Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	82,160	-0.6	5.1
Nifty-50	25,202	-0.5	6.6
Nifty-M 100	58,700	-0.7	2.6
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	6,694	0.4	13.8
Nasdaq	22,789	0.7	18.0
FTSE 100	9,227	0.1	12.9
DAX	23,527	-0.5	18.2
Hang Seng	9,371	-1.1	28.5
Nikkei 225	45,494	1.0	14.0
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	67	0.0	-9.5
Gold ($/OZ)	3,726	1.1	42.0
Cu (US$/MT)	9,924	0.0	14.7
Almn (US$/MT)	2,677	0.0	5.9
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	88.3	0.2	3.2
USD/EUR	1.2	0.3	13.7
USD/JPY	147.9	0.0	-5.9
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.5	0.00	-0.3
10 Yrs AAA Corp	7.3	0.00	0.0
Flows (USD b)	**22-Sep**	**MTD**	**CYTD**
FIIs	-0.33	-0.08	-15.3
DIIs	0.29	4.93	59.4
Volumes (INRb)	**22-Sep**	**MTD***	**YTD***
Cash	1,117	1036	1065
F&O	2,60,353	2,38,235	2,18,355

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research theme

India Strategy: A reason for optimism; Easing earnings cut trajectory should lend support to the market

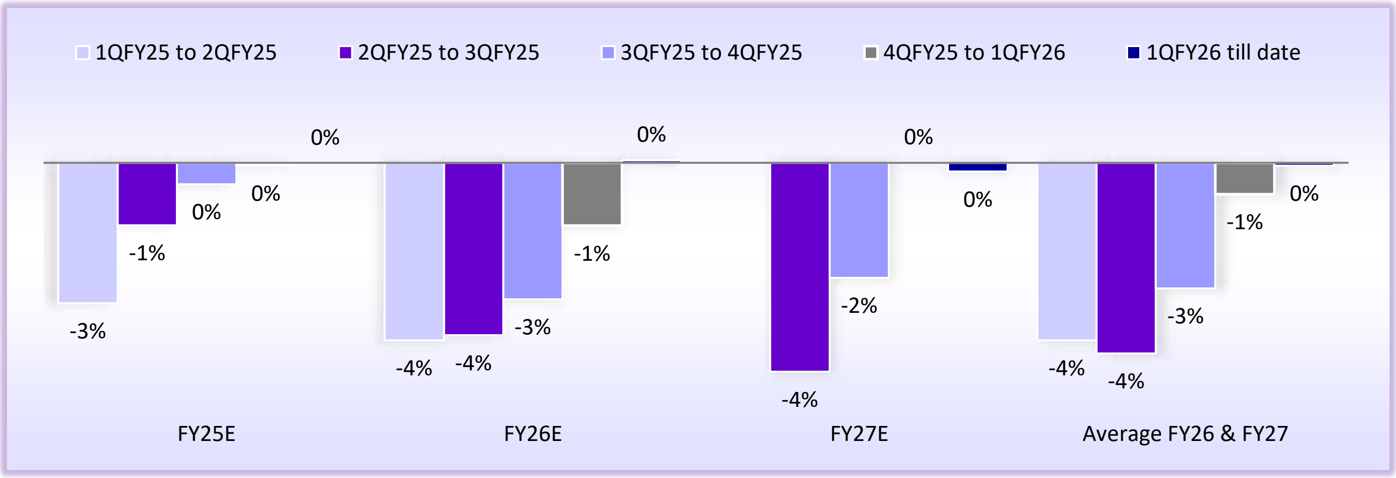
- In a market seeking clear direction amid conflicting forces, we see a reason for optimism. While past 4 quarters have seen earnings cuts, intensity of cuts has gradually eased and the latest quarterly cuts have been the lowest in past four quarters, with an improving macro/policy environment likely to support the earnings cycle going forward.
- For MOFSL universe, aggregate PAT cuts for FY26/FY27 stood at a modest 2%/1% for quarter ending with 1QFY26 review season vs. 6%/3%/4% in 2QFY25/3QFY25/4QFY25 for FY26 PAT estimates and 4%/3% in 3QFY25/4QFY25 for FY27. Already, FY26 PAT/EPS estimates for MOFSL universe/Nifty have been cut by ~13% (LFL)/~16% since 1QFY25, implying a material part of cuts are behind.
- Policymakers are in 'whatever-it-takes' mode and GST2.0 should be an earnings kicker. Indian markets have underperformed in last 1 year, and this could revert with improving earnings enablers and decent valuations at 20.6x (LPA of 20.7x).

Research covered

Cos/Sector	Key Highlights
India Strategy	A reason for optimism; Easing earnings cut trajectory should lend support to the market
TATA Steel	Capacity expansion on track; strong domestic business and improvement in Europe to drive earnings
Tata Consumer Products	Stronger harvest & lower prices of tea to aid profitability in 2H
AU Small Finance Bank	Earnings to accelerate from 2H; risk-reward favorable
Expert Speak | Technology	H-1B fee hike: Manageable disruption for Indian IT
	H-1B fee may see sector-specific carve-outs

Chart of the Day: India Strategy (A reason for optimism; Easing earnings cut trajectory should lend support to the market)

PAT revision trend MOFSL Univ (Ex-Commodities)



Source: MOFSL estimates

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

KEC International bags ₹3,243 crore orders for transmission line, towers

The orders include 400 kilovolts (kV) transmission lines in the United Arab Emirates (UAE) and the supply of towers, hardware, and poles in the Americas.

2

Pfizer to buy Metsera for $4.9 billion in obesity drug bet

Pfizer Inc. will pay $4.9 billion for the obesity startup Metsera Inc. in a bid to catch up to rival drugmakers after failing to compete with its own weight-loss medications.
The US drugmaker agreed to buy Metsera for $47.50 in cash per share

3

Nvidia to invest $100 billion in OpenAI for next-gen AI infrastructure partnership

Under the agreement, OpenAI will work with Nvidia as a preferred strategic compute and networking partner for its AI factory expansion plans.

4

AC, TV dealers see spike in sales on day one as lower GST rate takes effect

As lower GST rates take effect on Monday, sales of air-conditioners, TV sets surged dramatically with buyers rushing to grab cheaper deals offered by retailers at the beginning of the Navratra festival.

5

Hospitals' body AHPI, Star Health to restore cashless services at member hospitals from October 10

The decision follows extensive discussions between the two sides, with AHPI agreeing to revoke its earlier advisory that had called for a suspension of cashless services from September 22.

6

Defence secy pitches 18% capex hike; ₹75,000 cr additional orders likely in FY26

India’s Defence Ministry is recommending an overall defence spend of 2.5-3% of GDP, with major orders for drones, AWACS and fighter jets as part of a long-term roadmap to boost military strength and indigenisation.

