FIRST LIGHT

18 February 2026

RESEARCH

IT SERVICES

Existential threat, Value Trap or Temporary blip?

BOB ECONOMICS RESEARCH | SUMMARY OF 16TH FC

16th Finance Commission – An Explainer

CEMENT | Q3FY26 REVIEW

Robust volume gains; GST rate cut weakens prices, caps gains

SUMMARY

IT SERVICES

- Assuming current AI trends stay, value migration is seen to AI model developers and semiconductor players. Not sure if this is structural
- Medium term earnings visibility low; No existential threat, we think. It may trade at low PE until there is greater clarity
- A stop of current AI trends can lift outlook. But that is not our base case. We are veering towards the 'Value Trap' camp. Remain UW

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INDIA ECONOMICS: SUMMARY OF 16TH FC

The 16th Finance Commission while giving its recommendations has ensured that 2 key principles—efficiency and equity—are given priority. At the same time, it also balances the requirements of the central government to meet its national obligations. Therefore, the FC has advised to keep the share of divisible pool of Union taxes unchanged at 41%. Key changes to horizontal devolution formula signal shift in focus towards changing demographic of Indian states, environmental sustainability, and incentives for greater contribution to nation's growth.

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BOBCAPS Research
research@bobcaps.in

CEMENT: Q3FY26 REVIEW

- Volume growth was a robust 16%, driven by capacity ramp-up and post monsoon demand recovery, leading to 18% revenue growth
- Regional pricing divergence persisted; EBITDAM improved by ~100bps YoY, aided by operating leverage and moderating cost
- Post results, we maintain BUY on UTCEM and STRCEM, and SELL on DALBHARA, JKLC and TRCL. JKCE and SRCM retained to HOLD

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IT SERVICES

17 February 2026

Existential threat, Value Trap or Temporary blip?

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Girish Pai
Research Analyst
Lopa Notaria, CFA
Research Associate
research@bobcaps.in

This tech disruption is different from the earlier ones. But do not think it raises existential risks: We believe disruption from latest AI models and tools is different from disruption seen in earlier tech cycles. The lower labor intensity indicated is significantly different from that of the past and could put revenue growth and profits estimates of services companies at risk. However, we believe it is not an existential risk as (1) AI embrace by enterprises is low/slow as many are not ready (2) CIOs may want AI models to stabilize (3) ROI thresholds need to be met (4) there is room for further reduction in errors by AI models (4) integrators required to make AI work with the varied and legacy tech of enterprises (5) deep domain skills are required.

Believe there are no immediate catalysts to push enterprise AI adoption. Digital cycle that played out in the last 10-15 years was embraced by enterprises quite slowly until there was a 'compressed transformation' phase during Covid. We are not sure what the catalyst would be for Gen AI/Agentic AI. We believe a company which successfully deploys AI to gain a larger part of the profit pool in that industry could be the catalyst for others to jump in. There are no large-scale examples right now.

Our base case is for current AI trends to continue: Where each succeeding version of LLM is better than its predecessor. While Gen AI has been around for more than 3 years and has been compressing labor intensity and impacting growth and PE multiples, the latest models (see Fig 19) and the upcoming versions (with tools added) seem many notches better and are likely to be bigger disruptors.

Nifty IT underperforms Nifty by ~34ppt in the last 12 months but we remain UW: Unless AI trends reverse, which is not our base case, we believe uncertain outlook on medium term earnings could keep sector valuations depressed. We are lowering Target PE multiple to 16.8x (10-year average less 1.5SD) on TCS (our industry benchmark) from 21.7x previously (10-year average less 0.5SD) and also roll forward to FY28E. All other stocks are at discount/premium to that. No high conviction winners so early in this disruption. While on many measures like PE ratios and FCF yield stocks look cheap the trajectory of medium-term growth may be weak or even negative. Ingredients of a value trap.

