FIRST LIGHT

09 October 2025

RESEARCH

IT SERVICES | Q2FY26 PREVIEW

Time to recheck US Inc's offshoring intent

BOB ECONOMICS RESEARCH | PRICE PICTURE

Food-driven Inflation softening continues

AUTOMOBILES | Q2FY26 PREVIEW

Volume gains on GST cut; aggressive pricing keeps margins flat

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SUMMARY

IT SERVICES: Q2FY26 PREVIEW

- 2QFY26 is unlikely to show seasonal strength but could be tad better than 1Q. Focus will be on H1-Bs and 2HFY26 outlook
- Offshoring is held up as the panacea for the H1-B headache. We are not so sure if US Inc will defy MAGA opposition to American job losses
- With higher uncertainty around FY27 growth pickup, rising margin risks we lower target PE multiples

Click here for the full report.

INDIA ECONOMICS: PRICE PICTURE

BoB Essential Commodities Index (BoB ECI) has been in deflation territory for 5th consecutive month in a row, declining by -1%, on YoY basis in Sep'25 and at a steeper pace by -3.8% (first 6 days of Oct'25). The broader comfort came in from a sharp deflation in TOP (Tomato, Onion and Potato) trajectory. The Tomato witnessed sharp downward correction in Sep'25. The buoyant arrival statistics are supporting prices. Government's astute supply management strategies and improved logistics also contributed to the same. Apart from this, global food prices remained in favour.

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AUTOMOBILES: Q2FY26 PREVIEW

- PV segment volume growth driven by MM, with double-digit growth of ~17% YoY, MSIL pace at a slow ~4% in the coverage space
- 2W volume clearly driven by premium category as TVSL and EIM grew in double digits; commuter segment lagged
- Tractor segment key driver with ~ 30% growth in Q2, backed by buoyant mood, CV segment shows signs of steady recovery driven by MHCVs

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IT SERVICES | Q2FY26 Preview | 09 October 2025

Time to recheck US Inc's offshoring intent

- **2QFY26 is unlikely to show seasonal strength but could be tad better than 1Q. Focus will be on H1-Bs and 2HFY26 outlook**
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Despite 26 ppt CYTD underperformance versus Nifty we remain cautious: We think there is a high probability of a fourth year of slow growth in FY27 combined with margin compression. This will likely drive a fourth successive round of consensus earnings downgrades. We believe the pandemic related valuation expansion was a one-off and hence today's valuations are not really that attractive in the context of structurally lower growth.

Curbs on offshoring likely. Adding another layer to the uncertainty: Offshoring has been identified as a panacea for recent H1-B challenges. But high adverse rhetoric around H1-B among MAGA influencers leads us to believe the solution is not that simple. In the prevailing sentiment in the US, it is highly unlikely that material amount of work will be offshored on the back of American job losses. We think US Inc will align with Trump 2.0's recent attempts to put pressure on India on trade in both goods and services.

Project delivery risks from Cyber Security breaches and Gen AI hallucinations– the elephants in the room: Both are problems faced by Global corporations/organizations – in areas that are among fastest growing for Indian players. Unless contracts are adequately derisked for these events, there could be unexpected provisions that may impact earnings. There have been cyber security incidents in the last 5 years involving players like Infosys, Cognizant and TCS.

Lower target PE multiples: We now attach 19x as the target multiple for the sector valuation benchmark - TCS – (previously 21.3x) to factor in what will likely be a fourth year of lowering of consensus earnings – for FY27. While new H1-B measures will put modest pressure on margins in FY27, we believe there are 'unknowns' which could adversely impact demand/margins in FY27 further. We maintain our underweight stance with 6 Sells, 6 Holds and 1 Buy. Tech M and Infosys among Tier-1 and Firstsource and Eclerx among Tier-2, are our top positive bets.

