FIRST LIGHT

11 April 2025

RESEARCH

BOB ECONOMICS RESEARCH | RBI MONETARY POLICY

More cuts on the table

TATA CONSULTANCY SERVICES | TARGET: Rs 3,072 | -5% | HOLD

FY26>FY25 is unambitious.

AUTOMOBILES | Q4FY25 PREVIEW

Overall growth steady with no major dismay

INSURANCE | Q4FY25 PREVIEW

Modest quarter, margins to improve for most

SUMMARY

INDIA ECONOMICS: RBI MONETARY POLICY

The MPC delivered a 25bps rate cut for the second time in a row, bringing the policy rate to 6%. The stance has also been changed to accommodative from neutral, giving MPC the mandate to either lower rates further or maintain status quo. Given the evolving turmoil in global economy, MPC has trimmed its growth projection downward to 6.5% from 6.7% earlier. Inflation is expected to come down further from 4.2% (previous projection) to 4% in FY26 with current inflation mark already below the target level. Both in Q1 and Q2 inflation is expected to be lower. MPC has been proactive in addressing growth challenges and this has been reflected by frontloading of 2-cuts back to back.

Click here **for the full report.**

TATA CONSULTANCY SERVICES

- Weak start for FY26 likely. Salary hike postponed due to uncertainty in the demand environment
- TCS says FY26 growth > than that of FY25 on international revenue- which was flat in USD terms in FY25 versus FY24
- Lower estimates for both FY26/FY27 and now assume no growth in FY26. Margin broadly intact. Keep multiple the same and maintain Hold

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AUTOMOBILES: Q4FY25 PREVIEW

- PV segment volume growth mixed bag, MM in driver seat with double digit growth, MSIL takes a breather at ~4% in the coverage space
- Aggregate 2W volume growth remains at 7% YoY for our coverage in Q4FY25 with healthy margin recovery of ~140bps, except EIM
- Tractor segment key driver with ~ 20% growth in Q4 backed by healthy monsoon, although MHCV segment stays on the sidelines

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- Private life insurers are expected to fare better than LIC, with ~7% APE growth in Q4FY25
- LIC is likely to report moderate performance in terms of APE. However, margins are expected to witness expansion on better product mix
- HDFC Life is expected to report healthy APE growth, better margins on balanced product mix and contained ULIP market share mix

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RBI MONETARY POLICY

09 April 2025

More cuts on the table

Jahnavi Prabhakar
Economist

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MPC's dovish tone has kept room open for further cuts in order to curtail global economic uncertainty at play. We expect up to 75-100bps, (cumulative) reduction in rates (including 2 cuts already) in this calendar year.

2-in a row: The Monetary Policy Committee in line with our expectations has unanimously voted to reduce repo rate by 25bps to 6% from 6.25%. This is the second rate cut in this CY25. With this, both MSF and SDF have been revised to 6.25% and 5.75% respectively. MPC members have also revised their stance from accommodative to neutral in line with expectation. Governor stated clearly that the stance provides guidance only on policy rate and not on liquidity management. With this, MPC will be following only 2-options of either maintaining status quo or rate cut.

GDP growth: As per the NSO, India is expected to clock 6.5% growth in FY25 from 9.2% growth in FY24. RBI has revised its growth projection for FY26 downwards from 6.7% to 6.5% with risks evenly balanced. The downward revision for FY26 is on account of escalation in global volatility with headwinds from global trade disruptions. Quarterly projections have been revised lower for Q1 to 6.5% (6.7% earlier), Q4 at 6.3% (6.5% earlier) and higher for Q2 and Q3 at 6.6% and 6.3% respectively. The central bank noted that agriculture continues to remain bright prospect amidst higher crop production, as noted in the 2nd advance estimate and healthy reservoir level. Manufacturing sector has been showing early signs of revival supported by improvement in business expectations. A rebound in fixed capital formation given uptick in government expenditure along with higher capacity utilization and strengthening urban demand remains positive for growth. We expect the economy to clock 6.4-6.6% growth in FY26 amidst downside risk due to uncertainty and concerns of global economic slowdown.

