

3QFY26 RESULT PREVIEW

Industry

IT & ITES

Sector Rating – Companies under coverage

Company (Rs) (Bloomberg code)	CMP	TP	Rating
Tata Consultancy Services (TCS)	3,216	3,733	BUY
Infosys (INFO)	1,606	1,649	HOLD
Wipro (WPRO)	263	227	HOLD
HCL Technologies (HCLT)	1,608	1,610	HOLD
Tech Mahindra (TECHM)	1,597	1,251	SELL
Sonata Software (SSOF)	361	380	HOLD
R Systems International (RSYS)	404	491	BUY

Source: Systematix Research; (Prices as of 5 Jan 2026)

IT Sector

06 January 2026

Seasonal Furloughs To Weigh On Growth

We expect seasonal headwinds to weigh on 3QFY26 performance across our IT services coverage. Large-cap IT companies are likely to report sequential USD revenue growth in the range of 0–2%, impacted by furloughs (in line with historical trends) and fewer working days. Demand conditions remain largely unchanged, with subdued discretionary spending, cautious client sentiment amid macro uncertainty, and ongoing AI-led technology transitions. BFSI is expected to see a continued gradual recovery in 3Q, while other verticals such as Healthcare, Manufacturing and Retail remain weak. Deal activity should remain healthy, led primarily by vendor consolidation and cost takeout engagements. EBIT margins are expected to remain range bound, as benefits from INR depreciation and AI-driven productivity improvements are offset by wage hikes and lower utilisation due to furloughs. With no visible signs of a demand recovery and a structurally weaker 2HFY26, we expect INFY and HCLT to broadly maintain their FY26 revenue guidance. We remain cautious and maintain our bottom-up stance on the IT sector, favouring TCS within Tier-1 peers and RSYS in the small cap space.

How we expect 3Q to pan out

Tier-1 IT players are expected to post 0.2%–2.1% QoQ USD revenue growth. HCLT could lead with 2.1% revenue growth on continued traction in BFSI and hi-tech verticals, supported by a seasonally strong software business, with 100bps EBIT margin gains. TCS and INFY may post flattish 0.2% growth reflecting seasonal furloughs, with INFY's margin up 22bps and TCS margins stable. TECHM could grow 0.4% with 52bps margin expansion from currency tailwinds and cost optimization initiatives. WPRO may record 1.1% revenue growth driven by Harman contribution. Among small caps, SSOF may see 24.4% consolidated revenue growth due to seasonal strength in the products segment, though margins could decline by 108bps. RSYS could report 10.1% consolidated revenue growth on large deal ramp-ups and the Novigo acquisition, with a 22bps margin decline.

Key aspects to watch out for in 3Q

- a) management commentary on CY26 client budget visibility, b) discretionary spending trends across verticals, c) pricing dynamics and potential deflationary impact from AI-led automation, d) margin levers amid productivity gains and cost pressures, e) changes in employee pyramid and hiring intensity, f) and any impact from H-1B visa renewal delays.

Valuation & Outlook

IT stocks have rebounded in recent sessions, though we remain selective and value-focused. The NIFTY IT Index has outperformed the broader market by ~5% over the last three months, driven by demand recovery hopes, INR depreciation, and an easing earnings downgrade cycle. NIFTY IT index trades at 27x LTM PE—5% below its 5-year average. We remain positive on TCS (21x 1-year forward PE), given its strong order book, resilient margins, and robust return ratios. We also prefer Blackstone-backed RSYS as a differentiated digital engineering play with synergies from the Novigo acquisition. We have retained our target prices for TCS, INFO, WPRO, HCLT, TECHM, SSOF, and RSYS.

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3QFY26 Earnings Overview

- **TCS:** We estimate a flattish 0.2% QoQ growth in TCS' revenue in USD terms, mainly impacted by seasonal furloughs and lower working days despite a resilient TCV (total contract value). In the last quarter, growth was primarily driven by the UK, Asia Pacific, Continental Europe, and MEA (Middle East Asia) markets, with the US and India markets recording muted growth - a trend we believe the company could replicate. We estimate flattish margins during the quarter, factoring in 2 month's impact of wage hike and furloughs offset by the benefit from currency tailwinds, pyramid optimization, and AI-led productivity gains.
- **INFO:** The upper end of management's FY26 CC growth guidance (3%) assumes a stable-to-improving macro, while the lower end (2%) factors in potential stretched weakness. Our estimate of 0.2% QoQ revenue growth in USD terms reflects ramp-up of recent deal wins despite a seasonally weak 3Q. We expect 22bps QoQ growth in EBIT margin, mainly from currency tailwinds and operational efficiency from *Project Maximus* partially offset by headwinds from furloughs.
- **HCLT:** We expect HCLT to report 2.1% QoQ revenue growth in USD terms, primarily due to resilience in BFSI and hi-tech verticals and a seasonally strong quarter for its software business. The estimated 100bps QoQ growth in EBIT Margin corresponds with the growth in IT services and seasonality.
- **WPRO:** We estimate 1.1% QoQ growth in WPRO's USD revenue during 3QFY26, mainly driven by one month's inorganic contribution from its Harman acquisition despite some pressure on the won deals. EBIT margin may remain flat, as currency tailwinds provide some relief despite costs from deal ramp ups.
- **TECHM:** TECHM is expected to post 0.4% QoQ USD revenue growth during the quarter. TCV numbers could continue to hover at USD 500-600mn, with EBIT margin likely up 52bps QoQ on currency tailwind and cost optimization initiatives.
- **SSOF:** The company's IT services revenue is projected to grow at 0.5% QoQ in USD terms, while consolidated revenue could grow by 24.4% owing to seasonal strength in the products segment. On the profitability front, consolidated EBITDA margin expected to decline by 108bps, driven largely by higher seasonal contribution from the structurally low-margin products business.
- **RSYS:** RSYS' IT services revenue is anticipated to rise by 2.8% QoQ in USD terms, while consolidated revenue is projected to increase by 10.1% QoQ in INR terms, owing to large deal ramp ups during the quarter along with 1.5 months impact of Novigo acquisition. Consolidated EBITDA margins are expected to decline by 22bps, driven by investments in talent along with large deal ramp ups.

