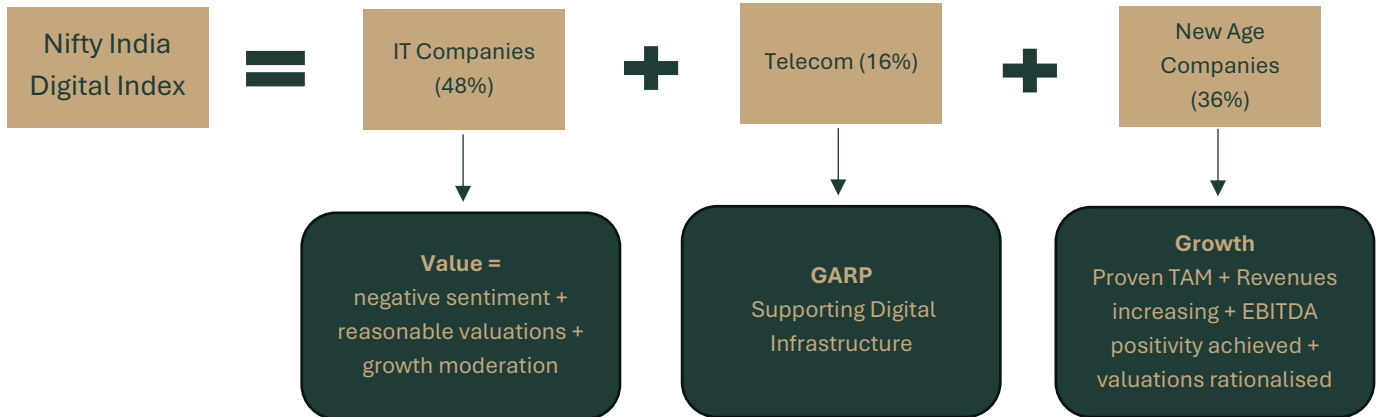
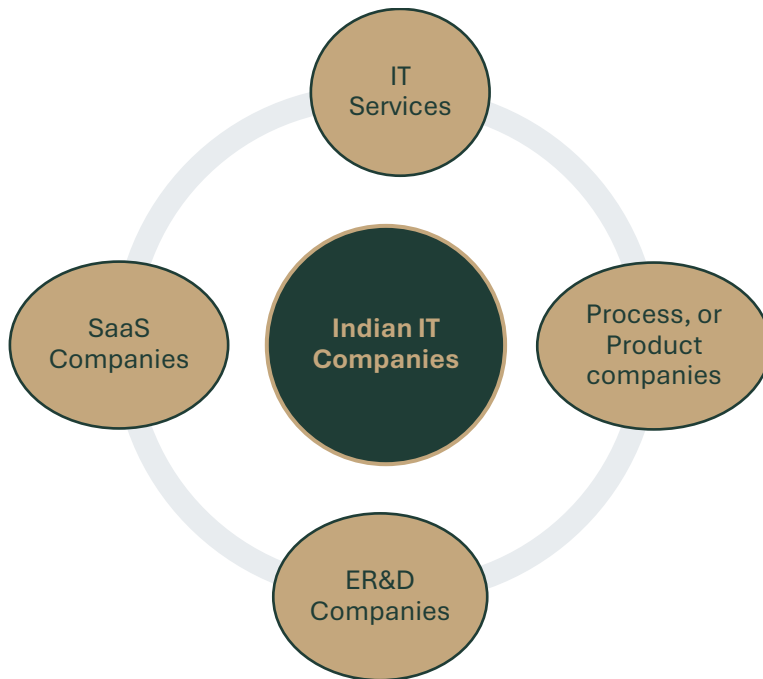


Nifty Digital Index – An Opportune allocation

5th June, 2026



IT companies in India are broadly classified into 4 different verticals, each having a different product offering and client specifications. There is no direct AI software or hardware company in India as of now.