HOLD
TP: Rs 3,072 | ▼ 5%

TATA CONSULTANCY SERVICES

| IT Services | 11 April 2025

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- **TCS says FY26 growth > than that of FY25 on international revenue- which was flat in USD terms in FY25 versus FY24**
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4QFY25 CC revenue decline of 0.8% was against our expectation of 0.5% growth. The management stated that it expected 1% growth at the beginning of the quarter and due to some project ramp downs and delay in project starts the revenue came in almost 200bps lower than expected (~US$150mn loss of revenue).

24.2% EBIT margin was lower than our estimate of 25%. TCS sated that there was a 100bps impact due to tactical promotion related costs– which is a bit odd coming at a time when the supply side environment is weak. There were also some marketing-related expenses. This was offset by operating efficiency and currency benefits to the extent of 40bps.

The annual salary increase that should have happened in April has been postponed to a later date. No hints given when and the extent of the hike. The company linked it to demand uncertainty. And that the hikes would be restored when the visibility picks up.

TCS reiterated that FY26 growth will be better than that of FY25 but clarified that it was referring to international revenue- which was flat in USD terms in FY25 versus FY24. Difficult to say if it is an unambitious goal in a difficult market environment. Considering the weak exit from FY25 and near-term uncertainty, we believe it implies a pickup at the back end FY26.

On demand visibility, TCS says that it is worse now than it was 12 months back. Though the demand pipeline is indicated to be strong. The FY25 order inflow of US$39.4bn came in lower than the US$42.7bn of FY24.

Business environment – saw delays in decision making since mid-February 2025 and accentuated in March with project starts being delayed etc. TCS believes that this will be resolved soon.

Margin performance in FY26 – EBIT margin should be better as the dilutive BSNL deal will only have a small presence. Headwinds could include lower utilization and lack of currency support.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	TCS IN/Rs 3,247
Market cap	US$ 136.2bn
Free float	28%
3M ADV	US$ 114.8mn
52wk high/low	Rs 4,592/Rs 3,056
Promoter/FPI/DII	72%/13%/11%

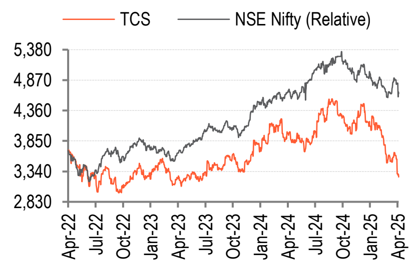
Source: NSE | Price as of 9 Apr 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	2,553,240	2,633,184	2,883,534
EBITDA (Rs mn)	674,070	725,289	814,591
Adj. net profit (Rs mn)	485,530	511,423	555,822
Adj. EPS (Rs)	134.2	141.4	153.6
Consensus EPS (Rs)	136.4	151.5	168.0
Adj. ROAE (%)	51.9	52.3	54.3
Adj. P/E (x)	24.2	23.0	21.1
EV/EBITDA (x)	17.2	15.9	14.0
Adj. EPS growth (%)	4.2	5.3	8.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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AUTOMOBILES | Q4FY25 Preview | 09 April 2025

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PV revenue growth a mixed bag: We expect healthy double-digit aggregate revenue growth for PV OEMs in our coverage (MSIL and MM) in Q4FY25. Focus of OEMs remains on SUV segment (premium products). MM automotive revenue is expected to grow at 16%, driven by strong volume growth vs ~6% revenue growth by MSIL, driven by 4% volume and 3% ASP gains. Gross margin is likely to be flat at ~29% despite discounts, driven by better product mix, while EBITDA margins are a mixed bag with MM gaining (~100bps) and MSIL dropping marginally. Focus stayed on electric vehicles (EVs) with MSIL expected to launch the E-Vitara in Q1FY26.

