

Seasonal strength? Selectively.

- While earnings downgrade cycle has stalled post 1QFY25, we do not foresee material upgrade to consensus for FY25 post 2Q
- While FY25 revenue growth is expected to be a bit better than FY24, investors will focus on extent of growth pick up in FY26
- Infosys, LTIM and Persistent Systems will show strong revenue growth in 2Q. We will be reinitiating coverage on the sector soon

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Unlikely to see incremental positivity: In QFY25 we saw both numbers and demand commentary turn modestly positive. While selective companies are expected to deliver better QoQ growth (Infosys, LTIM, Persistent) we believe that is now a consensus view. We expect Infosys to raise guidance on revenue growth by ~100bps. Expect 2H seasonal weakness to play out. Incrementally we do not expect companies to sound more bullish. Over the last 6 months, consensus earnings have been either flat or turned a tad negative.

BFSI upturn has more legs? One of the recurring features of 1QFY25 company commentary was the positivity around demand from US BFS clients. Need to see if that has further momentum in 2HFY25. Interestingly one of the largest players in the space – Accenture – has not made any positive noises on this front in the last two quarters. While there was an expectation that US interest rates were headed lower post the recent largish cut of 50bps (and spurring demand), recent macro data has pushed up US 10 year yield up to 4% + levels within a short period of time.

Contrasting narratives: The market is grappling with two contrasting narratives (1) a sharp demand upturn in FY26 (backed by a US soft-landing scenario) and Generative AI based pick up in discretionary spending (2) a 'slower-for-much-longer' situation under a not-so-soft-landing or a no landing scenario.

Discretionary spending and Gen AI: In our multiple conversations with companies in the last one month, there still is no sign that discretionary spending is making a broad-based comeback. Enterprise Generative AI uptake has been slow. Companies have stated that Gen AI is going to be net accretive with tailwinds from Legacy/Mainframe modernization outweighing the pass back to clients from productivity benefits. But the question is when that will start.

Cross currency tailwinds will support: Our analysis indicates that most companies will gain 15-95 bps from QoQ cross currency tailwind. But this is on paper, things could have turned out differently in reality. This will support both margins and revenue.



What will we watch out for from a sector perspective during the 2QFY26 results season

- Will we see seasonal deal signing strength in 2QFY25 like we saw in the year ago quarter? Infosys has signed a slew of deals in recent months.
- Have the deals that were postponed from 1QFY25 (as indicated by many companies) closed in 2Q?
- Why were there no announcements of mega deals (>US\$500mn). Or is it that many of them have been closed but are kept under wraps?
- Has discretionary spending picked up in any new pockets of the market? Will the era of small deals make a comeback?
- Has there been a broader pick up in spending across other sectors too besides US/North America BFS indicated in 1QFY25?
- Has the cut in Fed funds rate by 50bps recently by US Fed, induced any change in clients' spending stance?
- Is there continued strength in demand from BFS in North America and can that sustain into 2HFY25?
- Extent of furloughs in the December quarter and which specific sectors will get impacted.
- Have US companies gone into a 'wait and watch' mode before the US election due to the radical economic policies proposed by both candidates? And will purses open up immediately after the election or will they wait for clarity on policies?
- Has there been any scale up in Gen AI engagements? Are some of these deals even reaching US\$10mn per annum in size?
- When will the large legacy transformation deals driven by Gen AI start to be a tailwind?
- Has the leakage of the book of business come to an end completely or is it still a problem?
- Are the clients who signed large contracts in the last 24 months coming back to renegotiate them as they may not have Gen AI productivity benefits embedded in them?
- What exactly is the GCC strategy of various players – some players seem to be helping customers to set them up – what is the long-term plan on this front?
- In the savings led transformation that many players are talking about, are the savings being deployed immediately towards new projects?
- Salary hike timing and quantum for those that hiked very late in FY24
- Why have the US banks started outsourcing now – when all along they were recording significant profits but were not outsourcing very much in FY23 and FY24. What has changed?

- What will be the structure of a Gen AI infused IT services organisation? Will it be flatter on the delivery side, and would it require employees with more experience and therefore increase the average resource cost?
- There has been considerable talk of a new revenue stream from mainframe modernization – hitherto untouched – by various services providers. Have any revenues been clocked or is it that players are talking only about potential
- There have been several guidance reductions, layoffs of employees and closure of stores by various retail players in the US. Are we reaching another point of weakness in the retail vertical which is a sizable exposure for Indian players.

