

Q1FY26 Review: Sombre start to year

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Highlights

Aggregate PAT growth of BSE500 (ex-OMCs) was weak at 7% YoY in Q1FY26 (versus 9% YoY in FY25).

- i) **PAT and top line remain weak:** BSE500 (ex-OMCs) posted top-line/profit growth of 7% YoY with margins holding up at elevated levels amid subdued top lines. A trend similar to FY25. Cement's and Chemicals' profits' accelerated, whereas those of Industrials and Durables decelerated.
- ii) **SMID profits remain similar to large-caps':** SMID profit growth was similar to large-caps'. Consensus is forecasting sharp acceleration in SMID profits in FY26E/27E—which we think could disappoint given subdued demand dynamics. Will SMIDs' valuation premium sustain?
- iii) **Wage bill growth stays muted:** BSE500's Q1FY26 wage bill growth was 7% YoY—similar to FY25's. This was a fifth straight quarter of sub-10% wage bill growth. Income tax cuts and GST rate cuts could offset some of the weak income dynamics, but will it turn around sentiment?
- iv) **BFSI focus shifting from liquidity/growth to asset quality concerns:** Indian banks, after reporting stellar profits post-covid, are now facing stiff headwinds. The concerns are shifting from high LDR (FY24) and slowing growth (FY25) to asset quality now. Some banks mentioned about the rising stress in MSME segments as well. This needs to be monitored.
- v) **FY26 downgrades continue; 1Y forward EPS now stagnating:** FY26E earnings were trimmed by 2%. The continued earnings cuts are resulting in flat 1Y forward EPS (despite rollovers), à la pre-covid. Street is forecasting a 14% earnings CAGR for FY25–27E. Weak demand dynamics (slowing credit growth, corporate cost-cutting and uncertain exports) pose risks to forecasts.

Key highlights:

Overall, BSE500 profits have now reconciled with the weak top line. The moderation in profits is now seen across the board.

For FY26, demand outlook is uncertain given global deflationary dynamic of narrowing US trade deficit (link), corporate capex cuts, weak HH incomes and the Govt's fiscal consolidation. This along with elevated margins (limited room for efficiencies) shall make earnings acceleration challenging—posing risks to consensus estimates.

The flattening of 1Y forward EPS amid still-high valuations could cap the upside despite strong domestic flows. We prefer large-caps over SMIDs and Consumption over Capex given policy support.

Highlights (continued)

Sectoral trends: In retrospect, and prospects

- * **Domestic consumption:** FMCG reported an improvement in top line, but margins slackened. Discretionary consumption suffered a broad-based slowdown with durables being the worst hit. Income tax and GST rate cuts could help at the margin going ahead.
- * **Domestic investment:** Cement companies' EBITDA/t improved, whereas profitability of Industrials seems to be peaking. These trends are likely to continue.
- * **Global exporters:** IT companies' earnings and top lines remained muted, whereas that of auto exporters' weakened. Pharma and chemical companies reported a decent Q1FY26. Going ahead, exporters' earnings could be at risk given ongoing global trade tensions.
- * **Commodities:** A mixed bag. Ferrous companies' profits improved, whereas that of non-ferrous were muted. Energy companies posted a YoY improvement in GRMs, but that was mainly due to a very low base.
- * **Financials:** Profit growth has moderated sharply to sub-10%. Within it, banking profits were subdued, although insurance companies reported relatively better results. Capital markets-related players too reported an uptick in profit growth.

Nifty earnings and portfolio allocation

- * **Nifty earnings:** FY26E EPS has been trimmed by 2%. Consumers, Autos and Industrials faced earnings cuts while earnings stabilised for commodity companies. Consensus FY25/26E/27E Nifty EPS: INR1,010/1,106/1,277.
- * **Market view and portfolio allocation:** Easing liquidity conditions and consumption stimulus are welcome. But slowing profits amid high valuations cap upside potential. We maintain a defensive bias with a large UW on cyclicals. Prefer Consumption over Capex.

OW: Consumer, Private banks, Insurance, Telecom, Pharma and Cement

UW: Industrials, IT, Autos and Power

Q1FY26 earnings snapshot by sector

Sector	Revenue Growth		EBITDA Growth		PAT Growth		EBITDA margin	
	YoY	YoY	YoY	YoY	YoY	YoY	QoQ	QoQ
	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate
	(%)	(%)	(%)	(%)	(%)	(%)	(bps)	(bps)
Commodity sectors	2	(5)	13	8	18	10	82	129
OMCs	(2)	(12)	122	85	211	135	158	101
Energy (ex OMC)	3	(5)	5	4	4	4	93	236
Metals & Mining	4	1	7	3	8	1	60	48
Exports/High global exposure	4	3	(1)	(1)	3	(1)	(107)	(81)
Export Auto	(3)	(8)	(33)	(37)	(34)	(45)	(442)	(445)
Chemicals	10	8	14	10	50	29	(225)	(258)
IT	5	6	5	7	7	5	(26)	18
Pharmaceuticals	9	9	9	8	8	6	89	43
Domestic Investment	13	13	10	15	13	13	(72)	20
Power	3	3	(3)	6	0	0	(182)	75
Industrials / Infra	13	14	14	15	13	13	(61)	(56)
Cement	15	15	42	37	39	36	0	(77)
Real estate	20	32	8	31	19	26	(115)	249
EMS	62	50	54	53	42	45	(139)	(103)
Domestic consumption	11	10	12	12	10	10	(78)	(59)
Domestic Auto	9	9	2	1	8	2	(140)	(144)
Telecom	25	24	39	38	95	120	25	27
FMCG	12	10	(1)	1	2	0	20	94
Durables	0	5	(8)	(1)	(9)	(3)	(121)	(115)
Paints	3	1	2	(1)	2	(5)	166	148
Apparel / retail	11	8	9	1	(10)	(15)	67	8
Jewellery	25	1	47	20	53	30	77	86
Internet	37	33	19	33	(4)	1	(50)	48
Consumer services	9	10	6	14	(6)	9	(286)	(150)
BFSI	14	12	21	7	7	2	NA	NA
Private Banks	15	13	24	5	4	(0)	NA	NA
PSU Banks	12	10	15	3	10	2	NA	NA
NBFC	15	15	16	13	13	14	NA	NA
Non lending financials	24	24	35	33	25	19	NA	NA
Insurance	11	9	NA	NA	12	4	NA	NA
Coverage	7	4	12	8	10	6	404	99
Ex BFSI	6	3	9	8	11	8	(16)	30
Ex Commodities	10	9	11	8	8	5	30	(25)
Ex BFSI and Commodities	9	9	7	9	9	7	(66)	(12)
Ex OMCs	8	5	10	7	7	4	51	36
Nifty	7	3	10	5	10	5	68	46

Source: Bloomberg, Nuvama Research; Note: Estimates are for Bloomberg consensus

Profit growth still remains soft

The Nuvama coverage universe (ex-OMCs) posted 7% YoY profit growth, marginally above estimates. This is the fifth straight quarter of single-digit earnings growth.

Domestic investment

Profits of cement companies were strong, beating estimates, whereas that of power were weak.

Domestic consumption

EBITDA margins in most segments were under pressure during the quarter. Regarding demand, some moderation in trends was reported.

Exports

Exports auto earnings slowed down; Chemicals reported decent profits while profits of IT companies stabilised.

BFSI

Banks' profits moderated as credit costs for the sector have now started to increase.

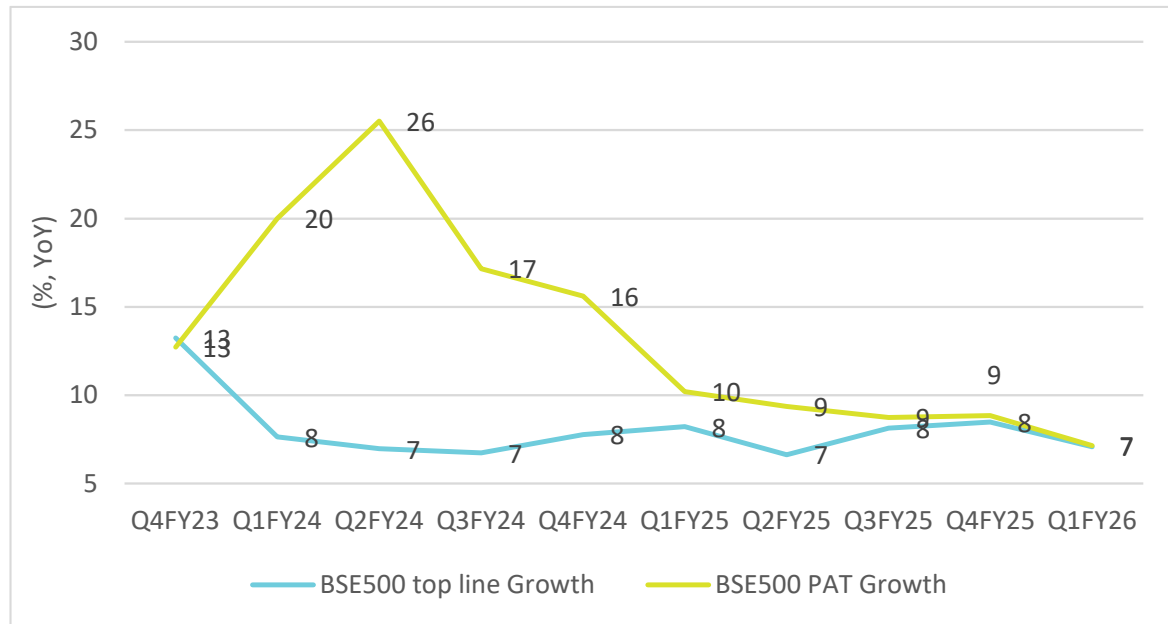
Commodities

Earnings were strong for steel companies and OMCs, whereas for energy they remained subdued.

Five key highlights

1. Q1FY26 earnings: Earnings momentum continues to be weak

PAT growth moderates in Q1FY26...

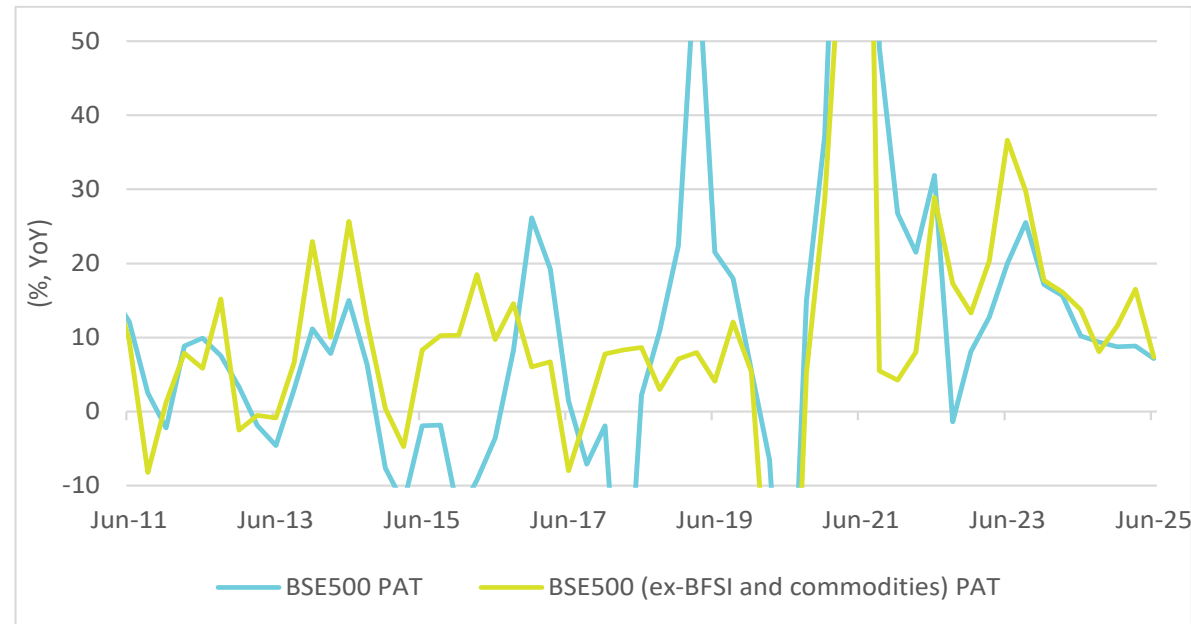


Source: Capitaline, Nuvama Research

Note: OMCs and fertilizers are excluded from BSE500 sample space;

Note: For BFSI, NII + OI is considered as topline

...with even core companies' (ex-BFSI and commodities) profits decelerating



Source: Capitaline, Nuvama Research

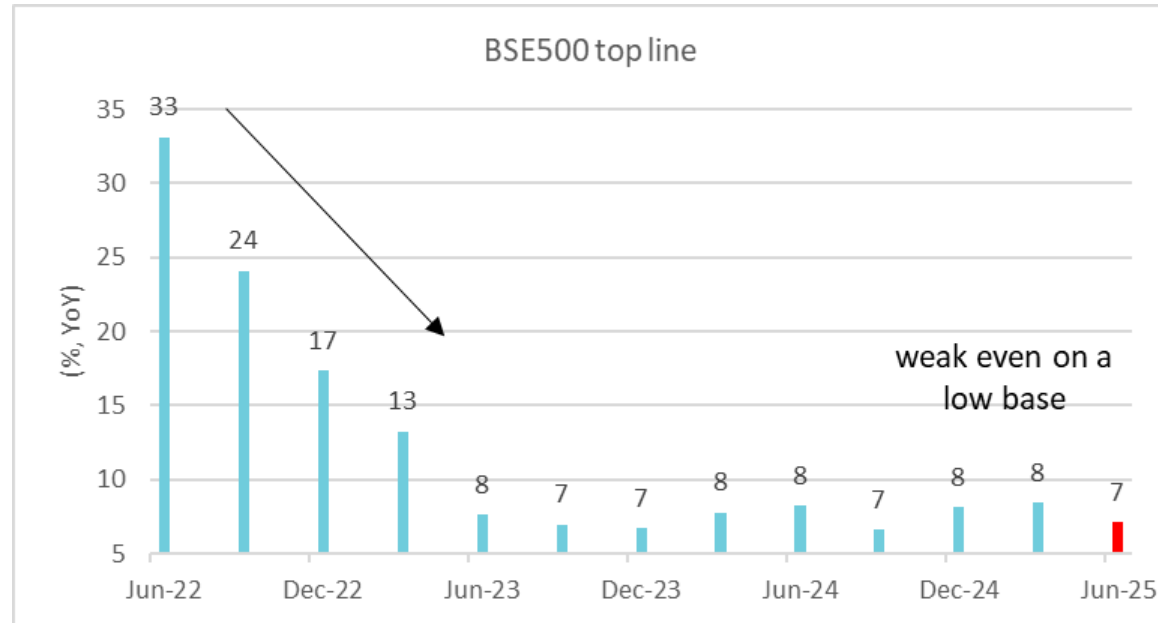
Note: OMCs and fertilizers are excluded from BSE500 sample space

Note: For BFSI, NII + OI is considered as topline

- ❖ For BSE500 (ex-OMCs), Q1FY26 was another soft quarter of profit growth. Top-line as well as profit growth were in single digit. This is a trend very similar to that prevalent in FY25.
- ❖ Furthermore, profit growth for BSE500 (ex-BFSI and commodities), which had accelerated in Q4FY25, has reversed in Q1FY26.

Top-line growth stays soft despite a low base...

Top-line growth remains in single digits for ninth straight quarter...

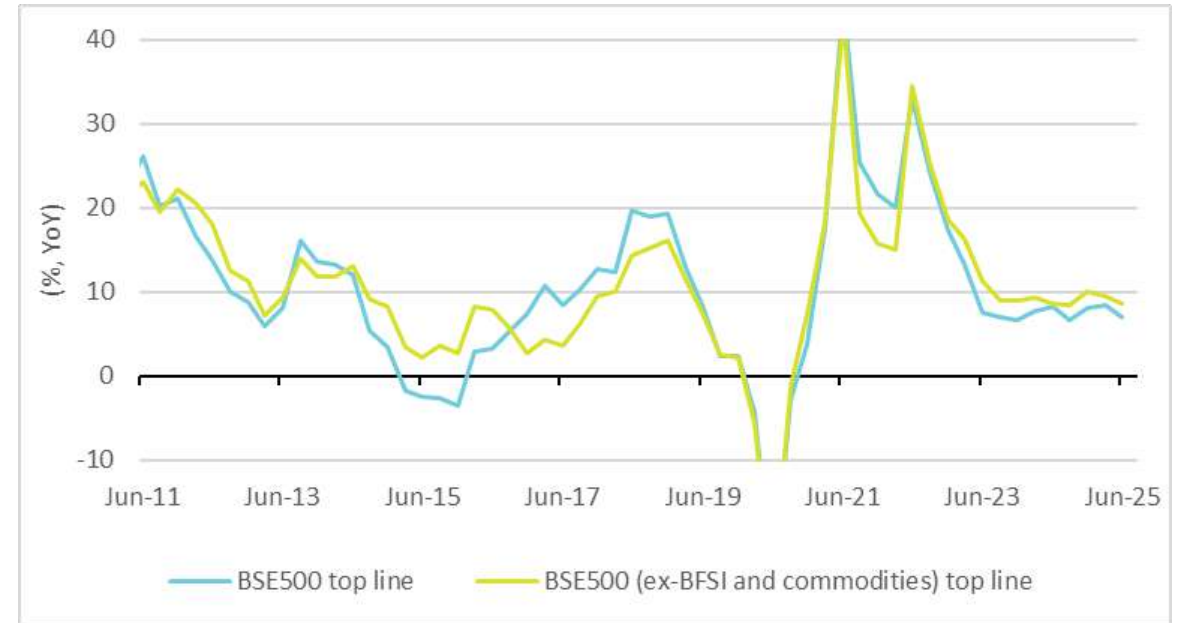


Source: Capitaline, Nuvama Research

Note: OMCs and fertilizers are excluded from BSE500 sample space

Note: For BFSI, NII + OI is considered as topline

...with aggregate and top-line (ex-BFSI and commodities) growth being weak



Source: Capitaline, Nuvama Research

Note: OMCs and fertilizers are excluded from BSE500 sample space

❖ With regard to top-line growth, it remained in single digits in Q1FY26, for a ninth consecutive quarter.

❖ Top-line growth for even core companies (ex-commodities and BFSI) remained subdued in Q1FY26.

