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FIRST LIGHT

10 July 2026

RESEARCH

IT SERVICES

'Show me the growth' phase will keep valuations compressed

TATA CONSULTANCY SERVICES | TARGET: Rs 1,985 | -3% | HOLD

Inline soft quarter

BANKING | Q1FY27 PREVIEW

Credit momentum builds; resilient AQ supports earnings

CEMENT | Q1FY27 PREVIEW

Q1 impacted by higher operational cost; demand steady

INSURANCE | Q1FY27 PREVIEW

Broad-based growth continues; LICI placed on a low base

OIL & GAS | Q1FY27 PREVIEW

Mixed performance expected amid elevated crude & LNG prices

PHARMACEUTICALS | Q1FY27 PREVIEW

Growth visible despite product concentration in the base

RETAIL | Q1FY27 PREVIEW

Broad-based Recovery

SUMMARY

IT SERVICES

- Nifty IT PE derated CYTD (~35%) due to concerns on long term growth. AI reinvention services hold out hope. We remain skeptical
- 1QFY27 is expected to be soft and could trigger modest revenue and EPS cuts by consensus. AI tailwinds to headwinds ratio will be key
- We lower Target PE multiples. Even these multiples do not capture extent of disruption risk. Hence, we continue to remain UW

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TATA CONSULTANCY SERVICES

- 1Q broadly met low expectations. USD international revenue was marginally down QoQ. Consumer vertical at -4% QoQ was a drag
- TCS sounded positive on 2Q based on revival in some verticals and pent-up demand. We stay cautious and expect flat QoQ revenue
- Accord Target PE of 12.7x on June 2028 EPS. Current stock price implies mid-single digit terminal growth in our DCF. Retain HOLD

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BANKING: Q1FY27 PREVIEW

- Credit growth stays robust while deposits lag, keeping LDR elevated. FCNR(B) deposit benefits likely visible only from Q2FY27
- AQ expected to remain stable with monitorable external headwinds. Improving credit growth and contained credit costs to support earnings
- Top picks: ICICIBC, HDFCB and KMB in large caps, considering their attractive risk-reward

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CEMENT: Q1FY27 PREVIEW

- Cement demand is expected to remain intact in Q1FY27. We expect coverage company demand to growth at ~11%YoY higher than industry.
- Cement prices have stayed listless due to the weakness in eastern and southern regions, though this was offset by better prices in North & West
- Avg EBITDA margin (cement coverage) estimated at ~16%, down by ~180 bps QoQ but 570bps YoY; average EBITDA/tn at ~Rs 871

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INSURANCE: Q1FY27 PREVIEW

- For our coverage companies, including LICI, APE growth for the quarter is expected to be healthy at 12% YoY
- VNB margin for the companies will likely be in the 17.3- 27.5% range in Q1FY27
- Our top picks are HDFC Life and LICI

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OIL & GAS: Q1FY27 PREVIEW

- Volatile crude & LNG prices are likely to weigh on performance. Negative Implications for OMCs and Gas Utility Companies
- OMCs likely to get impacted by negative retail margins, and higher LNG costs for CGDs likely to be partly offset by strong volume growth
- Top picks: RIL (BUY; TP of Rs1,610), BPCL (BUY; TP Rs368) and IOCL (BUY: TP of Rs173) .

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PHARMACEUTICALS: Q1FY27 PREVIEW

- Moderate quarter expected due to gRevlimid in the base. No impact of the Middle-East war seen by the companies in 1QFY27
- Domestic growth surged to 12% for our coverage companies, primarily with the launch of gSemaglutide and price hike
- We remain positive on the sector – Top Picks – SUNP, DRRD and high conviction pick – LPC, EMCURE, ANTHEM and ERIS

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RETAIL: Q1FY27 PREVIEW

- Jewellery demand resilient, but Q1 a test of the quality of earnings rather than headline growth
- Gold-import-duty-led inventory gains vs true volumes and mix – key monitorables for Q1FY27
- KFC should continue outperforming on SSSG and margins; while Pizza Hut is likely to deliver another subdued quarter.

