

Reiterating Indian IT as Top Buys:

The Global Software Recovery - The recent, severe de-rating across the Indian IT sector has created a generational accumulation zone. Over the last few days, we have witnessed a sharp, definitive recovery in global software and technology equities.

The street is actively pricing in the massive enterprise AI rollout cycle, and Indian IT vendors remain the ultimate execution engines for these global deployments. **We reiterate the sector as our Top Buy for institutional portfolios looking to capture outsized alpha heading into FY28.**

Core Levers for Margin Pick-Up in FY28.

This transition phase is currently masking underlying operational efficiencies that will act as powerful margin tailwinds by FY28:

Subcontractor Optimization: The heavy reliance on expensive third-party subcontractors during the post-pandemic talent war is rapidly normalizing, providing a direct 100-150 bps structural margin tailwind.

Utilization Headroom: Bench sizes remain elevated due to paused discretionary spending. As delayed deal volumes convert to revenue, higher utilization rates will drive significant operating leverage. **Pyramid Rationalization:** Aggressive hiring of freshers over the last two years is now maturing, lowering the average cost-per-resource across the sector.

Pricing Power in AI Deals: Generative AI and complex digital transformation projects command premium billing rates compared to commoditized application maintenance.

Arihant Capital Estimates: Valuation & Deep Dive
Valuation Methodology: IT Services (Large & Mid-Cap): Valued at a deep 30% discount to their 5-year median P/E.

ER&D Specialists: Valued at a severe 40% discount to their 5-year median P/E to heavily buffer against near-term auto-sector cyclicality.

Product Software: Viewed as the least impacted by cyclical IT spending pauses. These companies possess impenetrable structural moats and high-margin recurring revenue models. Therefore, we are applying no discount (0%) to their 5-year median P/E. (Note: Target prices reflect strictly conservative discounted multiples based on exact closing prices on July 1, 2026) Tier-1 IT Majors (Valued at 30% Discount to Median).

1. **Tata Consultancy Services (TCS)**
Key Segments: BFSI (highest exposure), Retail & CPG, Life Sciences, and Manufacturing.
- **Concall Rationale:** Management highlighted immense confidence in their mega-deal pipeline. While discretionary spends remain cautious, the demand for AI-led transformation architecture is at an all-time high.
 - **Margin Outlook:** TCS continues to defend its 24-25% operating margin band flawlessly. Subcontractor costs have bottomed out, and pyramid optimization provides a strong buffer against pricing pressure.

- **AI Integration & Outlook:** TCS is acting as the primary large-scale execution engine for global enterprises. Through its strategic partnership with Anthropic, TCS is deploying "agentic AI" in highly regulated industries, with an outlook toward replacing manual BPO and L1 support with autonomous agents by FY28.

Arihant Capital Estimates & Valuation: July 1 CMP: INR 1,982.60 FY28E EPS: INR 185.5 Valuation Multiple: 28.5x (Median) | 19.95x (30% Discount) FY28 Target Price: INR 3,701 Upside Potential: ~86.7%

Arihant Capital View: TCS is the ultimate defensive anchor. Its unparalleled execution scale allows it to capture the largest wallet share of AI transformations while offering total capital protection during this transitional phase.

2. Infosys (INFY) Key Segments: Financial Services, Retail, Communications, and Energy.

- **Concall Rationale:** Leadership emphasized that top-line softness is strictly due to discretionary pauses, not market share loss. They highlighted strong client engagement on GenAI pilots, expecting scale into large production contracts by next fiscal.
- **Margin Outlook:** Currently hovering near the 20-21% range. The heavy bench built over the last year is their biggest margin lever. As discretionary project volumes return, utilization will spike, dropping revenues straight to the bottom line.
- **AI Integration & Outlook:** Infosys is the transformation architect. Through its "Topaz" platform, the outlook is heavily geared toward rebuilding legacy data architecture for Fortune 500 clients to support complex generative AI workloads.

Arihant Capital Estimates & Valuation: July 1 CMP: INR 985.30 FY28E EPS: INR 88.0 Valuation Multiple: 25.3x (Median) | 17.7x (30% Discount) FY28 Target Price: INR 1,558 Upside Potential: ~58.0%

Arihant Capital View: A classic reversion-to-the-mean opportunity. By acquiring this structural growth engine at ~17.7x earnings, you are heavily de-risking your entry before the massive FY28 discretionary tech spend unlock materializes.

