FIRST LIGHT

12 January 2026

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A fourth slow year?

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Inflation will continue to be below RBI's lower band

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Volume gains in top gear; margins expected to follow in Q4

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Credit momentum and stable AQ to support earnings recovery

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GST cut, BEE transition lifts outlook; margins under pressure

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Steady AUM growth

OIL & GAS | Q3FY26 PREVIEW

Sector performance likely to remain mixed

SOMANY CERAMICS | TARGET: Rs 600 | +49% | BUY

SOMC Analyst Meet: Key takeaways

SUMMARY

IT SERVICES: Q3FY26 PREVIEW

- FY27 is going to be better than FY26. Modestly. Likely fourth year of slow revenue growth. Slow is the (old/new) normal.
- Pare FY27 USD revenue growth across coverage as we believe our earlier estimates were a bit aggressive. Further cuts if risks play out.
- Nifty IT ~23 ppt UP in 2025. Likely modest UP in 2026. Cut estimates but raise Target PE multiples. Most Tier-1s Hold, Most Tier-2s Sell

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INDIA ECONOMICS: PRICE PICTURE

BoB Essential Commodities Index (BoB ECI) has been in deflation territory for 8th consecutive month in a row, declining by -3%, on YoY basis, in Dec'25 and by another -0.8% in Jan'26 (first 8 days). However, the pace of deflation is softening. This is on account of correction in Tomato price trajectory. It does not pose any immediate concern as wholesale price of Tomato is still lower, hence some passthrough might be visible. For Tomato, moderation in mandi arrivals was also visible in Dec'25. However, Q4 is the harvesting period for majority of TOP (Tomato, Onion and Potato) vegetables. Hence supply conditions are likely to be favourable.

Click here for the full report.

AUTOMOBILES: Q3FY26 PREVIEW

- PV segment volume growth continues in double-digits as the full impact of GST rate rationalisation is reflected; MM and MSIL gain 22%/18%
- 2W volume driven strongly by premium category as TVSL and EIM grew in double digits; commuter segment catching pace with HMCL's 13% gains
- Tractor segment key driver with ~18% YoY growth in Q3, following 30% growth in Q2; CV recovery on MHCVs that grew 24%

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BANKING: Q3FY26 PREVIEW

- Credit growth picking up, largely driven by the demand from retail and MSME segments
- Profitability set to improve with NIMs recovery, tight control on opex and lower CC. Asset quality expected to remain stable
- Top picks: ICICIBC, KMB and SBIN in large caps, while FB and KVB in midcaps

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CONSUMER DURABLES: Q3FY26 PREVIEW

- Discount-led channel pre-buying ahead of BEE transition and price hikes, support primary demand
- Wires & Cables (W&C) continue to outperform, driven by copper price-led channel stocking and improving project activity
- Utilisation levels for white-goods contract manufacturers improve, with new client additions translating into growth outpacing brands

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DIVERSIFIED FINANCIALS: Q3FY26 PREVIEW

- For our coverage universe, QAAUM grew 18% YoY (5% QoQ) in Q3FY26, while the core revenue is likely to grow muted QoQ
- Core operating profit is likely to witness a muted 6% YoY (3% QoQ) growth; PAT is expected to grow by 14% YoY (6% QoQ)
- Our top picks continue to be NAM and HDFCAMC

Click here for the full report.

OIL & GAS: Q3FY26 PREVIEW

- RIL to likely report revenue growth 6.3%YoY, driven by consumer segments – Retail & Telecom
- IGL & MGL likely to see revenue and EBITDA growth, driven by higher CNG volumes, while OMCs may benefit from stronger refining margins
- Maintain the ratings of stocks under coverage. Top picks are BPCL and Oil India with BUY; TP of Rs434, Rs520 respectively.