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IT SERVICES

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Recommendation snapshot

Ticker	Price	Target	Rating
BSOFT IN	272	255	SELL
COFORGE IN	1,446	1,117	SELL
ECLX IN	1,477	1,670	HOLD
FSOL IN	237	284	BUY
HCLT IN	1,146	1,068	SELL
INFO IN	1,069	1,135	HOLD
LTM IN	3,794	3,782	HOLD
MPHL IN	2,242	2,153	HOLD
PSYS IN	4,770	3,145	SELL
TCS IN	2,058	1,937	HOLD
TECHM IN	1,429	1,371	HOLD
WPRO IN	173	176	HOLD
ZENT IN	451	425	HOLD

Price & Target in Rupees | Price as of 8 Jul 2026

PE analysis gives an enticing picture but DCF points to caution: CYTD2026 Nifty IT underperformed (UP) Nifty by ~19 ppt (on top of ~23 ppt UP in 2025). PE (12mth forward) for Nifty IT has come off from ~25x (1 Jan 2026) to ~16x (8 July 2026). Believe a smaller part of the derating is due to the realisation that FY27 organic revenue growth is going to be weaker than in FY26 (contrary to the view in Jan 2026 that it would be 100-150bps better) and that market is going to see a fourth successive year of low single digit USD organic revenue growth for Tier-1 set. A larger part of the PE derating is likely driven by long term growth concerns due to disruption by AI Models. PE of the Tier-1s set is at ~1.8SD and ~3SD below 10 year and 5-year averages respectively (charts inside). Valuations therefore look enticing. Short-term bounces are possible. Believe historical PE analysis does not capture AI disruption risks adequately. Our DCF analysis indicates current price for Infosys (for instance) factors in not only a mid-single digit FCF growth for the next 10 years but also a similar terminal growth rate. It does not factor in flat/declining FCF during the next 10 years and/or zero terminal growth, both of which have a non-zero probability. Lack of clarity on structural pressure points will keep valuations subdued.

The buyers at this point think AI disruption is similar to tech shifts seen in the last 25 years. We think it is a structural business model change: Investors who find value in IT services stocks now, we think, have the view that the current AI disruption is similar to the number of technology shifts that the industry successfully navigated during the last 25-30 years whereas we think this is an operating model change and the disruption is more drastic and structural in nature and may put the cost effective offshore delivery driven IT/ITES model at greater risk than anything else in the last 25-30 years. As we mentioned in our 17 Feb 2026 note (**Existential threat, value trap or Temporary blip**) we think it is as seminal as the offshore delivery value migration that global IT services industry saw during 1995-2005 which resulted in some of the then incumbent leaders in global IT services losing market share/market value and becoming less relevant to their clients. Those incumbents that executed offshore shift properly not only survived but also thrived (Accenture and Capgemini, to a lesser extent).

RESULT REVIEW

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HOLD
TP: Rs 1,985 | ∀ 3%

TATA CONSULTANCY SERVICES

| IT Services | 10 July 2026

Inline soft quarter

- **1Q broadly met low expectations. USD international revenue was marginally down QoQ. Consumer vertical at -4% QoQ was a drag**
- **TCS sounded positive on 2Q based on revival in some verticals and pent-up demand. We stay cautious and expect flat QoQ revenue**
- **Accord Target PE of 12.7x on June 2028 EPS. Current stock price implies mid-single digit terminal growth in our DCF. Retain HOLD**

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1Q growth driven by India and select verticals: Revenue growth was up 0.4% QoQ in CC terms and with India (~6% of revenue) growing by 7.6%. North America and Continental Europe were down QoQ modestly. In USD terms international revenue was modestly down 0.2%. BFSI, Technology and services and Regional market drove growth. Consumer vertical was sharply lower by 4%, impacted by end of some large projects, inflationary and macro pressures.

TCS sounds positive on 2Q: Driven by continued growth in BFSI, expectations of revival in Manufacturing and Life Sciences on the back of deal wins and improving client conversations. TCS believes there is pent up technology demand. We are cautious and are currently building a flat quarter QoQ.