...with most sectors now reporting sub-10% top-line growth

Topline slowdown is now broadening

Sector	FY 25 Topline (in INR Tn)	Share in FY25 Topline (%)	H1FY25 Growth %, YoY	H2FY25 Growth %, YoY	Q1FY26 Growth %, YoY
Domestic consumption	27	26	10	12	10
Domestic Auto	8	8	11	11	10
FMCG	3	3	7	7	9
Telecom	3	2	13	22	19
Durables	2	2	14	14	3
Consumer services	2	2	15	18	12
Apparel / retail	1	1	16	11	5
Jewellery	1	1	19	27	27
Paints	1	1	-2	-2	0
Internet	1	1	18	19	30
Domestic investment	15	15	10	10	11
Industrials / Infra	8	7	11	10	11
Power	4	4	7	7	3
Cement	2	2	-3	4	12
Real estate	1	1	22	14	17
EMS	1	1	93	80	62
Exporters	19	18	6	7	4
IT	8	8	6	7	6
Export Auto	5	5	1	1	-3
Pharmaceuticals	4	3	10	11	9
Chemicals	2	2	7	12	9
Commodities	46	44	2	2	0
Energy	15	15	5	5	1
Metals & Mining	13	12	-0	4	4
BFSI	15	14	13	9	11
PSU banks	6	6	9	9	11
Private banks	5	5	11	4	7
NBFC	3	3	21	18	17
Non lending financials	1	0	38	6	7
BSE500	103	100	7	8	7
BSE500 (ex-BFSI and OMCs)	89	86	7	8	7
BSE500 (ex-BFSI, OMCs and commodities)	61	59	9	10	9

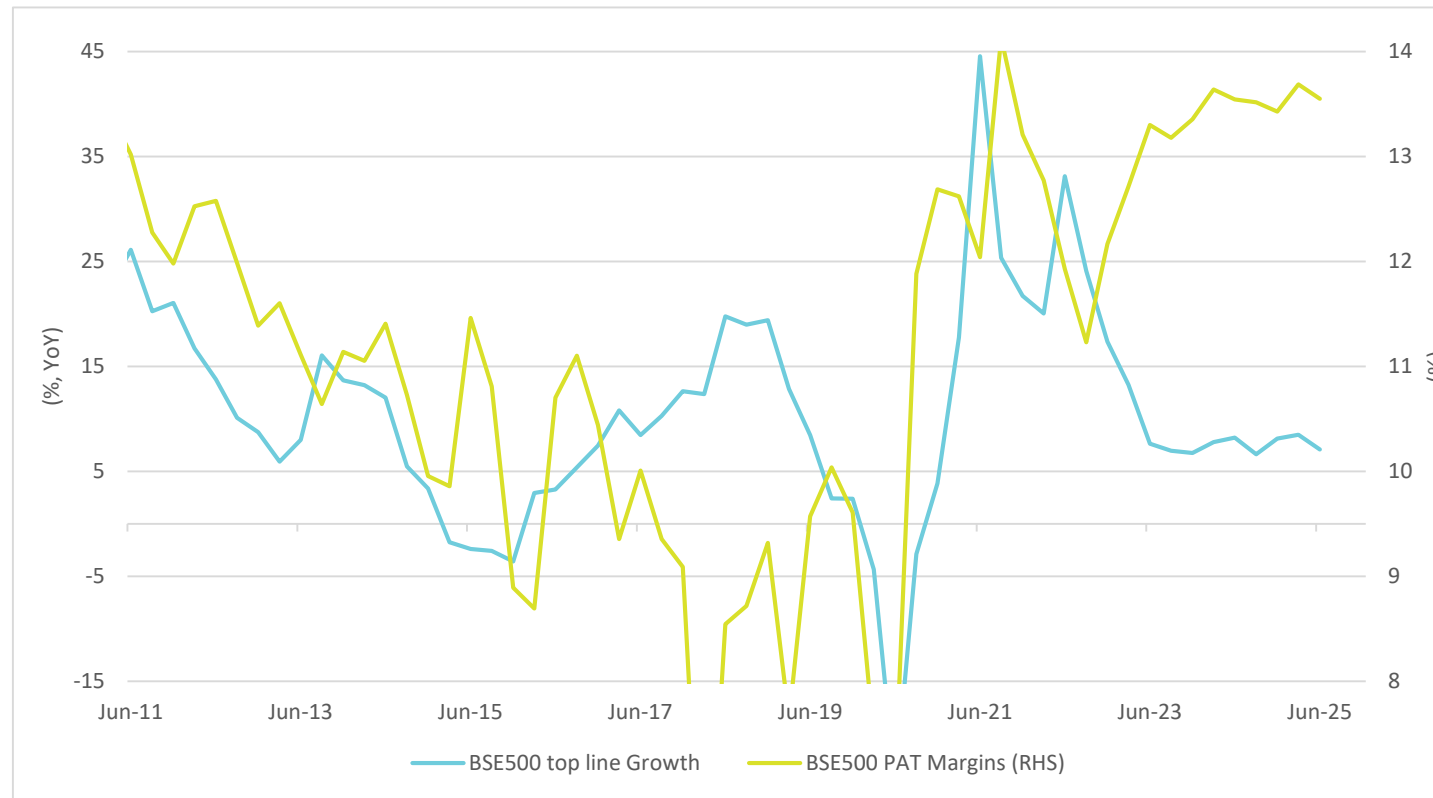
- ❖ In FY25, topline growth slowed for domestic cyclicals – BFSI, Industrials, autos, etc. In Q1FY26, some of the trends continued:
- ❖ **Segments with continued weakness in topline:** Paints, energy, metals, IT and Export Auto.
- ❖ **Segments that posted sharp deceleration:** Durables, Apparel/retail, power.
- ❖ **Segments where topline accelerated:** FMCG, Cement.

Source: Capitaline, Nuvama Research

Note: OMCs and fertilizers are excluded from BSE500 sample space

Margin and top-line disconnect continues

BSE500 PAT margin expansion may be stabilising



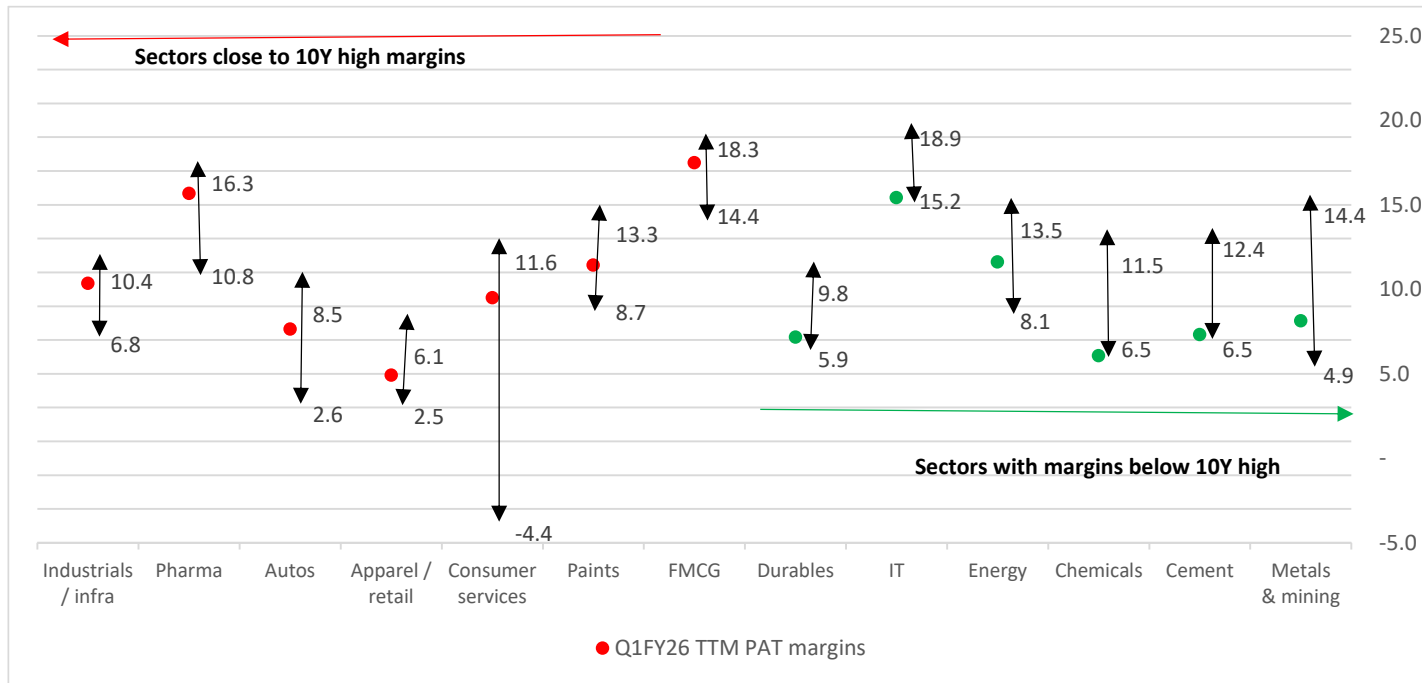
Source: Capitaline, Nuvama Research

Note: OMCs and fertilizers are excluded from BSE500 sample space

- ❖ Post-covid, the profit recovery has been mainly led by margins rather than top line. The improvement in margin is a function of cost efficiencies of India Inc, restructuring of balance sheets (lower interest expense and credit costs) and better pricing power owing to scrambled-up supply chains. In FY25, the margin expansion largely stalled.
- ❖ However, over the last five quarters, margins have stabilised. Can they continue to hold up amid slowing top-line growth?

Many sectors close to peak margins—capping upside potential

BSE500 margins by sector

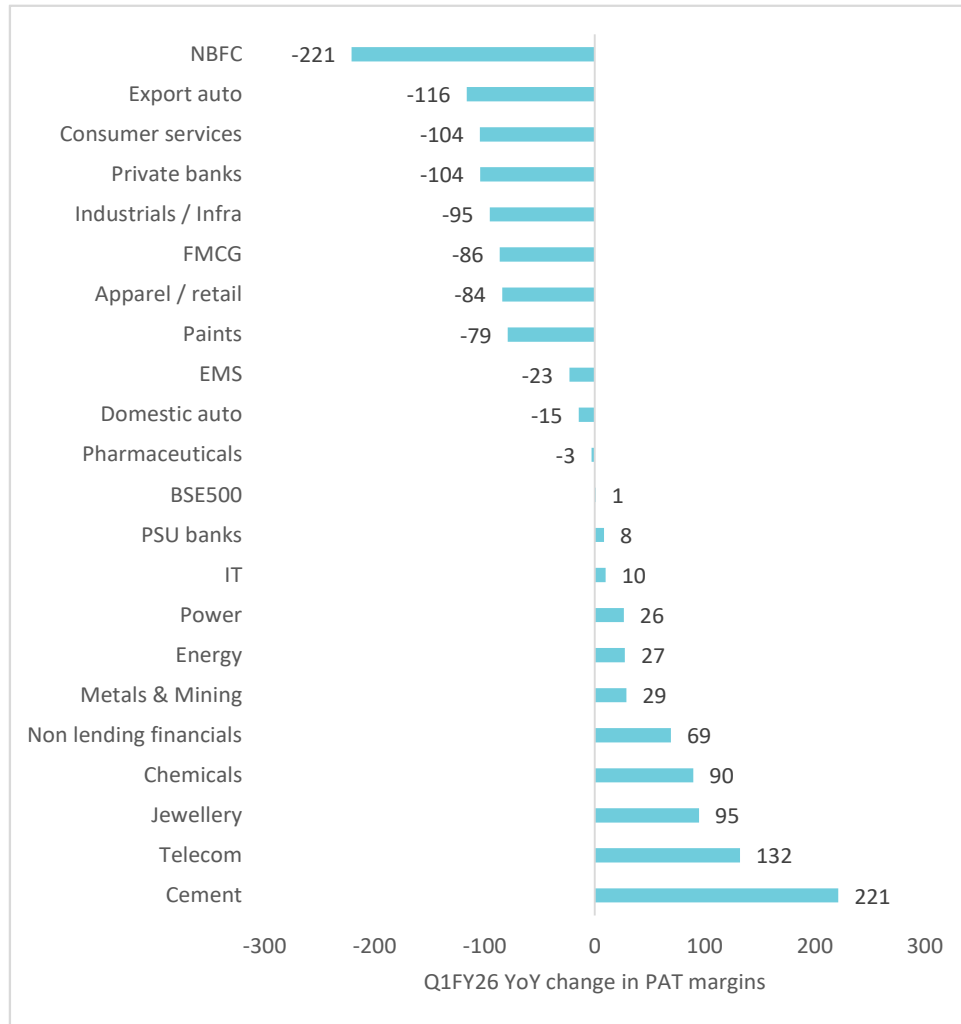


Source: Bloomberg, Nuvama Research; Note: OMCs and fertilizers are excluded from BSE500 sample space; The top and bottom are last 10Y peak and bottom

- ❖ As regards sectors, margins for most are close to decadal highs.
- ❖ Consensus is, however, forecasting further margin expansion for most sectors—we think this could be difficult to achieve, unless demand improves or there is a supply-side tailwind from oil prices.

Margin mean reversion seems to have begun

BSE500 YoY PAT margins by sector



Source: Capitaline, Nuvama Research

Note: OMCs and fertilizers are excluded from BSE500 sample space

- ❖ If one takes a sectoral view, profit margins are largely stable across the board.
- ❖ In fact, in some spaces, wherein margins are currently high—FMCG, Industrials, Consumer services—some pressure is now building up.
- ❖ Cement and Chemicals, wherein margins are on the lower side, are showing signs of improvement.
- ❖ Essentially, margin mean reversion has begun.

Sectorally, profits churning

Segments which were posting strong growth in FY24/H1FY25 are now slowing down

Sector	FY 25 PAT (in INR Tn)	Share in FY25 PAT (%)	H1FY25 Growth %, YoY	H2FY25 Growth %, YoY	Q1FY26 Growth %, YoY
Domestic consumption	2.4	17	10	21	9
Domestic Auto	0.7	5	8	8	8
FMCG	0.5	4	4	-0	4
Telecom	0.4	3	44	177	34
Durables	0.1	1	10	12	-6
Consumer services	0.2	1	-16	20	2
Apparel / retail	0.1	0	10	7	-11
Jewellery	0.0	0	-11	9	52
Paints	0.1	0	-21	-19	-6
Internet	0.0	0	26	89	216
Domestic investment	1.7	12	13	11	8
Industrials / Infra	0.8	6	22	8	1
Power	0.6	4	7	15	5
Cement	0.2	1	-34	4	52
Real estate	0.1	1	57	13	14
Exporters	2.3	16	11	10	5
IT	1.3	9	10	9	7
Export Auto	0.3	2	8	-12	-25
Pharmaceuticals	0.6	4	22	17	9
Chemicals	0.2	1	-12	83	24
Commodities	2.8	20	0	-1	5
Energy	1.7	12	2	-12	4
Metals & Mining	1.1	8	-3	19	7
BFSI	4.9	35	15	8	8
PSU banks	1.9	13	26	19	11
Private banks	1.7	12	6	-0	4
NBFC	1.1	8	10	9	10
Non lending financials	0.3	2	25	-8	9
BSE500	14.0	100	10	9	7
BSE500 (ex BFSI)	9.1	65	7	9	7
BSE500 (ex BFSI and commodities)	6.3	45	11	14	7

A profit churn seems to be underway.

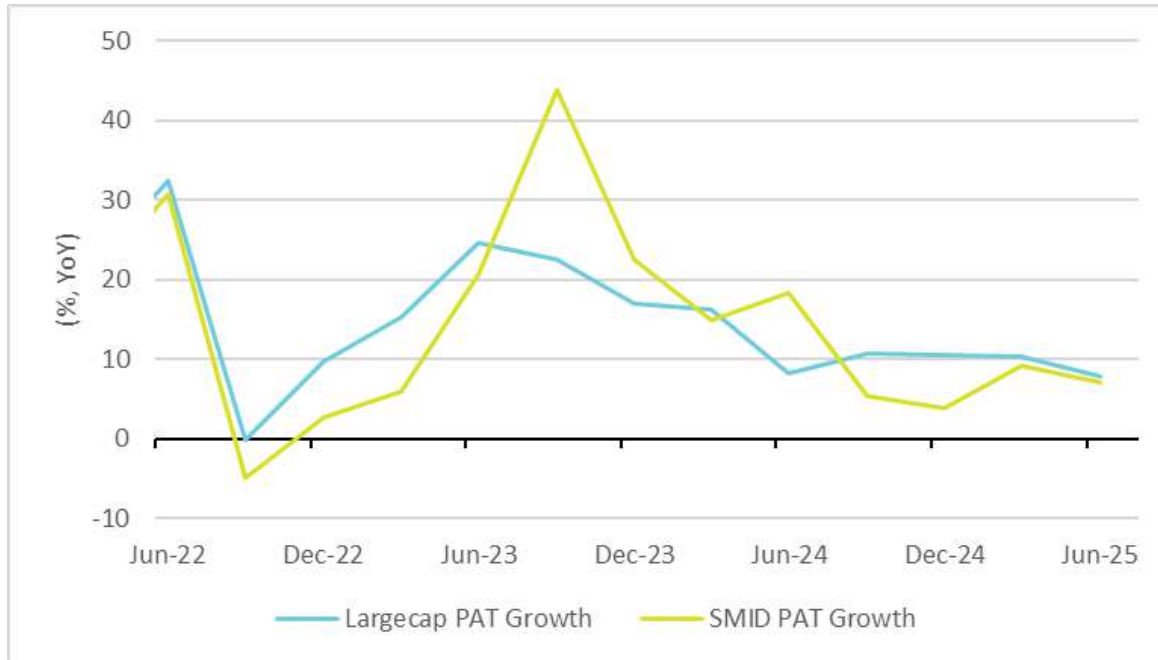
- ❖ **Leaders of FY24/H1FY25 are now lagging** – Industrials, real estate, power are posting a moderation in profit growth. Even BFSI profit growth is tapering as NIMs come under pressure and tailwinds from lower credit costs are now behind.
- ❖ **While some laggards are gaining momentum** – Chemicals and cement have logged a good improvement in profitability.
- ❖ Telecom and pharma have been some of the sectors, which have done well in both years.