Exhibit 1: IT companies under coverage – 3QFY26 estimates and highlights (Rs mn)

TCS	3QFY26E	2QFY26	3QFY25	YoY	QoQ	Comments
Net Revenue (USD mn)	7,479	7,466	7,539	-0.8%	0.2%	TCS is expected to post a 0.2% QoQ growth in its USD revenue, which is led by growth in BFSI and hi-tech verticals. We estimate an EBIT margin of 25.3%, a 14bps uptick QoQ, factoring in 2 month's impact of wage hike and furloughs offset by the benefit from currency tailwinds, pyramid optimization, and AI-led productivity gains.
Net Revenue (INR mn)	669,409	657,990	639,730	4.6%	1.7%	
EBIT	169,462	165,650	156,570	8.2%	2.3%	
PAT	130,101	120,750	123,800	5.1%	7.7%	
EBIT Margin	25.3%	25.2%	24.5%	84	14	
EPS (Rs)	35.9	33.4	34.2	5.1%	7.7%	
Infosys	3QFY26E	2QFY26	3QFY25	YoY	QoQ	Comments
Net Revenue (USD mn)	5,084	5,076	4,939	2.9%	0.2%	Infosys may see a flattish QoQ growth in its USD revenue mainly impacted by seasonal weakness due to lower working days and furloughs. We anticipate EBIT margin to grow 22bps QoQ, mainly due to currency tailwinds and operational efficiencies stemming from Project Maximus partially offset by headwinds from furloughs.
Net Revenue (INR mn)	454,999	444,900	417,640	8.9%	2.3%	
EBIT	96,658	93,530	89,120	8.5%	3.3%	
PAT	74,916	73,640	68,060	10.1%	1.7%	
EBIT Margin	21.2%	21.0%	21.3%	-10	22	
EPS (Rs)	18.1	17.8	16.4	10.1%	1.8%	
Wipro	3QFY26E	2QFY26	3QFY25	YoY	QoQ	Comments
Net Revenue (USD mn)	2,633	2,604	2,629	0.2%	1.1%	For Wipro, we are factoring a 1.1% sequential growth for the quarter mainly driven by one month inorganic contribution from Harman acquisition despite some pressure on the deals won. Margins are likely to remain flat during the quarter as the currency tailwinds would be offset by large deal ramp-up costs (Phoenix deal).
Net Revenue (INR mn)	233,951	226,973	223,188	4.8%	3.1%	
EBIT	38,958	37,829	38,966	0.0%	3.0%	
PAT	33,195	32,462	33,538	-1.0%	2.3%	
EBIT Margin	16.7%	16.7%	17.5%	-81	-1	
EPS (Rs)	3.2	3.1	3.2	-1.0%	2.3%	
HCL Technologies	3QFY26E	2QFY26	3QFY25	YoY	QoQ	Comments
Net Revenue (USD mn)	3,720	3,644	3,533	5.3%	2.1%	HCL Tech may register a 2.1% QoQ growth in its USD revenue, attributed to continued traction in BFSI and hi-tech verticals along with seasonally strong quarter for the software business. EBIT Margin is estimated to grow by 100bps QoQ led by positive seasonality in products business, AI led productivity benefits, and INR depreciation.
Net Revenue (INR mn)	332,948	319,420	298,900	11.4%	4.2%	
EBIT	61,164	55,500	58,210	5.1%	10.2%	
PAT	47,081	42,350	45,910	2.6%	11.2%	
EBIT Margin	18.4%	17.4%	19.5%	-110	100	
EPS (Rs)	17.4	15.6	16.9	2.6%	11.2%	
Tech Mahindra	3QFY26E	2QFY26	3QFY25	YoY	QoQ	Comments
Net Revenue (USD mn)	1,592	1,586	1,567	1.6%	0.4%	TECHM's USD revenue is expected to grow by 0.4% QoQ, driven by few deal ramp-ups, offset by furloughs and seasonal weakness. EBIT margin is expected to grow by 52bps QoQ due to currency tailwinds and cost optimization initiatives.
Net Revenue (INR mn)	142,452	139,949	132,856	7.2%	1.8%	
EBIT	18,031	16,993	13,502	33.5%	6.1%	
PAT	14,392	11,945	9,832	46.4%	20.5%	
EBIT Margin	12.7%	12.1%	10.2%	249	52	
EPS (Rs)	16.3	13.5	11.1	46.3%	20.5%	
Sonata Software	3QFY26E	2QFY26	3QFY25	YoY	QoQ	Comments
IT Services Revenue (USD mn)	82.4	82.0	87.0	-5.3%	0.5%	The company's IT services revenue is projected to grow 0.5% QoQ in USD terms, while consolidated revenue is likely to grow 24.4% owing to seasonal strength in the products segment. On the profitability front, consolidated EBITDA margins are expected to decline by 108bps, driven largely by the higher seasonal contribution from the structurally low-margin products business.
Consolidated Revenue (INR mn)	26,374	21,193	28,428	-7.2%	24.4%	
EBITDA (Incl other income)	2,255	2,041	1,851	21.8%	10.5%	
PAT	1,332	1,202	1,050	26.8%	10.8%	
EBITDA Margin	8.5%	9.6%	6.5%	204	-108	
EPS (Rs)	4.8	4.3	3.8	26.8%	10.8%	