Expect FY27 to be a growth year but very modestly: After clocking a 2.4% YoY revenue decline in CC terms in FY26 we think FY27 will be a growth year – just about – due to constrained spending on services, productivity pass back and AI deflation on its large legacy book of business and loss of share.

Value it at 12.7x June 2028 EPS and maintain HOLD rating: Post 1QFY27, EPS estimates for FY27-FY29 raised by 2-3% largely driven by higher other income. We value TCS at a Target PE multiple of 12.7x which is at 10% discount to the benchmark (We changed our valuation methodology, see recent sector (**'Show me the growth' phase will keep valuations compressed**). The low multiple is a function of what we believe is low single digit organic CC growth that we expect from Indian Tier-1 companies in the foreseeable future as large legacy services books get deflated due to AI and new AI reinvention services are not sizable enough to counter. This is particularly the case with TCS which has the largest revenue book at ~US$30bn, While stock may appear cheap based on past 5-year or 10-year PE history a reverse DCF analysis indicates that it is pricing in mid-single digit FCF growth for the next 10 years and a slightly higher terminal growth rate both of which are not a given in the current AI disruption environment. Against ~7.4% CAGR seen during FY15-FY20 in USD organic revenue growth we will see ~1-3% CAGR over FY26-FY30. Our target PE multiple also partly captures relevance risk in the era of advanced AI models.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TCS IN/Rs 2,050
Market cap	US$ 78.1bn
Free float	28%
3M ADV	US$ 118.1mn
52wk high/low	Rs 3,399/Rs 1,977
Promoter/FPI/DII	72%/10%/13%

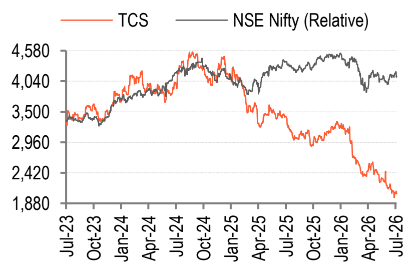
Source: NSE | Price as of 9 Jul 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
Total revenue (Rs mn)	2,670,210	2,885,629	2,951,704
EBITDA (Rs mn)	723,980	750,725	772,182
Adj. net profit (Rs mn)	526,491	547,985	561,427
Adj. EPS (Rs)	136.0	151.5	155.2
Consensus EPS (Rs)	136.0		155.6
Adj. ROAE (%)	51.6	49.4	46.8
Adj. P/E (x)	15.1	13.5	13.2
EV/EBITDA (x)	10.4	10.2	10.0
Adj. EPS growth (%)	1.4	11.4	2.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BANKING | Q1FY27 Preview | 09 July 2026

Credit momentum builds; resilient AQ supports earnings

- **Credit growth stays robust while deposits lag, keeping LDR elevated. FCNR(B) deposit benefits likely visible only from Q2FY27**
- **AQ expected to remain stable with monitorable external headwinds. Improving credit growth and contained credit costs to support earnings**
- **Top picks: ICICIBC, HDFCB and KMB in large caps, considering their attractive risk-reward**

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Credit momentum builds, deposits lag: RBI's data on system credit growth shows strong uptick in loan growth to ~17.7% YoY, as of June 15, 2026. Loan growth was largely led by large corporates & NBFC lending, while retail loans remained stable. Further, business update numbers of our covered mid-sized private banks (ex-IIB) reported advance growth of ~18.9% YoY, while SFBs grew at a high pace of ~26.6% YoY. Overall, we expect the banks under our coverage to pencil-in credit growth of ~14% YoY in FY27E. For Q1FY27, we expect deposit growth to lag credit growth, keeping the CD ratio elevated at ~86%. The benefit of FCNR(B) deposit inflows is likely to be visible from Q2FY27 onwards.

NIMs under pressure, but earnings quality intact: Overall, we expect Q1FY27 to be a sequentially weak quarter for NIMs across most banks, primarily due to a) higher share of lower-yielding loan segments (corporate loans, home loans and lending to NBFCs) in the loan mix b) elevated funding costs arising from the lagged repricing of existing term deposits. On the earnings front, we expect improving credit growth (+16.8% YoY), healthy NII growth (+11% YoY), disciplined opex management and largely contained credit costs to support earnings growth across the sector — providing continued stability. As a result, aggregate PAT is expected to increase by ~11% YoY and ~2% QoQ in Q1FY27.