7

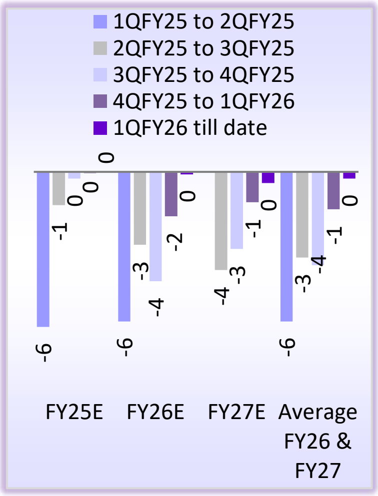
Noida Airport set to begin operations post-Diwali; foreign airlines in talks for flight services

The Noida International Airport (NIA), being developed as a greenfield aviation hub in Jewar, Gautam Buddh Nagar, is on track to begin operations by the end of this year.

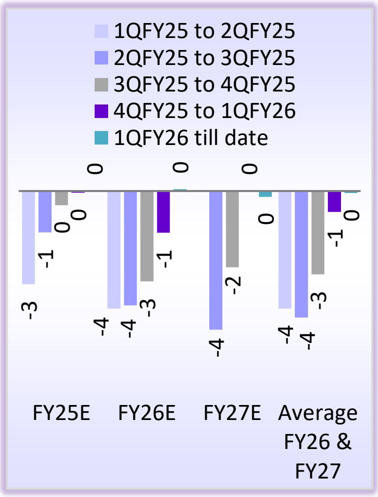
India Strategy

BSE Sensex: 82,160 | **Nifty-50: 25,202**

PAT revision trend for MOFSL Universe



PAT revision trend for MOFSL (Ex Commodities %)



A reason for optimism

Easing earnings cut trajectory should lend support to the market

- In a market seeking clear direction amid the tug-of-war between geopolitical wrangling, divergent corporate commentary and resolute steps by the Indian government/policymakers to prop up demand, we notice a reason for optimism. While some market participants are still concerned about further material cuts in earnings forecasts, our analysis reveals that even as the past four quarters have been marked by earnings cuts, ***the intensity of earnings cuts has actually eased*** to modest levels and the latest quarterly cuts have been the lowest in the past four quarters, with an improving macro/policy environment likely to support the earnings cycle going forward. A better earnings cycle, decent valuations (Nifty 12mth fwd PE at 20.6x vs. LPA of 20.7x), and a base of underperformance (Nifty down 8% YoY vs. +16%/+15% performance for MSCI EM/S&P 500 in past year) set the stage for potential up-move in market and valuation expansion for Indian markets.
- **Modest PAT cut in 1QFY26 and onward:** For MOFSL universe, aggregate PAT cuts for FY26/FY27 stood at a modest **2%/1%** for the 3 months ending with 1QFY26 review season vs. **6%/3%/4%** in 2QFY25/3QFY25/4QFY25 for FY26 PAT estimates and **4%/3%** in 3QFY25/4QFY25 for FY27. Excluding BFSI and commodities, the downward earnings revisions for the quarter ending 1QFY26 review were miniscule at **-0.2%** for FY26 PAT, while FY27 PAT estimates actually witnessed an uptick of **0.4%**. MOFSL's large-cap coverage has also witnessed similar easing trends, with FY26E PAT cut of **2%** in 1QFY26 vs. **6%/3%/4%** in preceding quarters. Mid-cap coverage has actually posted a **+4%/+2%** PAT raise in 1QFY26, whereas only the small-cap coverage continued to post significant FY26 PAT est. cut of 8%. Moreover, the earnings revision trend has eased further in the past one month after the end of 1QFY26 earnings season.
- **Major part of earnings cut seems behind:** Already, FY26 PAT/EPS estimates for MOFSL universe/Nifty have been cut by ~13% (LFL)/~16% since 1QFY25, implying that a material part of the downward revision is behind. Barring any new unforeseen economic or geopolitical shock, the risk of further material earnings cuts seems low to us. Analyst estimates have now aligned better to the prevalent environment, as several adverse developments over the past year had forced analysts' hands to front-load earnings cuts. In fact, over the past six years, barring the black-swan episode of Covid-19, the earnings cuts in this cycle have been the sharpest. We currently expect PAT growth of 13%/10% YoY for MOFSL universe/Nifty in FY26, and an easing earnings cuts cycle, coupled with better macro setting, lends greater confidence in attainability these estimates.
- **Several sectors witness improving trend:** An easing earnings cuts trajectory is not a lopsided phenomenon and is supported by multiple sectors that have contributed to this trend. The sectors where we have witnessed either gradually easing earnings cuts or a moderate absolute level of earnings cuts, include: **Automobiles, Insurance, Cap Goods, Cement, Chemicals, Consumer Staples,**

Consumer Durables, EMS, Logistics, Oil & Gas, Real Estate and Telecom. The sectors where the earnings cut trajectory is either yet to ease or has continued to see higher absolute level of cuts, include **Technology, PSU Banks, Metals,** and **Retail**. While **Private banks** have also seen somewhat intensifying earnings cuts for FY26 PAT, the outlook for 2HFY26 looks better as the lagged benefits of policy rate cuts should start to reflect on liabilities and credit growth also picks up on a lower base and better demand.

- **Policymakers in a 'whatever-it-takes' mode:** The macro setting for corporate earnings over the next few quarters is poised for improvement. Despite multiple geopolitical distractions, the government, policymakers and regulators have adopted a proactive 'whatever-it-takes' stance to revive domestic economy. Emboldened by muted inflation, the RBI has lowered the repo rate by 100bps to 5.5% in the current easing cycle, while CRR will be cut by 150bps to 3% after all the proposed four tranches of CRR cuts are through in the cycle. Liquidity is in a surplus mode and conducive for transmission in the festive season. Disposable household income should be boosted further by lower personal income tax outgo and GST rate cuts. Improved sentiment and purchasing power in rural India should contribute to demand pickup as well. Moreover, even on the global front, while the situation is still evolving and stays in flux, it appears that the geopolitical whipsaw has been digested by the market and now Indian govt. trade officials also sound more sanguine on better terms of trade with the US, punctuated by the likelihood of lower tariffs.
- **GST2.0 has potential to kickstart a consumption cycle and likely be an earnings kicker for India Inc.** While lower GST rates will not directly lead to higher earnings for companies (as all of the GST gains will be passed on), it is likely that lower retail prices will create a flywheel for new leg-up for demand. This will help in volume growth and margin expansion through operating leverage benefits and lower base prices. We also concur with the assessment of several high-end retailers that even though luxury goods do not directly benefit from GST rate cuts (in fact for some sin/luxury, GST rates will move up), the potential bump-up in household disposable incomes could be directed toward higher-end consumption products.
- **This time appears different from the 2010s cycle of earnings cuts:** A comparison of current earnings cuts with the 2010s cycle is misplaced. The plumbing of the Indian economy has altered materially since the last decade, supported by strong bank, government and corporate balance sheets, much better economic indicators, a controlled inflationary environment, robust fiscal and monetary policy headroom, corporate pricing power etc.
- **See beyond any GST 2.0 transition effects on 2QFY26 earnings:** In Sep'25, monthly sales could be adversely impacted for some sectors, particularly where retailers had not adjusted prices in advance to the new regime. Hence, such companies may be affected by lower sales and will be forced to carry old inventory, while consumers wait for the 22nd Sep'25 transition date. Consequently, any assessment of the 2QFY26 earnings season should be attuned to this development. We believe that markets will see through the near-term haze of sales deferral and instead focus on the higher demand potential opening up for the next several quarters.