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SOMANY CERAMICS

- SOMC showcased its tiles and bath fittings experience centre, highlighting premiumisation strategy
- Portfolio gaps are being addressed primarily in premium large-format tiles (1200x1800mm), supported by select value-added SKUs
- Improving exports (avg monthly run-rate of ~Rs 15bn) are alleviating dumping by Morbi players, and supporting a recovery in domestic demand

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IT SERVICES | Q3FY26 Preview | 12 January 2026

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- **Pare FY27 USD revenue growth across coverage as we believe our earlier estimates were a bit aggressive. Further cuts if risks play out.**
- **Nifty IT ~23 ppt UP in 2025. Likely modest UP in 2026. Cut estimates but raise Target PE multiples. Most Tier-1s Hold, Most Tier-2s Sell**

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More of the same likely in FY27 but a slightly better year: 12 months back we reinitiated coverage with an underweight call (**Slow is the (new/old) normal**) saying that FY26 would be a slow year against consensus expectations of sharpish pick up. It did broadly play out as expected on the fundamental side, but PE derating was larger than we thought. More importantly, underperformance was largely for reasons we highlighted in our report. While FY27 looks to be a better year, pick up would be more modest than we anticipated earlier. It was the fear of slower growth in FY27 that drove us to cut target PE multiples in October 2025.

Downside risks exist but some could be amplified: (1) We fear scaled AI enterprise adoption if it happens will be more deflationary than it was in 2025. (2) We think savings from such an AI adoption may go to hyper scalers who will try to extract more from enterprises to fund their heightened AI Capex. (3) While Tariffs drove uncertainty in 2025, Trump's multiple proposals to address affordability crisis in the US ahead of the mid-terms in November 2026 will be the key monitorable in 2026 (eg: freezing credit card interest rate at 10%, controlling prices of products and services, cash payments to citizens, buying of US$200bn MBSs, etc). There will be winners/ losers due to this in USA Inc and that could reflect in IT spending outcomes. (4) lack of trade deal between US-India could keep steady stream of negative new flow on outsourcing/immigration that could impact PE multiples (5) larger than normal and expensive M&A moves focused on AI capability building could raise integration, margin and return ratio risks having implications for PE multiples (6) faster domestic recovery on the back of various fiscal and monetary measures could keep interest low in slow growing IT services.

Cut estimates, raise Target multiples but maintain UP call: We pare FY27 estimates as we believe our earlier estimates were a bit aggressive. Given the sharp underperformance in 2025 and the expected modest rebound in FY27, we are raising target multiples. While most Tier-1s are 'Holds', most Tier-2s are 'Sells' as they appear either overpriced or show insufficient growth potential.

Recommendation snapshot

Ticker	Price	Target	Rating
BSOFT IN	432	381	SELL
COFORGE IN	1,647	1,487	SELL
ECLX IN	4,751	5,418	HOLD
FSOL IN	332	471	BUY
HCLT IN	1,647	1,556	HOLD
INFO IN	1,613	1,800	HOLD
LTIM IN	6,018	5,384	SELL
MPHL IN	2,817	2,852	HOLD
PSYS IN	6,445	4,343	SELL
TCS IN	3,204	3,324	HOLD
TECHM IN	1,578	1,754	HOLD
WPRO IN	262	267	HOLD
ZENT IN	718	645	SELL

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

PRICE PICTURE

09 January 2026

Inflation will continue to be below RBI's lower band

Dipanwita Mazumdar
Economist

BoB Essential Commodities Index (BoB ECI) has been in deflation territory for 8th consecutive month in a row, declining by -3%, on YoY basis, in Dec'25 and by another -0.8% in Jan'26 (first 8 days). However, the pace of deflation is softening. This is on account of correction in Tomato price trajectory. It does not pose any immediate concern as wholesale price of Tomato is still lower, hence some passthrough might be visible. For Tomato, moderation in mandi arrivals was also visible in Dec'25. However, Q4 is the harvesting period for majority of TOP (Tomato, Onion and Potato) vegetables. Hence supply conditions are likely to be favourable.

Further, new CPI series will provide clarity on distribution of weights of different components. For now, we feel inflation is in the comfort range and we expect CPI to settle at 1.4% in Dec'25.

To get an idea about the calculation of the index, refer to our *previous edition* of BoB ECI.

