

RESEARCH**BOB ECONOMICS RESEARCH | RBI MONETARY POLICY**

RBI turns hawk-eyed

IT SERVICES | Q2FY27 PREVIEW

Incremental Macro Impact on demand key

METALS & MINING | Q2FY27 PREVIEW

Quarter likely to see volume growth of 7.0%YoY

SUMMARY**INDIA ECONOMICS: RBI MONETARY POLICY**

The MPC unanimously decided to raise policy rates by 25bps to 5.50%, a first since Feb'23. This has resulted in SDF and MSF rates higher at 5.25% and 5.75%. Stance of the monetary policy was also changed to calibrated tightening from neutral stance previously. This entails that while rate cuts are unlikely now, the rate hike and pause are likely given the evolving conditions. The quantum of future rate hike will now be contingent on the growth and inflation dynamics. Noting strong domestic fundamentals and resilience in growth (as visible in high frequency indicators) despite global headwinds, RBI has revised FY27 growth projection upward by 40bps to 7.1%.

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IT SERVICES: Q2FY27 PREVIEW

- 2QFY27 (typically strong) results expected to be lackluster for Tier-1 QoQ though select Tier-2 companies to show strong growth
- Expectations low. +ve surprises could trigger sharp moves which may not be sustainable. Recent macro deterioration impact to be watched
- Remain UW. Do not expect 2QFY27 to be a turning point. Low multiples will remain and believe sector is a value trap

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METALS & MINING: Q2FY27 PREVIEW

- Demand momentum to continue with a likely 7.0%YoY growth, though growth impacted to some extent by monsoon vs 8.3%YoY in Q1FY27
- Steel pricing recovered in Sept. month after weakness in July-Aug. It improved QoQ by 4.9%. Coking coal price increase to impact with a lag
- Maintain BUY on Goodluck India, Jindal Steel, Tata Steel, SAIL; HOLD on JSW Steel and Hindalco

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RBI MONETARY POLICY

07 October 2026

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Jahnvi Prabhakar
Economist

Inflation projection has also been revised higher to 5.2% for FY27 and is expected to peak at 6% in Q3FY27 (revised higher), before easing in Q4 and Q1FY28. We also believe that upside risks to inflation persist as monsoon was below normal and kharif sowing has also been lower than last year. Geopolitical uncertainty continues to persist due to lingering West Asia conflict which will continue to result in volatility for global oil and other commodity prices. Given these factors, we expect 2 more rate hikes by the central bank in FY27.

MPC decision:

RBI's monetary policy committee (MPC) voted unanimously to hike the policy repo rate by 25bps to 5.50%. Consequently, the SDF rate is higher at 5.25% and MSF at 5.75%. The MPC with a majority vote has also changed the stance from neutral to 'calibrated tightening' with two members, Dr Nagesh Kumar and Prof. Ram Singh favoured to retain the stance at neutral. It reiterated its commitment to its mandate of price stability as it work towards aligning inflation with its target level.

Assessment of growth outlook:

- RBI has revised GDP growth forecast for FY27 to 7.1% from 6.7% projected earlier in the Aug'26 policy. The 40bps upward revision is mainly on account of revisions to Q2 and Q3 numbers. Numbers for H2FY27 have also been revised higher by 20bps from last policy.
- MPC members agreed that despite facing global headwinds, the Indian economy continues to remain resilient as has been noted in Q1 growth which was higher than expected at 7.8%. This was led by strong investment, private consumption along with buoyancy in services exports.



Incremental Macro Impact on demand key

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Sector has sharply underperformed YTD2026. 3QCY26 sees a rebound: Nifty IT versus Nifty underperformance has been ~13ppt thus far in 2026. After lagging Nifty by ~9ppt in 1QCY26 and ~16ppt in 2QCY26, Nifty IT outperformed by ~10.5ppt in 3Q2026(2QFY27). The continued derating (after a 23 ppt underperformance in 2025) has been driven by advanced AI models, which seem capable of disrupting global IT services in a bigger way than previously expected and worries on how long the current growth slump would continue due to AI deflation and lack of discretionary spending. We think it could last at least till FY29 (see view inside).

Macro deterioration and AI deflation cap upside: We expect 2QFY27 to continue the pattern of lackluster growth from Tier-1 and select Tier-2 companies outgrowing Tier-1. We believe macro conditions have started to deteriorate again (higher DM bond yields, commodity inflation, tariff friction and the US-Iran war, see Sept 16 2026 note [Macro](#)), with AI deflation a structural overlay till at least FY29. We will watch guidance changes, pricing and large-deal conversion

Accenture results have given bulls some hope: The 4QFY26 (YE Aug) strong outperformance (see [Update](#)) has given the IT services bulls some hope that the demand situation is turning around. As indicated in the note we believe it is a company specific share gain driven +ve which cannot be extrapolated for the Indian listed IT services players. In fact success of ACN is at expense of Indian cohort.

Expect muted performance: We build Tier-1 CC revenue growth in a range of -0.5% to +3.0% QoQ, with HCLT (+3.0%) the strongest and TCS (flat) and Wipro (-0.5%) at the weak end. In Tier-2, Coforge (+12.0%, with a full quarter of Encora) and Persistent (+10.0%, on a large-deal ramp) lead by a wide margin

Multiples down but we believe it is a value trap: The sector valuations are currently at their lowest level if one looks at their long-term history. But we believe a quick rebound is not possible unless growth revives, which we are skeptical of. Believe AI is disrupting the 'low cost' business model. Hence, remain UW.



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Overall sector performance: Sector will likely show good volume performance (with in Steel segment) during Q2FY27 with volume growth of 7.0% YoY. This growth has moderated from 8.3%YoY reported in Q1FY27 on account of monsoon. Realisations improved, rising 20.5% YoY and 4.9% QoQ. Prices declined through July-August under pressure from imports, before recovering in September as Asian prices firmed up. Costs rose YoY, with coking coal averaging USD245/t in Q2FY27E against USD192/t in Q2FY26. More recent move in spot coking coal, from USD240/t to USD280/t, will flow through to reported costs with a lag of one to two quarters. Overall, our four-company steel coverage universe should post revenue growth of 12.9% YoY and EBITDA growth of 19.0% YoY.

Pricing environment: Domestic HRC prices averaged Rs60,000/t in Q2FY27E, Rs10,200/t above the Rs49,800/t recorded in Q2FY26 and Rs2,800/t above Q1FY27, a sequential increase of 4.9%. Prices firmed through September on rising Asian prices, despite the seasonally weaker monsoon period in the domestic market.

JSW Steel: We expect revenue growth of 18.8% YoY and EBITDA growth of 26.9% YoY. Volumes should be broadly flat at +0.1% YoY. Standalone volumes likely to show 4.9%YoY growth on incremental volumes from Vijayanagar expansion project. The numbers are not directly comparable, as Q2FY27E excludes Bhushan Power & Steel (BPSL) business whereas Q2FY26 includes BPSL. EBITDA benefited from improved pricing on a YoY basis.

Jindal Steel: We expect revenue growth of 29.1% YoY, driven by incremental volumes from expanded capacity, with volume growth estimated at 19.6% YoY. Realisations should improve by 7.9% YoY but decline sequentially. We expect EBITDA/t of Rs10,237, higher YoY but lower QoQ on softer realisations.



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Note: Recommendation structure changed with effect from 21 June 2021

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