

FIRST LIGHT 10 July 2025

RESEARCH

IT SERVICES

Uncertainty stays and 'eating the tariff' may impact even FY27

AUTOMOBILES | Q1FY26 PREVIEW

Early monsoon dampens growth; gross margins stay muted

CONSUMER DURABLES | Q1FY26 PREVIEW

Weak demand for summer products; W&C and EMS outshine

SUMMARY

IT SERVICES

- We believe the tariff decisions of 7 July 2025 on 14 countries, post the 90-day pause, prolongs the current phase of uncertainty
- Consequently, see Tier-1 growth to remain at low single digit level for FY26 and 'eating the tariff' may lead to adverse impact on FY27
- Remain underweight the sector with 9 'Sells' and 4 'Holds'. Beyond relative valuation driven tactical rallies, we do not see a secular pick-up

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AUTOMOBILES: Q1FY26 PREVIEW

- PV volume growth driven by MM with double-digit growth of ~16% YoY, MSIL takes a breather at ~6% in the coverage space
- 2W volume clearly driven by the premium category as TVSL and EIM grew in double digits, BJAUT and HMCL remain a drag
- Tractors were the key driver with ~ 12% growth in Q1, backed by healthy monsoon, although CVs stay on the sidelines driven by LCVs

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CONSUMER DURABLES: Q1FY26 PREVIEW

- RACs to report volume decline in the range of 13-14% YoY, on weak demand
- Wires & Cables (W&C) likely to post double-digit growth, driven by improving construction activity and continued stocking
- Strong growth momentum to continue in EMS companies, led by client additions and improving product offerings

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EQUITY RESEARCH 10 July 2025



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Uncertainty stays and 'eating the tariff' may impact even FY27

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- Consequently, see Tier-1 growth to remain at low single digit level for FY26 and 'eating the tariff' may lead to adverse impact on FY27
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Uncertainty prolongs: Based on the letters sent out to the 14 nations on 7 July 2025 by the White House, the tariff levels are not very different from those put out on 2 April 2025 – (Fig 2). More importantly these do not seem final, which injects continued uncertainty for global corporations. This is especially so because among the 14 were large trading partners like Japan and South Korea with 25% tariff each. Also, sectoral tariffs remain (on Steel, Aluminum and Auto/Auto parts) – Fig 3. The most important supply chain country from a US Inc perspective, China, has a tariff of 30% under Trump 2.0, which may seem low against the 145% discussed earlier but is quite high on a standalone basis. And then there is talk of an incremental 10% tariff on the 'BRICS' members.

Continued uncertainty could keep growth expectations contained: We expect 1QFY26 results (seasonally strong in a normal year) to be soft for Tier-1 companies on a QoQ basis (Fig-15). Select Tier-2 companies should show stronger growth. We expect Tier-1 commentary to be subdued. We do not expect any material increase in guidance by either Infosys or HCLT – in organic CC terms. Discretionary spending will likely remain constrained as it has been for many quarters now. Expect commentary on cost take out deals to be robust but there is likely to be continued talk of delayed decision making/ramp ups/project starts. We expect consensus earnings for FY26 to not see much movement post results. The significant cross currency movement in the quarter (280bps in one case) and possible forex gains/losses to inject some uncertainty on margins and 'other income' and hence on EPS.

'Eating of tariff' could pressure spending by Corporate America: Trump 2.0 has been admonishing US corporates who have been passing on tariffs to the end consumer and has asked them to 'eat the tariff' (absorb the hit). We suspect tariffs will probably be split among (1) the exporter, impacting its margin (2) the US importer – the American corporate which is the customer of the Indian IT services industry (3) US consumer. Some of it may be handled through currency depreciation of the exporting country. Corporate America which is currently having its best Profit to GDP ratio (see Fig 1) may face margin pressure and that could impact spending.

Recommendation snapshot

Ticker	Price	Target	Rating
BSOFT IN	434	387	SELL
COFORGE IN	1,950	1,360	SELL
ECLX IN	3,369	3,630	HOLD
FSOL IN	365	405	HOLD
HCLT IN	1,708	1,410	SELL
INFO IN	1,639	1,531	SELL
LTIM IN	5,369	3,937	SELL
MPHL IN	2,910	2,373	SELL
PSYS IN	5,784	3,897	SELL
TCS IN	3,406	3,298	HOLD
TECHM IN	1,635	1,708	HOLD
WPRO IN	270	237	SELL
ZENT IN	845	604	SELL

Price & Target in Rupees | Price as of 8 Jul 2025





AUTOMOBILES

Q1FY26 Preview

09 July 2025

Early monsoon dampens growth; gross margins stay muted

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MSIL takes a breather at ~6% in the coverage space

