SECTOR RATING: Overweight

PL Capital
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Information Technology

Sector Update

August 02, 2026

Coverage Universe

Name of the Company	Rating	CMP (INR)	TP (INR)
Coforge	BUY	1,721	2,120
Cyient	HOLD	848	900
Fractal Analytics	BUY	812	1,010
HCL Technologies	HOLD	1,347	1,160
Infosys	BUY	1,130	1,240
KPIT Technologies	SELL	598	460
L&T Technology Services	HOLD	3,555	3,350
Latent View Analytics	BUY	316	350
LTM	Accumulate	4,362	4,200
Mphasis	BUY	2,342	2,820
Persistent Systems	BUY	5,549	5,570
Tata Consultancy Services	BUY	2,366	2,500
Tata Elxsi	Reduce	3,673	3,350
Tata Technologies	SELL	748	610
Tech Mahindra	BUY	1,651	1,780
Wipro	Reduce	184	165

Hyperscalers Gain from AI Capex; Enterprises Wait

Quick Pointers

- Google Cloud, AWS & Microsoft Azure revenues rose 82%, 37% & 43% YoY respectively in Q2FY26
- Customers are moving AI from pilots to broader deployments, with time from deployment to high usage falling from months to days.

The Hyperscalers' growth performance outpaced consensus estimates and further strengthened correlation between cloud growth and AI buildout capex. Azure, AWS and GCP continue to grow at an impressive pace of 43%, 37% and 82% YoY respectively in the latest quarter ended 30th June, 2026. AWS and GCP's cloud growth is slightly skewed towards consumer-facing generative AI usage, while also powering their internal product stacks. In contrast, Microsoft Azure remains predominantly enterprise-driven and, therefore, serves as a better proxy for enterprise AI adoption, as reflected in AI Foundry revenue (up 2x+ YoY), token consumption (1tn, up 4x YoY), and Microsoft 365 Copilot daily usage (up 3x YoY). Among these metrics, token consumption is particularly encouraging, reaching an annualized run rate of 1tn tokens in Q4FY26, up 4x YoY. However, we believe that the growth in these metrics, especially token consumption, is still largely driven by AI model development, experimentation, and testing, rather than the commercial rollout of enterprise business workflows. While the adoption of AI assets and frontier model capabilities has accelerated significantly over the past year, the relatively limited pilot-to-production conversion rate has prompted enterprises to remain cautious on token budgets and closely monitor metered consumption.

Microsoft is evolving from a "per-seat" model to a "seat plus consumption" model, expanding monetization across its product portfolio. Usage-based billing is already witnessing strong enterprises adoption. Similarly, several IT Service providers, especially the Tier-2s, are reshaping the commercial constructs by increasingly engaging clients through measurable outcome- and output-based delivery models. We believe, despite a strong rally in Tier-2 stocks, the companies (COFORGE, MPHL, PSYS) are well positioned to turn-the-tide, aided by limited talent debt, greater organizational agility and adaptive business model. We continue to maintain our positive view on the sector and prefer Tier-2s over Tier-1s.

Google Cloud: Management stated a USD 44.9 bn Capex in the second quarter, with the vast majority of the spend in technical infrastructure to support investments in AI, increasing the FY26 capex guidance to USD 195–205 bn, from USD 180-190 bn earlier, and expects capex to increase significantly again in 2027.

AWS: Amazon now expects approximately USD 220 bn of cash Capex in 2026, primarily supporting AI and AWS, with the increase driven by higher memory costs and remains confident in the long-term opportunity, stating that AWS has the potential to become a trillion-dollar annual revenue business.

Microsoft Azure: Microsoft expects CY26 Capex of approximately USD175 bn, with Capex continuing to grow year over year as the company invests in R&D compute capacity, talent, data and AI infrastructure to meet growing demand, having added 31 new data centers across five continents during the quarter.