AQ stable; external risks remain watchful: We expect asset quality (AQ) to stay resilient across segments, with stress in unsecured retail and MFI loans continuing to ease. Healthy CE should keep slippages stable and CC low. We expect further improvement ahead, mainly from lower slippages; however, agri-focused banks could see some seasonal pressure in Q1. Key monitorables: the West Asia conflict (impact on MSMEs), El Nino's effect on agri/microfinance, and delayed tariff effects.

Attractive valuations: We remain positive on the sector, since the improving credit growth and stable AQ trends to support earnings growth. Also, post price correction for most banks due to West Asia war, valuations have turned compelling and trade lower than long-term avg P/ABV (Fig 1). Despite near-term management uncertainty, we prefer large private banks (ICICIBC, HDFCB, KMB), on favourable risk-reward.

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CEMENT | Q1FY27 Preview | 09 July 2026

Q1 impacted by higher operational cost; demand steady

- **Cement demand is expected to remain intact in Q1FY27. We expect coverage company demand to growth at ~11%YoY higher than industry.**
- **Cement prices have stayed listless due to the weakness in eastern and southern regions, though this was offset by better prices in North & West**
- **Avg EBITDA margin (cement coverage) estimated at ~16%, down by ~180 bps QoQ but 570bps YoY; average EBITDA/tn at ~Rs 871**

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Sustained construction and infra-activities support demand: Cement industry enters Q1FY27 on a stronger footing. Demand remained resilient across urban housing, infrastructure and rural IHB markets, with industry growth expected at ~8% YoY. However, April witnessed temporary disruptions from geopolitical tensions, labour shortages due to state elections and a slower construction activity. Our coverage universe is expected to report lower double digit (~11% YoY) growth.

Supply glut limits the price hikes: Cement companies hiked prices by Rs10-25/bag across regions during April but only limited hikes in select markets were absorbed. These are expected to only partially offset cost inflation. Furthermore, oversupply and weaker demand in May limited additional price hike action. Effectively, realisation growth is likely to be flat YoY (average coverage universe).

Cost inflation to dent margins: During Q1FY27/FY27, key challenge is/will be the likely fuel and related cost inflation. Key fuel prices have spiked ~35-40% QoQ, while imported coal prices also inched up following the geopolitical disruptions in West Asia. Most companies have guided for Rs150-300/t increase in operating costs during Q1/Q2 FY27. Packaging costs have also risen sharply due to higher granule prices. Diesel price hike and limited rake availability continue to weigh on freight costs. Pressure on EBITDA margin (~524bps/173bps YoY/QoQ) in Q1FY27 is expected with continuation in H2FY27.

Capacity expansion continues but pace tapers: Capacity additions continue across the industry, but companies have clearly shifted focus from aggressive expansion towards improving utilisation and returns. Debottlenecking, brownfield expansions and project optimisation continue to stay the preferred growth strategy, while greenfield projects have seen tapering execution pace.

No major change in stance: We continue to be positive on UTCEM and STAR CEM (BUY) and assign SELL rating on JK Lakshmi and TRCL. We initiated coverage on JSW Cement assigning a BUY rating with a TP of Rs139/sh on 6th Apr.

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INSURANCE | Q1FY27 Preview | 09 July 2026

Broad-based growth continues; LICI placed on a low base

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- **VNB margin for the companies will likely be in the 17.3- 27.5% range in Q1FY27**
- **Our top picks are HDFC Life and LICI**

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LICI to grow on a low base: Overall, life insurers under our coverage, including LICI, are expected to report healthy APE growth of 12% YoY. Further, we expect private players to deliver APE growth of 10% YoY, while LICI is expected to outperform with APE growth of 13.5% YoY. Within our coverage universe, CANHLIFE and LICI are likely to post strong APE growth on a low base, while SBI Life and HDFC Life are expected to report moderate growth.