Source: Capitaline, Nuvama Research

Note: OMCs and fertilizers are excluded from BSE500 sample space

2. SMIDs: Profits remain on weaker side

SMIDs' profits have decelerated in the quarter

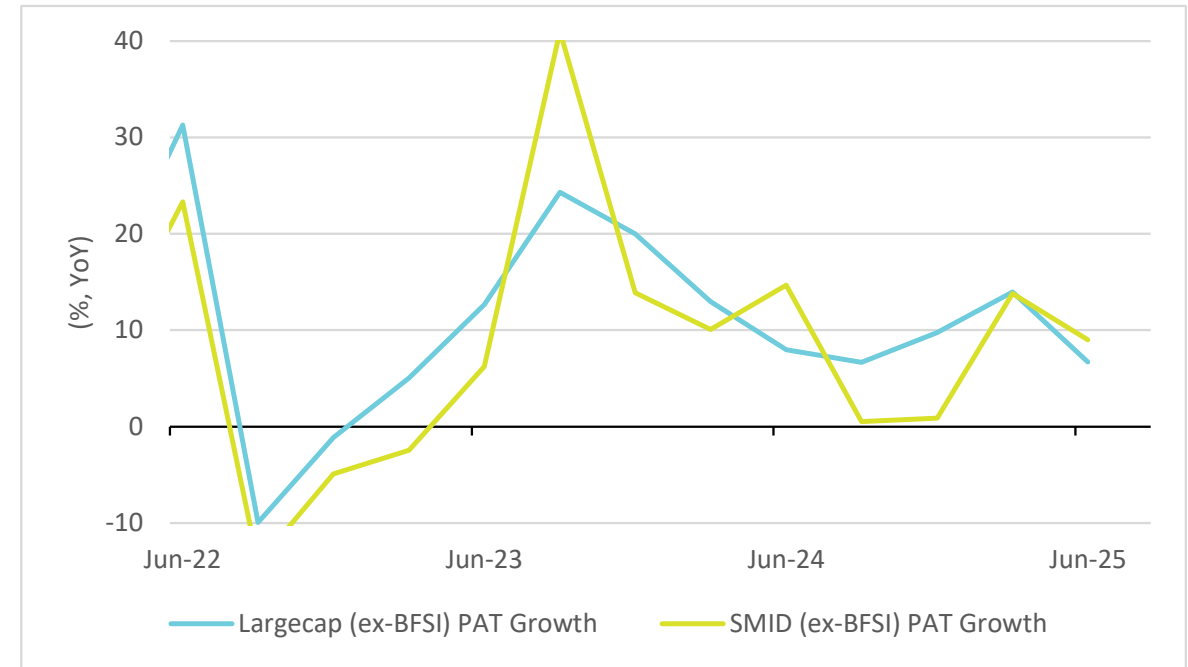


Source: Capitaline, Nuvama Research;

Note: OMCs and fertilisers are excluded from the sample space ;

Note: Large caps refer to top 100 companies in BSE500 and SMID universe refers to 101 to 500 companies in BSE500

...even excluding BFSI



Source: Company, Nuvama Research ;

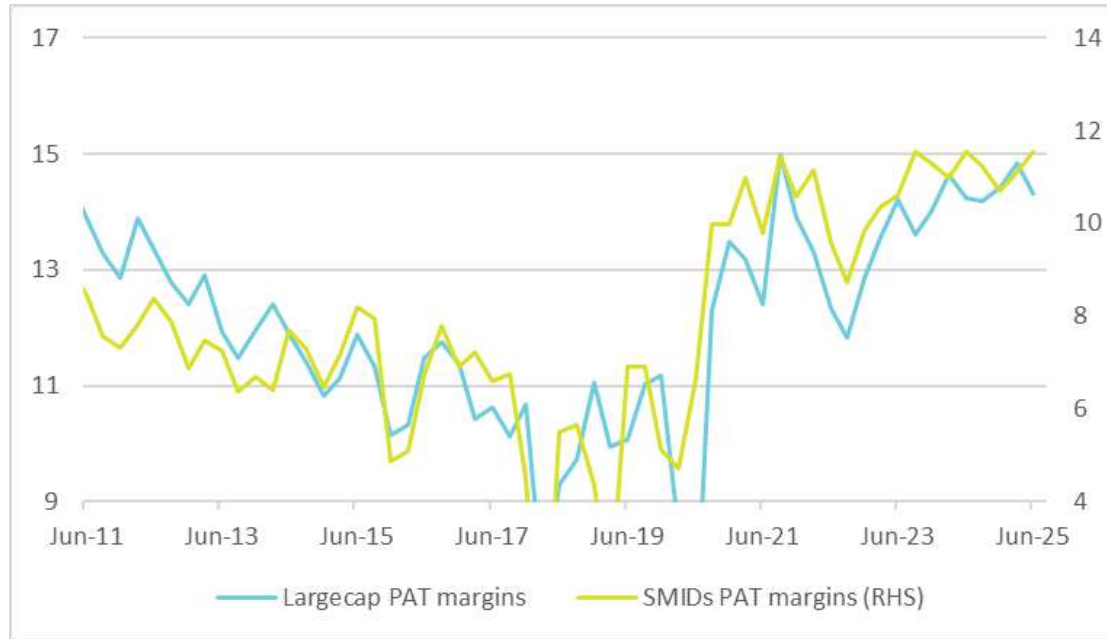
Note: OMCs and fertilisers are excluded from the sample space

Note: Large caps refer to top 100 companies in BSE500 and SMID universe refers to 101 to 500 companies in BSE500

- ❖ SMID's profits decelerated in Q1FY26, after accelerating in the previous quarter.
- ❖ The deceleration in SMID profits is also when one excludes BFSI.
- ❖ Their profits are now mirroring largecaps.

SMIDs benefitted from higher margin tailwinds—which are now behind

SMID's margins relative to their history much higher than large caps...

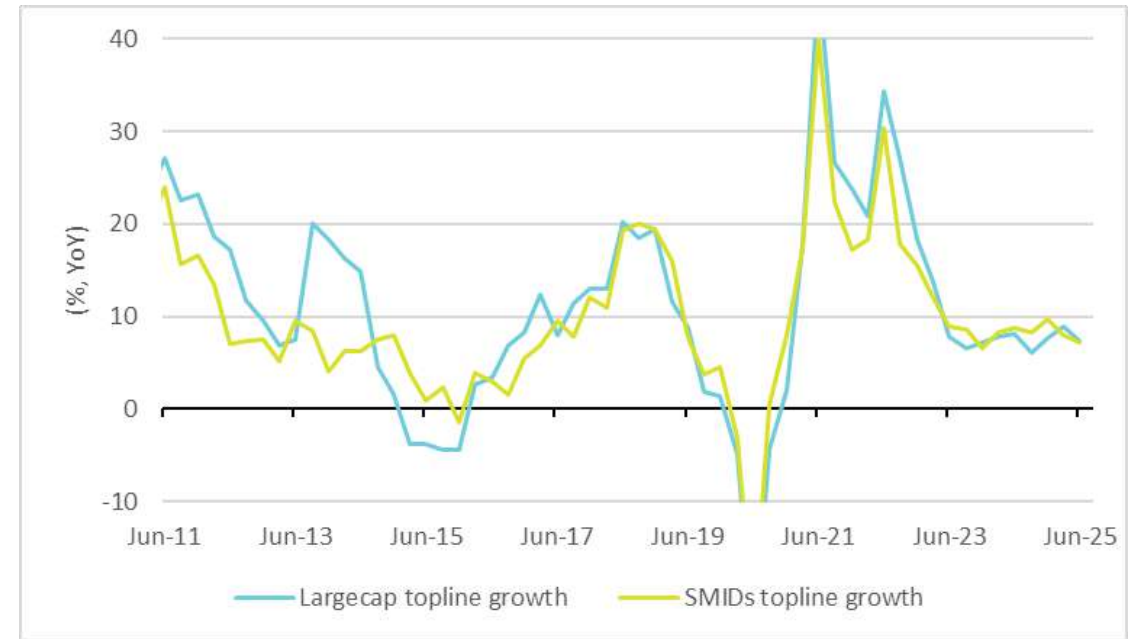


Source: Capitaline, Nuvama Research

Note: OMCs and fertilizers are excluded from BSE500 sample space

Large caps refer to top 100 companies in BSE500 and SMID universe refers to 101 to 500 companies in BSE500

...despite similar trends in top line



Source: Capitaline, Nuvama Research

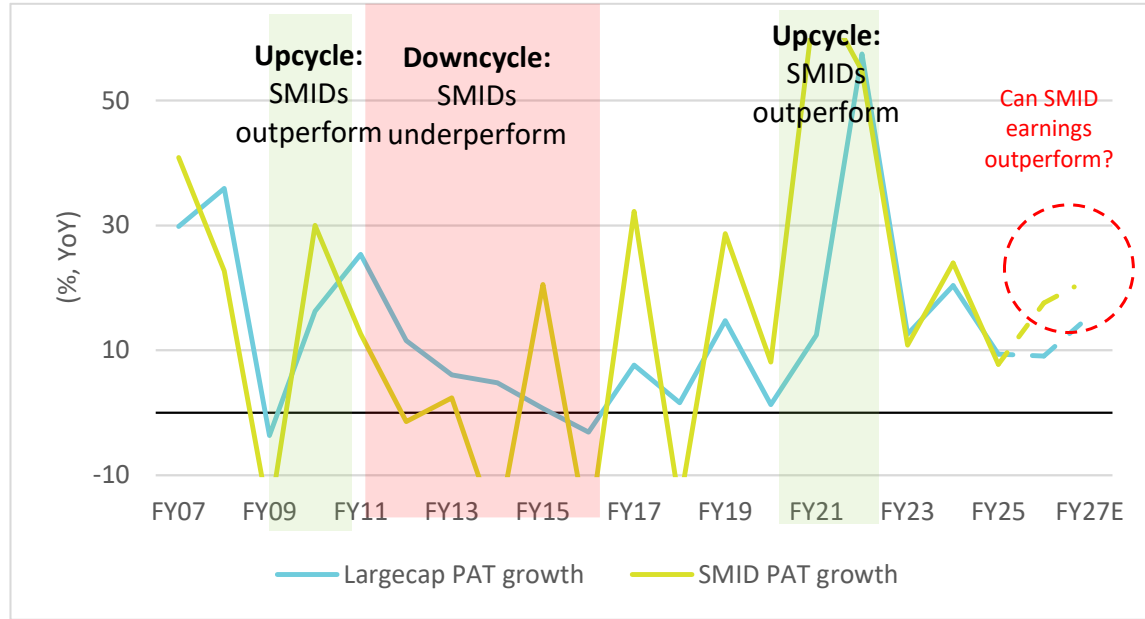
Note: OMCs and fertilizers are excluded from BSE500 sample space

Large caps refer to top 100 companies in BSE500 and SMID universe refers to 101 to 500 companies in BSE500

- ❖ As regards margins, SMIDs' profit margin level is lower than large-caps. Furthermore, their margins are a lot more cyclical—perhaps rightly so, as they are more geared towards growth than large-cap peers.
- ❖ Post-covid, SMIDs have enjoyed more improvement in profit margins than large-caps, despite a similar top-line trajectory.
- ❖ Given these tailwinds are behind and potentially reversing, SMID's margins could see more downside than their large-cap peers.

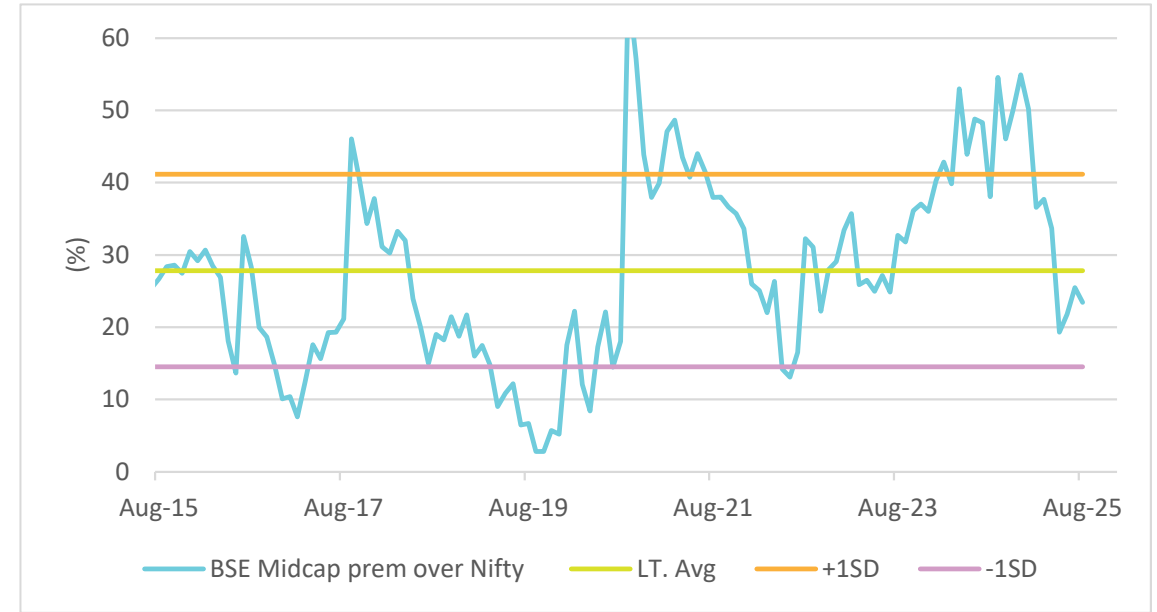
SMIDs' profit in FY26: Consensus forecasting outperformance

Consensus forecasting SMIDs' profit shall outgrow large caps'



Source: Bloomberg, Nuvama Research; Note: OMCs and fertilisers are excluded from BSE500 sample space
Large caps refer to top 100 companies in BSE500 and SMID universe refers to 101 to 500 companies in BSE500.
Estimates are Bloomberg consensus

Mid-cap valuation premium to Nifty has moderated, but still high

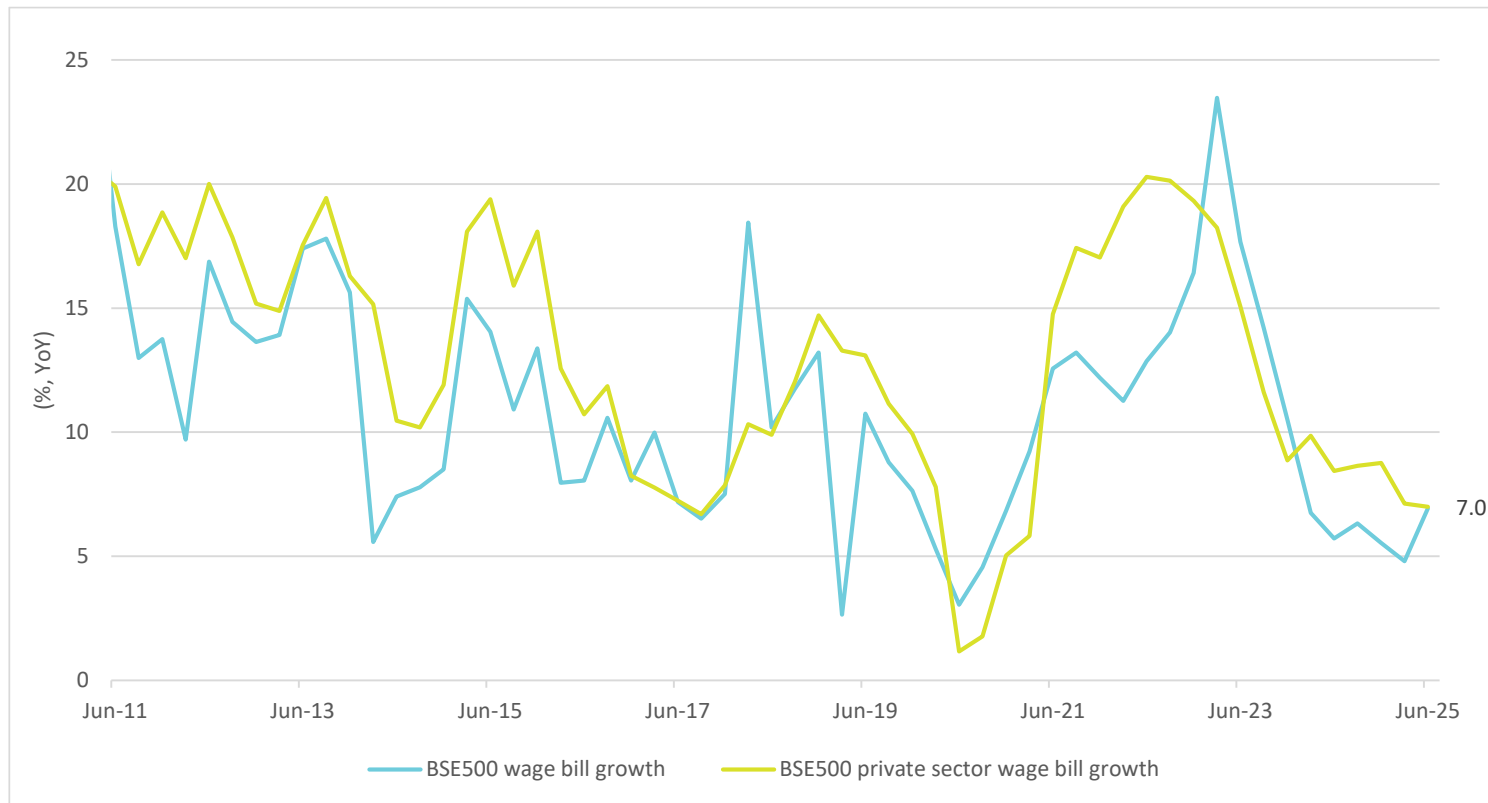


Source: Bloomberg, Nuvama Research

- ❖ SMID profits have reconciled with large-caps' in FY25 and Q1FY26—after significantly outpacing them in FY24.
- ❖ For FY26, consensus is forecasting a significant bounce in SMIDs' profitability compared with large-caps'. We think they could disappoint as growth is slowing down in a broad-based manner with even some domestic indicators—credit growth, auto sales and RE sales—slowing.
- ❖ If SMIDs' profits continue to disappoint versus large-caps', then this poses large risks to their elevated valuation premiums.

3. Wage bill growth: Continues to be weak...

BSE500 wage bill growth for private sector moderates sharply



Source: Capitaline, Nuvama Research

- ❖ The wage bill growth continued to be weak in Q1FY26. Overall BSE500 wage bill growth was about 7% (similar to FY25 levels).
- ❖ Private sector wage bill growth too has moderated to 7–8% YoY—which is also a decadal-low (ex-covid).
- ❖ The income tax cuts would help in boosting household disposable income even with similar wage bill growth. But more is perhaps needed to revive consumption in a sustainable manner.

...with weakness across the board

Wage bill growth breakdown by sector

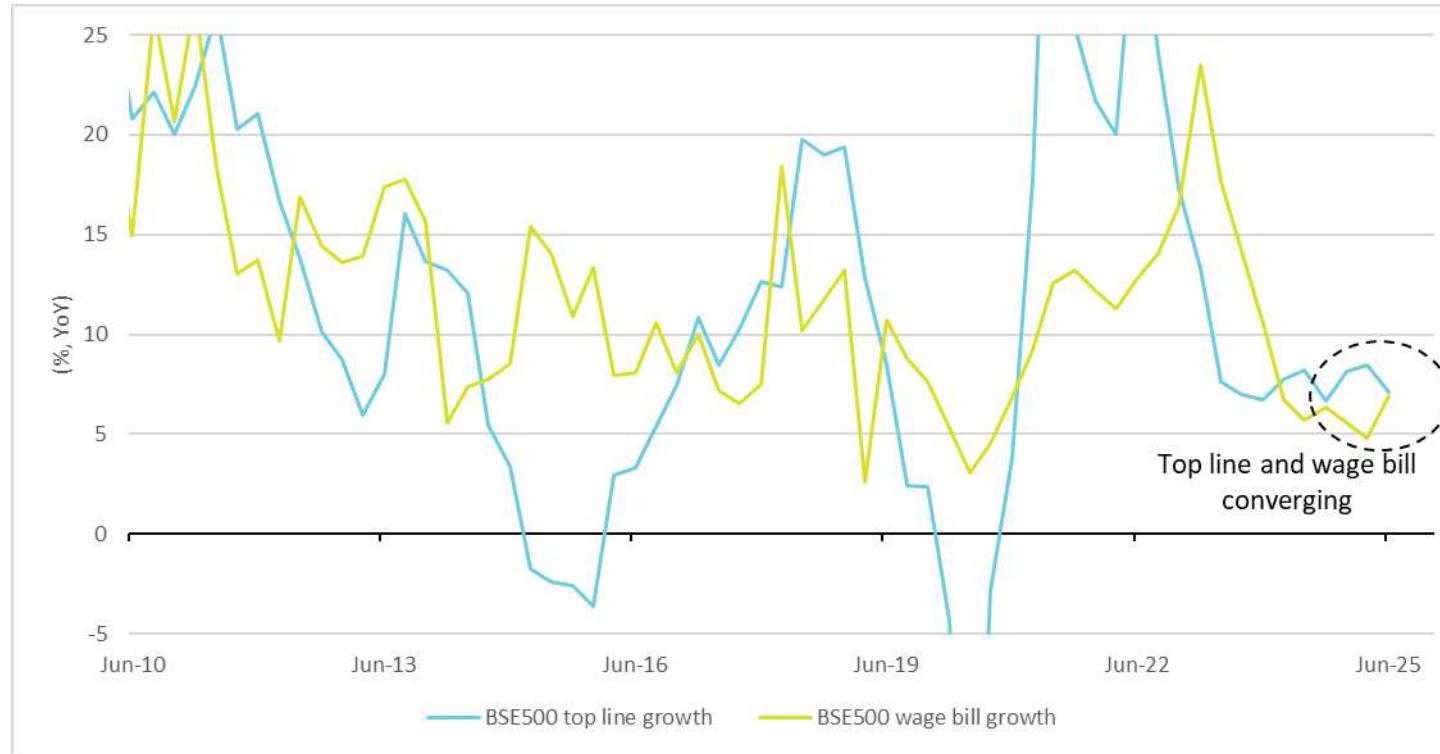
Sector	FY25 wage bill size (INR bn)	Share of Q1FY26 wage bill (%)	Wage bill growth (% YoY)		
			Q1FY25	Q4FY25	Q1FY26
IT	3067	30	2	7	6
BFSI	3232	31	8	3	10
PSU Banks	1,855	18	2	1	9
Private banks	735	7	15	0	8
NBFC	463	4	21	18	18
Commodities	1,392	13	1	-2	2
Metals & Mining	820	8	0	-3	0
Energy	388	4	5	5	2
OMCs	184	2	-7	-6	11
Domestic consumption	1,393	13	14	7	5
Domestic Auto	369	4	11	12	11
FMCG	166	2	10	1	3
Consumer services	137	1	16	10	15
Durables	112	1	19	15	12
Telecom	57	1	6	10	-3
Internet	85	1	-3	-11	-8
Domestic investment	797	8	6	10	6
Industrials / Infra	485	5	6	10	6
Power	164	2	2	15	5
Cement	89	1	0	8	11
Real estate	28	0	22	6	5
Exporters	486	5	9	10	9
Pharmaceuticals	343	3	11	11	9
Export Auto	57	1	8	6	2
Chemicals	87	1	3	9	11
BSE 500 wage bill growth	10,367	100	6	5	7

- ❖ In Q1FY26, banks' wage bill growth improved mildly over the previous quarter while IT companies' wage bill growth is now stabilising at low levels.
- ❖ Going ahead, IT companies' wage bill growth could moderate and also the BFSI wage bill growth could be stabilising around current levels.
- ❖ In such a backdrop, it remains to be seen if wage bill growth can accelerate meaningfully hereon.