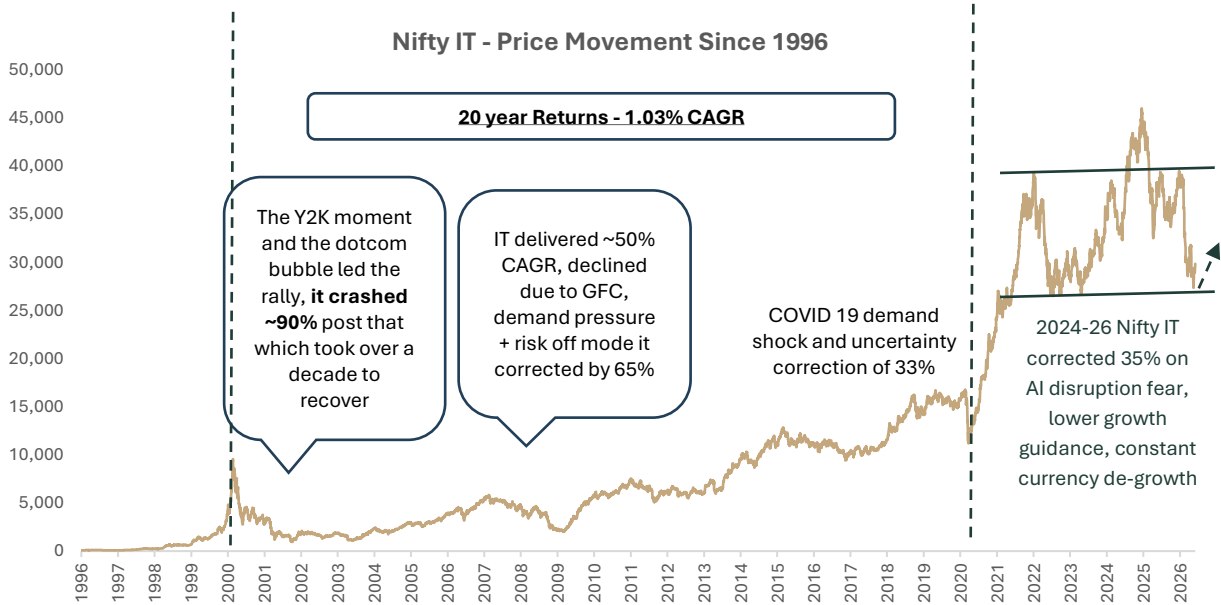


Pravia Insight – We are taking an exposure on Nifty Digital instead of Nifty IT – due to a quasi-opportunity of capturing Nifty IT turnaround, and growth in the new-age companies as they turn EBITDA positive with an expansion in TAM.



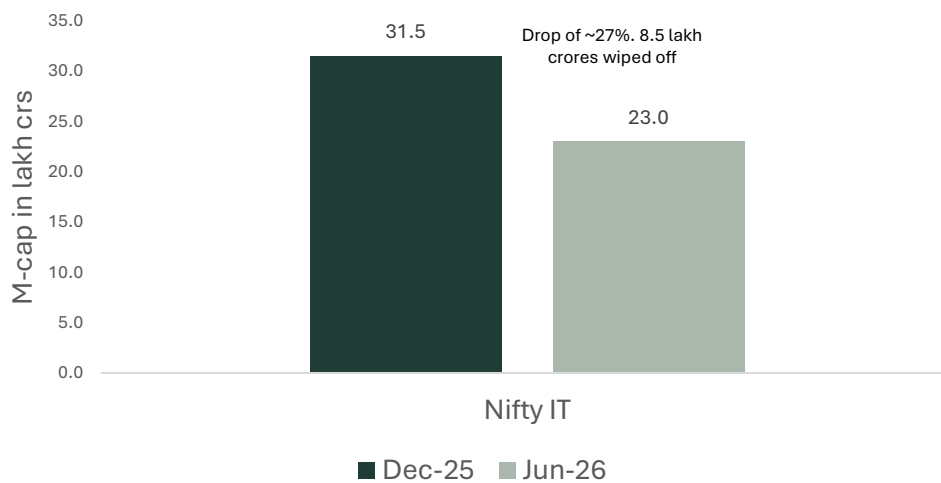
IT Services fit our value bucket post the recent correction