Price picture using BoB Essential Commodity Index:

- BoB ECI remained in the deflation territory for 8th consecutive month in a row in Dec'25. On YoY basis, it declined by -3% in Dec'25, softer pace compared to decline of -3.6% in Nov'25. 10 out of 20 commodities in the index witnessed deflation at a moderate pace compared to Nov'25. The sharpest pace of deflation is observed for Onion and Potato, declining by -44.6% and -29.9%, respectively. For Tomato, there has been a reversal of the trajectory witnessing increase of 6.7% in Dec'25 compared to decline of -17.7% in Nov'25. Despite this, the CPI weighted trajectory for TOP in Dec'25 based on retail prices have fallen on an aggregate basis by -24.7%, supported by decline in Onion and Potato prices. Among other items, pulses (except Masoor dal), groundnut oil and cereals are also exhibiting loss of momentum in retail prices.

- Sequential picture: BoB ECI inched up by 0.1% in Dec'25. On a seasonally adjusted MoM, BoB ECI inched up by 0.7% Thus, the moderation in Dec'25 is attributable to seasonal phenomenon. The sequential buildup of price was observed especially for Tomato.

- Jan'26 trend: For the first 8 days, the deflation trend continues at a softer pace as BoB ECI is tracking at -0.8%, on YoY basis. This is on account of an unfavourable statistical base. The deflationary spiral continues for Potato and Onion and majority of the pulses. The seasonality factor will persist in Jan'26 as well, which will be supportive of inflation.

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AUTOMOBILES | Q3FY26 Preview | 09 January 2026

Volume gains in top gear; margins expected to follow in Q4

- **PV segment volume growth continues in double-digits as the full impact of GST rate rationalisation is reflected; MM and MSIL gain 22%/18%**
- **2W volume driven strongly by premium category as TVSL and EIM grew in double digits; commuter segment catching pace with HMCL's 13% gains**
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PV volume push a mixed bag, but margins weaken: PV OEMs (MSIL and MM) in our coverage will deliver healthy revenue growth in Q3FY26, driven by volumes. MM auto revenue is expected to grow at ~15% YoY, driven by strong (22%) volume growth. MSIL is estimated to grow even stronger by 23% YoY, driven by 18% volume gains. However, gross margins are likely to be soft at ~24%/27% for MM & MSIL respectively, attributed partially to higher discounts and the commodity cost inching up. However, focus stayed on volume growth. Effectively, EBITDA margins have dropped with MM stabilising at ~14% vs 15% YoY and MSIL at ~10% (vs 11%). EV launch by MSIL also had an impact as MSIL (E-Vitara in Q3FY26).

2W double-digit growth on premium segment and scooterisation: Two-wheeler (2W) revenue growth is expected at ~16%% YoY with TVSL (~27%) and EIM (~15% excluding CV) growing in double digits. This indicates that premiumisation has been a key volume driver, following the rate cuts. BJAUT with single-digit growth (9.5% YoY) and HMCL adding 13%, indicate mixed sentiment in the commuter segment. The strong demand continues for high-end variants and typically in the scooter segment, driven by electrification. However, this has impacted margins as reflected in the weakening gross margins for all major 2W OEMs in our coverage.

CV on the path of recovery: Revival in commercial vehicles (CVs) was steady with AL's volume growth of ~24% YoY, driven by 24% MHCV segment growth backed equally by the LCV segment. TTMT (unrated) volume grew by a strong 23% YoY, driven by the core segment MHCVs (~23%) and LCV segment by 16% YoY.

Tractors continue on a strong path: Tractor volume grew by ~18%, driven by rate cuts, healthy monsoon and rabi crop harvesting. MM's tractor volumes jumped ~23%/20% YoY/YTD, while those of ESCORTS were 13%/14% YoY in Q3FY26/YTD. Tractor segment gains are likely to continue, following the continued revival in rural affordability.

Top picks: MSIL and MM remains our preferred pick. Reasonable/higher valuations drive our neutral view in the 2W segment. We assign SELL rating to ESCORTS and VSTT.