Source: Capitaline, Nuvama Research

Wage bill growth now reconciling with top line

BSE500 wage bill growth similar to top-line growth

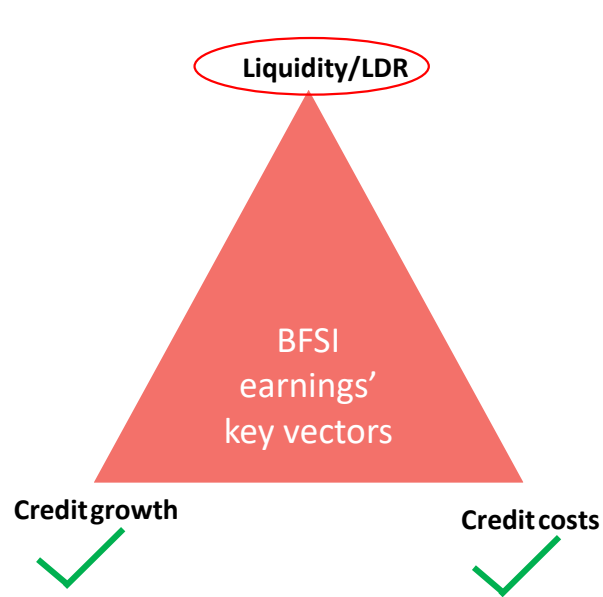


Source: Capitaline, Nuvama Research

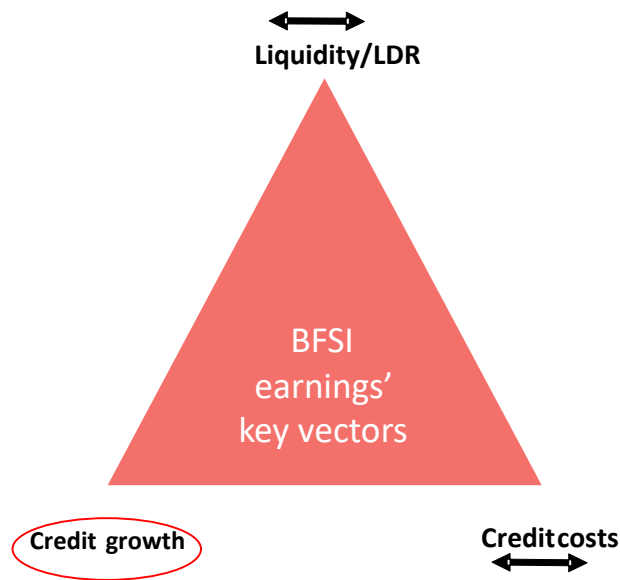
- ❖ In FY24, wage bill growth outpaced top-line growth. This was mainly because falling input prices lifted India Inc's margins, boosting their profitability and, hence, there was no pressing need for corporates to lower employee costs.
- ❖ Given those tailwinds are behind, wage bill growth has now reconciled with top-line growth. Going ahead, if margin pressures arise, then there is a risk that wage bill growth could moderate from current levels.

4. BFSI: Liquidity concerns behind, but asset quality concerns persist

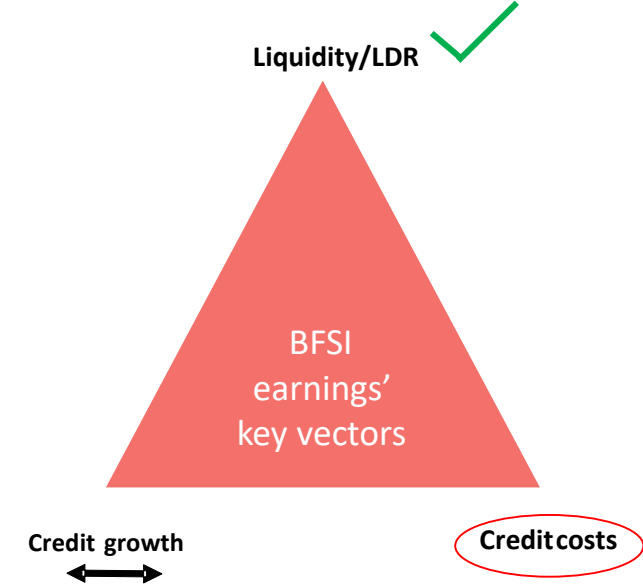
FY24: Liquidity/LDR issues started to emerge



FY25: Credit growth slows



FY26: Credit cost concerns next?

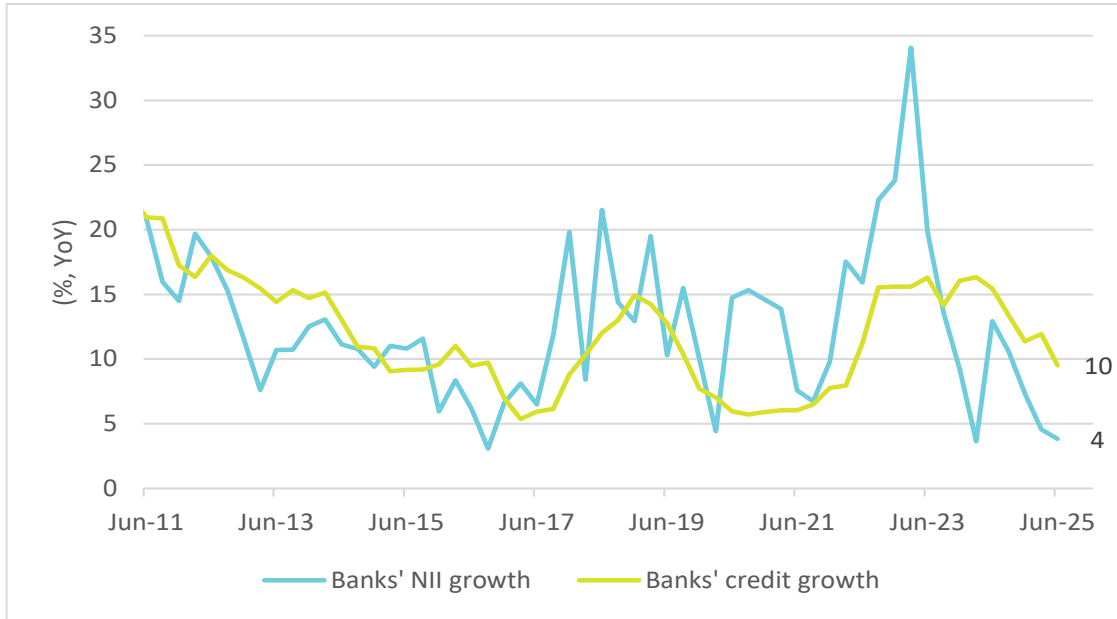


Source: Nuvama Research;

- ❖ For BFSI, liquidity concerns (margins, loan to deposit ratio) cropped up in FY24, after a purple patch in FY23.
- ❖ In FY25, as a result, banks tightened lending standards and slowed down credit growth, thereby easing the concerns around LDR.
- ❖ In FY26, the concerns for BFSI sector are shifting again from growth to asset quality/credit costs.

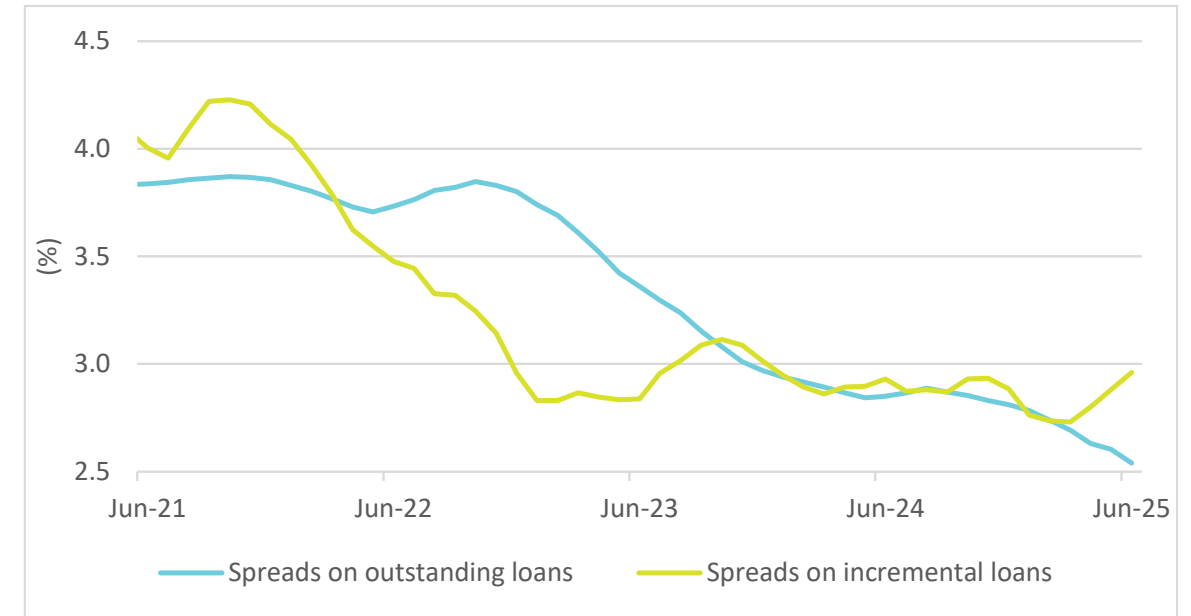
NIMs have fallen substantially over last couple of years

Banks' NII growth has seen a sharp fall in recent years



Source: Capitaline, Nuvama Research

India banking sector incremental spreads are bottoming out



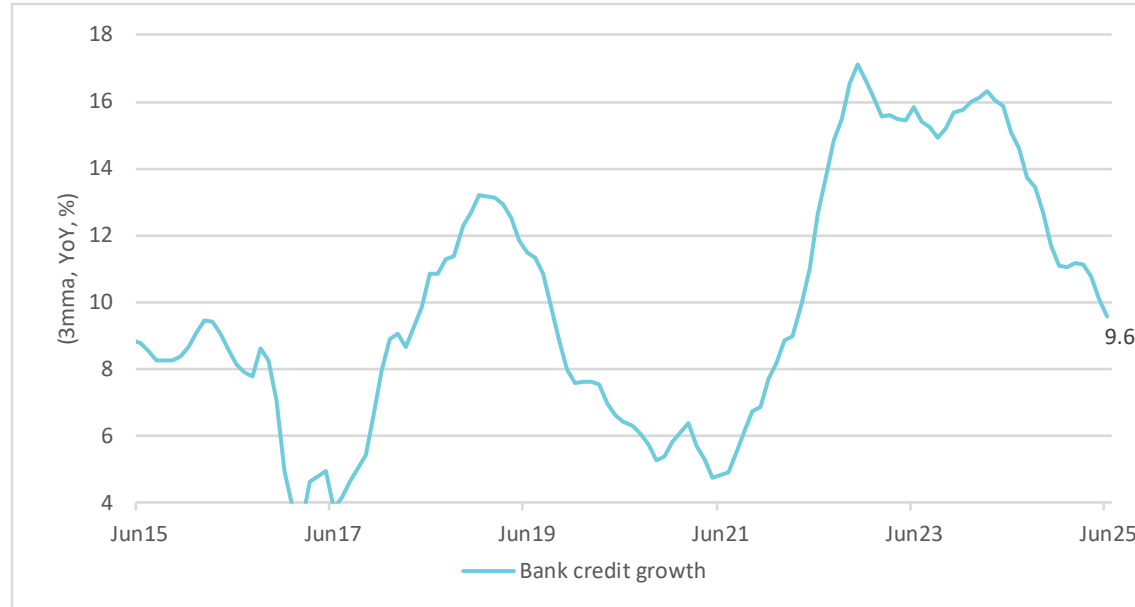
Source: CMIE, Nuvama Research ;

Note: Spreads are computed based on RBI's data of weighted average lending rate and deposit rate

- ❖ After a steep fall in margins in FY24/25, they are likely to stabilise at low levels going ahead in our view.
- ❖ RBI data show banking sector's spreads have fallen sharply for outstanding loans and deposits.
- ❖ Incremental spreads have, however, stabilised and have in fact begun to move up. This should eventually result in spreads on outstanding basis stabilising as well.

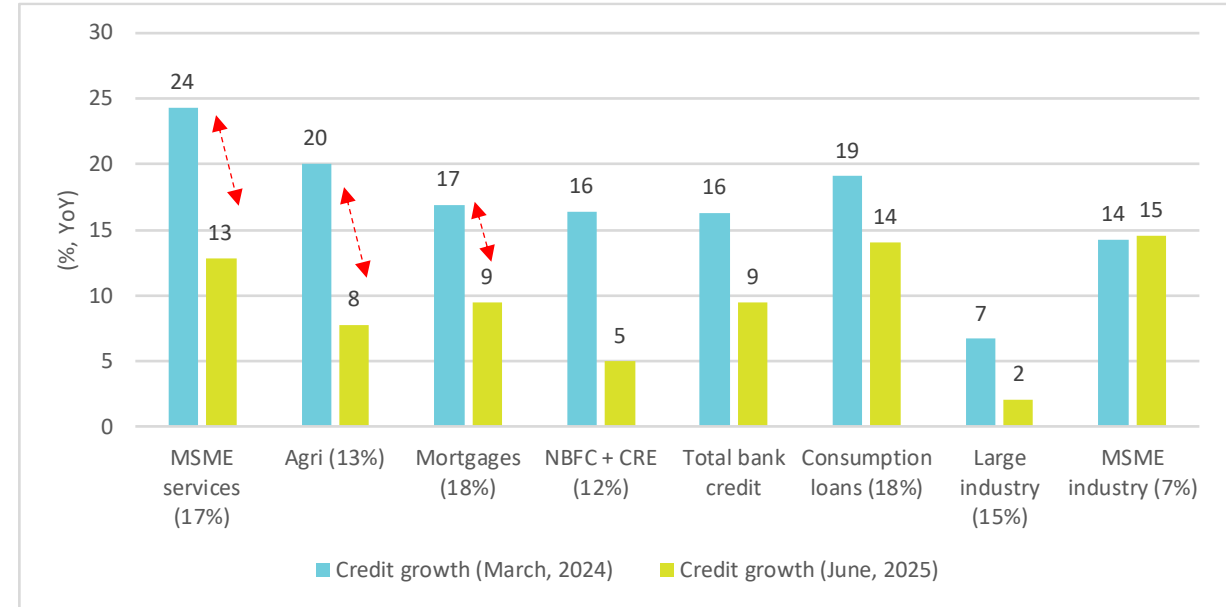
Credit growth too has slowed over last year

Overall credit growth has slowed...



Source: CMIE, Nuvama Research

...with slowdown more pronounced in agri, mortgages and industry credit

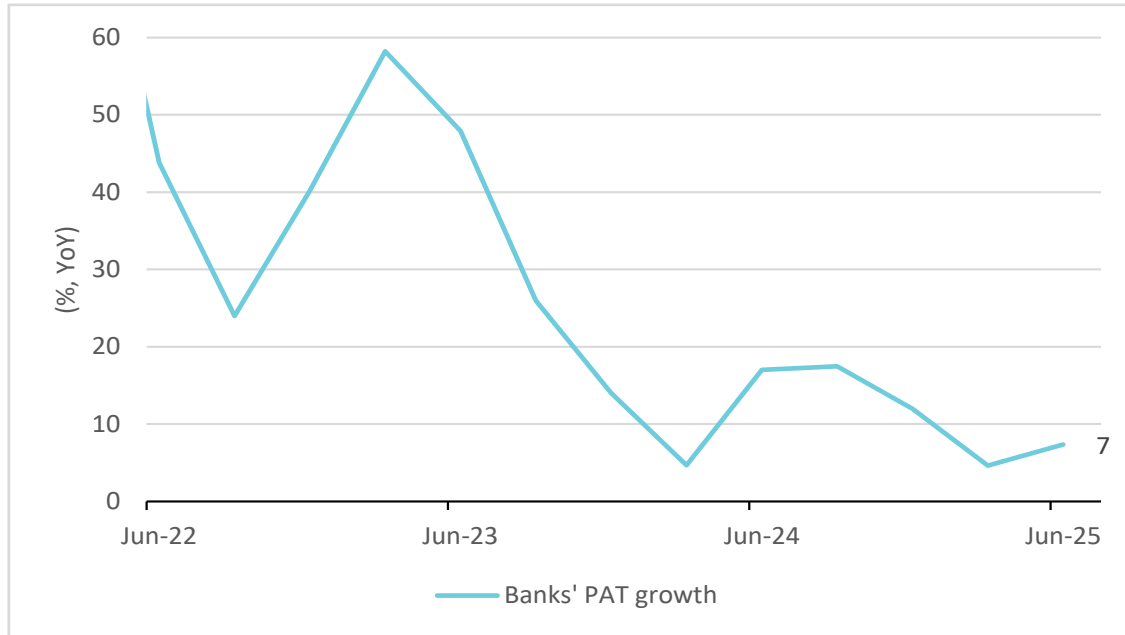


Source: CMIE, Nuvama Research; Note: Consumption loans include retail loans less of mortgage, MSME services include services loans less of NBFC and commercial real estate

- ❖ Credit growth has slowed quite a lot over the course of last year.
- ❖ The slowdown in growth has been broad-based, but rather pronounced in relatively strong segments such as mortgages and industry credit.
- ❖ Credit to MSME industry has held up at high levels.