Negative Sentiment – there has been a ~35% correction in the last year

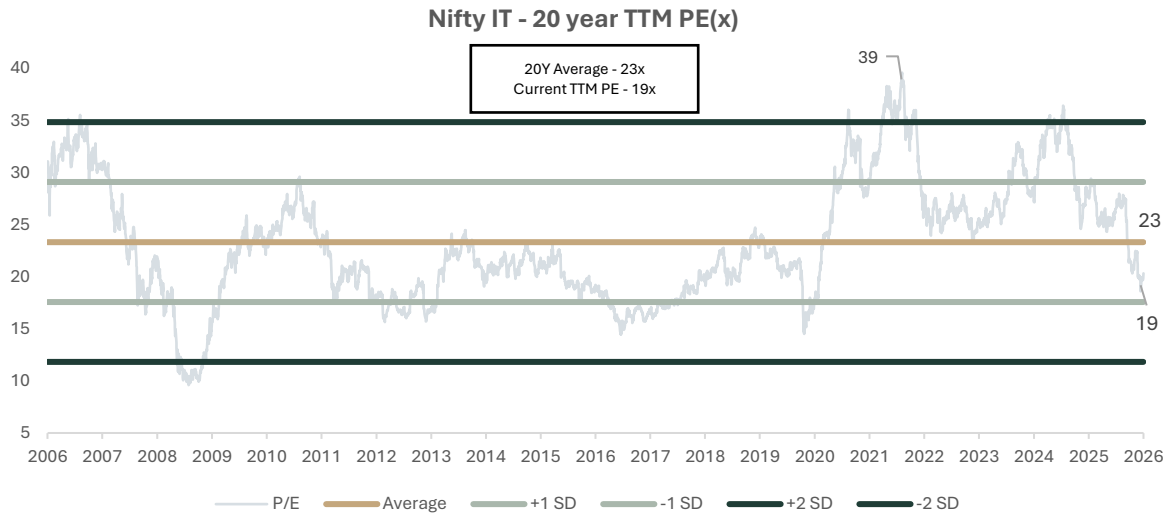


The IT services sector has witnessed a **~35% correction over the last year**, impacted by AI disruption and global macro uncertainty.

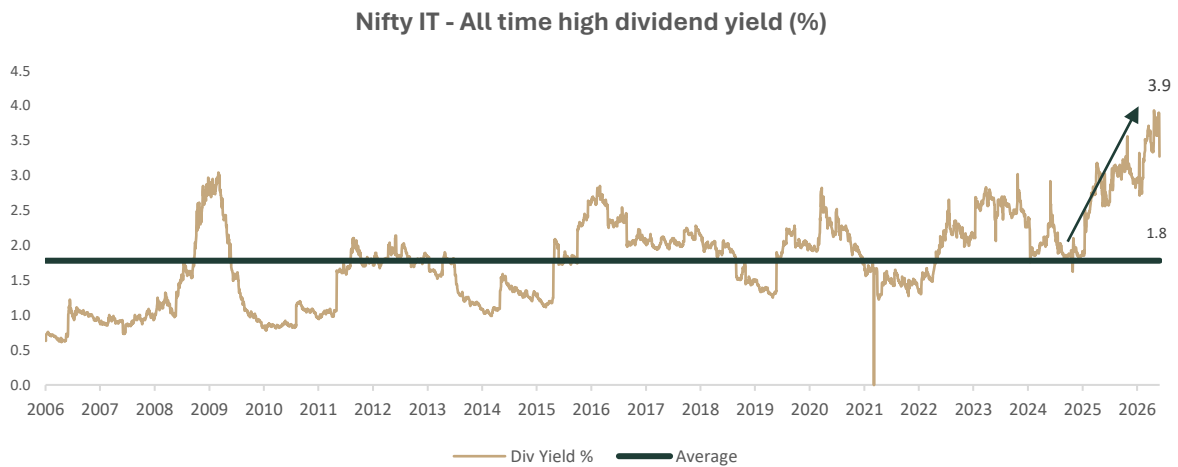
Since December 2025, the Nifty IT index has seen nearly ₹8.5 lakh crore erased from its market capitalization, with TCS alone accounting for approximately ₹4.5 lakh crore of this decline. Current valuations suggest that the market is assigning extremely subdued terminal growth expectations to IT services companies, effectively pricing them as businesses transitioning from the maturity phase toward a potential decline phase in the business lifecycle.