Fig 1 – Summary of financial performance by Indian IT services industry for 2QFY25

Company Name	2QFY25E Revenue		QoQ CC		US\$ revenue growth (%)		EBIT Margin (%)		
	US\$ mn	Growth (%)	QoQ	YoY	2QFY24	1QFY25	2QFY25E		
TCS	7,633	1.0	1.7	5.9	24.3	24.7	25.5		
Infosys	4,908	3.4	4.1	4.0	21.2	21.1	21.4		
HCLT	3,430	1.2	2.0	6.4	18.5	17.1	18.3		
Wipro	2,677	1.0	2.0	(1.3)	14.8	15.5	16.2		
Tech Mahindra	1,572	0.0	0.8	1.1	4.7	8.5	8.9		
LTI Mindtree	1,136	3.0	3.7	5.7	16.0	15.0	15.2		
Mphasis	419	2.0	2.2	5.3	15.5	15.0	15.2		
Persistent Systems	345	5.0	5.2	18.4	13.7	14.0	13.0		
Coforge	360	22.6	23.4	29.3	11.9	13.6	12.6		
Birlasoft	166	4.0	4.2	4.7	14.2	13.1	13.5		
Zensar	160	3.0	3.4	6.3	15.7	13.3	13.5		
Firstsource	221	2.0	2.8	18.8	10.6	11.0	10.5		
Eclerx	96	2.6	3.0	9.6	24.2	17.2	20.1		

Source: Company, BOBCAPS Research. Note: Coforge QoQ growth is inclusive of Cigniti

Fig 2 – TCS

	2QFY24	1QFY25	2QFY25E	QoQ growth (%)	YoY growth (%)	Comments
Revenue (US\$ mn)	7,210	7,505	7,633	1.7	5.9	<ul style="list-style-type: none"> ▪ The company has been unusually cautious in its commentary on revenue despite a decent 1QFY25. We believe there is pressure in continental Europe and in UK too. The latter is a market that has been resilient thus far for TCS specifically. ▪ Any visibility on follow through orders from BSNL, where bulk of the revenue indicated of US\$1bn would be booked by end of FY25 ▪ Had an exceptional FY24 with TCV up 25% (a decline of 1% in FY23). Expect US\$ 9bn-11bn TCV in 2QFY2 after a disappointing 1Q when TCV declined both YoY and QoQ. It had stated that some orders were pushed back to 2Q and later. ▪ Can the margin expansion from here on mimic FY24 trajectory of 100bps expansion every quarter. ▪ Compression of existing book of business has been a key issue with TCS with clients curtailing projects or pushing them back. Need to see if that behavior has undergone a change.
Revenue (Rs mn)	5,96,920	6,26,130	6,39,655	2.2	7.2	
EBIT (Rs mn)	1,44,830	1,54,420	1,63,228	5.7	12.7	
PAT (Rs mn)	1,13,420	1,20,400	1,26,653	5.2	11.7	
EBIT Margin (%)	24.3	24.7	25.5	86bps	126bps	
PAT Margin (%)	19.0	19.2	19.8	57bps	80bps	

Source: Company, BOBCAPS Research

Fig 3 – Infosys

	2QFY24	1QFY25	2QFY25E	QoQ growth (%)	YoY growth (%)	Comments
Revenue (US\$ mn)	4,718	4,714	4,908	4.1	4.0	<ul style="list-style-type: none"> We expect CC QoQ revenue growth of 3.4% of which ~100bps will be from the in-tech acquisition.
Revenue (Rs mn)	3,89,940	3,93,150	4,11,270	4.6	5.5	<ul style="list-style-type: none"> Revenue growth guidance for FY25 which was upped to 3-4% from 1-3% CC post 1QFY25 will be upped again due to a strong 2Q performance, by 100bps. Margin guidance to remain at 20-22%.
EBIT (Rs mn)	82,740	82,880	88,140	6.3	6.5	
PAT (Rs mn)	62,120	63,680	68,511	7.6	10.3	<ul style="list-style-type: none"> 2QFY25 large deal TCV should be US\$3bn-5bn. Announced several deals in recent months.
EBIT Margin (%)	21.2	21.1	21.4	35bps	21bps	<ul style="list-style-type: none"> Things to watch out for: (1) The timing and extent of salary hikes in FY25. (2) Any disclosure of Gen AI revenue or order inflow numbers (3) contribution of third party items to the cost structure.
PAT Margin (%)	15.9	16.2	16.7	46bps	73bps	