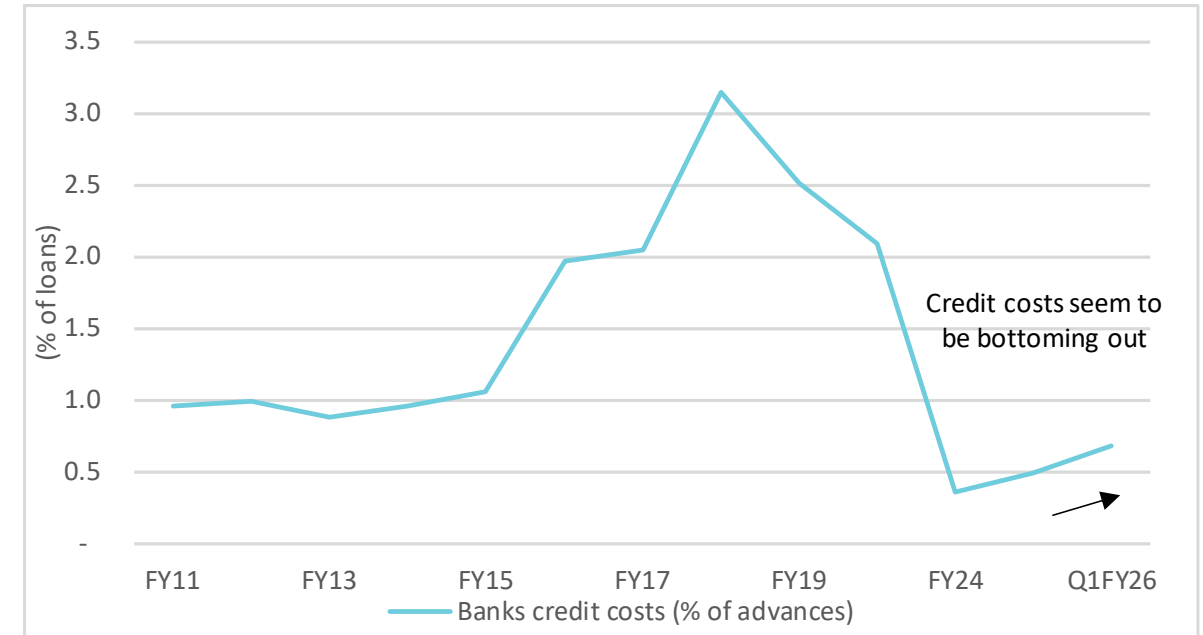
Credit costs have started to rise, hurting BFSI profits

BFSI PAT growth stabilising at low levels...



Source: Capitaline, Nuvama Research

...as credit costs are bottoming out

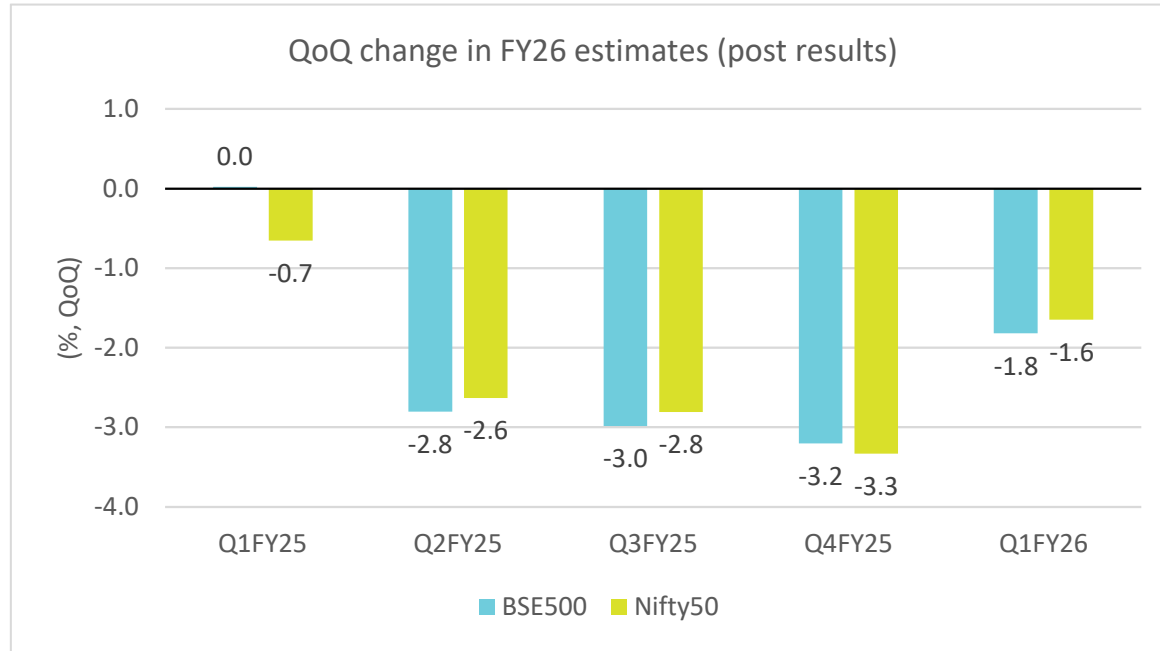


Source: Company, Nuvama Research;
Note: Data is for banks under Nuvama research's coverage

- ❖ However, the worrying aspect now is that credit costs have started to rise. As a result, BFSI profits are now down to single digits.
- ❖ Furthermore, the rise in credit costs is broadening from just unsecured/MFI segments to now even MSMEs.
- ❖ This is a worrying sign and needs to be monitored as even normalisation of credit costs could hurt BFSI profits meaningfully.

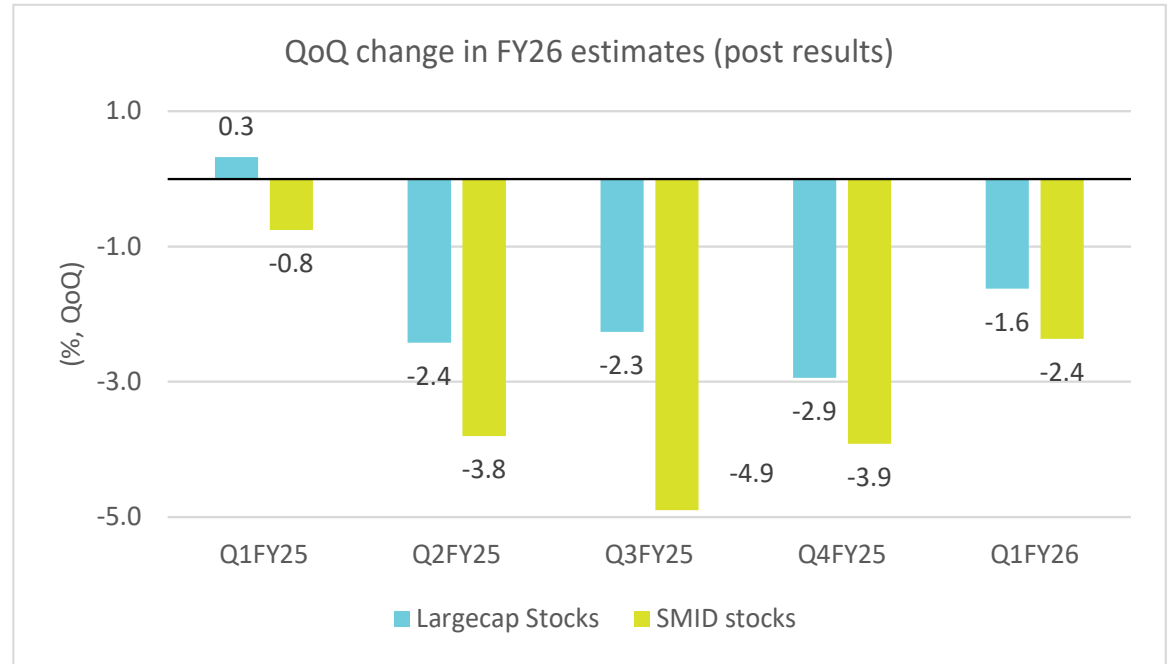
5. Earnings estimates: Downgrades continue

BSE500 FY26E earnings continue to be cut...



Source: Bloomberg, Nuvama Research;
Note: Estimates are Bloomberg consensus

...both large-caps' and SMIDs' earnings downgraded

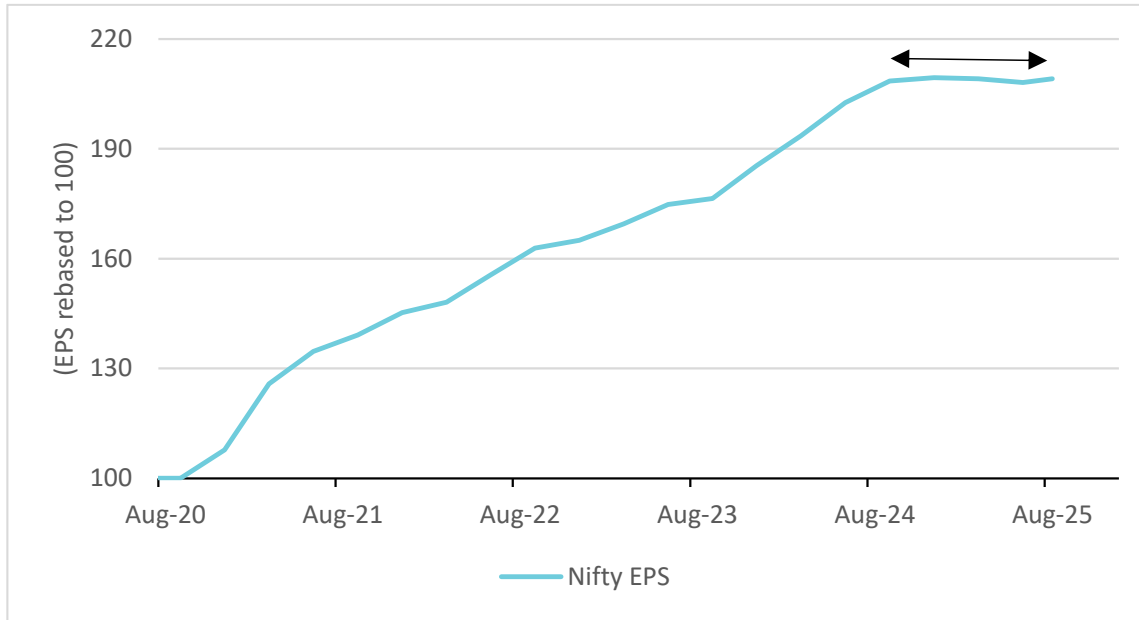


Source: Bloomberg, Nuvama Research;
Note: Large caps refer to top 100 companies in BSE500 and SMID universe refers to 101 to 500 companies in BSE500.
Estimates are Bloomberg consensus

- ❖ As regards earnings estimates, FY26 numbers continue to be downgraded with an earnings cut of 2% for BSE500.
- ❖ In fact, over the course of last year, the FY26E EPS has been cut by 10% for BSE500 and even a larger quantum for SMIDs. This pace of earnings cuts is worrying and needs to be monitored going ahead.

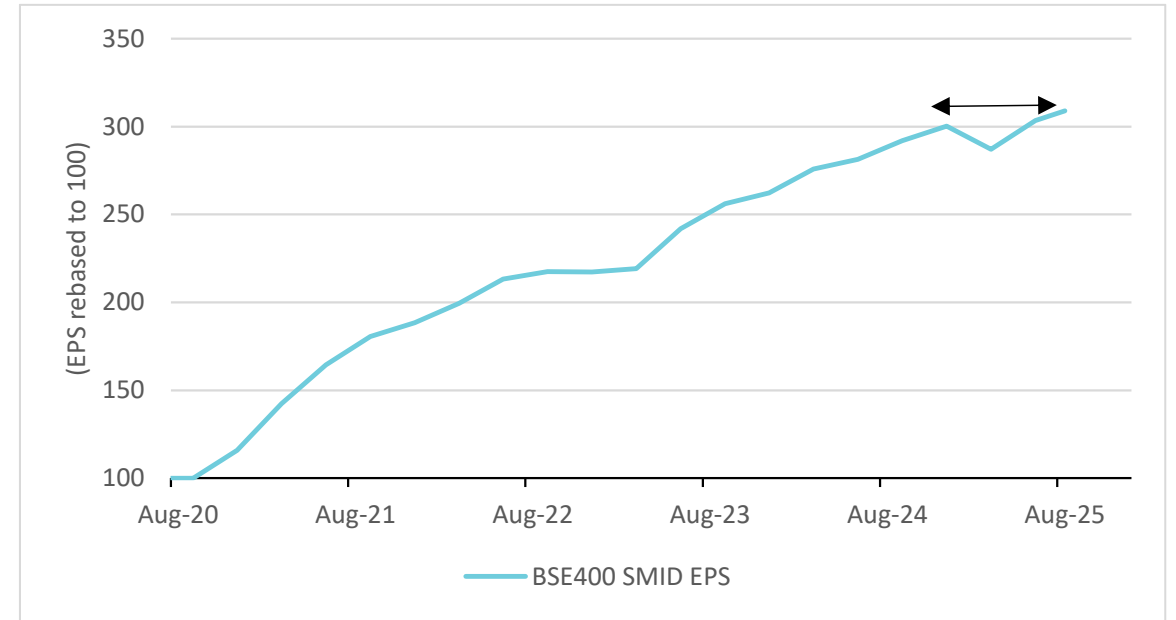
One-year forward EPS growth now stagnating

Nifty 1Y forward EPS now stagnating....



Source: Bloomberg, Nuvama Research;

...as is that of SMIDs

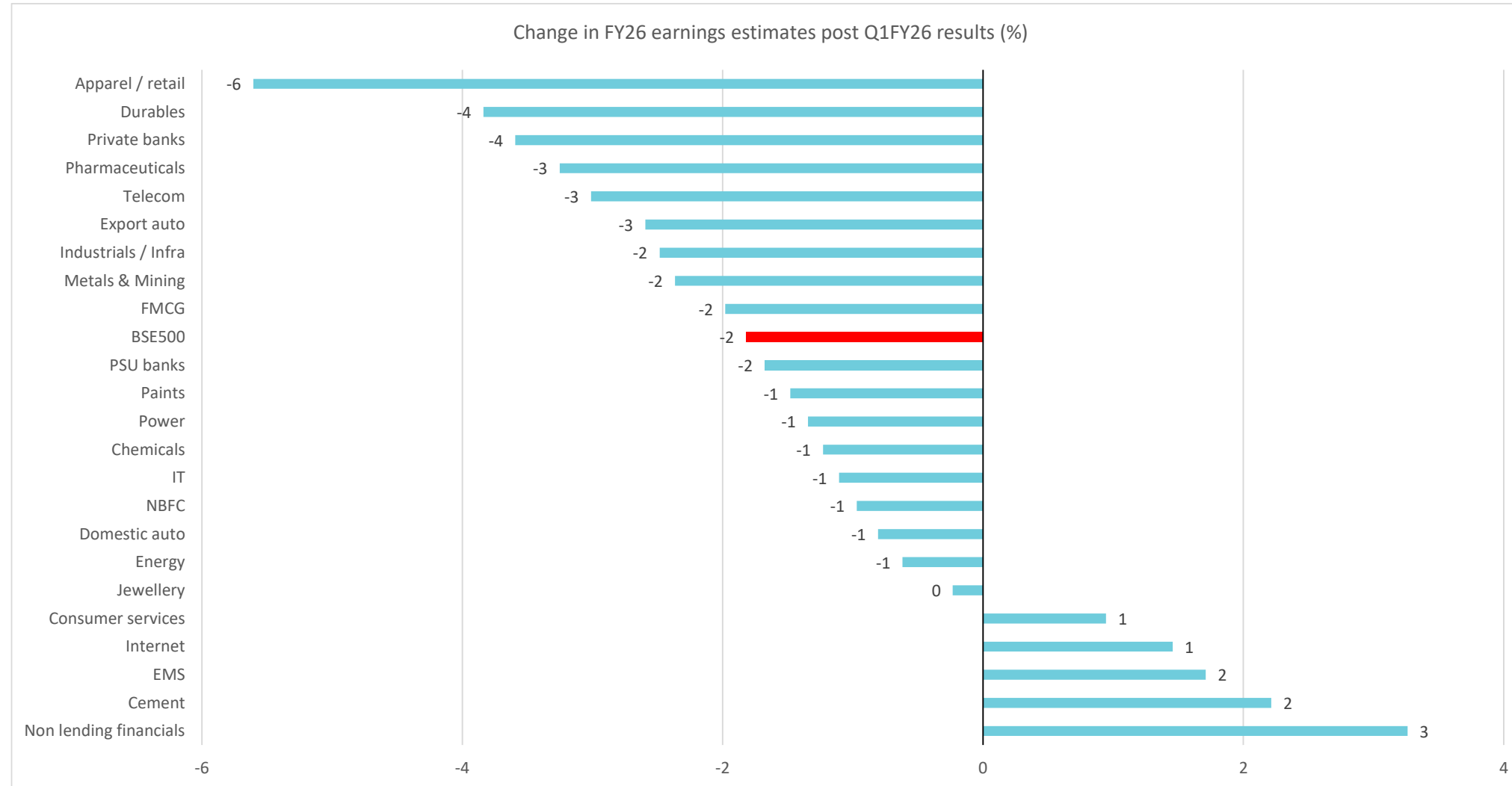


Source: Bloomberg, Nuvama Research;

- ❖ The combination of large earnings downgrades has resulted in 1Y forward EPS number stagnating. Essentially, the FY26E EPS is broadly similar to the FY25E EPS a year back.
- ❖ A similar trend is playing out in SMIDs.
- ❖ This flattening of the 1Y forward EPS numbers could potentially cap market upside.