- **Our view:** We believe that the worst of earnings cuts is behind and given the cavalry of measures adopted by the government with more reforms to come forth, Indian equities should be supported by earnings floor and better sentiment. India equities have been underperforming for the last year (Nifty down 8% YoY vs. +16%/+15% for MSCI EM/S&P 500) and this should revert in the coming quarters owing to reasonable valuations and likely easing out of earnings cuts. The Nifty trades at 12-month forward PE of 20.6x (vs. LPA of 20.7x), which has potential to expand once the favorable effect of all policy measures shows up, which we believe should materialize in 2HFY26. MOFSL universe/Nifty PAT growth expectations stand at 13%/10% for FY26 and 15%/13% CAGR over FY25-27. Key risks are a lower-than-expected benefit of government actions on aggregate demand or any further high-impact geopolitical risk event.
- **Top Picks:** Our top large-cap picks are: Bharti Airtel, ICICI Bank, L&T, M&M, Sun Pharma, Ultratech, Titan, Eternal, BEL, TVS Motors, Tech M, Lodha Developers, and Indian Hotels. Our top mid-cap picks are: Dixon, SRF, Suzlon, Jindal Stainless, Coforge, Supreme Ind, Page Ind, Kaynes, Radico Khaitan, UTI AMC, and Niva Bupa.

Top ideas: MOFSL

Company	Mcap (USDb)	CMP (INR)	EPS (INR)			EPS CAGR (%)	PE (x)			PB (x)			ROE (%)		
			FY25	FY26E	FY27E	FY25-27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
Preferred large cap stocks															
Bharti Airtel	134.2	1,962	30.3	47.4	63.9	45.2	64.8	41.4	30.7	9.7	8.3	6.4	18.0	22.4	25.8
ICICI Bank	115.0	1,402	66.8	73.9	84.2	12.3	21.0	19.0	16.7	3.4	3.0	2.6	18.0	17.0	16.7
Larsen & Toubro	57.5	3,676	106.8	130.5	155.1	20.5	34.4	28.2	23.7	5.2	4.6	4.1	16.0	17.3	18.2
M & M	51.4	3,593	98.7	119.6	141.4	19.7	36.4	30.0	25.4	7.0	5.9	5.0	20.8	21.4	21.4
Sun Pharma	44.9	1,656	47.1	51.2	61.1	13.8	35.1	32.3	27.1	5.5	4.8	4.2	16.6	15.9	16.7
UltraTech Cem.	42.2	12,519	207.6	305.9	382.9	35.8	60.3	40.9	32.7	5.2	4.8	4.4	9.3	12.2	14.0
Titan Company	35.5	3,467	42.3	54.6	64.2	23.2	82.0	63.5	54.0	26.5	20.5	16.2	35.8	36.5	33.5
Eternal	34.8	337	0.6	1.2	4.6	179.5	572.3	276.4	73.3	10.0	9.6	8.5	2.1	3.5	12.3
Bharat Electronics	34.0	409	7.2	8.2	9.8	16.5	56.5	49.8	41.6	15.1	11.9	9.5	26.8	24.0	22.9
TVS Motor Co.	19.1	3,531	57.1	75.1	91.3	26.5	61.9	47.0	38.7	16.9	13.0	10.1	30.7	31.2	29.4
Tech Mahindra	17.2	1,554	47.9	61.3	78.3	27.8	32.4	25.3	19.8	5.0	4.9	4.7	15.7	19.6	24.2
Lodha Developers	13.6	1,215	28.7	37.9	40.2	18.5	42.4	32.1	30.2	5.8	5.0	4.4	14.6	16.7	15.4
Indian Hotels	12.6	775	11.8	13.4	16.1	16.8	65.6	58.0	48.0	9.9	8.5	7.3	16.3	15.7	16.3
Preferred Midcap/Smallcap stocks															
Dixon Tech.	12.5	18,189	117.2	173.5	275.2	53.3	155.2	104.8	66.1	36.4	27.4	19.6	30.0	29.8	34.5
SRF	9.9	2,938	46.1	68.7	92.6	41.8	63.8	42.7	31.7	6.9	6.2	5.3	11.4	15.3	18.0
Suzlon Energy	9.2	60	1.1	1.2	2.3	44.7	56.0	48.5	26.7	13.5	10.6	7.6	29.4	24.5	33.0
Jindal Stainless	7.1	778	30.5	36.1	44.5	20.7	25.5	21.6	17.5	3.8	3.3	2.8	15.1	15.3	16.1
Coforge	6.9	1,795	25.2	46.4	58.9	52.9	71.2	38.7	30.5	9.3	8.4	7.4	13.9	17.1	20.7
Supreme Inds.	6.5	4,412	75.6	85.0	119.6	25.7	58.3	51.9	36.9	9.9	8.9	7.6	17.8	18.0	22.2
Page Industries	5.6	43,543	652.9	736.4	843.3	13.7	66.7	59.1	51.6	34.5	28.5	23.8	51.8	48.3	46.1
Kaynes Tech	5.5	7,148	45.8	81.5	132.9	70.4	156.1	87.7	53.8	16.1	9.2	7.8	11.0	13.9	16.4
Radico Khaitan	4.6	3,051	25.8	40.1	51.4	41.1	118.3	76.2	59.4	15.2	13.1	11.1	12.8	17.2	18.7
UTI AMC	2.0	1,360	63.9	68.8	79.8	11.8	21.3	19.8	17.0	3.4	3.2	3.0	16.0	16.5	18.2
Niva Bupa Health	1.7	82	1.2	0.6	1.8	23.9	70.5	135.7	45.9	4.9	3.9	3.6	7.9	3.2	8.1

22 September 2025

Update | Sector: Metals

TATA Steel

BSE SENSEX	S&P CNX
82,160	25,202

CMP: INR171 **TP:INR180 (+5%)** **Neutral**

Capacity expansion on track; strong domestic business and improvement in Europe to drive earnings

