

RESEARCH**TATA CONSULTANCY SERVICES | TARGET: Rs 2,979 | -3% | HOLD**

2Q broadly inline. High AI Datacenter capex raises eyebrows

INSURANCE | Q2FY26 PREVIEW

Resilient 2Q growth amid GST impact

METALS & MINING | Q2FY26 PREVIEW

Set for good revenue and operational gains

REAL ESTATE | Q2FY26 PREVIEW

Office REITs: Occupancy and debt re-financing in focus

RETAIL | Q2FY26 PREVIEW

Price-led growth masks underlying demand softness

SUMMARY**TATA CONSULTANCY SERVICES**

- Return dilutive datacenter capex aligned to national goal of data localisation. Key for gaining large India govt projects, in our view
- Demand conditions remain unchanged. TCV broadly in line. Maintains view that FY26 international revenue growth will be better than in FY25
- Valuation on 5-year basis looks cheap. Accounts for significant growth deceleration. DC capex and M&A additional concerns. Maintain HOLD

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INSURANCE: Q2FY26 PREVIEW

- For our coverage companies including LIC, APE is likely to grow at 2% YoY in Q2FY26
- During the quarter, VNB margins are likely to expand for all players, except for IPru
- HDFC Life is expected to witness the strongest growth in terms of APE and margins. Our top picks are HDFC Life and LIC

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METALS & MINING: Q2FY26 PREVIEW

- Demand momentum to continue; costs (coking coal) to benefit
- Positive pricing growth YoY and lower costs YoY likely to improve operational performance
- QoQ performance likely to be impacted by marginal price decline

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REAL ESTATE: Q2FY26 PREVIEW

- The Indian Office market remains undersupplied. Office REITs likely to improve occupancy by ~+3.0% y/y
- Contractual lease escalations and renewal of leases is expected to push in-place rents up by ~+4.1% y/y
- As expectations of lower rates fail to materialise, higher interest expense likely to limit DPU growth to +1.3% y/y

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RETAIL: Q2FY26 PREVIEW

- Our Jewellery universe revenue to grow at a healthy 20.9% YoY in Q2 to be supported by higher gold prices
- Jewellery EBIT margin to improve on YoY basis in Q2 over a weak base, but likely to contract over a 2Y period on higher marketing spend
- Prefer retail jewellers with high share of franchise revenue, low leverage, high hedging ratio and superior ROCE profile

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HOLD

TP: Rs 2,979 | ▼ 3%

**TATA CONSULTANCY
SERVICES**

| IT Services

| 10 October 2025

2Q broadly inline. High AI Datacenter capex raises eyebrows

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2QFY26 broadly in line. Core business outlook remains unchanged.: Revenue growth of 0.8% QoQ fell a tad short of our estimate of 1.5% as the new BSNL business did not kick in as much as we anticipated. EBIT margin at 25.2% (excluding restructuring hit) was much higher than the 24.3% that we estimated. It had a large +80bps from currency QoQ. Growth QoQ was largely broad based and TCV of US\$10bn was booked. Demand conditions were indicated to be similar to where they were 3 months back with continued pressure on discretionary spending and focus on vendor consolidation and cost take out.

AI data center (DC) investment decision overshadows core business: In a negatively surprising move, TCS has decided to invest in a 1GW AI Datacenter in India over a 5–7-year time frame. Indicated capex of ~US\$6-7bn. This is going to be significantly return dilutive (AI DC biz likely generates ROE in teens compared to core business ROE of ~50%). Combined with a more proactive M&A strategy (from a 100% focus on organic growth) this will lower FCF available for distribution to shareholders in the next 5-7 years. These moves may evoke mixed reactions from investors, in our view, and may adversely impact multiples.

AI DC capex seems aligned to national priorities and may help in its India business: Unlike peers, TCS has plans of building a substantial India business through participation in marquee government and private sector programs. We believe AI data center aligns with Indian government goals of data localization (especially in the current geopolitical context and goals of self-reliance) and may help TCS score points when it bids for large Indian projects. We believe complex Indian projects helps TCS hone skills which it later takes globally.

Tweak estimates, maintain target PE multiple at 19x and Hold Rating: While on a 5-year historical basis the stock looks cheap, growth has materially slowed to low single digits. Besides, the new capital-intensive avatar of TCS (for both AI DC capex and M&A) is return dilutive and may not be liked by part of the investor community.