BANKING | Q3FY26 Preview | 09 January 2026

Credit momentum and stable AQ to support earnings recovery

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Credit growth picking up while deposit accretion remains tough: RBI's fortnightly data indicates that system credit growth inched up to 12% YoY, as on Dec 15, 2025 vs 10.4% YoY as on Sep 19, 2025. The loan growth was largely led by retail and MSME segments. Further, business update numbers of our covered mid-size private banks reported credit growth of ~12.8% YoY, while SFBs grew at a high pace of ~21.8% YoY. IIB is the only bank in our coverage, wherein the advances will degrow by ~13.1% YoY. Overall, we expect our coverage banks to report credit growth of ~12.1% YoY/~3.2% QoQ in Q3FY26. We note that deposit growth (+9.4% YoY) continues to lag credit growth, resulting in all-time high loan to deposit ratio (LDR) of 81.6% as on Dec 15, 2025. Deposit growth was largely led by term deposits as business update numbers reflect weak growth in CASA deposits. Moreover, we expect coverage banks to report deposit growth of ~11.3% YoY/~2.8% QoQ in Q3FY26, resulting in high LDR of ~85.1% (+34 bps QoQ).

NIMs expected to improve QoQ and lower CC to aid in earnings growth: RBI reduced repo rates by 125bps in CY2025, which resulted in a decline in the WALR on O/S loans by 57bps during Feb-Nov'25. We expect the impact of repo rate cut of 25bps in Dec'25 is likely to be largely seen in Q4FY26. However, NIMs will be cushioned by 100bps CRR cut from Sep'25 and lagged impact of deposit repricing (29bps reduction in WADTDR on O/S TDs during Feb-Nov'25). Hence, NIMs in Q3FY26 are expected to improve marginally for most of the banks under coverage in the range of 2-13bps QoQ. An uptick in credit growth, improvement in NIMs, tight control of operating expenses and likely lower CC are expected to result in a gradual earnings recovery with PAT likely to be up by ~4% YoY in Q3FY26 vs. 0.9% YoY in Q2FY26. We remain watchful on the likely impact of revised labour laws.

AQ to remain stable with improvement in unsecured retail segment: We expect the overall AQ of the banks under coverage to remain stable, though gross slippages could increase due to the agri seasonality for some banks. This is likely to be offset by a likely improvement in stress in unsecured segments in Q3FY26. Overall, we remain positive on the sector, given the credit growth picking up, NIMs improving QoQ, stable AQ to result in lower CC and support earnings growth.

CONSUMER DURABLES | Q3FY26 Preview | 09 January 2026

GST cut, BEE transition lifts outlook; margins under pressure

- **Discount-led channel pre-buying ahead of BEE transition and price hikes, support primary demand**
- **Wires & Cables (W&C) continue to outperform, driven by copper price-led channel stocking and improving project activity**
- **Utilisation levels for white-goods contract manufacturers improve, with new client additions translating into growth outpacing brands**

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W&C remains the standout on commodity tailwinds: W&C continue to outperform (+22-25% YoY), driven by channel restocking, strong government capex, and elevated copper prices (+17% YoY). While consumer-durables demand remains muted, GST rate cuts in RACs, BEE star-rating transitions, and rising commodity prices have triggered channel pre-buying, supporting primary demand. Festive-led recovery has aided select small-appliance categories. We expect RAC volumes to improve in December on account of pre-buying, partly offsetting the weakness seen in Oct–Nov'25. Consequently, we estimate Voltas/Blue Star to deliver ~4%/~6% YoY revenue growth, with muted RAC sales offset by steady growth in commercial ACs.

Improving utilisation levels for White Goods CMs: White-Goods EMS players are likely to see improvement in utilisation levels, led by a pickup in primary sales at brands and incremental volumes from new client additions —resulting in growth outpacing that of branded players. We estimate PG Electroplast/Epack/ Amber to report RAC sales growth in the range of 9-14% YoY.

Small appliances growth moderate; lighting margins remain sustained: We estimate the small-appliances segment to deliver moderate growth in Q3, supported by gradual improvement in consumer sentiment. In lighting, companies are sustaining profitability after a prolonged phase of price erosion, driven by a better mix of higher-ASP, value-added lighting products, enabled by the newer SKU introductions.