Stock Info

Bloomberg	TATA IN
Equity Shares (m)	12484
M.Cap.(INRb)/(USDb)	2139.6 / 24.2
52-Week Range (INR)	173 / 123
1, 6, 12 Rel. Per (%)	7/1/15
12M Avg Val (INR M)	5244
Free float (%)	66.8

Financials Snapshot (INR b)

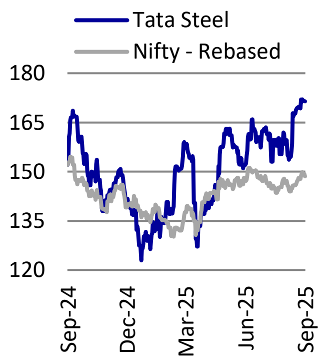
Y/E MARCH	2025	2026E	2027E
Sales	2,185	2,310	2,542
EBITDA	259	342	397
Adj. PAT	42	108	162
EBITDA Margin (%)	11.9	14.8	15.6
Adj. EPS (INR)	3.4	8.7	13.0
EPS Gr. (%)	41.5	157.3	50.0
BV/Sh. (INR)	68	70	76
Ratios			
Net D:E	1.0	1.0	0.9
RoE (%)	4.9	12.5	17.8
RoCE (%)	9.0	12.9	15.3
Payout (%)	136.7	80.9	53.9
Valuations			
P/E (x)	51.1	19.9	13.2
P/BV (x)	2.5	2.5	2.3
EV/EBITDA(x)	11.5	8.8	7.6
Div. Yield (%)	2.7	4.1	4.1
FCF Yield (%)	4.0	5.1	7.0

Shareholding pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	33.2	33.2	33.2
DII	26.3	24.7	23.5
FII	17.7	18.8	20.3
Others	22.8	23.4	23.0

FII Includes depository receipts

Stock Performance (1-year)



Capacity expansion in progress

- Tata Steel (TATA) is pursuing an aggressive capacity expansion strategy in India to capitalize on the rising domestic demand. The company has outlined a target to double its crude steel capacity from the current 21.6MTPA to 40MTPA by FY30, with an annual capex commitment of ~INR100b.
- TATA commissioned India's largest BF at Kalinganagar in FY25, increasing the capacity from 3MTPA to 8MTPA, backed by an investment of INR270b. The capacity ramp-up is currently on track and in phase-II of expansion. Management aims to increase the capacity by another 5MTPA, bringing the total to 13MTPA. Other initiatives include scaling Neelachal Ispat Nigam Ltd (NINL) from 1MTPA to 5.5MTPA, and commissioning a 0.75MTPA scrap-based electric arc furnace in Ludhiana by 2026. The company also plans to expand the Meramandali unit from 5 MTPA to 6.5 MTPA, aligning with broader capacity goals.
- TATA is actively restructuring its European operations for decarbonization and competitiveness. In the UK, it is converting its Port Talbot site to a 3 MTPA electric arc furnace (EAF), replacing traditional blast furnaces for significant cost savings and emission reduction. In the Netherlands (IJmuiden), TATA is evaluating a gas-based direct-reduced iron (DRI) and EAF route, but progression is contingent on Dutch government funding and regulatory clarity.
- TATA's multi-pronged expansion plan is set to meet India's surging steel demand, maintain industry leadership, and align with global sustainability imperatives by FY30.

Favorable domestic business outlook

- India's steel demand is projected to grow ~8-10% over FY26-27, backed by a robust demand environment, policy support, and ongoing recovery in industry fundamentals.
- To protect against rising imports, the Indian government has imposed a 12% safeguard duty on flat steel products, helping to support domestic prices.
- TATA is well-positioned to benefit from India's strong domestic growth story through its capacity expansion and product diversification strategies. Currently, market sentiment for H2FY26 points to a gradual price recovery, muted costs (especially coking coal prices), and demand tailwinds.

Breakeven for European operations

- TATA Europe's operations in the UK and the Netherlands have faced persistent financial challenges due to high energy/operational costs, unfavorable demand, and the obligation to reduce carbon emissions.

- Its operations are making visible progress toward breakeven, with recent quarters showing a narrowing of losses, particularly in the UK, and the capacity ramp-up underway in the Netherlands. The overall operating loss of USD76/t in 2QFY25 turned positive to USD8/t in 1QFY26, with further improvements expected due to cost optimization, lower energy prices, and the impact of the legacy BF shutdown in the UK.
- Management expects EBITDA losses from UK operations to further reduce in the coming quarters, supported by capacity ramp-up in the Netherlands and lower fixed costs, which should boost the overall EBITDA performance of its European operations.

Valuation and view: Reiterate Neutral

- TATA is one of the largest players in India's steel sector and is set to benefit from improving steel price realizations, operating efficiencies, and the strong domestic demand outlook. The implementation of the safeguard duty is expected to help domestic steel makers achieve better realization.
- While near-term challenges persist due to global uncertainty around tariff escalations, the long-term outlook for TATA remains strong. The Indian business is expected to continue its strong performance, and an improvement in the European business performance is likely to support overall earnings.
- **At CMP, TATA is trading at 7.6x EV/EBITDA and 4.1x FY27E P/B. We believe that all the positives are well priced in. We reiterate our Neutral rating with an SOTP-based TP of INR180 per share on FY27 estimate.**

22 September 2025

Company Update | Sector: Consumer

Tata Consumer Products

BSE SENSEX	S&P CNX
82,626	25,327

TATA CONSUMER PRODUCTS

Bloomberg	TATACONS IN
Equity Shares (m)	990
M.Cap.(INRb)/(USDb)	1115 / 12.7
52-Week Range (INR)	1234 / 883
1, 6, 12 Rel. Per (%)	2/8/-7
12M Avg Val (INR M)	1656
Free float (%)	66.2

Financials Snapshot (INR b)

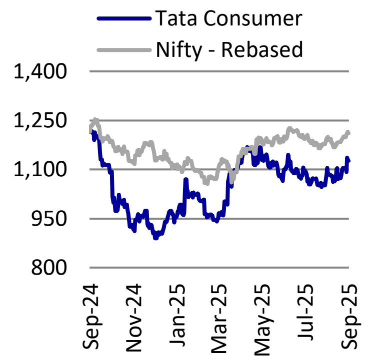
Y/E MARCH	2025	2026E	2027E
Sales	176	193	208
EBITDA	25	28	32
Adj. PAT	14	17	20
EBITDA Margin (%)	14	14	15
Cons. Adj. EPS (INR)	14	17	20
EPS Gr. (%)	-2	20	17
BV/Sh. (INR)	202	227	241
Ratios			
Net D:E	0	0	0
RoE (%)	8	8	9
RoCE (%)	9	10	11
Payout (%)	47	39	33
Valuations			
P/E (x)	81	67	57
EV/EBITDA (x)	41	37	32
Div. Yield (%)	1	1	1
FCF Yield (%)	1	1	2