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- 2W volume clearly driven by the premium category as TVSL and EIM grew in double digits, BJAUT and HMCL remain a drag
- Tractors were the key driver with ~ 12% growth in Q1, backed by healthy monsoon, although CVs stay on the sidelines driven by LCVs

PV revenue growth steady: For passenger vehicles (PV) OEMs in our coverage (MSIL and MM), revenue growth is likely to be a mixed bag in Q1FY26, driven by MM gains. SUV segment (premium products) continued to be a focus area. MM auto revenue is expected to grow at ~30% YoY, driven by strong (16%) volume growth vs ~6% gains by MSIL; driven by 1% volume and 2% ASP gains. Gross margins are likely to be soft at ~25%/27%, attributed to discounts, despite better product mix on limited demand revival and RM cost hardening. EBITDA margins have dropped with MM losing ~28bps at ~14.6% and MSIL at ~11%, due to the EV investments impact. MSIL's E-Vitara is expected to be launched in Q2FY26.

2W growth a mixed bag, higher single-digit gains driven by premiumisation:

Two-wheeler (2W) volume growth is expected at ~8% YoY with TVSL (~14%) and EIM (~17% on lower base) growing in double digits, BJAUT with flat growth and 2% decline for HMCL due to supply chain issues. This indicates strong demand for high-end variants reflected in gross margin, driven by TVSL and EIM; while BJAUT margins weakened YoY to 28.2% due to weak domestic volume.

CVs continue to stay muted: Commercial Vehicles (CVs) continue to await revival, with AL's volume growth of ~3% YoY (driven by bus segment), while the MHCV segment lagged. TTMT (unrated) volume grew by a modest 1% YoY, driven by the LCVs; while core segment MHCV volume fell by ~10%. EIM's CV segment fared healthy growth with ~10% YTD. AL margins are likely to be healthier, following its cost-saving initiatives.

Tractors on a strong path: Tractor volumes grew by ~12%, driven by the festivities, healthy kharif crop and a good monsoon. MM's tractor volumes rose ~11%/9% YoY/YTD, while ESCORTS' volumes were flat/19% YoY in 1QFY26/YTD. Gains in the tractor segment will likely continue, given the healthy revival in rural affordability.

Top picks: We prefer MM and MSIL in the PV segment, backed by the premium segment drive (tractor growth for MM). Reasonable/higher valuations drive our neutral view in the 2W segment. AL remains our preferred bet in the CV segment.





CONSUMER DURABLES

Q1FY26 Preview

09 July 2025

Weak demand for summer products; W&C and EMS outshine

- RACs to report volume decline in the range of 13-14% YoY, on weak demand
- Vineet Shanker research@bobcaps.in
- Wires & Cables (W&C) likely to post double-digit growth, driven by improving construction activity and continued stocking
- Strong growth momentum to continue in EMS companies, led by client additions and improving product offerings

A quarter marked by delayed summer and early monsoon: We expect our consumer durables coverage (including W&C) to post 14% YoY (-11% QoQ) revenue growth in 1QFY26. The cooling products segment was impacted by weak demand due to delayed summer and unseasonal rains. W&C will likely see steady 18–19% YoY growth, driven by improved capex activity in cables and continued channel stocking in wires amid rising copper prices. In EMS, Dixon is expected to report strong growth led by rising smartphone export volumes.

Volume decline of 13-14% YoY in RACs: For 1QFY26, we expect cooling product companies under our coverage to report weak performance, with Voltas and Blue Star likely witnessing revenue declines of 8% and 7% YoY, respectively; led by a 13–14% YoY drop in their unitary products (RAC) segment on delayed summer and early monsoon. Lloyd is also estimated to post a fall of 14% YoY. We believe Voltas may slightly limit volume decline owing to its wide geographic reach. FY26 is expected to remain challenging for RACs, with high channel inventory posing a risk to 4QFY26 primary sales, if the demand doesn't recover. In ECD, fans are likely to see muted growth; we estimate the segment to report 2–4% YoY growth led by excooling products, while lighting remains sluggish.

W&C to report steady growth on improved construction activity: We estimate W&C companies to report revenue growth of 18–19% YoY (ex-other products), driven by channel restocking and sustained demand for cables, supported by government-led capex and elevated copper prices. A key monitorable in the upcoming quarter will be the commentaries on rising competitive intensity and its potential impact on capacity expansion plans.

Strong EMS performance likely to continue in 1QFY26: We estimate Dixon to report 61% YoY revenue growth, led by increasing smart phones volume (mobile phones revenue to grow 80% YoY). Despite the weak volume for RAC segment, we expect 7% YoY revenue growth in Amber led by client additions and improving product offerings.





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SELL - Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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