R Systems	4QCY25E	3QCY25	4QCY24	YoY	QoQ	Comments
IT Services Revenue (USD mn)	57	55	53	6.3%	2.8%	RSYS' IT services revenue is projected to grow 2.8% QoQ in USD terms, while consolidated revenue is expected to grow 10.1% QoQ in INR terms owing to large deal ramp ups during the quarter along with 1.5 months impact of Novigo acquisition. Consolidated EBITDA margins are expected to decline by 22bps, driven by investments in talent along with large deal ramp ups.
Consolidated Revenue (INR mn)	5,489	4,986	4,490	22.3%	10.1%	
EBITDA (Incl other income)	917	844	801	14.6%	8.6%	
PAT	488	353	390	25.0%	38.0%	
EBITDA Margin	16.7%	16.9%	17.8%	-112	-22	
EPS (Rs)	4.1	3.0	3.3	25.0%	38.0%	

Source: Company, Systematix Research

Exhibit 2: Valuations of companies under coverage

Companies	M-cap (Rs bn)	PE (x)			M-cap to Sales (x)			EV/EBITDA (x)			RoE (%)		
		FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
TCS	11,729	23.4	22.1	19.1	4.6	4.4	4.1	16.3	15.1	13.1	51.2	50.1	50.1
Infosys	6,654	24.9	23.2	21.7	4.1	3.8	3.5	16.0	14.9	13.9	27.9	27.4	26.6
Wipro	2,768	21.1	20.7	19.7	3.1	3.0	2.9	13.3	12.7	11.1	15.9	14.0	13.0
HCL Tech	4,365	25.1	25.2	21.9	3.7	3.4	3.1	16.1	15.1	13.0	25.0	24.0	25.7
Tech M	1,413	30.3	24.6	19.7	2.7	2.5	2.3	17.5	13.8	11.3	15.5	19.2	22.9
Sonata Software	100	23.6	20.0	16.4	1.0	1.0	0.9	13.0	11.2	8.9	27.3	27.5	28.1
R Systems	48	36.5	24.8	20.6	2.7	2.4	1.9	15.9	15.0	10.6	21.3	26.8	25.0

Source: Company, Systematix Research *Note - RSYS numbers to be read as CY24/CY25E/CY26E

Exhibit 3: Stock performance over a decade

	% price change									
	Week	Month	3 months	6 months	1 year	YTD	2 years	5 years	10 years	
TCS	-0.9	-0.7	7.6	-5.7	-21.5	-9.4	-14.0	4.0	173.8	
Infosys	-0.9	-0.6	8.8	-1.3	-17.1	5.2	4.8	24.2	199.1	
Wipro	-0.1	1.3	8.7	-1.7	-10.5	0.3	15.3	29.6	152.2	
HCL Tech	-0.5	-4.5	13.4	-6.0	-17.7	5.0	12.2	62.2	281.5	
Tech M	-0.5	1.7	10.9	-1.7	-5.3	14.5	27.9	59.1	206.0	
Sonata Software	0.9	-0.2	2.5	-13.6	-42.1	3.4	-49.6	136.3	478.1	
R Systems	-0.4	-3.8	-4.5	-10.8	-14.5	23.2	-26.1	232.3	445.9	
Nifty IT	-0.6	-2.4	8.8	-2.8	-13.5	5.0	8.4	46.6	243.5	

Source: Company, Systematix Research

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