT Margin	10.4%	10.2%	7.4%	302	21	
EPS (Rs)	12.9	11.1	7.5	72.4%	16.4%	
Sonata Software	4QFY25E	3QFY25	4QFY24	YoY	QoQ	Comments
IT Services Revenue (USD mn)	83	87	82	2.2%	-4.1%	The company's IT services revenue is expected to decline 4.1% QoQ, while consolidated revenue could fall by 17.7%, as 4Q is a seasonally weak quarter for its domestic products business. This also factors in the impact of continuing client-specific issues in its IT services business. EBITDA margin expected to expand by ~123bps on a consolidated basis, mainly due to the absence of wage hikes and other one-time costs during the quarter.
Consolidated Revenue (INR mn)	23,383	28,428	21,916	6.7%	-17.7%	
EBITDA (Incl other income)	1,811	1,851	1,988	-8.9%	-2.2%	
PAT	983	1,050	1,104	-10.9%	-6.4%	
EBITDA Margin	7.7%	6.5%	9.1%	-133	123	
EPS (Rs)	3.5	3.8	4.0	-10.7%	-6.4%	

Source: Company, Systematix Institutional Research

Exhibit 2: Valuation table

Companies	M-cap (Rs bn)	PE (x)			M-cap to Sales (x)			EV/EBITDA (x)			RoE (%)		
		FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
TCS	25.0	22.1	19.9	4.9	4.5	4.2	17.6	15.6	14.0	51.2	51.4	48.6	25.0
Infosys	23.4	20.7	18.4	3.8	3.4	3.1	15.0	13.3	11.9	28.0	28.6	28.4	23.4
Wipro	20.6	18.3	16.6	3.0	2.8	2.6	12.9	10.6	9.1	15.0	14.6	14.1	20.6
HCL Tech	22.9	21.7	19.0	3.4	3.2	2.9	14.5	13.2	11.3	24.5	24.6	25.9	22.9
Tech M	28.4	18.6	14.9	2.3	2.1	1.9	16.5	11.9	9.5	16.6	24.3	27.3	28.4
Sonata Software	22.8	25.6	23.6	1.0	0.8	0.7	12.3	13.5	12.5	28.2	23.3	22.7	22.8

Source: Company, Systematix Institutional Research

Exhibit 3: Stock performance over a decade

	% Price Change Week	% Price Change Month	% Price Change 3 Months	% Price Change 6 Months	% Price Change 1 Year	% Price Change YTD	% Price Change 2 Year	% Price Change 5 Year	% Price Change 10 Year
TCS	-6.8	-2.6	-17.0	-19.6	-13.8	-4.2	6.3	105.7	167.2
Infosys	-6.7	-12.4	-22.8	-21.0	1.1	-2.0	6.1	155.5	174.8
Wipro	-5.8	-9.6	-12.9	-3.3	6.1	-2.4	39.3	184.8	120.1
HCL Tech	-9.8	-6.5	-24.5	-17.3	-4.3	-3.9	33.9	262.3	215.5
Tech M	-3.8	-8.3	-18.9	-14.6	9.1	-1.8	24.1	162.9	112.8
Sonata Software	-4.3	-7.7	-45.7	-44.4	-54.3	-2.1	-20.6	458.5	423.2
Nifty IT	-7.4	-7.6	-20.5	-16.8	-0.8	-3.4	21.4	197.6	190.4

Source: Company, Systematix Institutional Research

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