VNB growth to stay strong: For our coverage companies, VNB is likely to grow strong at 17.4% YoY, with margins remaining largely flat except for LICI. A favourable shift in the product mix is expected to support VNB margins, though this will be partly offset by the impact of GST input tax credit disallowance. VNB growth is estimated at 9.4% for private insurers and 27.6% for LICI. We expect VNB margins to expand for LICI, while margins for HDFC Life is likely to see a decline.

Private insurers continue to grow in double digits: Total industry APE grew strongly by 23.4% YoY in Q1FY27 — a sharp improvement from 6.8% growth in Q1FY26, led primarily by robust growth amongst private players. LICI's APE grew 16.8% YoY vs a mere 2% in the same quarter last year. Private players posted strong APE growth of 27.6%; up from 10.2% in the year-ago period, driven by strong group business volumes. On the individual APE front, industry growth stood at 16.2%, up from 4.7%. Private players saw 15.1% improvement in their individual APE growth in Q1FY27, from 8.3% in Q1FY26. LICI outperformed the industry with individual APE growing 18.7% YoY.

Top picks: We remain constructive on HDFC Life and LICI, which continue to be our top picks. Favourable GST-related tailwinds will likely continue driving volumes, supporting premium growth momentum.

OIL & GAS | Q1FY27 Preview | 09 July 2026

Mixed performance expected amid elevated crude & LNG prices

- **Volatile crude & LNG prices are likely to weigh on performance. Negative Implications for OMCs and Gas Utility Companies**
- **OMCs likely to get impacted by negative retail margins, and higher LNG costs for CGDs likely to be partly offset by strong volume growth**
- **Top picks: RIL (BUY; TP of Rs1,610), BPCL (BUY; TP Rs368) and IOCL (BUY: TP of Rs173)**

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Overall performance: Oil & Gas sector is expected to report a mixed performance in Q1FY27E. While upstream companies are likely to benefit from higher crude oil realisations, performance for OMC's is expected to remain under pressure due to negative retail marketing margins. RIL is likely to be a key outperformer, with revenue growth of around 22% YoY supported by strong momentum in its O2C, Retail, and Telecom businesses. Within the gas value chain GAIL and Petronet LNG are expected to report a softer quarter amid lower volumes and elevated gas prices which may weigh on demand. In contrast, CGD companies such as IGL and MGL are likely to deliver healthy revenue growth driven by robust CNG and PNG volume growth. However, higher LNG procurement costs are expected to compress margins, resulting in relatively weaker EBITDA performance.

Macros: Q1FY27E witnessed elevated commodity prices, with brent crude averaging USD 98/bbl v/s USD 67/bbl in Q1FY26 and USD 76/bbl in Q4FY26. Singapore GRMs remained strong at USD 19.0/bbl, significantly higher than USD 5.6/bbl in the corresponding last year quarter and USD 14.0/bbl in Q4FY26.

Reliance Industries (RIL): RIL is expected to report strong revenue growth of 22.2% YoY, driven by healthy momentum across its Retail, Telecom, and O2C businesses. Retail revenue is projected to grow 17.6% YoY, supported by robust consumer demand and continued store additions. Telecom segment is expected to deliver 10.6% YoY revenue growth, aided by a 6.7% increase in subscribers and a 2.5% improvement in ARPU. O2C business is also likely to contribute positively, supported by a stable operating environment and improved refining economics.

Oil marketing companies (OMCs): HPCL, BPCL, and IOCL are expected to report weaker operational performance on a YoY basis, primarily due to negative retail marketing margins despite strong refining profitability. Retail margins are estimated at Rs(6)/ltr for petrol, Rs(18)/ltr for diesel, which are likely to weigh significantly on earnings. However, the impact is expected to be partially offset by robust GRMs, which remain strong on both a YoY and QoQ basis. Domestic fuel demand remains healthy, with volume growth for OMCs estimated at 3–5% YoY.