Recommendation snapshot

Ticker	Price	Target	Rating
BSOFT IN	390	295	SELL
COFORGE IN	1,393	1,212	SELL
ECLX IN	3,629	3,890	HOLD
FSOL IN	248	322	BUY
HCLT IN	1,462	1,280	SELL
INFO IN	1,366	1,414	HOLD
LTIM IN	5,119	4,348	SELL
MPHL IN	2,462	2,324	HOLD
PSYS IN	5,582	3,602	SELL
TCS IN	2,707	2,654	HOLD
TECHM IN	1,513	1,466	HOLD
WPRO IN	213	211	HOLD
ZENT IN	576	502	SELL

Price & Target in Rupees | Price as of 16 Feb 2026

SUMMARY OF 16TH FC

17 February 2026

16th Finance Commission – An Explainer

Sonal Badhan
Economist

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Combining state and sector specific grants into grants for local bodies is also a step towards to providing more resources and autonomy to RLBs and ULBs. Further, it has also been advised that central government lowers its fiscal deficit to GDP ratio to 3.5% by FY31 and states also cap their fiscal deficit ratio at 3%.

Background:

Every five years, President of India constitutes a constitutional body—the Finance Commission, which makes recommendations about:

1. How net taxes should be shared between the central and the state government.
2. The principle which governs the grants received by states from the centre.
3. Measures that can strengthen states' own consolidated fund and resources of Panchayats and Municipalities.

Noting the same, the latest—16th Finance Commission (FC), headed by Dr. Arvind Panagariya, has made recommendations on the above issues for the award period of fiscal year (FY) 2026-27 to 2030-31.

How taxes will be shared between Centre and States:

Vertical devolution: In order to decide what will be the divisible pool of taxes, the Finance Commission uses the concept of vertical devolution. This is based on the constitutional guidelines which state that "the Union's tax revenues, excluding cesses, surcharges, taxes accruing to the Union Territories (UTs), and the cost of collection, are shared between the Union and the States based on the recommendations of the FC".

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CEMENT | Q3FY26 Review | 17 February 2026

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- **Post results, we maintain BUY on UTCEM and STRCEM, and SELL on DALBHARA, JKLC and TRCL. JKCE and SRCM retained to HOLD**

Milind Raginwar
Research Analyst
Ayush Dugar
Research Associate
research@bobcaps.in

Volume growth robust YoY: Our coverage universe aggregate volume growth was ~16% YoY, driven by post-monsoon demand recovery (more in December), push from infrastructure segment and capacity ramp-up. Growth was diverse with East and North-eastern regions leading, while Southern markets stayed weak due to pricing pressure. UTCEM (+29% inorganic and 15% like to like), ACEM (+19%), JKCE (+23% grey), and STRCEM (+21%) were the volume leaders. Under-performers included SRCM (flat YoY due to plant disruptions) and TRCL (+1%).

GST rate cut keeps realisations tepid: Coverage universe revenue grew ~18%/9% YoY/QoQ, despite the muted prices driven by mix (Premium share UTCEM 36%, ACEM 35%, JKCE 17% of trade share). UTCEM (+23%), ACEM and ACC (+22%), JKCE (+18%) STRCEM (+22%) were amongst companies that led revenue gains through scale and better product mix. Blended realisations rose ~2 YoY (UTCEM -6% YoY/JKCE -3% YoY), pressured by competition and higher non-trade mix.

Cost pressure moderates: Aggregate operating cost/t was flat YoY, with fuel/power tailwinds (lower kcal rates ~Rs 1.2-1.6/kcal, higher green power shares 42-60% across companies) that offset RM and logistics cost inflation. QoQ costs were down ~3%, aided by operating leverage from higher volumes, better fuel mix, reduced lead distances (UTCEM -14km/3km YoY/QoQ) and efficiency gains.

Effectively margins stay range-bound: Our cement universe EBITDA margins gained marginally by 40 bps YoY to 15.3% from 14.9% YoY. STRCEM margins at 23%, JKCE and UTCEM at ~17.0%/17.5% each, beat the industry. ACC, ACEM and JKLC saw below-average margins of ~11%/9%/13% respectively. Aggregate EBITDA/t gained ~10% YoY to Rs 779 vs Rs709 (Rs 888 in Q2FY26).

Top pick is UTCEM: We maintain BUY on UTCEM (TP Rs 14,794) given its higher capacities, better efficiencies and pan-India spread. Given its niche presence, regional diversification and share consolidation, we retain BUY on STRCEM (Rs 327). SELL rating on TRCL/JKLC/DALBHARA (Rs 830)/ (Rs 716)/ (Rs 2,064) on weak operating efficiencies. Retain HOLD on JKCE/SRCM (Rs5,821)/(Rs.28,719).

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 01 February 2030**
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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

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