



# UNDERWEIGHT ON IT SECTOR AMID MUTED GROWTH AND ELEVATED VALUATIONS

We have maintained an **underweight stance on the IT sector since January 2025**, anticipating a prolonged phase of subdued growth and valuation vulnerability.

Over the past 15 months, the outlook for Indian IT has remained weak, primarily due to subdued U.S. corporate IT spending amid elevated interest rates and cautious enterprise budgets. While revenues have not collapsed, growth has meaningfully moderated and remains below historical averages.

## HEADWINDS WE SAW COMING

### Subdued Growth Trajectory:

Large-cap IT players are operating in a **low-to-mid single digit near-term growth** environment, materially lower than historical double-digit cycles.

### Valuations Remain Elevated Despite Modest Outlook:

At **~22.5x P/E**, IT valuations are not at a discount versus the broader market. Yet with lower forward earnings growth relative to the market's ~16% FY27 expectation, the sector screens expensive on a PEG basis, suggesting that the sector lacks sufficient growth support to justify current multiples.

### Sustained FII Selling:

Foreign institutional investors have turned persistent sellers in Indian IT, withdrawing nearly **₹11,000 crore in early February 2026 alone**. The selling has been concentrated in large-cap IT names, signalling global investor scepticism around growth durability, AI-led disruption risks, and stretched valuations.

### AI Disruption Adds Structural Uncertainty:

While AI presents long-term opportunities, **near-term benefits appear skewed** toward productivity gains rather than revenue acceleration. Greater clarity is still required on the ultimate impact of AI-led automation on traditional IT services pricing, delivery models, and margins.

## OUR OUTLOOK

We believe IT may not see an immediate sharp decline in revenues. However, the more probable risk lies in **valuation correction if growth continues to remain muted**. With industry earnings momentum modest and forward growth estimates capped at mid-single digits, sustaining elevated multiples becomes challenging.

Accordingly, we remain underweight, preferring sectors with relatively better earnings visibility and more favourable growth-adjusted valuation comfort.

Source: Trendlyne, Bloomberg, NSE || Data as on 18<sup>th</sup> February 2026 || Past performance may or may not be sustained in future.

Disclaimer: This document should not be treated as endorsement of the views/opinions or as an investment advice. This document should not be construed as a research report or a recommendation to buy or sell any security. This document alone is not sufficient and should not be used for the development or implementation of an investment strategy. The recipient should note and understand that the information provided above may not contain all the material aspects relevant for making an investment decision. The decision of the Investment Manager may not always be profitable; as such decisions are based on the prevailing market conditions and the understanding of the Investment Manager. Actual market movements may vary from the anticipated trends. Neither Bajaj Finserv Mutual Fund / Bajaj Finserv Mutual Fund Trustee Limited / Bajaj Finserv Asset Management Limited nor its Directors or employees shall be liable for any damages whether direct or indirect, incidental, punitive special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Investors are advised to consult their own investment advisor before making any investment decision in light of their risk appetite, investment goals and horizon. This information is subject to change without any prior notice.

**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**

**BAJAJ FINSERV ASSET MANAGEMENT LIMITED**