Upgrades and downgrades by sector

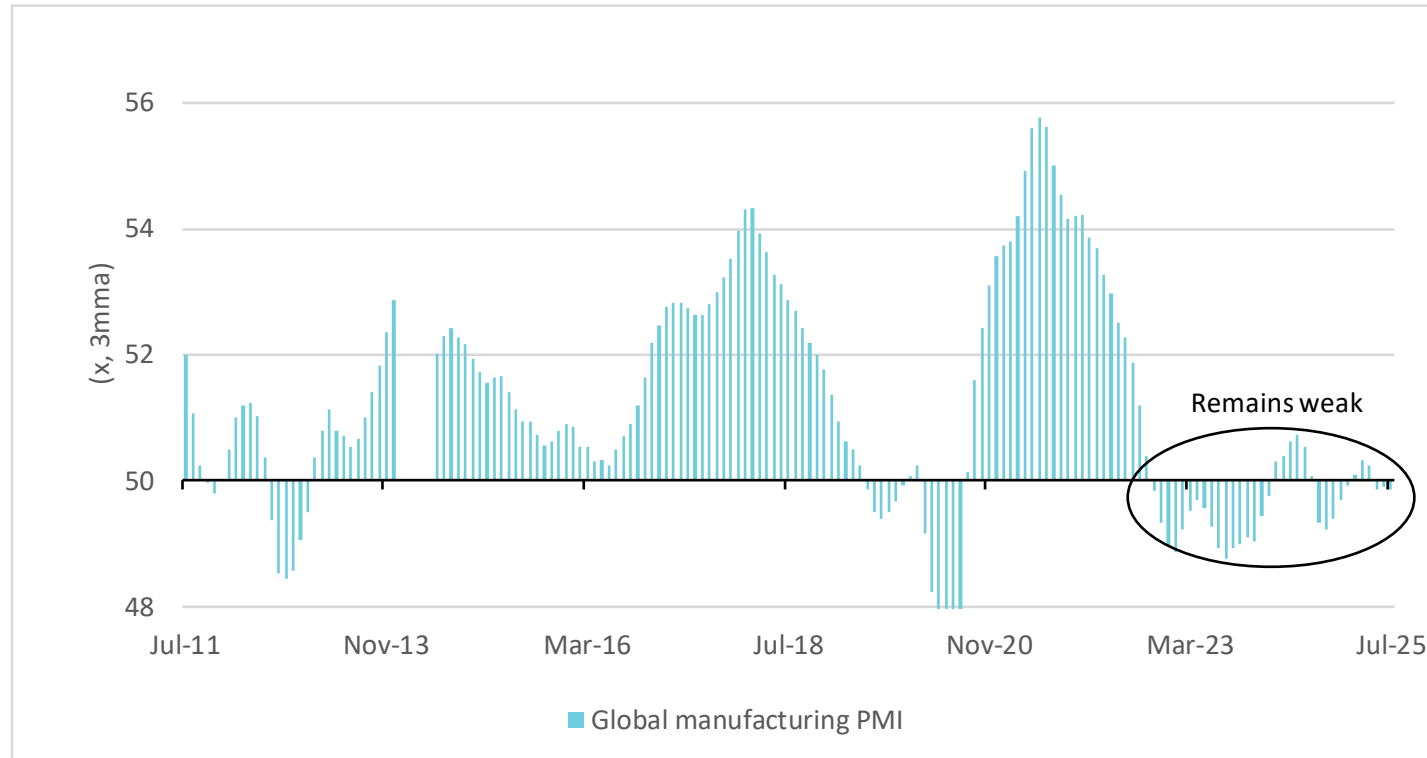
Changes in FY26 EPS forecasts across sectors



Source: Bloomberg, Nuvama Research

Demand outlook: Export recovery still uncertain, particularly as tariffs kick in

Global growth still weak

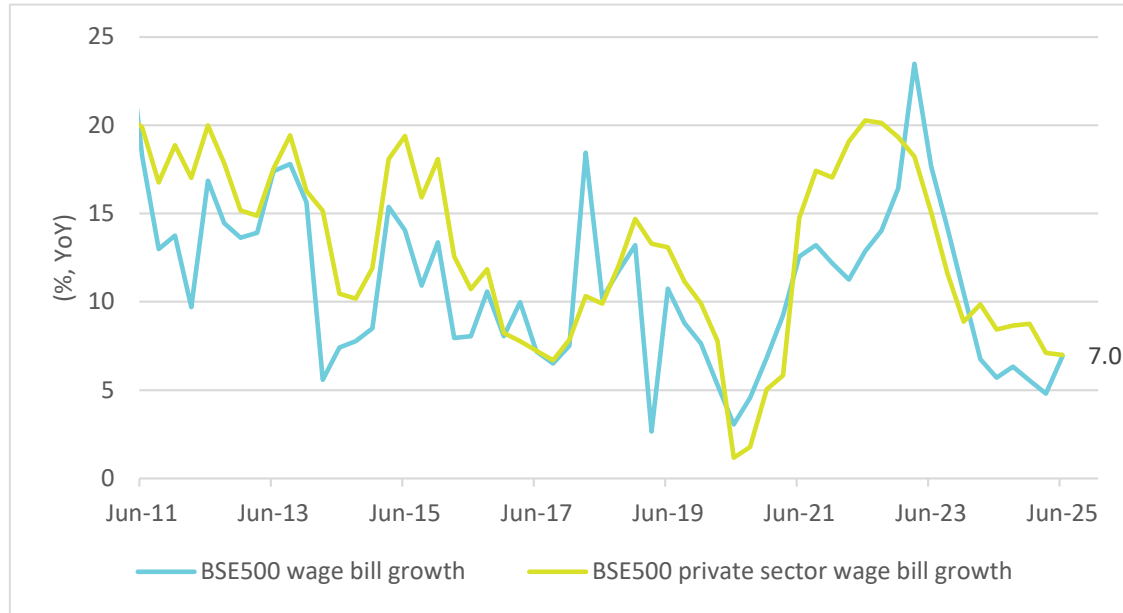


Source: Bloomberg, Nuvama Research;

- ❖ Essentially, for demand outlook, three variables are critical: global outlook (hurting exporters and commodities), domestic consumption and capex.
- ❖ First, with regards to global, world trade is already weak. Fresh weakness is likely to come from higher US tariffs, which could narrow the US current account deficit—a global deflationary dynamic.

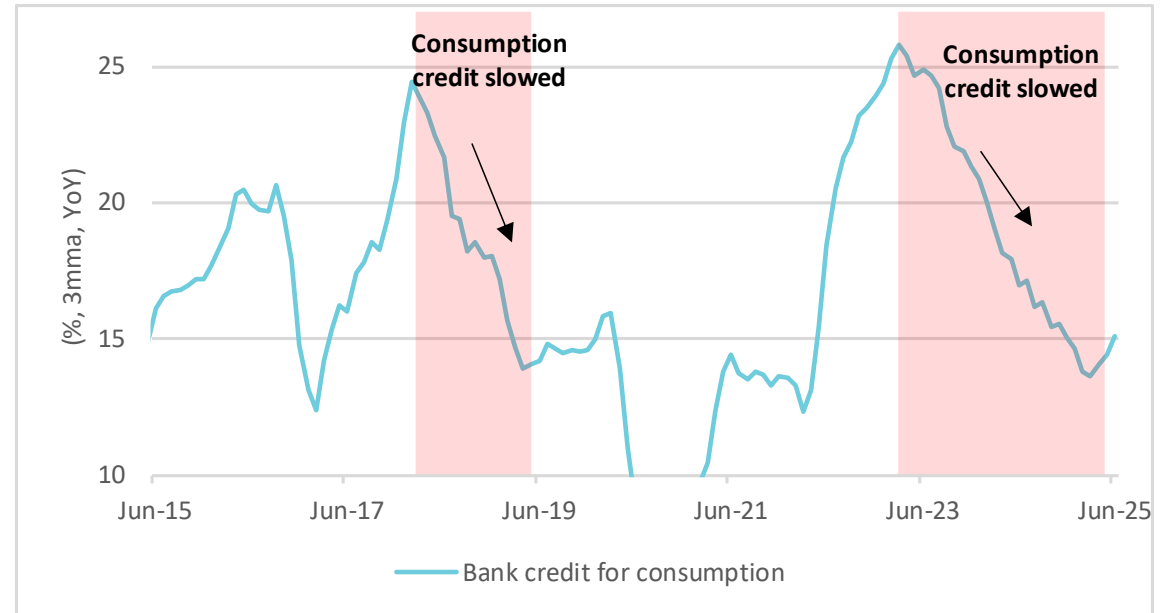
Consumption outlook: Tax cuts to help, but headwinds still persist

BSE500 wage bill growth remains soft...



Source: Bloomberg, Nuvama Research;

India's consumption loans too have slowed

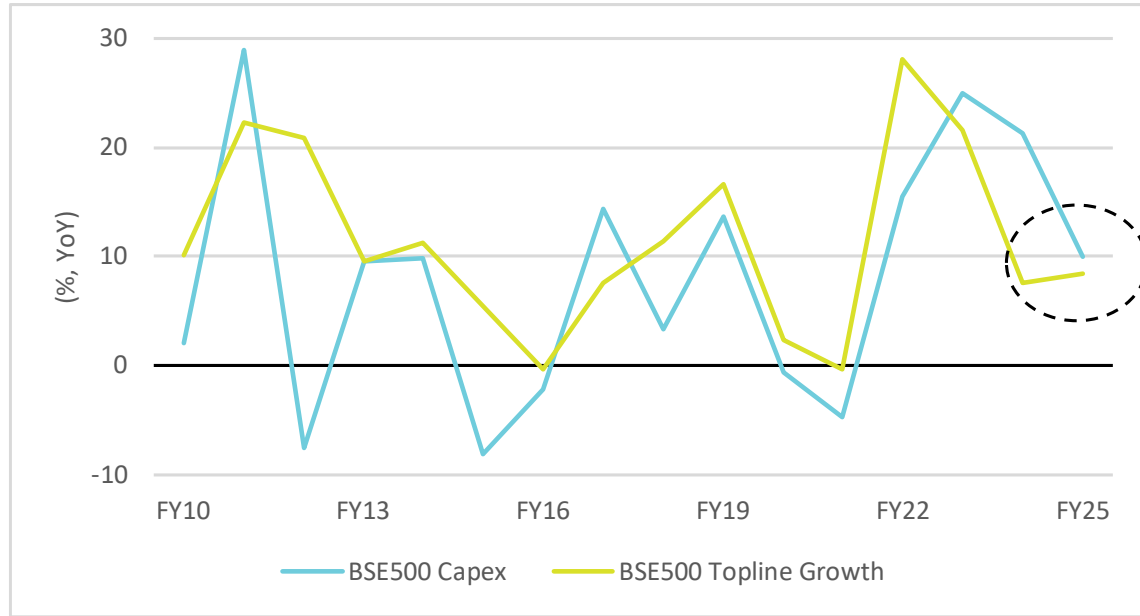


Source: CMIE, Nuvama Research;

- ❖ As regards consumption, it is a function of wages/leverage and wealth. All the three metrics seem to be stabilising at weak levels.
- ❖ While rural wages have been weak for some time now, BSE500 wage bill growth too has slowed over the last year.
- ❖ Furthermore, in FY25, even consumption loans slowed materially, and the wealth effect too has moderated as equity markets have softened.
- ❖ While lower income taxes could help, but may not be large enough to offset the headwinds from tax cuts.

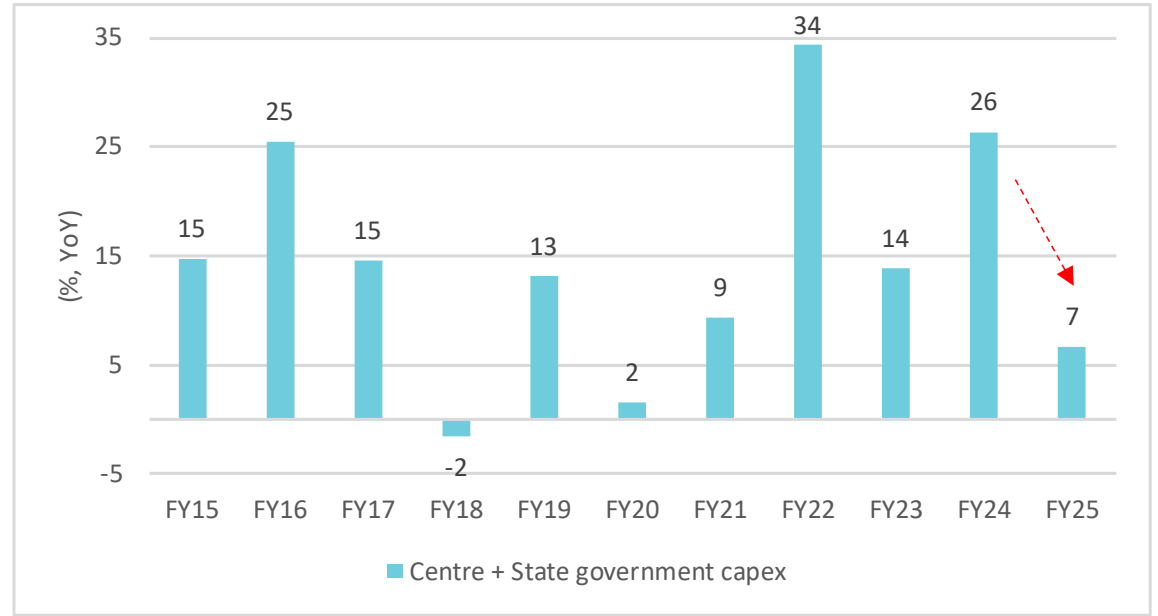
Capex outlook: Weak top line to deter private capex; government capex soft

BSE500 capex growth now moderating and reconciling with top line...



Source: Capitaline, Nuvama Research;

Government capex too remains weak

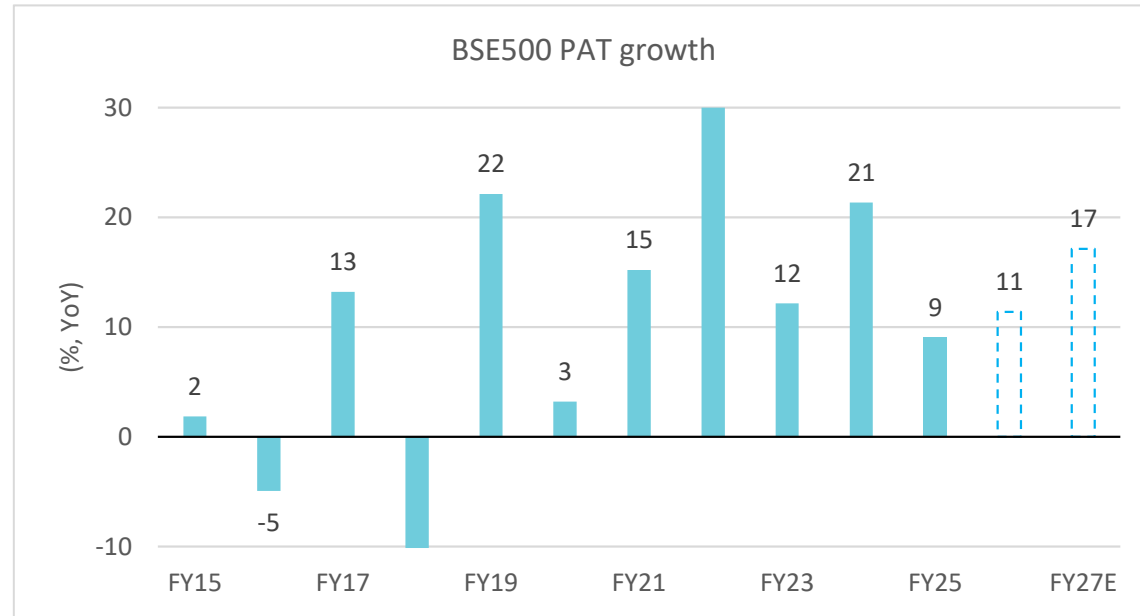


Source: CMIE, Nuvama Research;

- ❖ Finally, the capex of BSE500 companies has moderated and could slow further given the weak top-line growth.
- ❖ Furthermore, general government capex has weakened substantially in FY25 to just the 5–7% range.
- ❖ As we go into FY26, government capex is likely to stay subdued given the pressures of fiscal consolidation, income tax cuts and GST rate cuts.
- ❖ Hence, on the capex side as well, the outlook remains bleak.

Demand risks not yet built into consensus expectations

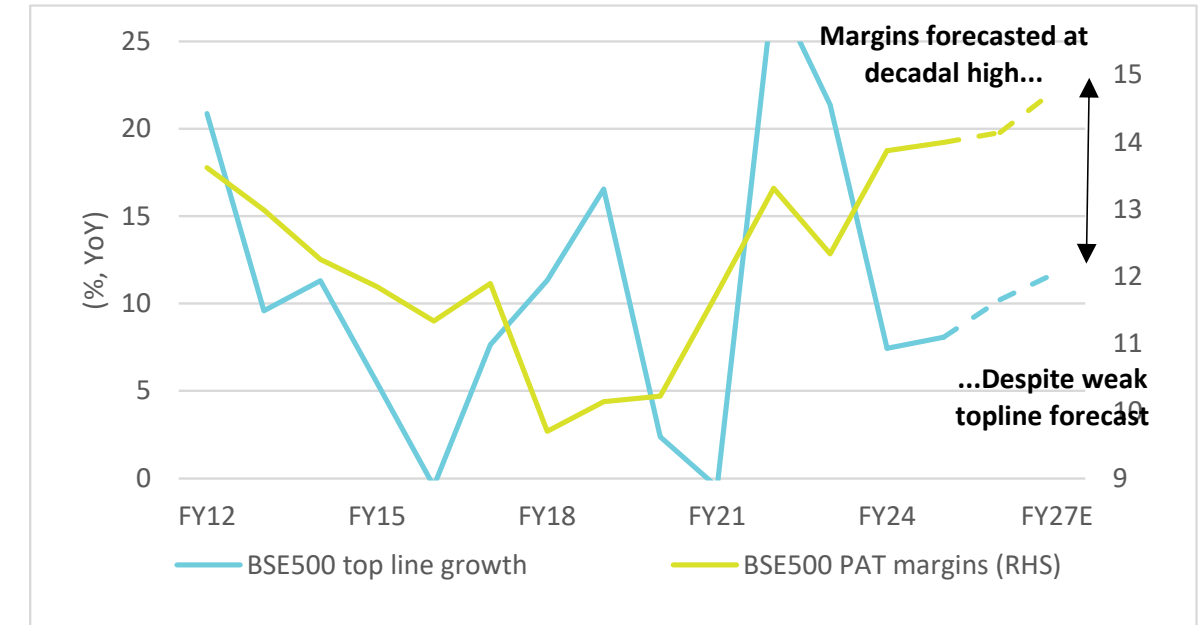
Consensus continues to forecast strong recovery going ahead



Source: Bloomberg, Nuvama Research

Note: OMCs and fertilizers are excluded from the BSE500 sample space

Consensus forecasting further increase in profit margins in FY27



Source: Bloomberg, Nuvama Research

Note: OMCs and fertilizers are excluded from the BSE500 sample space

- ❖ Hence, in a nutshell, demand dynamics for BSE500 companies stay weak, which suggests a top-line recovery is likely to be very gradual.
- ❖ Furthermore, margin tailwinds are exhausted. This suggests that an earnings recovery is unlikely to take place anytime soon.
- ❖ This could disappoint consensus, which is building in a top-line recovery and improvement in margins from elevated levels.