Shareholding pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	33.8	33.8	33.6
DII	22.0	22.0	18.7
FII	22.0	21.5	24.1
Others	22.2	22.7	23.6

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR1,127 TP: INR1,300 (+15%) Buy

Stronger harvest & lower prices of tea to aid profitability in 2H

In FY25, India's tea production declined 5% YoY but rebounded in the current season (Jan–Jul'25) with 14% growth, led by Assam and West Bengal. This stabilized prices after a peak in Jun'25. The Indian tea business remained resilient, with pricing actions partly offsetting cost pressures; margins contracted in 1QFY26 but are expected to improve from 2Q as production improves and prices stabilize. Alongside, the company is expanding its health & wellness portfolio, premiumizing its tea product portfolio in the domestic market, and maintaining e-commerce leadership. In this note, we have analyzed tea prices and production trends and their impact on Tata Consumer Products (TATACONS). Here are the key insights:

Robust YTD growth in tea output led by Assam and West Bengal

- In the FY25 tea season, domestic production dipped 5% YoY to 1,315m kg. This was led by ~8 and ~4% dip in production in South and North India, respectively.
- Tea production for the current season YTD (Jan-Jul'25) has been up 14% YoY to 641.4m kg, fueled by better production across regions. Production in South and North India has risen 11% and 14%, respectively. Production in North India grew due to a 22%/11% growth in West Bengal/Assam (which contributed 30%/44% of India's total tea production). As Assam and West Bengal constituted ~77% of total tea production in India in the CY24 season, an improved production in these regions led to stabilization of tea prices across India.
- All India tea production during the first flush (*Feb-Jun, contributed 31% to the whole tea cycle volume in CY24 and generally has the best quality*) rose 14% YoY, fueled by a strong 50%/25%/40% YoY production growth in Feb'25/ Apr'25/May'25. However, tea production dipped 9% YoY in Jun'25 due to adverse weather conditions and pest attacks.
- Heavy rainfall in Jun'25 flooded tea gardens in Assam, making plucking of tea leaves difficult for workers. This resulted in lower production in Assam, down 11% YoY to 64.2m kg in Jun'25. Heavy rains in West Bengal also hurt tea production (down 2% YoY) in Jun'25.
- July is usually the start of the second flush *(Jul-Sep, contributed 39% to the total volume in CY24 and has the second-best quality)*. In Jul'25, all India tea production increased 14% YoY to 171.72m kg, as the decline in South India (down 11% YoY) was offset by strong production growth in Assam and West Bengal, up 25% and 9% YoY, respectively.
- All India tea production in CY25 is anticipated to be higher YoY, with the impact of the floods wearing off and no other extreme event expected.

Tea prices ease after peaking; margin expansion on the horizon

- TATACONS' tea business displayed resilience amid inflationary pressures. The challenging demand environment, with tea prices increasing ~30% YoY in the last procuring season, led to consolidated EBITDA margins contaracting by ~260bp in 1QFY26, of which ~160bp was attributable to the inacrese in tea prices with the company only being able to pass on ~70% of the cost increase to its customers.
- Average tea prices peaked in Jun'25 (albeit lower when compared to CY24), led by 1) strong demand from Russia, Iran, Iraq, and the UAE, 2) increased domestic purchases from major players such as TATACONS and HUL, and 3) lower supply.
- However, tea prices declined 2.1%/5.4% MoM and ~8%/14% YoY in Jul'25/ Aug'25, respectively, to reach average prices of INR203 per kg / INR192 per kg.
- Going forward, with a likely improvement in tea production, prices are expected to either remain stable or trend down from the current levels, supporting margin expansion in the tea segment.
- We expect margin to normalize post-2QFY26, supported by strong production and the stabilization of tea prices. Management targets a 33-35% gross margins in the tea segment (compared to mid-20% in 1QFY26 in the tea segment, while standalone gross margins contarcted 380bp/610bp on a YoY basis to 32.7%/33.2% 1QFY26/FY25).

Strategic portfolio expansion: Health, wellness, and premiumization

- To cater to the rising health & wellness trend, TATACONS has further reinforced its beverage portfolio with the launch of Tata Tea Gold Vita Care (vitamin-enriched enriched black tea), Immuno Chai (to help support the immune system) and instant mix Tetley Green Tea in low unit price packs to democratize green tea
- With the acquisition of organic India, the company's portfolio now encompasses organic and herbal teas, food staples, and herbal supplements, complemented by Tetley's Kombucha range, which caters to health-conscious and trend-savvy consumers.
- TATACONS is strengthening its international portfolio through the introduction of premium offerings such as Tetley black teas inspired by Britain's classic baked treats, a Ceylon and Kenyan tea blend under its super-premium brand teapigs, and Tetley Chai Latte, a convenient instant spiced tea.
- This broadened, health-forward portfolio is expected to boost 's growth by expanding addressable markets, premiumizing the mix, and strengthening pricing power and margins across India and key international geographies.
- Tata Tea Gold has emerged as the largest brand in the e-commerce channel, further underscoring the ongoing shift towards premiumization and the growing relevance of e-commerce as a future growth driver.

Valuation and view

- With the moderation of tea prices and strong tea crop growth this season, we expect TATACONS's margins to recover in the Indian beverage business from 2HFY26. We also anticipate strong traction in its growth businesses.
- We expect the company to sustain its growth momentum, aided by the mid-to-long-term triggers such as 1) strengthening and accelerating its core business, 2) exploring new opportunities, 3) expanding its product portfolio and innovation, and 4) enhancing its focus on premiumization and health and wellness products.
- We expect TATACONS to clock a revenue/EBITDA/PAT CAGR of 10%/12%/13% during FY25-27. We reiterate our **BUY rating** with an SoTP-based TP of INR1,300.

AU Small Finance Bank

BSE SENSEX	S&P CNX
82,160	25,202

Stock Info

Bloomberg	AUBANK IN
Equity Shares (m)	745
M.Cap.(INRb)/(USDb)	526.6 / 6
52-Week Range (INR)	841 / 478
1, 6, 12 Rel. Per (%)	-6/22/-1
12M Avg Val (INR M)	2040
Free float (%)	77.2

Financials & Valuations (INR b)

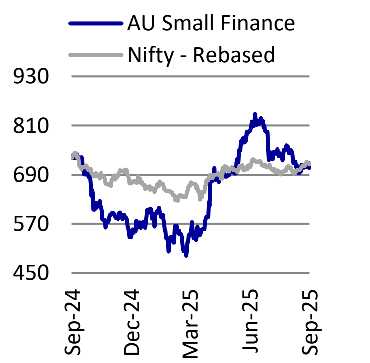
Y/E March	FY25	FY26E	FY27E
NII	80.1	89.2	111.6
PPoP	45.8	52.9	66.2
PAT	21.1	26.5	35.9
NIM (%)	6.0	5.1	5.3
EPS (INR)	29.8	35.6	48.1
EPS Gr. (%)	33.9	19.5	35.0
BV/Sh. (INR)	229	263	309
ABV/Sh. (INR)	223	255	300
Ratios			
RoE (%)	1.6	1.5	1.7
RoA (%)	14.3	14.5	16.8
Valuations			
P/E(X)	23.8	19.9	14.7
P/BV (X)	3.1	2.7	2.3
P/ABV (X)	3.2	2.8	2.4