3. Wipro Key Segments: BFSI, Healthcare, Consumer, and Energy/Utilities.

- **Concall Rationale:** Management noted the consulting business has bottomed out, and early green shoots in BFSI tech spending are finally becoming visible in their order book.
- **Margin Outlook:** Wipro's aggressive internal restructuring and the completion of the Capco integration pains are yielding results. They are structurally aiming to stabilize operating margins above 16%, with a clear path toward 17%+ as consulting billing rates improve in FY28.
- **AI Integration & Outlook:** Focused entirely on domain-specific AI consulting. Wipro's \$1B investment in the "ai360" ecosystem integrates GenAI directly into its consulting frameworks, specifically targeting risk-underwriting models in BFSI.

Arihant Capital Estimates & Valuation: July 1 CMP: INR 170.15 FY28E EPS: INR 33.2 Valuation Multiple: 19.3x (Median) | 13.51x (30% Discount) FY28 Target Price: INR 449 Upside Potential: ~164.3%

Arihant Capital View: The premier deep-value, contrarian play. Sitting at an incredibly cheap ~13.5x multiple with the CMP deeply depressed, the downside risk is virtually eliminated. Any normalization in US banking budgets triggers a high-torque turnaround.

4. Tech Mahindra Key Segments: Communications, Media & Entertainment (CME), Manufacturing, and BFSI.

- **Concall Rationale:** New leadership delivered a hyper-focused commentary on pruning low-margin accounts, mapping a structural path back to 15% operating margins by FY27/28.
- **Margin Outlook:** The company is currently operating at depressed margin levels. By aggressively exiting low-yield accounts and optimizing their delivery pyramid, they have a massive ~300 bps margin expansion runway heading into FY28.
- **AI Integration & Outlook:** The AI outlook is deeply tied to the telecommunications cycle. Tech Mahindra is focusing heavily on automating telecom backend operations, AI-driven network optimization, and driving 5G enterprise rollouts.

Arihant Capital Estimates & Valuation: July 1 CMP: INR 1,362.20 FY28E EPS: INR 77.6 Valuation Multiple: 22.0x (Median) | 15.4x (30% Discount) FY28 Target Price: INR 1,195 Upside Potential: -12.1% (Near-term valuation premium)

Arihant Capital View: A purely structural turnaround story. While the current price is capturing a near-term premium ahead of our heavily discounted target, accumulating on dips provides a front-row seat to a massive profitability expansion as the global telecom capex cycle bottoms out. Mid-Cap IT Services (Valued at 30% Discount to Median).

5. LTIMindtree (LTIM) Key Segments: BFSI, Tech/Media, and Manufacturing.

- **Concall Rationale:** Confirmed the merger integration is fully complete. Management expects significant margin expansion as cross-selling pipelines and data-lake modernization deals scale up.
- **Margin Outlook:** With merger integration costs fully absorbed, LTIM is positioned to leverage its new scale. The margin outlook targets a return to the 17-18% band, driven by higher revenue per employee and premium pricing on specialized cloud infrastructure deals.
- **AI Integration & Outlook:** Using its "Canvas" platform, LTIM is preparing complex client data ecosystems for hyperscaler GenAI deployments. Their outlook is highly bullish on cross-selling AI architecture into their combined tier-1 client base alongside Microsoft and AWS.

Arihant Capital Estimates & Valuation: July 1 CMP: INR 3,546.70 FY28E EPS: INR 245.0 Valuation Multiple: 33.1x (Median) | 23.17x (30% Discount) FY28 Target Price: INR 5,677 Upside Potential: ~60.1%.

Arihant Capital View: LTIM offers tier-1 execution scale with mid-cap growth rates. With integration completely behind them, the margin expansion narrative is just beginning.

6. Mphasis Key Segments: Heavily indexed to US Banking, Capital Markets, and Insurance.

- **Concall Rationale:** Leadership acknowledged pain from the prolonged rate-hike cycle but noted a distinct stabilization in client conversations, expecting an immediate unlocking of frozen banking budgets as rates cut.
- **Margin Outlook:** Margins have stabilized near 15%. The outlook for FY28 hinges entirely on volume leverage. As mortgage originations and regional US banking IT budgets unlock, Mphasis will see a sharp uptick in high-margin execution.
- **AI Integration & Outlook:** Automating the financial lifecycle. "Mphasis.ai" integrates GenAI specifically for regulatory compliance, automated mortgage processing, and real-time fraud detection.

Arihant Capital Estimates & Valuation: July 1 CMP: INR 2,126.70 FY28E EPS: INR 148.0 Valuation Multiple: 26.2x (Median) | 18.34x (30% Discount) FY28 Target Price: INR 2,714 Upside Potential: ~27.6%

Arihant Capital View: Mphasis is a coiled spring. Hyper-leveraged to the US banking and mortgage recovery, setting the stage for a violent V-shaped revenue snapback in FY28.