Source: Company, BOBCAPS Research

Fig 4 – HCL Technologies

	2QFY24	1QFY25	2QFY25E	QoQ growth (%)	YoY growth (%)	Comments
Revenue (US\$ mn)	3,225	3,364	3,430	2.0	6.4	<ul style="list-style-type: none"> Expect revenue growth guidance for FY25 at 3-5% in CC terms to be maintained and so too the EBIT margin guidance of 18-19%.
Revenue (Rs mn)	2,66,720	2,80,570	2,87,409	2.4	7.8	<ul style="list-style-type: none"> Quarter's revenue will be impacted due to divestment of the State street business. Need to see if the company can deliver a strong >3% QoQ growth in 3Q. That is very critical for guidance maintenance.
EBIT (Rs mn)	49,340	47,960	52,616	9.7	6.6	
PAT (Rs mn)	38,320	42,580	41,514	(2.5)	8.3	<ul style="list-style-type: none"> Expect TCV to come in at US\$ 2bn-2.5bn (entirely net new).
EBIT Margin (%)	18.5	17.1	18.3	121bps	(19bps)	<ul style="list-style-type: none"> Margin is a key monitorable especially in services as this has been quite volatile in the past and has in certain quarters surprised on the downside.
PAT Margin (%)	14.4	15.2	14.4	(73bps)	8bps	

Source: Company, BOBCAPS Research

Fig 5 – Wipro

	2QFY24	1QFY25	2QFY25E	QoQ growth (%)	YoY growth (%)	Comments
Revenue (US\$ mn)	2,713	2,626	2,677	2.0	(1.3)	<ul style="list-style-type: none"> Estimate 1% CC QoQ revenue growth in 2QFY25 as against (1%) to 1% CC growth guidance as some of the large deals won ramp up.
Revenue (Rs mn)	2,25,159	2,19,638	2,25,037	2.5	(0.1)	<ul style="list-style-type: none"> EBIT margin will remain range-bound at ~16%. Salary increase has been brought forward to September.
EBIT (Rs mn)	33,345	34,056	36,451	7.0	9.3	<ul style="list-style-type: none"> TCV should be in the US\$ 3bn-US\$4bn. Revenue growth guidance for 3QFY25 will likely be -1% to +1%.
PAT (Rs mn)	26,463	28,019	30,855	10.1	16.6	<ul style="list-style-type: none"> Conversion of TCV to revenue a key monitorable as it seems to be more acute than its peers.
EBIT Margin (%)	14.8	15.5	16.2	69bps	139bps	<ul style="list-style-type: none"> The market is watching how much the new CEO Srinii Pallia has had an impact in terms of order inflow and revenue growth and if he can deliver a revenue growth surprise sooner. We believe a positive revenue growth guidance may help keep the stock up after a strong performance in the last 2-3 months.
PAT Margin (%)	11.8	12.8	13.7	95bps	196bps	

Source: Company, BOBCAPS Research

Fig 6 – Tech Mahindra

	2QFY24	1QFY25	2QFY25E	QoQ growth (%)	YoY growth (%)	Comments
Revenue (US\$ mn)	1,555	1,559	1,572	0.8	1.1	▪ Expect flat CC QoQ growth. Likely impacted by weakness in CME vertical (~37% of sales).
Revenue (Rs mn)	1,28,639	1,30,055	1,31,748	1.3	2.4	▪ Expect TCV to be in the US\$400-600mn band as the company is restrained in going after lower margin deals.
EBIT (Rs mn)	6,066	11,023	11,737	6.5	93.5	▪ Expect adjusted EBIT margin to expand QoQ in 2QFY25. TML recorded its lowest-ever EBIT margin of 4.7% in 2QFY24 followed by 5.4% in 3QFY24 and 7.4% in 4QFY24 due to business restructuring, including termination of unprofitable contracts. Its goal is to reach 15% EBIT margin by FY27.
PAT (Rs mn)	4,939	8,515	9,789	15.0	98.2	
EBIT Margin (%)	4.7	8.5	8.9	43bps	419bps	▪ Things to watch out for: (1) Is there demand recovery visible in the CME vertical especially after the fed funds rate cut? (2) Update on measures to increase BFSI contribution. (3) Specific actions taken to bring down the average resource cost.
PAT Margin (%)	3.8	6.5	7.4	88bps	359bps	