Shareholding pattern (%)

As of	Jun-25	Mar-25	Jun-24
Promoter	22.9	22.9	22.9
DII	28.9	27.2	18.4
FII	37.7	35.6	39.6
Others	10.6	14.4	19.1

FII includes depository receipts

Stock Performance (1-year)



CMP: INR706 TP: INR875 (+24%) Buy

Earnings to accelerate from 2H; risk-reward favorable

Estimate loan CAGR to be sustained at 24% over FY26-28

- **AU Small Finance Bank (AUBANK) remains an attractive combination of growth and earnings as the bank navigates through the last leg of stress in the MFI and Cards segments. The recovery in credit cost, margins, and loan growth (led by festival demand and GST cuts) will aid earnings, while the transition to a universal bank provides a strong runway for growth.**
- **Deposit mobilization continues to remain healthy, with stable deposits forming ~79% of the total deposits. During 1QFY26, NIM contracted sharply to 5.4% but is expected to bottom out in 2Q and recover thereafter.**
- **AUBANK's GNPA rose 19bp QoQ to 2.47% in 1QFY26; however, it expects stress to peak in 2Q. The bank has incurred 34bp of credit costs in 1Q, and we estimate 2Q credit costs to be ~30bp. This implies a sharp deceleration in provisioning expenses during 2H as management maintains its full-year guidance of 100bp.**
- **We estimate AUBANK to deliver 24% loan CAGR over FY26-28, which, coupled with improvement in operating metrics, will enable a 33% earnings CAGR. The recent correction in stock price has made the risk-reward favorable. Hence, we reiterate our BUY rating on the stock with an unchanged TP of INR875 (based on 2.8x FY27E BV).**

Growth outlook steady; estimate 24% loan CAGR over FY26-28

AUBANK delivered 23% YoY gross loan growth in 1QFY26. It maintained a healthy growth in FY25, despite challenges in unsecured lending segments (MFI, Cards, etc.). We estimate loan growth to remain modest in 2QFY26 as well, reflecting softer macro and ongoing slackness in the vehicle financing business, as the reduction in the GST rate has further led buyers to defer their purchase decisions. We thus believe growth trends in the vehicle business will start recovering from 3QFY26, aided by tax cuts and the festival push, while recovery in MFI and the Cards segments will enable improved growth traction. Visibility in loan growth remains strong in secured segments, i.e., Wheels, Mortgages, Small Business Loans, and Gold, while used vehicle finance (45% of VF book) continues to fare well. However, the portfolio loan-to-value is likely to go up as GST cuts drive a reduction in vehicle pricing. We estimate AUBANK to deliver 21% YoY growth in FY26E and ~24% CAGR over FY26–28E.

Deposit mobilization to continue at a healthy pace

AUBANK delivered industry-leading deposit growth of 31% YoY in 1QFY26, significantly outpacing system growth. Despite a competitive environment and sector-wide challenges in CASA mobilization, the bank sustained a CASA ratio of ~29% as of Jun'25, aided by 34% YoY growth in current accounts and 13% YoY growth in savings balances. Stable deposits (CASA + retail TD + non-callable bulk TD) form ~79% of the overall base, underscoring the stickiness and granularity of the liability base. Healthy growth in deposits has enabled AUBANK to keep a tight control on the CD ratio, which has eased to ~86%, an improvement from 92% right after the merger, while the bank maintains healthy liquidity buffers (LCR at 123%). Looking ahead, we expect deposits to grow at ~22% CAGR over FY25–28E, supported by improved brand positioning as AUBANK transitions into a universal bank.

Cost of funds to ease gradually; NIM likely to recover from 3Q

Following the merger with Fincare SFB, AUBANK reported an uptick in NIMs in early FY25, aided by an improved asset mix. However, margins have since moderated, with 1QFY26 NIM contracting sharply by 38bp QoQ to 5.4%. The compression was due to loan book repricing and a declining mix of high-yielding MFI and the Card segments, along with elevated interest reversals caused by higher slippage run rates. We expect margins to dip at a more calibrated pace during 2Q and recover gradually from 3Q. This will be led by liquidity unwind, a gradual decline in funding costs, and stabilization in asset yield, as 64% of the loan book is fixed-rate in nature. The reduction in peak SA and TD rates, as AUBANK transitions into a universal bank, further provides significant leverage to manage its medium-term funding costs.

Cost ratios to remain in control after the recent improvements

AUBANK has shown a remarkable improvement in cost ratios, partly as the business growth has moderated, and the bank incurred additional costs in the prior period towards the merger with Fincare SFB. The C/I ratio has thus improved from 65% in FY24 to 56.5% in FY25. During 1QFY26, C/I improved further to 54%, aided by treasury gains, opex rationalization, and continued softness in business growth. Management expects near-term cost ratios to remain in control with a clear commitment to keeping them below 60% despite continued network expansion, product diversification, and marketing expenses as AUBANK transitions into a universal bank. We estimate the C/I ratio to be sustained at 56% in FY26. Thereafter, it would decline at a more calibrated pace of 100bp every year, aided by recovery in margins and loan growth.

Universal bank license to provide a strong growth runway

The RBI's in-principle approval for transition to a universal bank is a structural positive. It is expected to unlock additional operating efficiency, strengthen brand acceptance, broaden access to stable deposits, and ease PSL compliance. This will allow AUBANK to further narrow the gap in deposit rates vs. peers, thereby reducing the cost of funds and improving CASA mobilization over time. The license removes limitations on loan ticket sizes and borrower exposure, opening new avenues of growth. In the medium term, this will enable AUBANK to scale up its presence in larger-ticket retail, SME, and mid-corporate segments, thereby enhancing portfolio diversification and boosting capital efficiency.

Asset quality pain nearing bottom; credit costs to dip sharply in 2HFY26

Industry trends suggest early signs of stabilization with easing forward flows and the implementation of new credit guardrails driving more prudent underwriting in the MFI segment. Asset quality in 1QFY26 reflected seasonal weakness in the MFI segment, coupled with elevated stress in the cards portfolio, driving a sharp 19bp rise in GNPA to 2.47%, though the bank maintains a stable PCR in the range of ~65%. Management expects 2QFY26 to mark the peak in stress with normalization from 2HFY26 onwards as MFI stabilizes and credit card flows taper. The bank had revised its FY26E credit cost guidance to 1% of average assets and believes that upside risk seems to be fairly in control. AUBANK has incurred 34bp of credit cost in 1Q, and we estimate 2Q credit cost to be broadly around 30bp, thus implying a sharp deceleration in provisioning expenses in 2H. Over the medium term, management reiterates its long-term sustainable credit costs at 75–85bp of total assets.