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KTA's from Alphabet's concall

- Management increased FY26 capex guidance to USD 195–205 bn and expects capex to increase significantly again in 2027, reflecting accelerated capacity expansion to meet sustained AI demand
- Approximately 60% of investment in technical infrastructure this quarter was in servers, and 40% was in data centers and networking equipment.
- AI spending continues to broaden, with enterprises investing in custom agents, process automation, cybersecurity, customer relationships and data analytics. Paid AI usage also accelerated, with nearly 500 customers processing over 1 trillion tokens each during the last year
- Google Cloud Marketplace transactions grew over 7x YoY, while more than 2,000 enterprises consumed over 100 billion tokens, reflecting increasing production-scale AI deployments
- Alphabet continues investing in TPUs, NVIDIA GPUs, networking and data center infrastructure to support growing demand.
- Management reiterated the business remains supply constrained, with demand exceeding available capacity. To bridge near-term shortages, Alphabet will utilize additional third-party capacity while continuing to build internal infrastructure
- AI investments are redefining what's possible across every part of the business, with a full-stack approach spanning chips, models, data, security and agent platforms
- Management described Cloud demand as strong and diversified across products, customers, industries and geographies, with Cloud backlog increasing to USD 514 bn, driven primarily by enterprise AI offerings.

KTA's from Amazon's concall

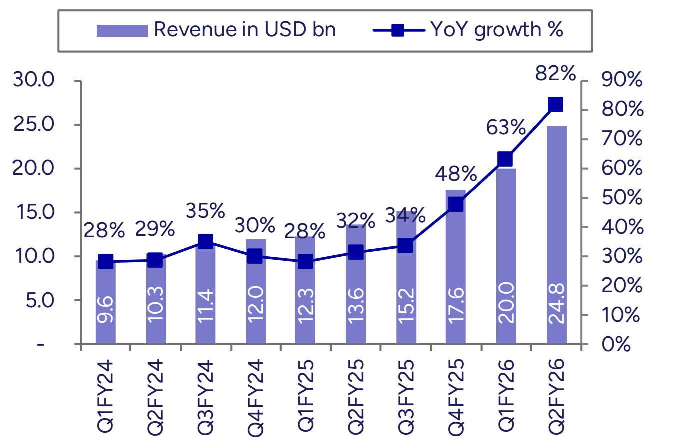
- Enterprise demand remains robust, with customers accelerating cloud migrations, increasing AI adoption and signing long-term commitments. Management highlighted that 85% of global IT spend is still on premises, providing a significant long-term migration opportunity.
- Enterprises are increasingly moving inference workloads into production, with AI adoption driving incremental consumption of AWS core services and broader cloud infrastructure.
- Management highlighted a strong linkage between AI spend and core growth, with post-training, reinforcement learning and agent tool use increasing demand for CPUs, storage and core cloud infrastructure.
- Customers are committing to multi-year contracts, while most AI server capacity is contracted for at least five years, providing long-term visibility into infrastructure utilization and returns.
- Management sees increasing enterprise adoption of coding agents, AI work companions, business intelligence, software migration, contact centers and security, reflecting broader production deployment of AI applications
- Amazon now expects approximately USD 220 bn of cash Capex in 2026, primarily supporting AI and AWS, with the increase driven by higher memory costs. Even at this investment level, management expects capacity to remain insufficient to meet demand. Q2 cash Capex totalled USD 53.1 bn, primarily related to AWS and generative AI.

- Amazon remains confident in the long-term opportunity, stating AWS has the potential to become a trillion-dollar annual revenue business, while continuing to invest aggressively to remain the market leader in AI infrastructure and cloud services.