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Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	TCS IN/Rs 3,062
Market cap	US\$ 124.8bn
Free float	28%
3M ADV	US\$ 102.0mn
52wk high/low	Rs 4,495/Rs 2,867
Promoter/FPI/DII	72%/11%/12%

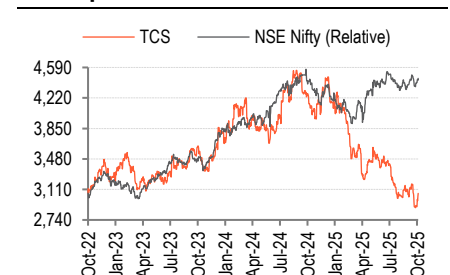
Source: NSE | Price as of 9 Oct 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	2,553,240	2,632,300	2,843,583
EBITDA (Rs mn)	674,070	702,657	767,574
Adj. net profit (Rs mn)	485,530	513,029	546,188
Adj. EPS (Rs)	134.2	141.8	151.0
Consensus EPS (Rs)	134.2	141.3	151.4
Adj. ROAE (%)	51.9	51.1	51.1
Adj. P/E (x)	22.8	21.6	20.3
EV/EBITDA (x)	16.6	15.9	14.6
Adj. EPS growth (%)	4.2	5.7	6.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



INSURANCE

Q2FY26 Preview

09 October 2025

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Q2FY26 growth and margins in focus: Overall, life insurance companies under our coverage including LIC are expected to witness 2% YoY APE growth in Q2FY26, on a higher base of last year (growth of ~20% YoY). Absolute VNB is likely to see a growth of ~4% YoY. Further, private players may see APE growth of 6% YoY. Absolute VNB for private players is expected to rise by 8% YoY in Q2FY26. Gross premium income for all the life insurance companies under our coverage is expected to increase by 6% YoY. We expect the product mix to continue to shift in favour of non-par and protection for most of the companies. Additionally, ULIPs too would continue to have a higher share in the overall product mix. VNB margin is likely to expand in the range of 40-50bps YoY for HDFC Life, SBI Life and LIC. For ICICI Pru Life, VNB margin is likely to contract by 28bps YoY in Q2FY26.

HDFC Life: HDFC Life is likely to see the highest APE growth of ~12% YoY in Q2FY26 and 12% YoY in H1FY26. Absolute VNB is expected to grow 14% YoY in Q2FY26 and 13% YoY H1FY26. VNB margin will likely be at 24.8% in Q2FY26 vs 24.3% in Q2FY25 vs 25.1% in Q1FY26, aided by rider attachments and steady protection mix. Gross premium income would grow by 11.3% YoY in Q2FY26.

ICICI Pru Life: ICICI Pru Life may see a soft quarter on a higher base with APE to decline by 2% YoY in Q2FY26 and 3% in H1FY26. VNB is likely to decline by 3% YoY in Q1FY26 and in H1FY26. VNB margin is likely to be at 23.1% in Q2FY26 vs 23.4% in Q2FY25 vs 24.5% in Q1FY26. Gross premium income is expected to grow at 10% YoY in Q2FY26.

SBI Life: SBI Life is expected to witness APE growth of 6% YoY in Q2FY26 and 7% YoY in H1FY26. VNB may grow at 8% YoY in Q2FY26 and 10% YoY in H1FY26. VNB margin may see improvement at 27.3% in Q2FY26 vs 26.9% in Q2FY25 vs 27.5% in Q1FY26. Gross premium income will likely grow at 13% YoY in Q2FY26.

Recommendation snapshot

Ticker	Price	Target	Rating
HDFCLIFE IN	754	918	BUY
IPRU IN	593	801	BUY
LICI IN	895	1,100	BUY
SBILIFE IN	1,810	2,144	BUY

Price & Target in Rupees | Price as of 9 Oct 2025



 METALS & MINING

| Q2FY26 Preview

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Set for good revenue and operational gains

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Overall sector performance: likely to show good steel volumes growth performance during Q2FY26E, with growth estimated to be 7-8%YoY. Pricing was positive on YoY basis aided by 12% safeguard duty in place. Costs remained stable to downward bias with companies benefitting from captive mine usage and decline in coking coal cost. Overall operational performance is likely to improve YoY. Overall, our coverage universe of 4 companies is likely to show revenue growth of 5.8%YoY and EBITDA growth of 20.5%YoY. However, QoQ operational performance will be lower with EBITDA decrease of 5.6% for the universe.

Pricing environment: Price of HRC steel for Q2FY26E averaged Rs50,500/tonne, up from Rs49,800/t in Q2FY25 and down from Rs53,300/t in Q1FY26 QoQ.

Tata Steel: Likely to see revenue growth of +2.8%YoY and +5.1%QoQ, driven by pricing growth. India volumes will likely be higher QoQ, as Q1FY26 had shutdown for some days at Kalinganagar and Neelanchal Ispat Nigam (NINL). India EBITDA/t is likely to be higher on YoY at Rs14,387 vs Rs12,109 in Q2FY25, due to cost benefit. Europe to see + EBITDA/t at USD16 vs negative USD75 in Q2FY25.

Jindal Steel: Likely to see revenue growth of 8.2%YoY and EBITDA growth of 14.2%YoY. This will be driven by India volume growth of 3.2%YoY. Operational performance is likely to improve by 14.2%YoY due to pricing growth and usage of captive mine and lower coking coal costs.

JSW Steel: Likely to see revenue growth of 12.4%YoY and EBITDA growth of 30.7%YoY likely, due to volume growth of 16.6%YoY. EBITDA/t should improve given the cost decline from captive usage.