Commodity cost inflation to weigh on margins amid moderate demand: We expect margin contraction across our coverage universe, driven by (a) elevated discounts and channel schemes by large-appliance players to liquidate inventories, and (b) higher commodity costs, with copper and aluminium prices up ~17% YoY and ~9% YoY, respectively, during the quarter. This pressure is likely to be partially offset by operating leverage from improving utilisation levels across both branded players and contract manufacturers.

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DIVERSIFIED FINANCIALS | Q3FY26 Preview | 09 January 2026

Steady AUM growth

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- **Core operating profit is likely to witness a muted 6% YoY (3% QoQ) growth; PAT is expected to grow by 14% YoY (6% QoQ)**
- **Our top picks continue to be NAM and HDFCAMC**

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Healthy AUM growth: Overall, our coverage companies reported strong QAAUM growth of 18% YoY and 5% QoQ in Q3FY26, aided by favourable market performance during the quarter. Among the companies, NAM India and HDFC AMC witnessed robust YoY growth of 23% YoY (7% QoQ) and 18% YoY (5% QoQ) respectively.

Industry QAAUM saw 18% YoY growth to Rs 81 trn in Q3FY26. However, for Dec'25, the industry AUM stood at Rs 80.2 trn, down 1% MoM. Further, mutual fund (MF) industry saw outflows to the tune of Rs 665.9bn in Dec'25. Equity MFs inflows declined by 6% MoM during the month. In contrast, SIP contribution rose to record highs at Rs 310 bn vs Rs 294.5 bn in Nov'25. We expect the coverage AMCs to report muted QoQ core revenue growth of 7% QoQ, 4% QoQ, 4% QoQ and 2% QoQ for NAM India, HDFC AMC, UTI AMC and ABSL AMC respectively. This is primarily owing to decline in yields on account of the telescopic structure of TER, which is likely to be offset by net inflows and MTM gains, thereby sustaining AUM growth. Meanwhile, other income will likely rise aided by positive market returns during the quarter. Nifty 50 index returns for Oct'25, Nov'25, and Dec'25 stood at 4.5% MoM, 1.9% MoM and -0.3% MoM respectively.

ABSLAMC is likely to see its core revenue growth at 6% YoY (2% QoQ) in Q3FY26. Yields are expected to decline due to telescopic pricing. PAT is likely to grow at 14% YoY (up 6% QoQ) to Rs 2.6 bn.

HDFC AMC is expected to register core revenue growth of 14% YoY (4% QoQ). Equity AUM is expected to grow healthy, owing to the improvement in fund performance. PAT will likely increase by 11% YoY (down 1% QoQ) to Rs 7.1 bn.

NAM India core revenue is likely to grow by 19% YoY (7% QoQ), aided by higher AUM growth. PAT is likely to grow by 28% YoY to Rs 3.8 bn.

UTI AMC may register core revenue growth of 8% YoY (4% QoQ). PAT is expected to be muted at 3% YoY to Rs 1.8 bn.

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OIL & GAS | Q3FY26 Preview | 09 January 2026

Sector performance likely to remain mixed

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- **IGL & MGL likely to see revenue and EBITDA growth, driven by higher CNG volumes, while OMCs may benefit from stronger refining margins**
- **Maintain the ratings of stocks under coverage. Top picks are BPCL and Oil India with BUY; TP of Rs434 and Rs520 respectively**

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Overall performance: Oil & Gas sector will likely show mixed performance during Q3FY26E. Oil marketing companies (OMCs) and an upstream company (ONGC) are expected to see decline in revenues due to lower crude prices. However, OMCs' operational performance will likely be strong. RIL would see good growth, driven by consumer businesses of Retail and Telecom. Gas utility segment (GAIL, Petronet and GSPL) will likely see stable-to-subdued volumes on subdued demand. CGD companies will likely see good performance growth, driven by CNG volumes growth supported by better EBITDA spread.

Macros: Price of crude brent for Q3FY26E averaged USD62/bbl, down USD12/bbl YoY from USD74 in Q3FY25. Singapore GRM for Q3FY26E averaged USD8.5/bbl, up USD3.5/bbl YoY from USD5.0 in Q3FY25.