KTA's from Microsoft's concall

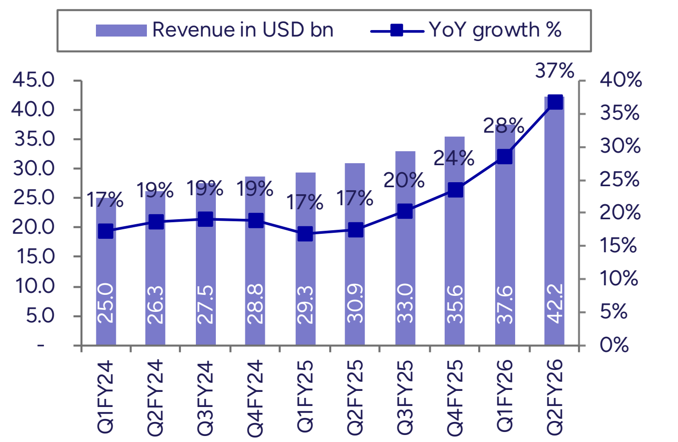
- Enterprise company is building an end-to-end AI platform spanning AI platform and infrastructure, model choice, enterprise data and context, Foundry, Agent 365, and Copilot, allowing customers to run, govern and distribute apps and agents across the enterprise.
- Enterprises continue expanding AI deployments, with over 30 million paid Microsoft 365 Copilot seats, 100,000 Foundry customers, 40 million agents registered, and nearly 90% of the Fortune 500 grounding agents in enterprise context using Foundry, Fabric and WorkIQ.
- Management said customers are moving from pilots to broader deployments, with time from deployment to high usage falling from months to days. Large organizations are increasingly deploying Copilot to the majority of information workers while adopting E7, Agent 365, and usage-based billing.
- Microsoft is evolving from a per-seat model to a "seat plus consumption" model, expanding monetization across Copilot, GitHub Copilot, Dynamics 365 and security offerings. Usage-based billing is already seeing strong adoption across enterprise workloads.
- Microsoft added 31 new data centers across five continents during the quarter, bringing the annual total to 88, while adding another gigawatt of capacity and remaining on track to roughly double overall capacity in two years.
- Despite capacity additions, management reiterated that customer demand continues to exceed available capacity, with efficiency gains and faster deployment allowing new capacity to be quickly monetized.
- Capital expenditures totalled USD 41 bn during the quarter, with roughly two-thirds allocated to short-lived assets, primarily CPUs and GPUs, and the remaining investment directed toward long-lived assets, including data centers.
- The number of customers with more than 50,000 Copilot seats increased over 7x YoY, while enterprise customers deploying Copilot to the majority of information workers grew nearly 75% QoQ

Exhibit 1: Google Cloud revenue growth %



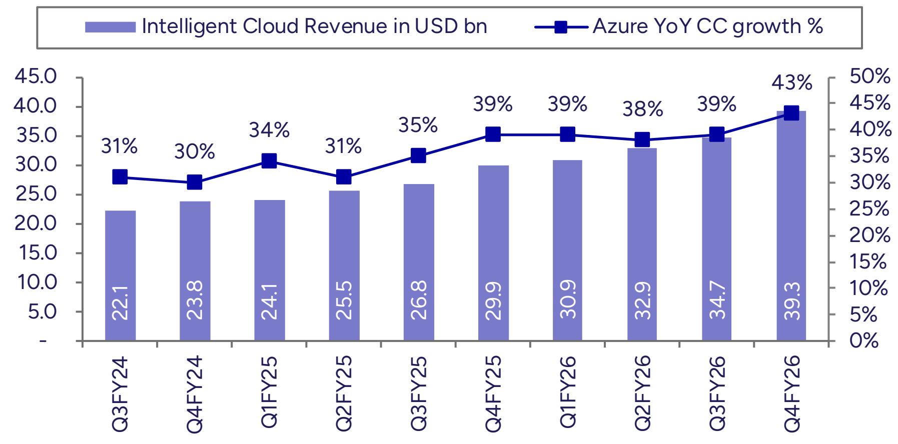
Source: Company, PL

Exhibit 2: AWS revenue growth %



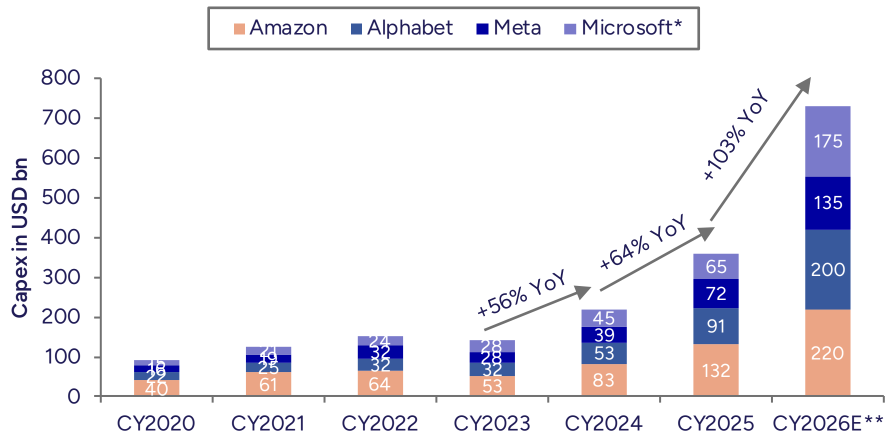
Source: Company, PL

Exhibit 3: **Microsoft Azure revenue growth %**



Source: Company, PL

Exhibit 4: **Increasing growth of Hyper-scaler capex**



*Source: Company, PL, *Based on FY ending 30th June, ** Microsoft CY26 capex guidance reduced from USD 190bn to 175bn due to lease reclassification*