SAIL: Likely to witness revenue growth of 0.9%YoY and EBITDA decline of 20.8%YoY. Volume growth of 8.6%YoY is offset by price decline on YoY.

We maintain BUY on Tata Steel & Jindal Steel; HOLD on JSW Steel and SELL on SAIL.



Office REITs: Occupancy and debt re-financing in focus

- The Indian Office market remains undersupplied. Office REITs likely to improve occupancy by ~+3.0% y/y
- Contractual lease escalations and renewal of leases is expected to push in-place rents up by ~+4.1% y/y
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Office fundamentals healthy: Over 2Q26, data from CBRE Research states that 19.9msf of office space was leased (-3% q/q) and completions slowed to 13.6msf (-21% q/q and -3% y/y). Despite the reduction in pace, the Indian Office market remains undersupplied with 59.6msf leased (+2% y/y) and 41.0msf completed space delivered (+10% y/y) in 9M CY25. Bengaluru continues to be the largest office market accounting for 25% of the absorption and 23% of the space delivered over 2QFY26. Technology companies remain the driving force behind office absorption, driving 24% of the transaction activity, with flexible space operators and engineering & manufacturing firms accounting for 21% and 15% respectively.

Occupancy likely to improve by ~+3.0% y/y: As demand skews toward Grade A office spaces, we expect the demand for space in Office REIT portfolios to be robust. Except for MINDSPACE (where we assume a slight dip in occupancy as Q-City stabilises), we believe Office REIT occupancy is likely to improve ~+3.0% y/y.

In-place rents expected to move up ~+4.1% y/y: We expect contractual rent escalations and the renewal of leases to push in-place rents up by ~+4.1% y/y. We believe BIRET and EMBASSY are better positioned to increase rents in their portfolios as they renew leases expiring over 2Q26-4Q26 and mark rents to market; ~6% and ~4% of gross contracted rentals expire for BIRET and EMBASSY respectively, over 2Q26-4Q26.

DPU growth limited to ~+1.3% y/y: As expectations of lower interest rates fail to materialise, we expect Office REITs to be limited in their ability to refinance expiring debt at lower rates. We believe EMBASSY to be the most exposed with ~21% of total outstanding debt maturing over 2Q26-4Q26. With an average of ~14% of total debt outstanding (Office REITs under our coverage) maturing over this period, we expect the outcome of these re-financing transactions to affect distributions materially. As a result, we expect DPU growth to be limited to ~+1.3% y/y in 2Q26E.



RETAIL

Q2FY26 Preview

09 October 2025

Price-led growth masks underlying demand softness

- Our Jewellery universe revenue to grow at a healthy 20.9% YoY in Q2 to be supported by higher gold prices
- Jewellery EBIT margin to improve on YoY basis in Q2 over a weak base, but likely to contract over a 2Y period on higher marketing spend
- Prefer retail jewellers with high share of franchise revenue, low leverage, high hedging ratio and superior ROCE profile

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Jewellery universe revenue to grow at a healthy 20.9% YoY in Q2: Gold jewellery demand for mass economy range (priced below Rs1 lakh) has been significantly impacted in Q2FY26, due to affordability issues, on the back of steep rise in gold prices (+45% YoY). However, our jewellery universe revenue is projected to grow at a healthy 20.9% YoY in Q2FY26 over a strong base (due to the benefit of reduction in custom duty from 15% to 6% in Jul'24). This would be mainly driven by higher gold prices, early onset of festive season, good demand momentum maintained in premium range, rising acceptance of 18 carat vs versus standard of 22-carat jewellery, and higher share of old gold exchange.

Jewellery universe EBIT margin to improve in Q2 over a weak base: Our jewellery universe EBIT margin is projected to improve by 243bps YoY to 7.7% in Q2FY26, mainly due to a weak base effect (one-time MTM loss on gold inventory given the reduction in custom duty rate). However, EBIT margin will likely contract (-105bps) over a 2Y period (Q2FY24-Q2FY26), owing to higher promotional and marketing expenses to stimulate demand amidst rising gold prices.

How to play the sector in a rising gold price environment? We believe the balance sheet of retail jewellers is likely to come under stress considering the higher working capital requirements for existing stores, on the back of a steep rise in gold prices. This, along with a significant increase in capex requirement (from Rs 300 mn to Rs 500-600mn) for opening a new retail jewellery store (with an area of 3,000-4,000 sq.ft) is likely to slow down the pace of new store addition in the industry. Eg – the growth rate of Tanishq new stores has been trending down for the past four consecutive quarters (11.7%/9.7%/8.0%/6.1%/4.9% YoY in Q2FY25/Q3FY25/Q4FY25/Q1FY26/Q2FY26). Going ahead, we believe companies with a high share of franchise revenue, low leverage, high hedging ratio in a volatile gold price environment and superior ROCE profile would grow at a faster pace over long-term. Titan and PNG remain our preferred pick in this space.



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Note: Recommendation structure changed with effect from 21 June 2021

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