Valuations have become favourable – below 20-year averages



After the de-rating, Nifty IT trades at a TTM PE(x) of ~20x vis-à-vis 20-year average of 23x. This has pushed the dividend yield of the index to ~4%, with margin stability, and strong cash conversion, makes it reasonably placed at this juncture.



Valuation Asymmetry – Analogy to Anthropic’s Valuation

Name	M-cap	Sales	M-cap to sales
Nifty IT	250.3	86.6	2.9x
Anthropic (Claude)	965.0	30.0*	32.2x

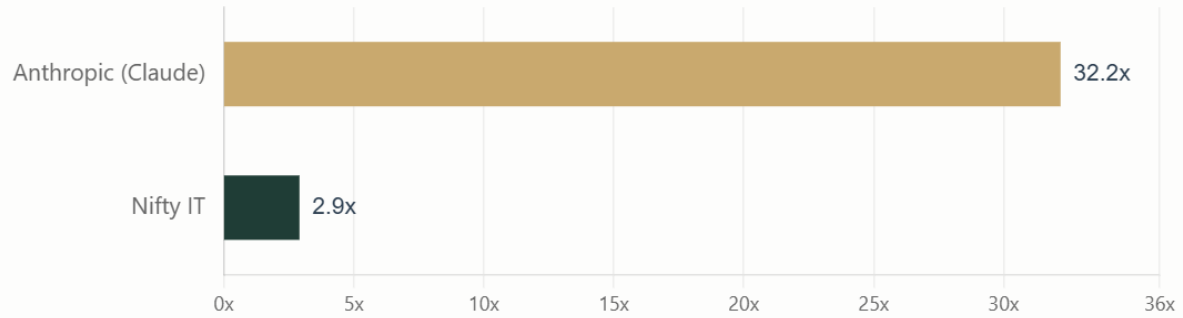
The difference lies in the fact that IT service companies are valued at decline stage multiples, whereas Anthropic is valued at an exponential growth stage multiple.

Source – ACE Equity for Nifty IT data, Bloomberg for Anthropic data
*The sales for Anthropic is the run-rate currently