Valuation and view: Reiterate BUY with a TP of INR875

- AUBANK remains strategically well-positioned to sustain robust growth, underpinned by steady improvements in operating metrics and effective execution despite ongoing challenges in unsecured business ebbs.
- An improved asset quality backdrop should enable moderation in credit cost during 2H and help sustain it at controlled levels in the medium term.
- The RBI's in-principle approval for a universal banking license marks a pivotal step, potentially easing regulatory limitations and enhancing AUBANK's brand positioning. This transition is expected to drive stronger deposit mobilization and improve deposit productivity.
- While AUBANK's NIM may face near-term pressure due to residual loan repricing, improvement in asset mix and gradual decline in funding costs should aid its margin from 2H.
- We estimate AUBANK to deliver 24% loan CAGR over FY26-28, which, coupled with improvement in operating metrics, will enable a 33% earnings CAGR. The recent correction in stock price has made the risk-reward favorable. **Hence, we reiterate our BUY rating on the stock with an unchanged TP of INR875 (based on 2.8x FY27E BV).**

H-1B fee hike: Manageable disruption for Indian IT

We hosted an expert session with Mr. Ashutosh Sharma, VP and Research Director, Forrester, to understand the impact of H-1B visa fee hike on the Indian economy. Here are the key takeaways:

Mr. Ashutosh Sharma, VP and Research Director, Forrester

Mr. Sharma leads a team of analysts across the Digital Business Strategy, Customer Experience, Technology Executive, and Technology Architecture Delivery services. He is also a global lead for Forrester's partners practice and advises customers on how best to work with their technology and business services partners. Most recently, he was with Infosys working with the aerospace and automotive industry practice in the US.

Indian IT largely prepared for the shock

- The recent hike in H-1B visa fees was not totally unexpected. The first Trump term had already signaled a tougher stance on H1-B, prompting IT service providers to de-risk over the last few years. The rejection rates for H-1B visas surged from an average of 4.6% prior to 2016 to 15.4% during the first term of his presidency (see Exhibit 2). This was a blessing in disguise for the IT services sector, and companies have fundamentally altered their hiring strategies and increased localized onshore hiring.
- Thus, large firms have steadily reduced dependency on H-1B workers, localizing delivery with US centers and nearshore hubs in Canada and Latin America. The shift to remote work after Covid-19 further validated this model, proving that clients are comfortable with offshore delivery.
- As a result, while the fee hike adds friction, its direct impact is limited as H-1B workers make up just ~5-6% of Indian IT's employee base. Existing visa holders will continue till expiry, while companies will be more selective in sending talent onsite, reserving visas for niche expertise that cannot be sourced locally. Entry-level roles are likely to migrate offshore or to local US hires.

Sector-wide implications and trade linkages

- The fee hike is not uniform in impact. Sales/coding staff, especially at the junior level, may see higher cost hurdles, though senior customer-facing roles remain insulated.
- On the policy front, experts believe this is also a bargaining chip in US-India trade negotiations. If a trade deal progresses in the next 2-3 months, pressure may ease with possible exemptions for aerospace, AI, and other mission-critical sectors. US services exports far exceed imports, making it unlikely that IT services will face tariff-style barriers.

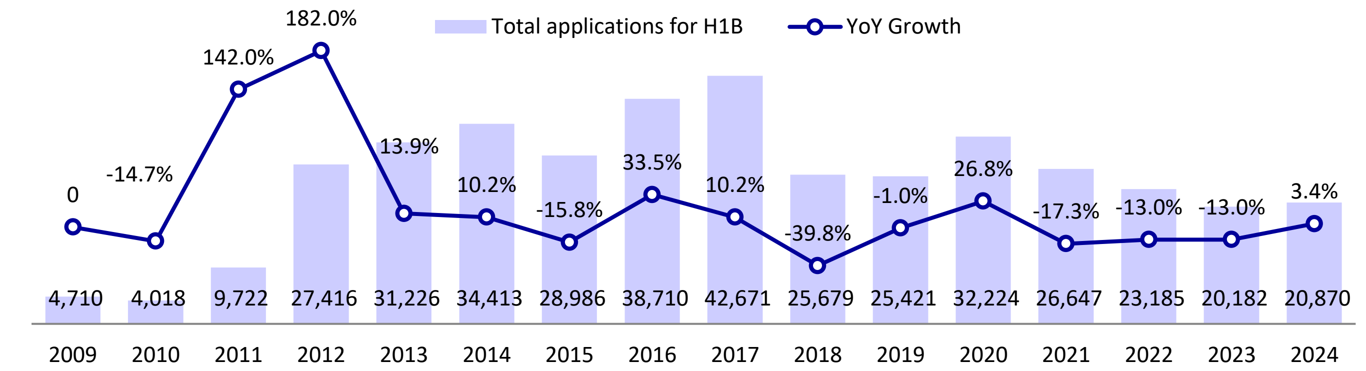
Structural shifts: Localization and Big Tech reliance

- The onshore-offshore model has evolved from a 40:60 mix to far lower onsite dependency, as clients' confidence in remote delivery has grown. Going forward, the "pecking order" for firms will be: (1) offshoring to India, (2) nearshoring to Latin America/Canada, and (3) expanding GCC footprints. Local US hiring will rise, driving up wage bills and pricing.
- Big Tech remains more reliant on H-1B at scale compared to Indian IT, given their need for specialized talent. Companies like Google and Amazon may still push for exemptions in AI or mission-critical roles, while defense primes like Boeing or Lockheed will continue to avoid H-1B talent due to security/IP constraints.