Reliance Industries (RIL): RIL is likely to report revenue growth of 6.3%YoY, to be driven by Retail (9.2%YoY) and Telecom (10.5%YoY). Retail business revenue growth expected to be 9.2%YoY, on the back of the demand momentum from festive season and store additions. Telecom business growth in revenue and EBITDA to be driven by subscriber growth of 5.9%YoY and ARPU increase of 4.1%YoY. ARPU is likely to be Rs212.

Oil marketing companies (OMCs): Operational performance of HPCL, BPCL and IOC will likely be strong on YoY basis, due to improvement in GRM. GRMs are likely to be at USD9.0-10.0/bbl vs USD3.0-5.6 in Q3FY25. Product cracks - Petrol and Diesel – should remain higher YoY. However, revenue is likely to be lower YoY on lower crude prices. EBITDA growth expected at 22.0%YoY for HPCL, 20.0% for BPCL and 167% for IOC.

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BUY
TP: Rs 600 | 49%

SOMANY CERAMICS | Building Materials | 09 January 2026

SOMC Analyst Meet: Key takeaways

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- **Portfolio gaps are being addressed primarily in premium large-format tiles (1200x1800mm), supported by select value-added SKUs**
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Strengthening the portfolio through premium tiles expansion: Management outlined its premiumisation strategy through: (a) A mix of renovated and newly developed experience centres across key cities, each ~6,000+ sq.ft, enabling comprehensive product display. (b) Curated premium tile offerings targeted at high-end consumers. These centers aim to address the historical dealer feedback on portfolio gaps, particularly the premium large-format tiles (under the sub brand like Coverstone, Italmarmi, Colorato, etc.), which now positions the company as a building-materials solutions provider across tiles, adhesives and bath fittings. Further, management plans to launch another premium sub-brand (series) in Q1FY27 (or Q4FY26).

Adding premium bathware SKUs while retaining Economy brand positioning: While management showcased its bath fittings portfolio, it continues to position the category in the Economy segment amid intense premium-segment competition. Management noted that bathware brand perception is structurally stronger than tiles, and requires longer gestation. Therefore, the company is conducting a detailed strategic evaluation (learning from challenges faced by Cera's RT and Hindware Queo) to identify the optimal market fit, with a new series planned shortly. Sanitaryware is guided to deliver double-digit growth in FY26–FY27, supported by profitability at both the existing plants**.**

Expanding adhesives distribution by widening product basket: The adhesives and waterproofing business reported revenues of ~Rs 900mn in FY25 and is targeted to scale to ~Rs 1,300mn in FY26; implying a strong 44.4% YoY growth. The segment is already profitable, with EBITDA margins exceeding 10%, and capacity expansion is underway—adhesives capacity at the North plant is being doubled, while a new South plant is under development. In parallel, the company has expanded its product portfolio to facilitate broader channel penetration, enabling a shift from a largely tiles-and-adhesives-led distribution to also tapping paint-and-adhesives distributors; thereby widening reach and accelerating scale-up.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SOMC IN/Rs 403
Market cap	US$ 183.9mn
Free float	45%
3M ADV	US$ 0.1mn
52wk high/low	Rs 625/Rs 393
Promoter/FPI/DII	55%/1%/23%

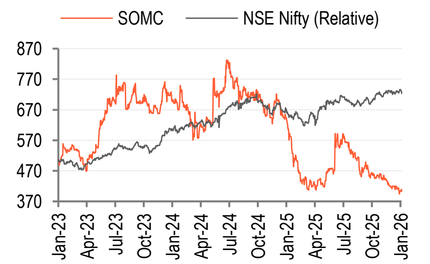
Source: NSE | Price as of 8 Jan 2026

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	26,588	27,605	30,117
EBITDA (Rs mn)	2,209	2,369	2,809
Adj. net profit (Rs mn)	605	780	1,126
Adj. EPS (Rs)	14.8	19.0	27.5
Consensus EPS (Rs)	14.7	23.1	42.4
Adj. ROAE (%)	7.2	8.8	11.6
Adj. P/E (x)	27.3	21.2	14.7
EV/EBITDA (x)	8.5	7.7	6.2
Adj. EPS growth (%)	(39.0)	28.9	44.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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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