

**Quote by Shravan Shetty, Managing Director, Primus Partners**

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## Can IT sector see market re-rating amid positive AI commentary by Infosys after TCS? Analysts say 'evidence of monetisation' needed



**Authored by** Debaroti Adhikary

**Read on:** <https://www.moneycontrol.com/news/business/markets/can-it-sector-see-market-re-rating-amid-positive-ai-commentary-by-infosys-after-tcs-analysts-say-evidence-of-monetisation-needed-13776099.html>

### **Article Content:**

***IT stocks carry a significant share in benchmark indices Sensex and Nifty, and are closely tracked by investors globally, an analyst said.***

IT stocks saw significant surge on December 16, buoyed by the positive October-December quarter results and management commentary on artificial intelligence (AI) progress by heavyweight Infosys. Analysts have commented on whether the sharp rebound in IT stocks can lead to a market re-rating and take them to fresh highs.

Infosys shares closed around 6 percent higher, leading gains on the Nifty IT index which rose more than 3 percent to a three-week high of 39,086.65. Notably, the IT index was the worst performing sector in 2025, falling around 15 percent during the year overall.

### **Infosys Q3 Results:**

Infosys reported a consolidated net profit of Rs 6,654 crore for Q3 FY26, marking a 2.2 percent year-on-year (YoY) fall from the Rs 6,806 crore net profit reported in Q3 FY25. This however included Rs 1,289-crore one-time cost on account of new labour codes.

The IT major's revenue from operations meanwhile rose 9 percent YoY to Rs 45,479 crore. The company revised its fiscal ending 2026 revenue growth forecast upwards to 3-3.5 percent, from an earlier estimate of 2-3 percent.

### **AI commentary:**

Infosys said it now has over 500 AI agents and is doing AI work with more than 90 percent of its top 200 clients, as it pitches itself as an "AI partner of choice" for large enterprises. "They are using agents in several of our service lines to help enhance either growth or productivity," CEO and managing director Salil Parekh said during the company's post-earnings press conference on January 14.

Infosys is well placed to benefit from enterprise-wide AI spending, given its discretionary heavy mix, said Motilal Oswal Financial Services, which retained its 'Buy' call on the stock. At the current valuations, upside risks meaningfully outweigh downside risks, it added, while keeping a target price of Rs 2,200 per share for the stock, which implies a 37 percent upside potential from the previous closing price.

Infosys's push for vendor consolidation is boosting growth prospects, while its AI library is strengthening its position as clients expand account sizes during renewals, Morningstar said. "Infosys is in a better competitive position compared with other Indian IT consulting firms due to its comprehensive AI offerings," the brokerage added.

Infosys, which won AI-led deals with Adobe and Siemens AG in 2025, did not disclose revenue from AI projects. Last month, Accenture beat first-quarter revenue estimates on strong demand for AI-driven IT services.

Tata Consultancy Services' annualised AI revenue jumped 17.3 percent sequentially to \$1.8 billion, outpacing its December quarter growth of 1.96 percent. "The growth momentum we witnessed in Q2 FY26 continued in Q3 FY26. We remain steadfast in our ambition to become the world's largest AI-led technology services company, guided by a comprehensive five-pillar strategy," CEO and managing director K Krithivasan said.

HCLTech said its AI revenue came in at \$146 million, up from \$100 million in the previous quarter. Revenue from the company's banking and technology verticals rose by 8.1 percent and 14.4 percent respectively, while that from life sciences fell 2 percent during the quarter.

Earlier this week, Motilal Oswal said it expects AI-related deal conversion to begin to show up in revenue in H2 FY27. This is also when AI-linked productivity deflation begins to be offset by new AI services work. The firm sees large-cap revenue growth rates starting to improve toward the 6-7 percent range, and AI services moving into the full deployment mode by FY28.

Industry revenue growth rates materially will likely accelerate to 8-9 percent (as against today's 3-4 percent) as AI modernisation, data workloads, and enterprise integration scale up, the domestic brokerage said, adding that this supports a sector-wide rerating as growth visibility improves.

HDFC Securities meanwhile said that AI will remain a dominant factor shaping economic and market conditions going forward, and AI-led recovery will likely accelerate in H2 2026 after a muted H1 for the Indian IT sector.

According to a new research survey by Capgemini Research, after an era of 'AI hype', business leaders are now increasingly realistic and pragmatic about their AI strategies, and have started using it in their decision-making.

### **Can IT rebound lead to markets re-rating?**

IT stocks carry a significant share in benchmark indices Sensex and Nifty, and are closely tracked by investors globally. Strong earnings from Infosys could act as a short-term sentiment booster for the

broader market as a positive earnings outcome and a better outlook help signal that demand conditions in key overseas markets may be stabilising, which supports overall risk appetite, said Ravi Singh, Chief Research Officer at Master Capital Services.

As confidence builds, this could lead to short-term momentum not only in IT but also in other industries, the analyst said. However, for this to result in long-term market strength, comparable earnings traction must also be seen in other heavyweight sectors, according to Singh. "If not, the effects of optimism driven by IT are probably going to be more tactical than systemic," he added.

"Although the long-term growth is reinforced by companies like Infosys and TCS's increased focus on AI, it is unlikely to lead to a broad-based valuation re-rating in a short time. Before allocating higher multiples, markets typically wait for stronger evidence of profit, margin growth and steady earnings contribution from AI-led deals," Singh said.

#### **'Markets need to see consistent performance in AI space':**

For a rerating, markets need to see consistent quarter performance in the AI space, including tangible deals and acquisitions, said Shravan Shetty, Managing Director at Primus Partners, who added that the earnings commentary and forward guidance would need to point towards this.

Narendra Solanki, Head Fundamental Research - Investment Services at Anand Rathi Shares and Stock Brokers, however noted that with Infosys results, there has been a visible shift in the sentiments in the IT space and markets are expecting similar momentum from other companies.

"IT sector has decent weights in frontline indices and definitely may lead the indices in near term. However, scaling towards fresh highs alone on back of IT sector is possible but difficult at this juncture and need participation from other heavy weights as well," he added.

#### **Will strong results trigger re-rating for IT stocks?**

Speaking on whether the strong results will drive a re-rating for IT stocks, Harshal Dasani, Business Head at INVasset PMS, said that AI commentary is directionally constructive, but a full rerating needs evidence of monetisation, not just intent.

"In the near term, AI is more likely to drive a 'selective rerating' within IT rather than a blanket multiple expansion. Companies with higher exposure to short-cycle, ROI-led AI work and strong platform partnerships may see faster earnings revisions, while others may remain range-bound. The rerating trigger for the sector will be consistent: rising AI contribution to deal wins, expanding wallet share in core verticals like BFSI, and confirmation that GenAI is incremental rather than cannibalising legacy work. So yes, AI can change the slope of the cycle—but it is still early, and the market will demand proof through numbers over the next 2–3 quarters," Dasani said.

Axis Securities remained 'cautiously optimistic' for the Indian IT sector. It noted that Infosys' sequential growth trajectory suggests a stable environment rather than an improving one.