Sectorally, strong recovery built into FY26 in cyclicals

Asking rate by sector – FY26 and FY27

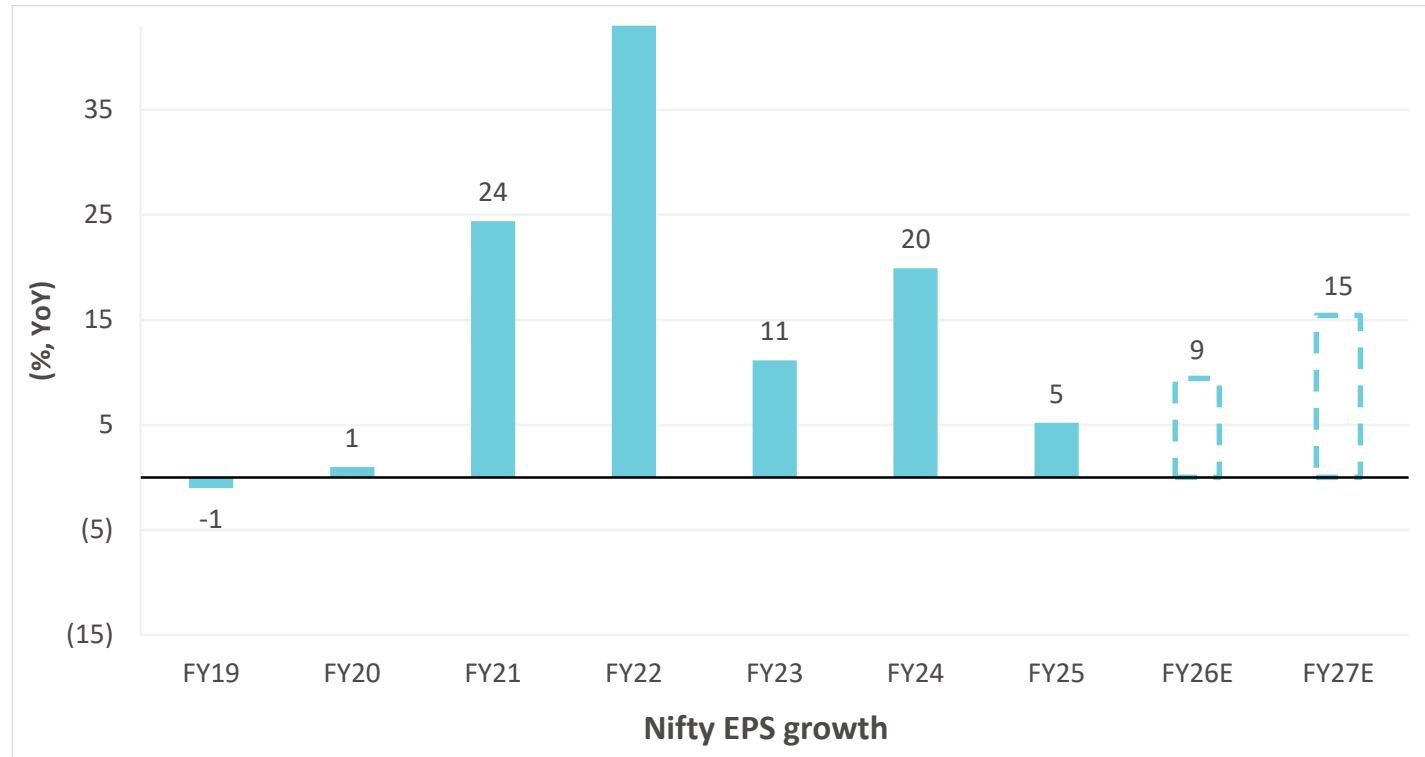
Sector	Share in FY25 top line (%)	FY25 top line growth (% YoY)	FY25-27 top line CAGR (% YoY)	FY25 PAT growth (% YoY)	FY25-27 PAT CAGR (% YoY)
Domestic consumption	21	12	14	16	17
Domestic Auto	8	11	12	9	14
FMCG	3	8	10	3	13
Telecom	2	14	14	91	17
Durables	2	14	14	11	21
Consumer services	2	16	15	5	21
Apparel / retail	1	11	17	10	27
Jewellery	1	26	21	-1	33
Paints	1	-2	7	-19	10
Internet	1	19	36	68	79
Domestic investment	20	10	16	11	21
Industrials / Infra	7	11	17	16	19
Power	4	7	12	12	12
Cement	2	1	14	-15	33
Real estate	1	22	27	33	28
EMS	1	97	40	86	51
Exporters	19	6	8	7	10
IT	9	6	7	8	9
Export Auto	5	0	6	-25	4
Pharmaceuticals	4	11	10	29	9
Chemicals	2	9	12	16	32
Commodities	27	4	8	0	15
Energy	14	6	6	-4	11
Metals & Mining	13	2	9	5	20
BFSI	14	13	10	12	11
PSU banks	6	8	8	21	5
Private banks	5	9	11	6	12
NBFC	3	30	10	7	19
Non lending financials	0	15	13	21	15
BSE500	100	8	11	9	14
BSE500 (ex BFSI)	86	7	11	8	16
BSE500 (ex BFSI and commodities)	59	9	13	11	16

Source: Bloomberg, Nuvama Research

Note: OMCs and fertilizers are excluded from the BSE500 sample space

Nifty earnings asking rate still elevated

Street still forecasting mid-teens growth in Nifty in FY27, suggesting likely downgrades

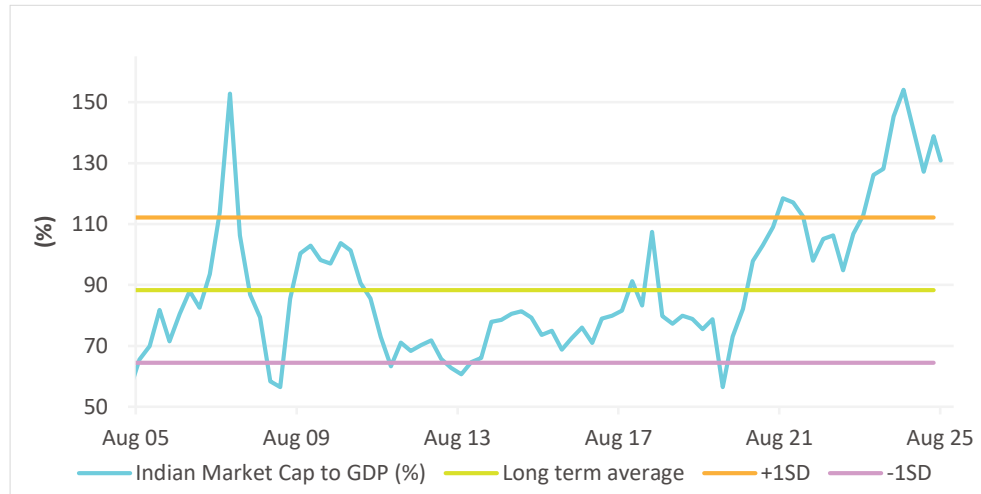


Source: Bloomberg, Nuvama Research; Note: Bloomberg consensus estimates are used herewith

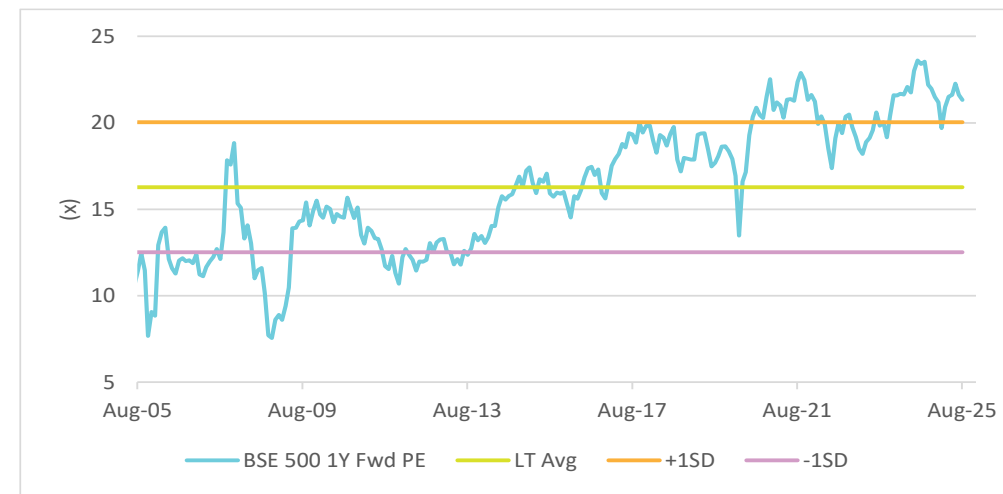
- ❖ Given a weak start to the year, consensus has pruned FY26E EPS numbers and are now forecasting profit growth to be in single digits.
- ❖ However, FY27 estimates remain elevated, posing a risk of earnings downgrade cycle continuing.

Market valuations remain elevated

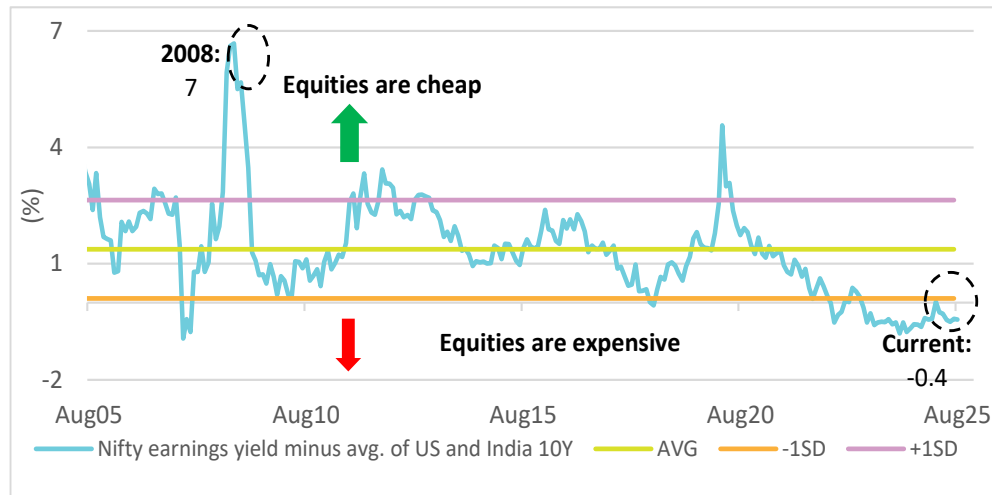
Market cap to GDP still elevated...



...as is the BSE500 PE



Valuations are quite expensive relative to rates as well



Source: Bloomberg, Nuvama Research

- ❖ Market valuations continue to remain expensive.
- ❖ Despite weak earnings, easy liquidity fuelled market rally since February lows has rendered valuations expensive.

Stock numbers that we revised

Top ten stocks with FY26E PAT upgrades

Top 10 stocks with FY26E PAT upgrades		
Stock name	Sector	Change in FY26E PAT (%)
Mahindra Logistics	Logistics	28
Brigade Enterprises	Real estate	26
Sharda Cropchem	Agri Inputs	19
Kajaria Ceramics	Home Décor	18
Muthoot Finance	BFSI	14
Bharat Petroleum Corporation	Oil & Gas, Petrochemicals	14
Phoenix Mills	Real estate	13
V-MART Retail	Retail	13
Hindustan Petroleum Corporation	Oil & Gas, Petrochemicals	13
Aditya Birla sunlife AMC	BFSI	13

Source: Nuvama Research

Top ten stocks with FY26E PAT downgrades

Top 10 stocks with FY26E PAT downgrades		
Stock name	Sector	Change in FY26E PAT (%)
Greenpanel Industries	Home Décor	-44
PG Electroplast	Consumer Durables, Electricals and EMS	-42
Electronics Mart India	Retail	-39
Greenlam Industries	Home Décor	-38
Jubilant Foodworks	Retail	-38
Symphony	Consumer Durables, Electricals and EMS	-36
Sobha Limited	Real estate	-36
Orchid Pharma	Pharma	-33
SpiceJet	Hotels/Hospitality/Aviation	-30
Voltas	Consumer Durables, Electricals and EMS	-30

Stock ratings that we revised

Change in ratings

Rating upgrades			
Stock name	Sector	Pre-result rating	Post-result rating
CDSL	BFSI	Hold	Buy
Century Plyboards	Home Décor	Hold	Buy
Blue Dart Express	Logistics	Hold	Buy
IndiaMART	Internet	Reduce	Buy

Source: Nuvama Research

Rating downgrades			
Stock name	Sector	Pre-result rating	Post-result rating
Sharda Cropchem	Agri Inputs	Buy	Hold
Escorts Kubota	Auto / auto components	Buy	Hold
Ceat	Auto / auto components	Buy	Hold
Axis Bank	BFSI	Buy	Hold
UTI AMC	BFSI	Buy	Hold
Zen Technologies	Defence	Buy	Hold
Voltas	Consumer Durables, Electricals and EMS	Buy	Reduce
ABB India	Engineering and capital goods	Buy	Hold
Apollo Pipes	Home Décor	Buy	Hold
HCL Tech	Information technology	Buy	Hold
Steel Authority of India	Metals and mining	Buy	Hold
Jindal Stainless	Metals and mining	Buy	Hold
Trent	Retail	Buy	Hold

Source: Nuvama Research

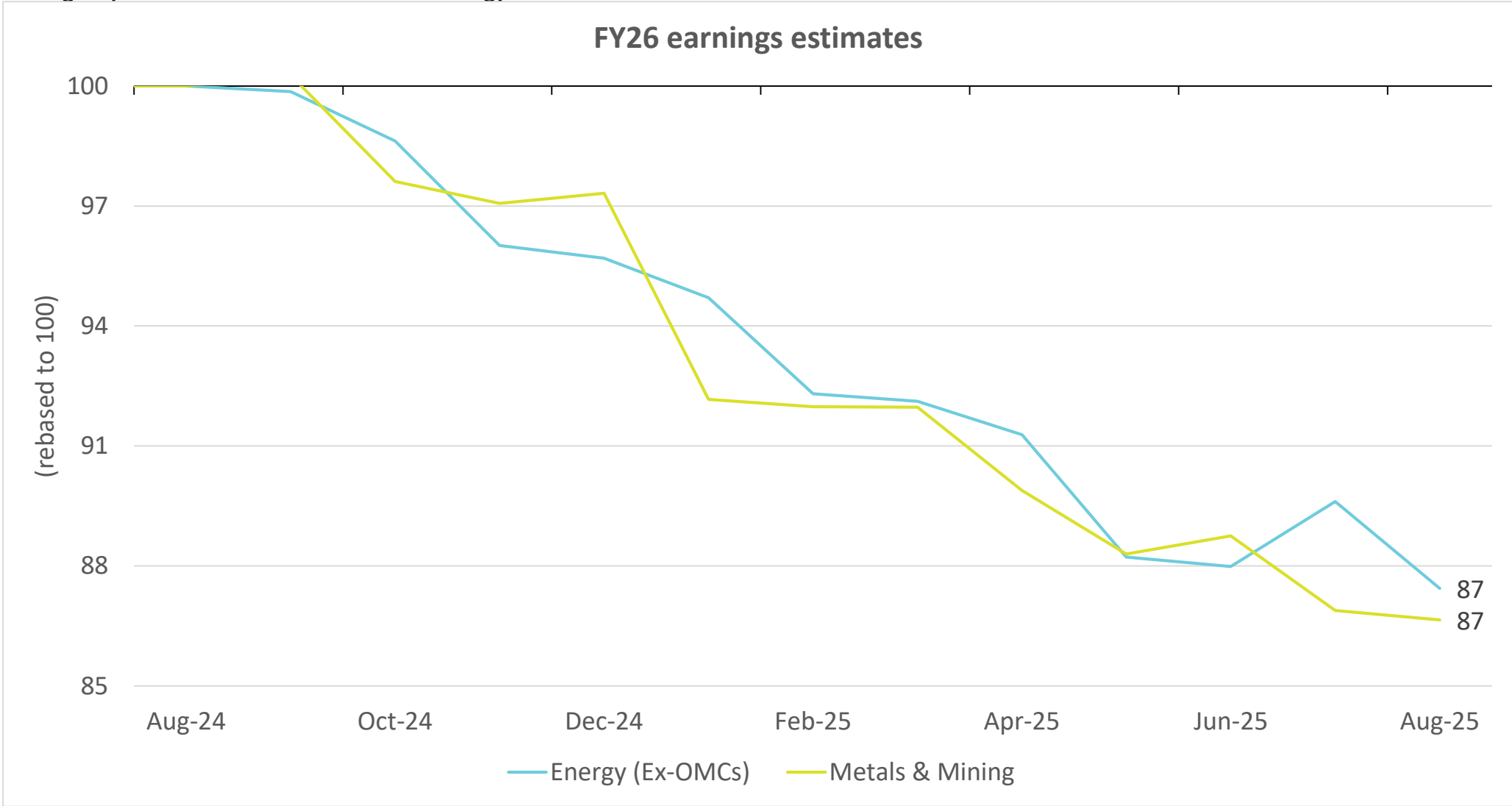
Model Portfolio

Stocks	Mkt Cap	Price	Portfolio wt	Nifty wt	Rel wt	P/E (x)	P/E (x)	P/B (x)	P/B (x)	RoE (%)	RoE (%)	Div Yld (%)
	(USD bn)	(INR)	(%)	(%)	(bps)	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E
Consumer			13.1	10.1	300							
Interglobe Aviation (Indigo)	27	6,097	1.0	0.0	100	27	19	13.2	7.9	65	53	0.2
Pidilite	18	3,077	1.0	0.0	100	61	53	14.0	12.2	23	24	0.7
Britannia	15	5,439	1.0	0.0	100	51	43	25.9	21.9	55	55	1.4
Godrej Consumer	14	1,209	1.0	0.0	100	56	45	9.4	8.5	18	20	0.9
Dabur	11	519	1.0	0.0	100	45	40	7.8	7.2	18	19	1.2
United Breweries	6	1,903	1.0	0.0	100	63	48	10.6	9.5	17	21	0.7
Jubilant foodworks	5	635	0.8	0.0	80	120	80	17.1	14.1	15	19	0.0
Hindustan Unilever	69	2,568	1.9	1.9	0	54	48	12.0	11.7	23	25	1.7
ITC	58	406	3.5	3.5	0	23	21	6.9	6.6	31	32	3.6
Asian Paints	28	2,587	0.9	0.9	0	54	44	11.6	10.4	23	25	1.1
Health Care			6.7	3.7	300							
Sun Pharma	45	1,633	2.8	1.6	120	32	28	4.9	4.4	15	17	1.0
Lupin	10	1,968	1.0	0.0	100	20	22	4.2	3.6	23	18	0.3
Torrent Pharma	14	3,652	1.0	0.0	100	49	39	12.9	10.2	29	29	0.5
Dr Reddy Labs	12	1,263	1.9	0.7	120	20	22	2.7	2.4	15	12	0.4
Cement			5.0	2.0	300							
Ultratech cement	43	12,765	2.2	1.2	100	60	48	2.0	1.8	6	7	0.6
Grasim	22	2,846	1.9	0.9	100	2114	343	3.6	3.6	0	1	0.4
Shree cement	13	31,340	1.0	0.0	100	69	51	5.0	4.7	8	10	0.4
Telecom and Internet			7.9	5.9	200							
Bharti Airtel	130	1,892	6.4	4.4	200	34	24	8.3	6.6	26	31	1.5
Eternal	35	315	1.5	1.5	0	466	111	9.7	8.9	2	8	0.0
Chemicals			2.0	0.0	200							
SRF	10	2,930	1.0	0.0	100	43	31	6.0	5.1	15	18	0.3
UPL	7	691	1.0	0.0	100	17	11	1.6	1.4	9	13	1.4
BFSI			39.1	37.6	150							
Kotak Mahindra Bank	46	2,001	5.1	2.7	240	28	25	3.0	2.7	11	12	0.1
HDFC Life Insurance	20	791	1.7	0.7	100	78	66	9.7	8.7	13	14	0.0
Muthoot Finance	13	2,768	1.0	0.0	100	15	12	3.2	2.2	24	20	0.0
Shriram Finance	13	627	1.8	0.8	100	13	11	1.9	1.6	15	15	1.6
SBI Life Insurance	21	1,863	1.7	0.7	100	69	56	9.7	8.4	15	16	0.2
ICICI Lombard General Insurance	11	1,946	1.0	0.0	100	36	30	5.9	5.3	17	18	1.1
ICICI Bank	117	1,435	10.0	9.1	90	20	17	3.0	2.7	17	16	0.8
Bajaj Finserv	36	1,994	1.0	1.0	0	26	20	3.2	2.8	17	17	0.1
Axis Bank	38	1,083	3.0	3.0	0	13	12	1.6	1.4	14	13	0.1
State Bank of India	87	828	2.8	2.8	0	11	10	1.6	1.4	15	14	1.9
HDFC Bank	176	2,004	10.0	13.2	(320)	20	18	2.8	2.5	14	14	1.5
Autos			6.1	7.1	(100)							
Eicher motors	19	5,912	1.7	0.7	100	31	28	6.6	5.8	23	22	1.4
TVS Motors	18	3,220	1.0	0.0	100	44	37	14.2	10.9	33	33	0.5
Maruti Suzuki	51	14,068	1.0	1.4	(40)	28	26	4.2	3.9	16	16	1.4
Mahindra & Mahindra	48	3,383	2.4	2.4	0	30	27	5.9	5.1	21	20	1.1
Information Technology			9.8	11.3	(150)							
Tata Consultancy Services	125	3,011	4.3	3.2	110	21	19	11.0	10.2	53	55	3.6
Infosys Technologies	68	1,436	5.5	5.0	50	21	19	6.3	5.9	30	31	3.4
Energy			8.4	10.2	(180)							
Reliance Industries	214	1,382	8.4	8.6	(20)	21	20	2.1	1.9	11	12	0.5
Metals & mining			0.9	2.9	(200)							
Jindal Steel & Power	12	993	0.9	0.0	90	16	10	1.9	1.6	13	17	0.0
Utilities			0.0	2.6	(260)							
Industrials			1.0	6.6	(560)							
Larsen & Toubro	57	3,635	1.0	3.9	(290)	24	20	4.4	3.9	20	20	1.3
Model Portfolio			100.0	100.0	0							
Nifty				100.0	0							