Source: Company, BOBCAPS Research

Fig 7 – LTI Mindtree

	2QFY24	1QFY25	2QFY25E	QoQ growth (%)	YoY growth (%)	Comments
Revenue (US\$ mn)	1,076	1,096	1,136	3.7	5.7	▪ President of Sales Sudhir Chaturvedi has been quoted in the media recently saying that FY25 will be better than FY24 - our question will be by how much. The company failed to deliver on its double-digit revenue growth guidance which it gave at the beginning of FY24.
Revenue (Rs mn)	89,054	91,426	95,232	4.2	6.9	
EBIT (Rs mn)	14,231	13,709	14,488	5.7	1.8	▪ The company had indicated that the strong performance shown in 1QFY25 will be maintained in 2Q too though it did not want to say much on 2H performance. How is the North America BFS shaping up for the rest of FY25
PAT (Rs mn)	11,623	11,351	12,551	10.6	8.0	
EBIT Margin (%)	16.0	15.0	15.2	22bps	(77bps)	▪ Progress on the client mining strategy articulated at its 2023 analyst meet.
PAT Margin (%)	13.1	12.4	13.2	76bps	13bps	▪ When is it going to achieve the EBIT margin target of 17-18% as it is looking to reinvest more in the business?

Source: Company, BOBCAPS Research

Fig 8 – Mphasis

	2QFY24	1QFY25	2QFY25E	QoQ growth (%)	YoY growth (%)	Comments
Revenue (US\$ mn)	398	410	419	2.2	5.3	▪ Were disappointed by the weakish growth in 1QFY25. We hope to see things improving in the second quarter as the company indicated top quadrant growth which implies at least 2% CQGR from 2Q onwards. The company has seen multiple quarters of QoQ CC decline due to continued pressure from the Mortgage business amid high interest rates in the US.
Revenue (Rs mn)	32,765	34,225	35,146	2.7	7.3	
EBIT (Rs mn)	5,067	5,135	5,340	4.0	5.4	▪ After 1QFY24 TCV at US\$ 707mn, the highest in the company's history, TCV numbers could not cross US\$ 300mn in any of the remaining three quarters of FY24. For 1QFY25, TCV came in a US\$319mn with a US\$100mn large deal. The company indicated significant improvement in the pipeline. We need to see if that translates into TCV
PAT (Rs mn)	3,920	4,045	4,205	4.0	7.3	
EBIT Margin (%)	15.5	15.0	15.2	19bps	(27bps)	▪ Key monitorables - (1) Performance and outlook for the non-mortgage BFS part of the business. (2) Progress in growth beyond BFSI and top 10 clients.
PAT Margin (%)	12.0	11.8	12.0	15bps	0bps	

Source: Company, BOBCAPS Research

Fig 9 – Persistent Systems

	2QFY24	1QFY25	2QFY25E	QoQ growth (%)	YoY growth (%)	Comments
Revenue (US\$ mn)	292	328	345	5.2	18.4	<ul style="list-style-type: none"> Expect the strongest in the Tier-2 peer set QoQ growth of 5% CC driven by its strong net new TCV addition in FY24 and in 1QFY25.
Revenue (Rs mn)	24,117	27,372	28,935	5.7	20.0	<ul style="list-style-type: none"> Expect margin to contract QoQ (100bps) due to upfront costs on large deal execution and salary hike. The company has clearly stated that its focus is on revenue growth and that has resulted in lowering margin expectations. Hopefully the margin in 2Q will be bereft of multiple one offs that 1Q suffered from.
EBIT (Rs mn)	3,308	3,840	3,763	(2.0)	13.8	
PAT (Rs mn)	2,633	3,064	3,015	(1.6)	14.5	
EBIT Margin (%)	13.7	14.0	13.0	(102bps)	(71bps)	<ul style="list-style-type: none"> TCV to be around the US\$ 400mn+ mark in 2QFY25E after strong TCV in the last few quarters. PSYS has been investing in building a company that is for a larger size and we believe that should be reflected in higher TCV.
PAT Margin (%)	10.9	11.2	10.4	(77bps)	(50bps)	