2W growth in higher single-digit driven by premiumisation: Two-wheeler (2W) revenue growth is expected at 7% YoY with TVSL (~14%) and EIM (~20% on lower base) growing in double digits, BJAUT at 3.5% and flat growth for HMCL. This indicates strong demand for high-end variants, reflected in the gross margin driven by these companies; while BJAUT and HMCL stayed listless.

CV stay side-stepped: Commercial Vehicles (CVs) continue to await revival, though the fag end of FY25 indicates signs of recovery with AL's volume growth of ~5% YoY (driven by MHCV), while the LCV segment lagged. AL's margins are likely to be a mixed bag with gross margin gaining, but EBITDA margins weakening YoY. EIM's CV segment fared healthy growth with 11% volumes gain YoY, while TTMT's (unrated) volumes were down 3% YoY.

Tractors: Volumes in the tractor segment grew by a healthy ~20%, driven by the festive seasons, healthy kharif cropped and reservoir levels. MM's tractor volumes rose ~20%/12% YoY/YTD, while ESCORTS' volumes gained 25% YoY in 4QFY25 (up 10% YTD). Gains in the tractor segment implied 10% YoY FY25 volume growth — higher than earlier (beginning of FY25) industry estimates of 5% growth YoY.

Top picks: We prefer MM and MSIL in the passenger vehicles (PV) segment, backed by the premiumisation drive (tractor growth for MM). Reasonable/higher valuations drive our neutral view in the 2W segment.

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Life Insurance: For Q4FY25, total APE for our coverage companies is expected to clock moderate growth of ~4% YoY vs ~11% YoY growth during 9MFY25, driven by private insurers. Private players' APE under our coverage is likely to grow ~7% YoY. HDFCLIFE is likely to see the strongest growth of ~17% YoY in Q4FY25, while IPRU and SBILIFE may see modest growth in the range of 2-3% YoY in Q4FY25.

HDFC Life: The company is expected to witness a strong APE growth of 17% YoY in Q4FY25 vs 20% YoY in 9MFY25. Gross premium may see a growth of 27% YoY during this period. For 11MFY25, its total APE grew 19% YoY with individual APE growth of 20% YoY and group APE growth of 12% YoY. Its market share increased by 90bps YoY on total APE basis. Its VNB margins are likely to expand by ~60bps YoY in Q4FY25 to 26.8%, aided by balanced product mix. Further, VNB is likely to grow ~20% YoY in Q4FY25 vs 14% in 9MFY25.

ICICI Prudential: APE will probably be muted at 2% YoY in Q4FY25 vs 27% YoY in 9MFY25. VNB margin is likely to be at 21.9% in Q4FY25 vs 22.8% in 9MFY25. For 11MFY25, APE rose 21% YoY with individual APE at 22% YoY. Market share increased by ~60bps YoY in 11MFY25 on APE basis.

SBI Life: APE is likely to be moderate at ~3% YoY in Q4FY25 vs 11% YoY in 9MFY25. VNB margin is likely to be at 27.8% in Q4FY25 vs 26.9% in Q3FY25, driven by profitable segments. For 9MFY25, it reported VNB margin of 26.9% — a contraction of 120bps YoY. Gross premium is expected to witness a growth of 10% YoY in Q4FY25. For 11MFY25, APE growth was at 9% YoY with individual APE growth of 13% YoY and group declining by 38% YoY during this period. Its market share increased by 11bps YoY on total APE basis.

LICI: Total APE may see a growth of ~2% YoY in Q4FY25. Its VNB margin is likely to be at 19.7% in Q4FY25 vs 19.4% in Q3FY25, aided by its strategic focus on the non-par products. For 11MFY25, APE de grew 3% YoY with the individual APE growth stable YoY while group APE declined YoY during this period — which indicates stiff competition from the private players.

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Note: Recommendation structure changed with effect from 21 June 2021

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