7. Birlasoft Key Segments: Manufacturing, BFSI, and Energy/Utilities. Deep specialization in ERP implementations.

- **Concall Rationale:** Centered firmly on operational rigor and zero-debt execution. Management highlighted strong traction in manufacturing verticals and high client stickiness in ERP migration projects.
- **Margin Outlook:** Executing a textbook margin-expansion playbook. Strict SG&A cost controls and the pruning of non-core accounts are driving a structural uplift, with management targeting sustained EBITDA margins above 16% through FY28.
- **AI Integration & Outlook:** Birlasoft is embedding AI directly into SAP/Oracle migration cycles. Their AI outlook focuses on supply chain optimization—using predictive AI to manage manufacturing logistics.

Arihant Capital Estimates & Valuation: July 1 CMP: INR 275.70 FY28E EPS: INR 42.0 Valuation Multiple: 26.0x (Median) | 18.2x (30% Discount) FY28 Target Price: INR 764 Upside Potential: ~176.3%

Arihant Capital View: A clean, zero-debt execution story. With leadership aggressively driving margins and a deeply discounted CMP, securing this asset provides immense operational leverage as ERP modernization cycles accelerate

8. Mastek Key Segments: UK Public Sector (Government & Health), Oracle Cloud implementations, and Digital Engineering.

- **Concall Rationale:** Transitioning toward larger, outcome-based AI contracts. While this temporarily pressures the top line, management confirmed it secures long-term client stickiness and higher productivity savings.
- **Margin Outlook:** Moving away from standard time-and-material billing to outcome-based pricing in the UK public sector allows Mastek to retain the cost savings generated by AI automation, pushing their margin outlook aggressively toward the 19-20% band by FY28.
- **AI Integration & Outlook:** Focused on public sector automation. Mastek is integrating AI to accelerate software delivery and modernize legacy platforms for government entities—a highly defensive segment relatively immune to broader macroeconomic spending pauses.

Arihant Capital Estimates & Valuation (Note: EPS is Pre-Split): July 1 CMP: INR 1,568 FY28E EPS: INR 135.0 Valuation Multiple: 24.0x (Median) | 16.8x (30% Discount) FY28 Target Price: INR 2,268 Upside Potential: ~44.3%.

Arihant Capital View: The current valuation heavily discounts their robust UK public sector order book, making Mastek an excellent hidden value bet for FY28. Pure-Play ER&D Specialists (Valued at 40% Discount to Median).

9. KPIT Technologies (The Profit Warning Opportunity) **The Opportunity:** On July 1, KPIT triggered a massive correction to fresh 52-week lows (~INR 561) following a profit warning for Q1 FY27 due to sudden spending pauses by European automakers.

- **Concall Rationale:** Management explicitly clarified this is a short-term hurdle. In the long run, European OEM cost-cutting measures demand higher offshore automation and AI-led solutions. They continue to invest heavily in AI products, ensuring a robust growth foundation for FY28.
- **Margin Outlook:** While near-term margins will face compression due to lower volumes and fixed bench costs, the long-term margin outlook remains exceptional. As offshore automation scales, KPIT retains massive pricing power, aiming for steady-state margins around 19-20%.
- **AI Integration & Outlook:** KPIT serves as the primary software architecture partner for legacy automakers transitioning to Software-Defined Vehicles (SDVs). Their AI outlook is embedded entirely in developing the core software layers for autonomous driving, electric powertrains, and connected smart cabins.

Arihant Capital Estimates & Valuation: July 1 CMP: INR 557.55 FY28E EPS: INR 46.5 Valuation Multiple: 55.0x (Median) | 33.0x (40% Discount) FY28 Target Price: INR 1,535 Upside Potential: ~173.6%

Arihant Capital View: The street is panic-selling a two-quarter blip. KPIT remains the premier arms dealer in the global automotive tech race. Buying this absolute fear at a massive 40% valuation discount offers explosive upside as OEMs are inevitably forced to resume software investments for FY28.

10. Tata Elxsi Key Segments: Transportation (Automotive), Media & Communications, and Healthcare.

- **Concall Rationale:** Leadership maintained that the secular shift toward intelligent mobility is non-negotiable for automakers, viewing current budgeting delays as a temporary pause before a massive acceleration in premium billings.
- **Margin Outlook:** Tata Elxsi commands the highest margin profile in the IT/ER&D peer group. Their highly specialized, offshore-centric delivery model provides immense pricing power, allowing them to confidently maintain operating margins in the 27-29% range despite current revenue softness.
- **AI Integration & Outlook:** Focused strictly on embedded AI for intelligent mobility. The outlook involves deep partnerships with global OEMs and semiconductor companies to build AI algorithms for autonomous driving systems and next-generation smart vehicle infrastructure.