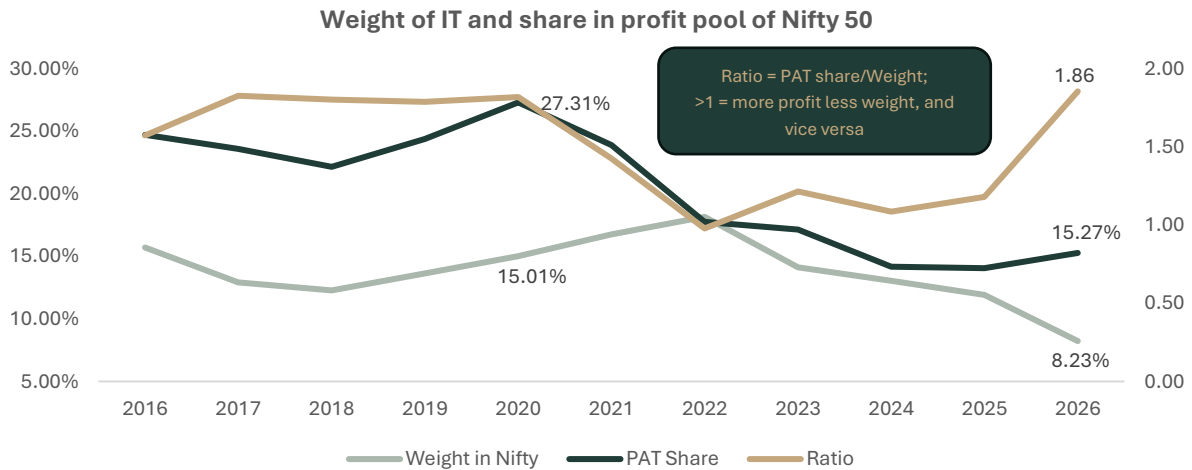
Price-to-sales multiple

Anthropic trades at ~11x the Nifty IT basket on M-cap / Sales



Anthropic on \$30B annualised run-rate revenue · Nifty IT on trailing sales.

Growth Moderation – diversification of profit pool, negativity factored in



Source – Morningstar Direct, Pravia Research

Today, the market appears to be valuing IT companies as if they are entering a prolonged structural decline. Yet, the sector still accounts for over **15% of Nifty 50 profits** while representing just **8% of the index weight**. This disconnect suggests that valuations are embedding very low terminal growth assumptions.

Historically, periods when the gap between **earnings contribution** and **market weight** becomes unusually wide have tended to precede phases of mean reversion, either through:

- ▶ Improvement in investor sentiment,
- ▶ Re-rating of valuations
- ▶ Recovery in earnings growth expectations

The ratio of earnings contribution to weightage in Nifty 50, indicates the markets’ negative sentiment running ahead of its actual earnings impact, **making it a value proposition**.



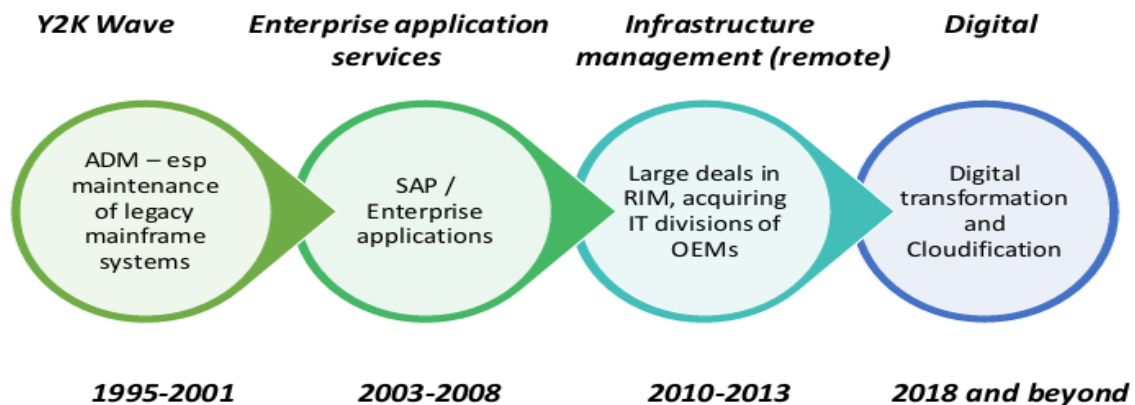
Periods of under-performance are followed by higher average returns for Nifty IT

Drawdown Date	Max DD%	Forward returns %	
		1 year	3 years
03-Mar-09	-65.2	196.1	84.0
22-Aug-11	-32.0	22.0	47.7
11-Nov-16	-24.0	21.4	31.5
23-Mar-20	-33.1	137.2	62.7
17-Apr-26	-28.8	?	?