Recommendation snapshot

Ticker	Price	Target	Rating
BSOFT IN	358	332	SELL
COFORGE IN	1,662	1,379	SELL
ECLX IN	4,019	4,202	HOLD
FSOL IN	328	400	BUY
HCLT IN	1,418	1,343	HOLD
INFO IN	1,476	1,570	HOLD
LTIM IN	5,274	3,733	SELL
MPHL IN	2,792	2,602	SELL
PSYS IN	5,189	3,696	SELL
TCS IN	2,988	2,994	HOLD
TECHM IN	1,439	1,529	HOLD
WPRO IN	242	243	HOLD
ZENT IN	756	535	SELL

Price & Target in Rupees | Price as of 6 Oct 2025

PRICE PICTURE

08 October 2025

Food-driven Inflation softening continues

Dipanwita Mazumdar
Economist

BoB Essential Commodities Index (BoB ECI) has been in deflation territory for 5th consecutive month in a row, declining by -1%, on YoY basis in Sep'25 and at a steeper pace by -3.8% (first 6 days of Oct'25). The broader comfort came in from a sharp deflation in TOP (Tomato, Onion and Potato) trajectory. The Tomato witnessed sharp downward correction in Sep'25. The buoyant arrival statistics are supporting prices. Government's astute supply management strategies and improved logistics also contributed to the same. Apart from this, global food prices remained in favour.

We expect CPI to be ~ 1.2% in Sep'25. The tail of CPI is heavily titled on the downside with GST rate cuts being passed on to consumers. The coming months will give clarity to the extent of pass-through. However, majority of the auto, FMCG and e commerce platforms have already announced the same. Based on the evolution of food inflation trajectory and Q3 being the quarter corresponding with the arrival of fresh harvest, we expect some undershooting of headline CPI trajectory in FY26 compared to RBI's forecast.

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 5th consecutive month in a row in Sep'25. On YoY basis, it continued to decline by -1% in Sep'25. 9 out of 20 commodities in the index witnessed deflation with the sharpest pace being observable for TOP vegetables (Tomato, Onion and Potato). For Onion, the trajectory has witnessed the strongest pace of deflation since Dec'20. An elevated statistical base can also be a contributing factor coupled with buoyant arrival statistics (Table 2). For Potato as well, the deflation pace is significant with retail price falling by -30.9% in Sep'25, the strong double-digit decline is continuing for six months in a row. For Tomato, where we had seen an upward correction in trajectory in Aug'25 again fell sharply in Sep'25 (-8.3%, YoY). The CPI weighted trajectory for TOP in Sep'25 based on retail prices have fallen on an aggregate basis by -29.5%. Among other items, edible oils which were exhibiting stickiness lost some momentum especially for Mustard, Soya and Sunflower oil. The international prices of these items especially for soyabean oil remained favourable supported by elevated supplies from Argentina. Among pulses, maximum decline is visible for Gram dal.

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AUTOMOBILES | Q2FY26 Preview | 08 October 2025

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PV volume push a mixed bag, but margins weaken: In our coverage, PV OEMs (MSIL and MM) revenue growth will likely be a mixed bag in Q2FY26. MM auto revenue is expected to grow at ~14% YoY, driven by strong (17%) volume growth. This is in contrast with just 4% YoY gains by MSIL, driven by 2% volume and 4% ASP gains. However, gross margins are likely to be soft at ~24%/28% for MM & MSIL respectively, attributed to higher discounts/aggressive pricing as the priority clearly shifted to volume gains, so as to capture the buoyant sentiments and festive mood. Effectively, EBITDA margins have dropped with MM stabilising at ~13% vs 14% YoY and MSIL at ~11% (vs 12%). Additionally, EV investments, too, had an impact. MSIL launched E-Vitara in Q2FY26.

2W double digit growth driven by premium segment and scooterisation: Two-wheeler (2W) revenue growth is expected at ~15%% YoY with TVSL (~19%) and EIM (~32% including CV) growing in double digits. This indicates that premiumisation has been a key volume driver following the rate cuts. BJAUT with flat growth (2% YoY) and HMCL adding 6% indicates commuter segment was lagging behind. The strong demand continues for high-end variants and more so in the scooter segment driven by the Electric vehicles. However, this has impacted the margins as reflected in the gross margin that have weakened for all the major 2W OEMs in our coverage.

CV on the path of recovery: Commercial Vehicles (CVs) revival was steady with AL's volume growth of ~8% YoY, driven by 9% MHCV segment growth. However, MHCV segment lagged. TTMT (unrated) volume grew by a strong 17% YoY, driven by the LCVs (~11%); while the core segment MHCV volume grew slow at 5% YoY.

Tractors on a strong path: Tractor volume grew by ~30%, driven by rate cuts, healthy monsoon and expected strong Kharif crop. MM's tractor volumes jumped ~32%/19% YoY/YTD, while ESCORTS' were 30%/14% YoY in Q2FY26/YTD. Tractor segment gains are likely to continue after the revival in rural affordability.

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

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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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