Arihant Capital Estimates & Valuation: July 1 CMP: INR 3,587.90 FY28E EPS: INR 182.0 Valuation Multiple: 60.0x (Median) | 36.0x (40% Discount) FY28 Target Price: INR 6,552 Upside Potential: ~82.8%

Arihant Capital View: Tata Elxsi is a direct proxy for global automotive disruption. Applying a severe 40% haircut to its historical premium provides a highly lucrative, de-risked entry window into an asset with impossible-to-replicate engineering talent.

11. L&T Technology Services (LTTS) Key Segments: Transportation, Industrial Products, Telecom & Hi-Tech, and Medical Devices.

- **Concall Rationale:** Management emphasized their robust patent portfolio and strategic partnerships to deploy AI analytics across heavy engineering, effectively protecting margins against single-industry shocks.
- **Margin Outlook:** The margin outlook is steadily improving back toward the 17-18% band. The shift toward higher-margin Industrial AI projects and away from commoditized legacy engineering is driving a structural uplift in billing rates.
- **AI Integration & Outlook:** Championing Industrial AI and smart manufacturing. Through major partnerships (like Databricks), LTTS is deploying AI across heavy engineering verticals to optimize factory floor automation, predictive maintenance, and complex IoT networks.

Arihant Capital Estimates & Valuation: July 1 CMP: INR 3,047.70 FY28E EPS: INR 165.0Valuation Multiple: 35.0x (Median) | 21.0x (40% Discount)FY28 Target Price: INR 3,465Upside Potential: ~13.7%

Arihant Capital View: Sitting flawlessly at the intersection of heavy engineering and AI, LTTS is a sleep-well-at-night compounder. A 40% multiple discount fully prices in near-term cyclicality while capturing the upcoming industrial IoT boom.Product Software Leaders (Valued at 0% Discount to Median)

12. Oracle Financial Services Software (OFSS)Key Segments: Core Banking Software licenses (FLEXCUBE) and ERP implementation services.

- **Concall Rationale:** Leadership indicated a highly robust pipeline for cloud transitions and high-margin license signings as global banks actively rip and replace legacy systems.
- **Margin Outlook:** Exceptional. Because they own the intellectual property and licenses, OFSS operates with a software-centric margin profile. The outlook remains structurally locked above 44% as recurring cloud revenues increase.
- **AI Integration & Outlook:** Delivering native AI banking products out-of-the-box. OFSS is embedding AI directly into Oracle Cloud Infrastructure (OCI) to offer banks autonomous databases, real-time risk management, and hyper-personalized retail banking capabilities without the need for bespoke coding.

Arihant Capital Estimates & Valuation:July 1 CMP: INR 10,863.00 FY28E EPS: INR 410.0Valuation Multiple: 24.0x (Median) | 24.0x (0% Discount)FY28 Target Price: INR 9,840Upside Potential: -9.4% (Currently trading at a premium to historical medians)

Arihant Capital View: OFSS operates with a near-monopoly in banking micro-verticals. While the recent sharp rally has pushed the CMP slightly past our FY28 target based strictly on historical median multiples, its impenetrable product moat warrants accumulation on any macro-induced dips.

13. Intellect Design ArenaKey Segments: Digital Transaction Banking, Retail Banking, Wealth Management.

- **Concall Rationale:** Management confirmed their R&D capitalization phase is peaking, leading directly to higher Free Cash Flow, driven by accelerating SaaS and subscription revenues.
- **Margin Outlook:** Intellect is in a prime margin transition phase. Moving away from project-based IT and heavily monetizing its SaaS platform allows them to command software-like gross margins, with EBITDA margins expected to scale aggressively as development costs drop.
- **AI Integration & Outlook:** Providing open finance AI architecture. Intellect is monetizing "eMACH.ai" to help global central banks and private lenders transition away from monolithic mainframes to composable, microservices-based AI architectures.

Arihant Capital Estimates & Valuation:July 1 CMP: INR 726.00 FY28E EPS: INR 45.0Valuation Multiple: 28.0x (Median) | 28.0x (0% Discount)FY28 Target Price: INR 1,260Upside Potential: ~74.1%

Arihant Capital View: Intellect is rapidly transitioning into a high-margin global SaaS platform. This is a rare opportunity to acquire the underlying architecture that will power the next generation of global banking, backed by accelerating cash flows and zero valuation discount drag.

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