The Nifty IT index has recovered from every down-cycle in the past

Source – Morningstar Direct, Pravia Research

AI Impact on IT Services Companies in India



Source – Nuvama Report on Indian IT Services; ADM stands for Application Development, and Maintenance

The Indian IT services sector has navigated multiple technology disruptions **over the past three decades**, with each wave initially perceived as a threat to its business model. Yet, rather than being displaced, leading IT firms expanded their addressable market by adapting to and enabling these technological transitions. **We believe that the ongoing AI revolution can create a similar opportunity.**

In our note on the [Global AI Trade and its Plausible Reversal](#), we highlighted how India's limited participation in the global AI infrastructure build-out has weighed on investor sentiment. Consequently, Indian IT companies have been marked down despite their 15–20-year track record of successfully evolving through successive technology cycles.

The industry is undergoing a fundamental shift as the traditional model of scaling revenue by adding headcount is being challenged by AI. Management across major IT firms is now publicly acknowledging that the 30-year-old ‘linear’ growth model is breaking.



- ▶ **Decoupling of Revenue and Headcount**
 - ▶ Productivity and headcount – HCL reported revenue growth of 4-5% while headcount remain flat. Similarly, Mphasis noted a de-linkage between revenue and employee growth.
 - ▶ Employee displacement – automation is leading to employees being released because lower-end skills are no longer ‘readily re-deployable’.
- ▶ **Strategic Shifts in the Business Model to platforms and IPs**
 - ▶ IT companies are moving away from being ‘pure labour-based service providers’ toward owning intellectual property (IP) and platforms.
 - ▶ E.g. – Wipro launched a dedicated unit to pivot to SaaS, HCL is pushing its ‘AI Force’ platform, Tech Mahindra is rebranding its application services into ‘agentic development’ to focus on AI driven modernisation.
- ▶ **New Pricing Models – moving away from hourly billing models**
 - ▶ **Service Tokens** – clients buy abstracted units of work regardless of whether they are performed by humans or AI (similar to how LLMs are priced). Tech Mahindra has introduced **service tokens**.
 - ▶ **Outcome or pod based** – clients are billed for a dedicated team or a specific result rather than an hourly rate.
 - ▶ **From RFPs to Hackathons** – clients prefer live sandbox environments over 100-page proposals to prove execution capability.
- ▶ **Roles in AI Implementation**
 - ▶ **AI Infrastructure** – TCS is moving into data center business with ‘Hyper-Vault’ initiative, aiming to build 1GW of capacity to provide **full-stack AI service**, from hardware to model intelligence.
 - ▶ **Day-1 Services** – high-end AI engineering services, HCL tech is providing a AI factory program worth over 100 million USD, this will fast-track the client’s requirement of building and operating next-gen AI data centers to support AI workloads.
 - ▶ **Model Training** – Wipro and Tech Mahindra are being hired by ‘hyperscalers’ to manage the end-to-end operation of frontier AI models, including training, governance, and evaluation