KTA's from Meta's concall

- Management sees a large enterprise opportunity to sell to businesses, including APIs, business agents, potentially selling compute directly, coding and productivity tools, and other services being built for large customers.
- Management is integrating LLMs into recommendation systems to provide a first-principles understanding of content and user interests
- Meta is developing foundation models designed to power organic content and ads recommendations simultaneously, alongside LLM-native recommender systems, with healthy scaling laws observed in early research.
- Management stated that industry capacity remains tight, there is "nowhere near enough compute" for demand, and Meta continues receiving offers to purchase its compute at a significant premium over acquisition cost.

- Meta continues investing aggressively in infrastructure to support model training, core business growth, personal agents, enterprise offerings and future AI products.
- Management increased FY26 capital expenditure guidance to USD 130–145 bnn, from the prior USD 125–145 bn, while incorporating continued investments in servers, data centers and network infrastructure.
- For 2028 and beyond, management is laying down data center and network foundations while preserving flexibility to make future server decisions as AI adoption evolves.

KTA's from JP Morgan's concall

- Management cited roughly 1,000 AI use cases now in production firm-wide, with about 50 considered high-impact across risk, fraud, marketing, hedging, prospecting, note-taking, idea generation and document reading, highlighting deployment in early stages
- Management highlighted that total US capex of crossed ~USD 4 tn a year, with AI-specific spend rising from about USD 400 bn last year to USD 700 bn this year, and expected to cross USD 1 tn next year alongside a possible reduction in non-AI capex.
- Management highlighted AI investments represent a complete continuation of years of ongoing investment rather than a new or accelerated spending program, with returns continuing to justify aggressive investment.
- Management expects AI to have huge efficiency in certain parts of the company, highlighting that AI-driven efficiency already reduced headcount by 30-40% in those specific pockets.
- The company is building internal infrastructure to be disciplined about model selection and cost, using the right-sized model for each task and remaining open to open-source models where appropriate to manage the ramp in AI-related spend

KTA's from Morgan Stanley's concall

- Management estimated global AI data center capex could rise from ~USD 850 bn in 2026 to USD 1.3 tn in 2027 and USD 1.5 tn in 2028. Morgan Stanley Research estimates AI compute spending could eventually reach USD 10 tn over the coming decade, implying that only 10–15% of the potential AI investment cycle has been completed.
- Management highlighted AI as one of the two defining structural themes reshaping capital allocation, noting that enterprises are increasing investment in AI capabilities, which is supporting investment banking pipelines, equity issuance, and financing activity.
- While optimistic about the long-term opportunity, management acknowledged risks such as technology evolution, chip innovation, power constraints, supply-chain bottlenecks, geography, and uneven AI adoption, which could affect the pace and returns of the investment cycle.

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (INR)	Share Price (INR)
1	Coforge	BUY	2120	1686
2	Cyient	HOLD	900	879
3	Fractal Analytics	BUY	1010	787
4	HCL Technologies	HOLD	1160	1221
5	Infosys	BUY	1240	1047
6	KPIT Technologies	SELL	460	639
7	L&T Technology Services	HOLD	3350	3293
8	Latent View Analytics	BUY	350	279
9	LTM	Accumulate	4200	4037
10	Mphasis	BUY	2820	2288
11	Persistent Systems	BUY	5570	4581
12	Tata Consultancy Services	BUY	2500	2050
13	Tata Elxsi	Reduce	3350	3697
14	Tata Technologies	SELL	610	758
15	Tech Mahindra	BUY	1780	1510
16	Wipro	Reduce	165	178

PL's Recommendation Nomenclature (Absolute Performance)

BUY	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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