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Moderate quarter expected, yet again - We expect sales for our coverage companies to grow by 8.2% YoY and 2.8% QoQ to Rs 644 bn, on the back of a healthy 12.8% YoY domestic growth. We expect EBITDA growth for our coverage companies to be (2.9%) YoY. Lower product mix, primarily due to gRevlimid in the base for companies like DRRD, CIPLA, SUNP etc. to lead to EBITDA decline. gRevlimid was a high-margin product, whose benefit to not accrue from FY27. Hence, we expect a decline of 214 bps YoY to 23.4% for our coverage companies. However, the same is not cascaded in the PAT as many companies are cash-rich and would witness favourable other income due to currency depreciation. Therefore, we expect APAT for our coverage companies to decline marginally by 1%YoY to Rs 101bn.

Domestic growth for coverage companies to surpass IPM growth - For our coverage companies, domestic sales is likely to grow by 12.8% vs IPM growth of ~11%. Domestic growth to be on the back of: 1)gSemaglutide launch for DRRD, ALKEM, SUNP, ERIS and LPC 2) Tirzepetide sales for CIPLA 3) Pick-up in innovator sales for Semaglutide for BOOT and EMCURE. Overall growth in the domestic region would be driven by price hike and GLP launches.

North America sales to see lesser impact amidst gRevlimid in the base – For our coverage companies, North America region to report a decline of 1.9% YoY and 2.2% growth QoQ to Rs 165 bn. The yearly decline is mainly due to gRevlimid in the base and restricted supplies for key products like Lanreotide for CIPLA and gSemaglutide for DRRD which can be offset by rupee depreciation benefits and increasing share of complex generics and specialty products. Thus, the companies would witness lower to mid single digit price erosion while Aurobindo (pure generic play) witnesses merely 1-2% price erosion due to huge scale of products.

CRDMO to witness weakness in a non-seasonal quarter – Our coverage companies are expected to report 4.6% YoY growth and -9.7% QoQ decline. The segment continues to witness headwinds like slow restocking of molecules, deferred shipments, higher freight and logistic cost; thereby impacting margins.

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RETAIL | Q1FY27 Preview | 09 July 2026

Broad-based Recovery

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- **Gold-import-duty-led inventory gains vs true volumes and mix – key monitorables for Q1FY27**
- **KFC should continue outperforming on SSSG and margins; while Pizza Hut is likely to deliver another subdued quarter.**

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Transitional Q1FY27 — demand resilient despite duty hike and elevated gold prices: Q1FY27 is a transitional quarter for organised jewellers, with a strong early demand from Akshaya Tritiya and weddings. This was followed by consumer adjustment after the effective gold import duty hike from 6% to 15% in May'26. MCX gold prices corrected 4% QoQ post three quarters of sharp gains, but were still 47% higher YoY, keeping the affordability under pressure. Early business updates point to a healthy operating momentum: Titan (TTAN) reported 41% revenue growth that was driven by early double-digit buyer growth as well as high double-digit ticket sizes. Kalyan (KALYANKJ) grew consolidated revenue 38% with 28% SSSG; P N Gadgil (PNGJL) reported 41% revenue growth led by 56% retail growth and 46% SSSG; and Senco Gold (SENCO) delivered 60% revenue growth with 38% SSSG and 43% of sales from old-gold exchange.

Broad-based recovery continues: Q1FY27E is expected to witness a gradual recovery in the QSR sector, with Jubilant FoodWorks (+13.6% YoY), Devyani (+16.2%), Sapphire (+10.5%) and Westlife (+8.9%) delivering steady revenue growth. Demand improved sequentially throughout the quarter. However, Adhik Maas led to a temporary moderation in footfalls towards the end of May and early June. KFC is expected to remain the key growth driver with mid-single-digit SSSG. Pizza Hut will likely remain a drag with flattish same-store sales, whereas Jubilant FoodWorks and Westlife are expected to post low-single-digit SSSG. On the margin front, easing commercial LPG availability, softer edible oil and packaging costs, and operating leverage — all are expected to support broad-based EBITDA margin expansion, despite the continued wage inflation — resulting in the EBITDA growth outpacing revenue growth across the sector.

Outliers: Among our coverage companies, Titan, Kalyan Jewellers, Sky Gold and Devyani International are expected to be outliers in 1QFY27; whereas JFL and DIL to moderately perform.

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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