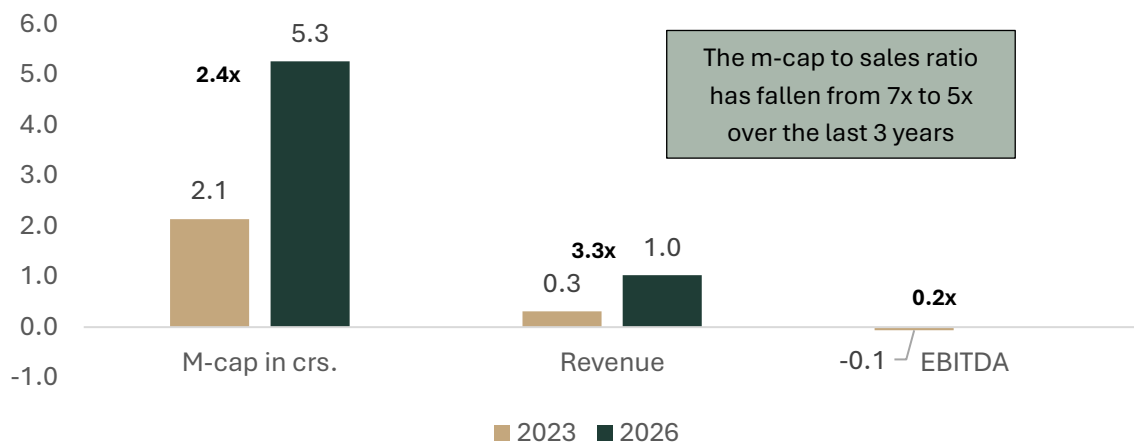
New Age Companies – Growth Allocation

The new age tech space has evolved very rapidly over the last decade. From a handful of early-stage ventures, it now ranks third globally with >200k registered start-ups, spanning a wide range of sectors. The eco-system has seen 120+ unicorns, 150 soonicorns fuelled by PE/VC capital and policy support.

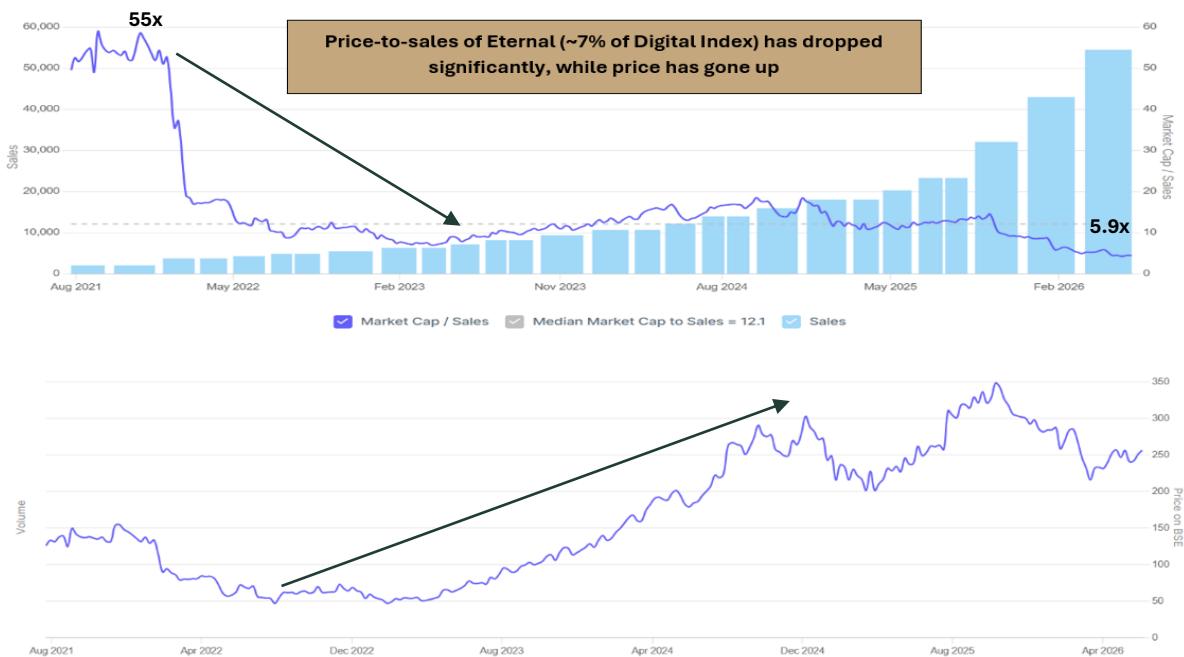
Looking at the metrics of the top 5 new-age companies catering to different sectors, it can be observed that in the last 3 years the TAM has evolved rapidly, business models have acquired scale to make the business EBITDA positive, and new optionality has been discovered unlocking new levers of growth (quick-commerce).