Source: Company, BOBCAPS Research

Fig 10 – Coforge

	2QFY24	1QFY25	2QFY25E	QoQ growth (%)	YoY growth (%)	Comments
Revenue (US\$ mn)	278	291	360	23.4	29.3	<ul style="list-style-type: none"> Coforge, unlike in the past has not given specific revenue growth guidance for FY25, though in a media interview the CEO indicated organic growth of 10% for standalone Coforge and the acquired entity – Cigniti.
Revenue (Rs mn)	22,762	24,008	30,139	25.5	32.4	<ul style="list-style-type: none"> It reiterated its goal of achieving revenue of US\$ 2bn by FY27 (including inorganic elements) and margin expansion of 150-200bps by FY27 (adjusted EBITDA margin for FY24 was 17.6%).
EBIT (Rs mn)	2,705	3,272	3,789	15.8	40.1	<ul style="list-style-type: none"> Expect 3% organic growth in CC QoQ terms in 2QFY25. However, we expect the quarter to include Cigniti numbers too. So about 20.5% (in USD) growth QoQ will come from Cigniti. Expect EBIT margin to contract by 100bps QoQ as full salary hikes have been given from 1 July 2024 albeit the increases have been lower than in the past.
PAT (Rs mn)	1,813	1,332	2,958	122.0	63.1	
EBIT Margin (%)	11.9	13.6	12.6	(106bps)	69bps	<ul style="list-style-type: none"> Coforge is likely to report US\$ 300mn+ TCV like what it did for nine consecutive quarters.
PAT Margin (%)	8.0	5.5	9.8	426bps	185bps	<ul style="list-style-type: none"> Things to watch out for: (1) BFSI demand in the UK where the bulk of its revenue comes from, (2) trajectory of SG&A costs, and (3) an update on Cigniti transaction and the trajectory of Cigniti

Source: Company, BOBCAPS Research

Fig 11 – Birlasoft

	2QFY24	1QFY25	2QFY25E	QoQ growth (%)	YoY growth (%)	Comments
Revenue (US\$ mn)	158	159	166	4.2	4.7	<ul style="list-style-type: none"> We expect stronger QoQ growth in 2QFY25 after a disappointing 1Q that was hit both on sales and margins. It was the first quarter after the new CEO joined that performance faltered. The company says it is a one quarter blip and that things should be back on track from 2QFY25
Revenue (Rs mn)	13,099	13,274	13,925	4.9	6.3	<ul style="list-style-type: none"> We expect EBIT margin to expand QoQ as it looks to invest in capability and Sales and marketing which will be offset by better operational efficiencies and a possible better revenue mix.
EBIT (Rs mn)	1,856	1,745	1,883	7.9	1.4	
PAT (Rs mn)	1,451	1,502	1,613	7.4	11.2	<ul style="list-style-type: none"> Birlasoft to likely to report TCV of US\$ 200mn+ same as the average for the past many quarters.
EBIT Margin (%)	14.2	13.1	13.5	37bps	(65bps)	<ul style="list-style-type: none"> Things to watch out for: (1) Birlasoft has done a lot of hiring at seniors' levels in both verticals and geos. We would like to hear plans laid down for FY25 and FY26 in these areas. (2) Birlasoft indicated industry-leading growth for FY25 –want to see if it sticks to this despite a weak start
PAT Margin (%)	11.1	11.3	11.6	27bps	51bps	

Source: Company, BOBCAPS Research

Fig 12 – Zensar Technologies

	2QFY24	1QFY25	2QFY25E	QoQ growth (%)	YoY growth (%)	Comments
Revenue (US\$ mn)	150	154	160	3.4	6.3	<ul style="list-style-type: none"> We expect growth momentum seen in 1Q to continue in 2QFY25. We expect some inorganic contribution from the Bridge View Life Sciences acquisition made in July 2024.
Revenue (Rs mn)	12,408	12,881	13,383	3.9	7.9	
EBIT (Rs mn)	1,942	1,714	1,812	5.7	(6.7)	<ul style="list-style-type: none"> We expect TCV for 2QFY25 to remain above the US\$ 150mn mark, which has been the case for the past five quarters.
PAT (Rs mn)	1,738	1,579	1,636	3.7	(5.9)	<ul style="list-style-type: none"> It created a net new engine for deals in FY24. Will watch out if it starts delivering.
EBIT Margin (%)	15.7	13.3	13.5	23bps	(211bps)	<ul style="list-style-type: none"> Things to watch out for: (1) whether revenue growth will pick up in FY25 after a weak FY24 - though margin expansion was commendable in that year. (2) Update on the new healthcare vertical. (3) extent to which it will sacrifice margins to drive growth
PAT Margin (%)	14.0	12.3	12.2	(3bps)	(178bps)	

Source: Company, BOBCAPS Research

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