Key takeaway: Manageable disruption, selective pressure

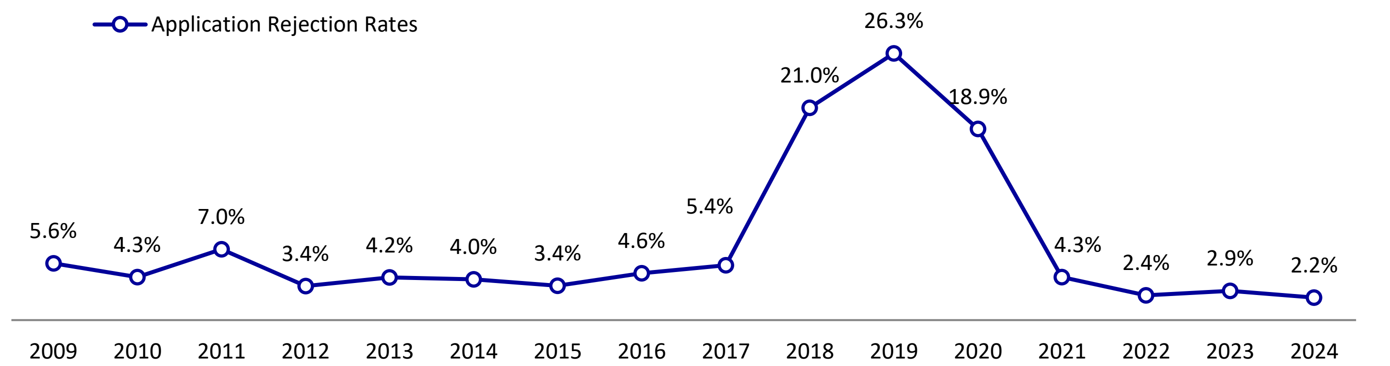
- The fee hike is not a structural demand risk—tech spending is driven far more by digital transformation priorities like cloud, cybersecurity, and AI. The impact will be absorbed through higher local hiring costs, slower junior pyramid deployment, and sharper role-based visa allocation. **The selective pressure is likely to be short-lived,** tapering as firms rebalance delivery models and shift them offshore/nearshore.
- Clients, too, have evolved; many now prefer stable offshore teams over high-rotation onsite staff. This shift reduces sensitivity to visa costs. For Indian IT, the adjustment is incremental, not existential, and the industry remains structurally positioned to serve global tech demand.

Applications for H-1B visas saw a decline from the highs of 2017…



Source: USCIS, MOFSL

Application rejection rates peaked to ~27% during the Trump regime in 2019



Source: USCIS, MOFSL

Expert Speak

H-1B fee may see sector-specific carve-outs

We hosted an expert session with Mr. R Chandrashekhar, former President, NASSCOM, and former Secretary of the Department of IT & Telecom, to understand the impact of H-1B visa fee hike on the Indian IT industry and the Indian economy.

Early impact may be felt in FY27

- The recent proclamation by the Trump administration to impose an additional fee of USD100k per new H-1B visa application has caught the IT industry off guard. The impact would be felt in FY27 (Mar-Apr'26), typically when the lottery system happens. With nearly 70% of H-1B visa holders being Indian IT professionals, the implications are far-reaching for both Indian companies and the US economy.

What truly is the driver behind this move?

- The policy stems from concerns within certain US political groups, particularly in the Republican Party, who argue that H-1B visas have been misused to replace American workers with offshore talent.
- However, industry voices highlight that the true driver is a skill gap, especially in technology and STEM roles where qualified local talent is scarce. As per estimates, only about 10% of US students pursue STEM fields, compared to a significantly higher share among students from India and China (almost 40-45% each).
- Moreover, the perception of H-1B as a low-cost arbitrage is misleading. In 2023, the average annual salary of H-1B visa holders was USD132k, which does not suggest undercutting US wages.

Mr. R. Chandrashekhar, former President, NASSCOM, and Secretary of the Department of IT and Telecom

Mr. Chandrashekhar has extensive experience in policy formulation and knowledge of business practices in telecom and technology in India. He is currently involved in several advisory roles and board positions.

Room for exemptions

- The order allows exemptions if imposing the fee conflicts with national security or the Department of Homeland Security priorities, leaving room for individual/company or even sector-specific relief.
- For instance, US healthcare/financial services, which heavily depend on H-1B talent, may see carve-outs to avoid systemic disruption.

Immediate impact on US Big Tech

- Initial H-1B petitions by Indian-headquartered IT firms stood at ~7.5k, compared to ~19k from US firms, with renewals also adding to the scale. Thus, the immediate burden will be felt in US Big Tech companies. Indian firms are likely to face a downstream impact.
- The reason why US Big Tech companies have continued to rely on H-1B talent from India is because the country offers both **scale in tech talent** and a **cost arbitrage**. This dual factor has not only driven the preference for hiring from India but also fueled the rapid growth of **GCCs** over the past 6-7 years.
- The impact is quite horizontal, and it is difficult to assess the sectors where the impact would be most felt. Also, from the Indian IT industry perspective, the impact is not a function of size. Many mid-tier companies are niched with AI capabilities rather than people-led delivery; such companies can actually prosper.
- The move is also seen as a bargaining tool in trade negotiations, though it can backfire if it triggers higher inflation, cost pressures, and public dissatisfaction as a result of this against the Trump administration. In such cases, partial rollbacks or rectifications are possible to this rule.

Indian IT vendors can explore other markets

- The US has remained a big market for Indian IT vendors due to its ability to quickly adopt technology as compared to other markets; however, in the long term, Indian IT firms can explore other geographies, such as Japan. Alternatives like China remain limited due to structural barriers.

Metro Brands: May reduce some product prices below ₹2,500 with discounts; Nissan Joseph, CEO

- 40% of Metro Brands' inventory priced below ₹2,500 gains from the GST cut to 5%.
- Company may discount products priced 10-15% above ₹2,500 to bring them under the lower GST bracket.
- Walkway brand's products mostly priced under ₹1,000, benefiting significantly from the GST reduction.
- Billing systems automatically pass GST savings to customers on existing inventory at checkout.
- GST cuts expected to support Metro Brands returning to its long-term 15% CAGR sales growth.

Read More

Raymond Group: 50% of portfolio is fabrics which is going to benefit from GST cuts; Amit Agarwal, Group CFO

- High-end suits and jackets priced above ₹2,500 carry the higher GST rate of 18%.
- 70–75% of apparel under ₹2,500 MRP, so gets GST cut benefit.
- 7.5–8% sales growth seen during shraadh period.
- Festive sales growth forecast: 12–14% YoY, GST cuts a big driver.

Read More

Aditya Vision: Expecting a strong festive season: hope to beat FY26 guidance of 20-25%; Yashovardhan Sinha, CMD

- FY26 sales growth guidance is 20-25%, with hopes to exceed it.
- Post-GST announcement, inquiries and bookings have risen sharply.
- Q1 and early Q2 were weak due to rains and awaited GST cuts; strong recovery expected now.
- Plans to expand store count beyond 200 this year, targeting underpenetrated markets with 30-35% growth potential.

Read More

Tega Industries: Molycop acquistion will be EPS-Accretive from FY27; Mehul Mohanka, MD & Group CEO

- ₹2,300 crore equity raise planned; ₹2,000 crore confirmed, ₹300 crore to follow.
- $20 million synergy by year 2, $30 million annual synergy from year 4 onward expected.
- Molycop headquarters relocation planned to Asia for $7 million cost savings.
- High chrome capacity to grow from 60,000 to 200,000 units, with 15-20% CAGR over 3 years targeted.

Read More

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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