Rationalisation in Valuations of New age Companies

Top 5 new-age companies - 3 year metrics (INR lakh crores)



Source – Morningstar Direct, Pravia Research



Source – Morningstar Direct, Pravia Research



We believe that the new-age bucket, provides an opportunity to participate in the digital domestic economy as the –

- ▶ Internet penetration increases,
- ▶ Discretionary consumption picks up,
- ▶ Financialization of savings increases
- ▶ E-commerce and quick-commerce expand in the country

Nifty Digital Index –

The Nifty India Digital Index was launched to capture companies benefiting from India's digitalization trend across internet platforms, software, telecom infrastructure, fintech, e-commerce, digital services, online travel, ed-tech, and related businesses.

It comprises of **30 companies selected from the Nifty 500 universe**, falling in the eligible industries (digital eco-system). The weights are assigned based on free-float market cap of constituents.

The index **re-constituted semi-annually**, in June and December every year. The sectoral weight is capped at 50%, and stock level weights are capped at 7.5% for risk management.

Top 10 constituents – well diversified across different segments

Stock Name	Weight %	PE TTM	Sector
Eternal Ltd.	7.48	654.43	New-Age
Bharti Airtel Ltd.	7.21	41.67	Telecom
Tata Consultancy Services Ltd.	6.69	16.53	IT - Services
Infosys Ltd.	6.45	16.83	IT – Services
HCL Technologies Ltd.	6.13	19.22	IT – Services
PB Fintech Ltd.	6.04	109.28	New Age
Tech Mahindra Ltd.	5.69	30.15	IT – Services
One 97 Communications Ltd.	4.90	123.32	New Age
Vodafone Idea Ltd.	4.02	4.67	Telecom
Info Edge (India) Ltd.	3.96	45.26	New Age

Source – Morningstar Direct, Pravia Research

Top 10 holdings comprise of ~59% of which – new age companies are ~23%, IT Services comprise of ~25% and telecom comprises of ~11%.

The index is reasonably diversified among the three segments of the digital eco-system, with each representing a different phase of the life cycle.

Performance – Underperformance due to AI disruption, recently picked up

Scheme Name	1 month	3 Months	6 Months	1 Year	3 Years	5 Years
Nifty India Digital Index TRI	4.11	4.63	-14.78	-6.61	13.80	10.22
Nifty IT TRI	6.36	3.36	-16.25	-14.07	4.23	5.08
NIFTY 500 - TRI	-0.61	-1.22	-5.20	-0.46	13.54	12.27

Source – Morningstar Direct; As on 2nd June 2026

Conclusion and Inference

Our core philosophy continues to remain positive on ICM (Infrastructure, Consumption, Manufacturing), as a structural allocation in portfolios.

However, at the current juncture the Nifty Digital Index also offers an interesting opportunity wherein – IT services is at a very reasonable valuation due to global AI overhang, new-age companies are at an interesting juncture as they have become EBITDA positive along with rapid growth, and telecom continues to remain a GARP allocation with structural tailwinds.

IT remains a tactical allocation, with a plausible valuation catch-up, and growth in the new-age companies. We would like to position Nifty India Digital Index as a tactical thematic allocation in client portfolios from a 2–3-year standpoint.

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Statutory Information:

- Pravia Investment Advisors Private Limited: CIN: U66309MH2025PTC451047; Regd Off Address: 801, A-Wing 215 Atrium, CTS No 215, Andheri-Kurla Road, Andheri East, Chakala MIDC, Mumbai - 400093; Contact: **+91 9004139937**
- Corporate Investment Adviser SEBI Registration no. INA000021322, Validity of Registration: Nov 04, 2025 – Perpetual. BSE Enlistment No.2375,
- Principal Officer: Ms. Vaibhavi Shah (E-mail: info@pravia.in), Contact: **+91 9004139937**
- Compliance Officer and Grievances Redressal Officer: Mr. Sachin Dwivedi (E-mail: compliance@pravia.in) Contact: **+91 9004139937**

SEBI Regional Office: SEBI Bhavan, Plot No. C-4 A, G Block, Bandra Kurla Complex, Bandra East, Mumbai 400 051.