FY26E: Earnings revisions by sector

Resource companies: Earnings downgraded

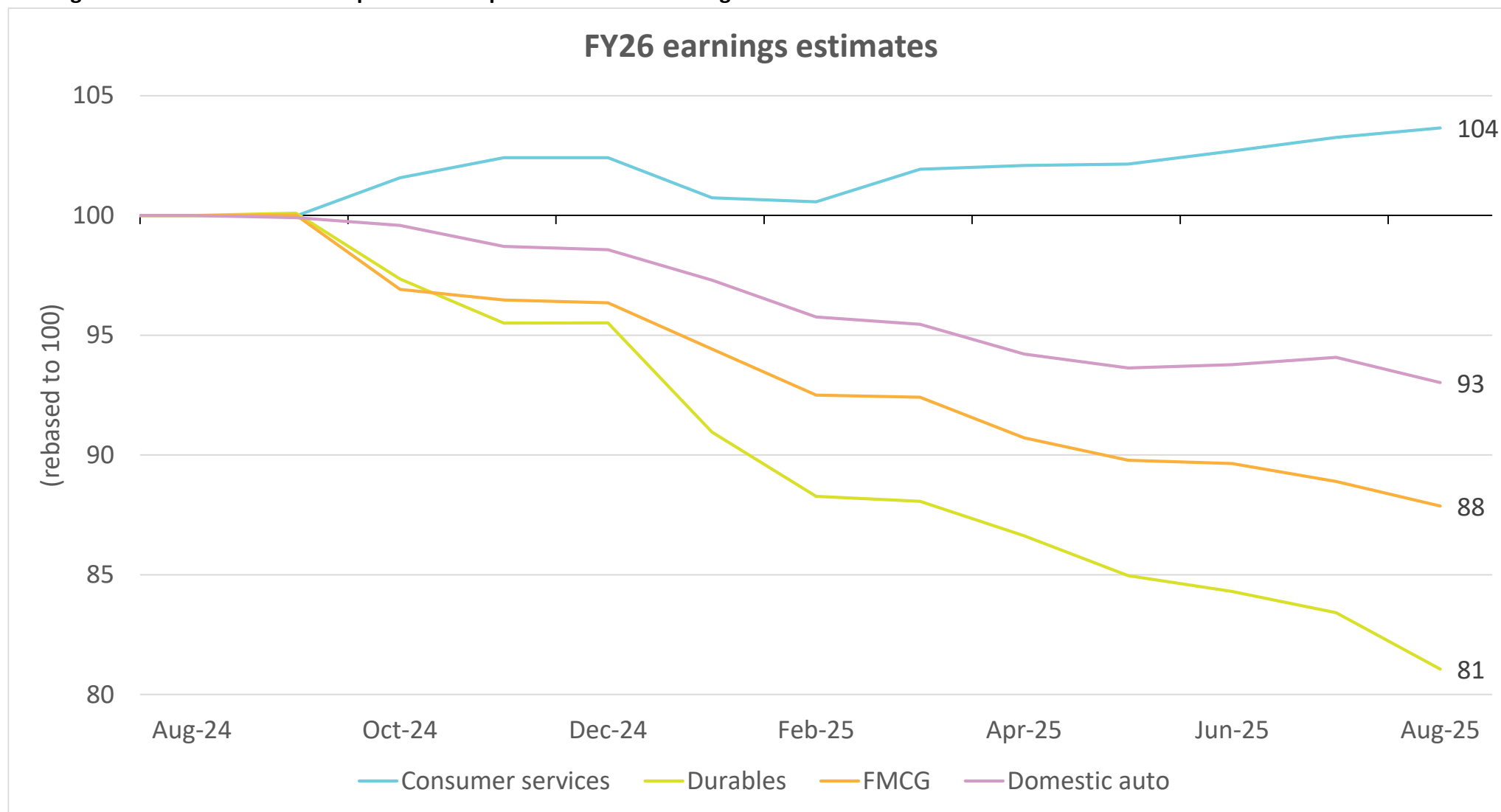
Earnings experience cuts in metals as well as energy



Source: Bloomberg, Nuvama Research

Domestic consumption: Consumer services earnings hold up

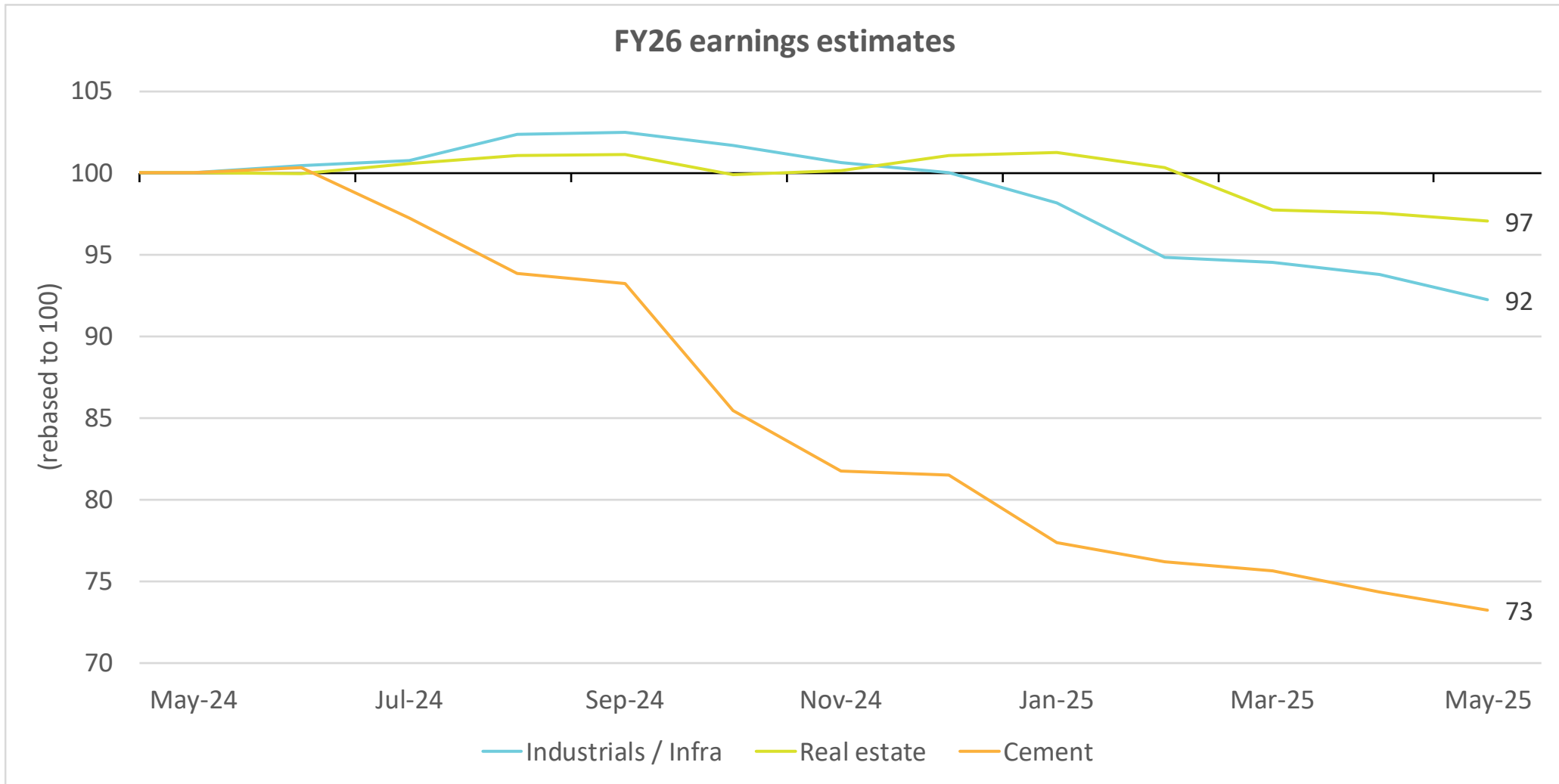
Earnings for consumer services companies hold up while rest were downgraded



Source: Bloomberg, Nuvama Research

Investment: Cement earnings stabilising; industrials earnings cut

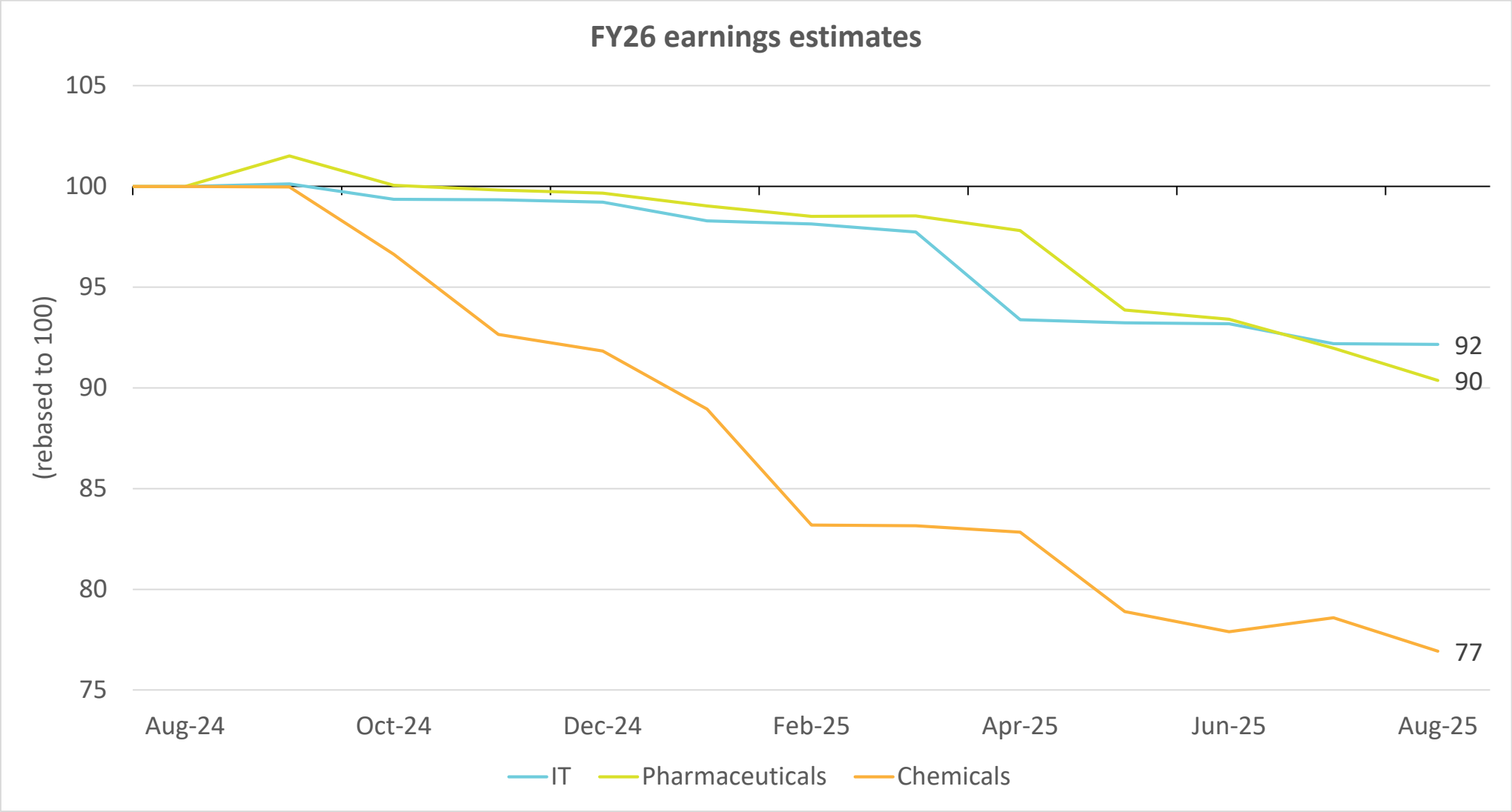
Industrials too now reporting cut in earnings



Source: Bloomberg, Nuvama Research

Exporters: Earnings cuts continue

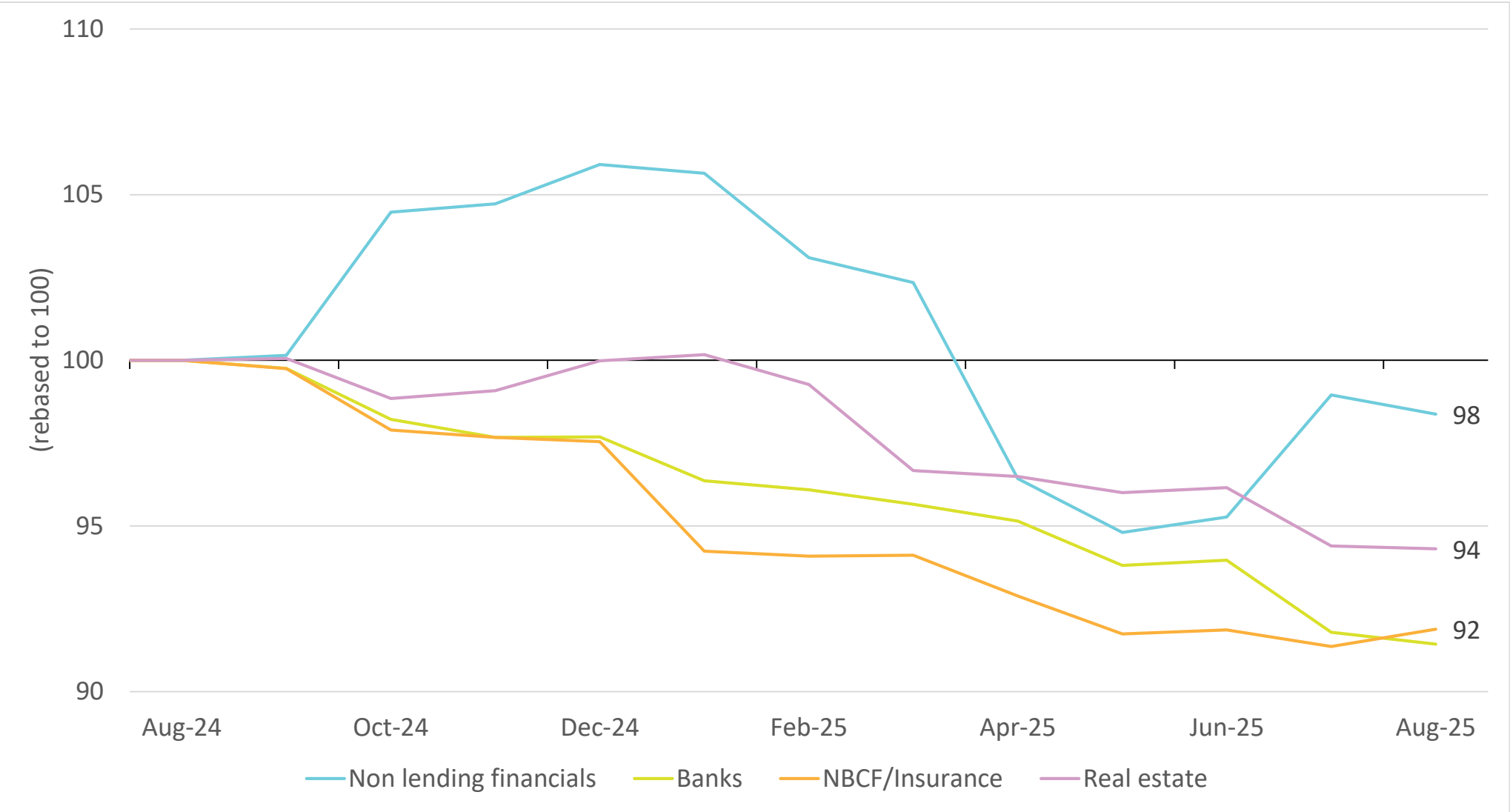
Pharma and chemical earnings witness downgrades



Source: Bloomberg, Nuvama Research

Banking sector: Earnings now being cut

Banks witness large earnings cuts



Source: Bloomberg, Nuvama Research

Sector Highlights

Sector Highlights

Agri Inputs	
Positive highlights Revenue growth supported by healthy volume growth due to a strong start to the Kharif season Management commentary for double-digit volume growth for FY26 on track Fertiliser industry faced DAP shortage, which was compensated for by NPK and SSP, leading to double-digit volume growth Global de-stocking of inventories likely to be over in 2HFY26E	Negative highlights/concerns/risks Increase in active ingredient prices (selectively) can keep gross margins under check Agrochemical channel inventory is elevated in India
Top picks: Coromandel, Dhanuka Agritech	Stocks to avoid: Sharda CropChem, Rallis India
Auto	
Positive highlights Revenue growth YoY supported by premiumisation, better pricing EBITDA performance YoY was muted owing to subdued volumes and cost pressures Management commentary for volume growth ahead is positive across 2W, PV and Tractor segments Government policy measures such as GST cuts expected to support volume performance ahead	Negative highlights/concerns/risks Domestic CV and Global HCV sales outlook muted for FY26 Global PV outlook muted for FY26
Top picks: TVS Motors, Hyundai India, Motherson Wiring	Stocks to avoid: Tata Motors, Ashok Leyland, Ramkrishna Forgings, Exide Industries
Banking & Financial Services	
Positive highlights Deposit growth improved with better liquidity Most banks could reduce their opex	Negative highlights/concerns/risks Asset quality was mixed with only a handful of lenders reporting strong asset quality while for most others credit cost was higher than expected NIM was under pressure due to repo rate cuts Sector loan growth slowed with a slowing macro
Top picks: HFDC Bank, ICICI Bank	Stocks to avoid: AU Bank, SBI Cards

Sector Highlights

Construction	
Positive highlights Order inflows improved for most companies Debt and working capital remained under check	Negative highlights/concerns/risks Labour availability and competition remains an issue Execution remained in a slow lane
Top picks: Ahluwalia Contracts	Stocks to avoid: Ashoka Buildcon, KNR

Cement	
Positive highlights Industry witnessed high single-digit volume growth on the back of improved government spending Realisations too improved for the sector on account of prices hikes	Negative highlights/concerns/risks Power and fuel cost rose (lag effect) in the quarter
Top picks: JK Cement, Ambuja	Stocks to avoid: Shree Cement

Consumer Durables	
Positive highlights C&W reported healthy growth on the back of robust volume growth owing to healthy demand across sectors. Capex of C&W companies remains on track and is expected to commission over coming months. Solar products' category witnessed robust traction with companies expanding to adjacent categories amid increasing consumer demand. Premiumisation trend has been the focus area for companies across categories, which drove margins.	Negative highlights/concerns/risks Early monsoons and delayed summers dampened the sentiments during the quarter. Due to exceptionally weak summer season and early monsoon, RAC players faced major reduction in demand and higher-than-normal inventories in place. These inventories will take some time to normalise, indicating short term pain for these players
Top picks: Havells, KEI, Polycab, Amber	Stocks to avoid: Symphony, Voltas

Sector Highlights

Consumer Goods	
Positive highlights Majority of FMCG names have delivered multi-quarter high revenue and volume growth. Urban demand has shown visible signs of recovery on the back of increased disposable income due to RBI rate cuts; consumer inflation is at an 8-year low. Urban GT has turned around, showing growth after a few quarters. While rural demand still stands robust on the back of a strong monsoon season and a good crop. All staples companies have highlighted of a stable FY26 for raw materials and margins to improve Q2 onwards. In our view, margin pressure has likely bottomed out in Q1 and we shall see margin expansion Q2 onwards.	Negative highlights/concerns/risks EBITDA growth lagged as companies sat on high-priced RM inventory along with some volatility in RM prices. However, RM correction benefits shall flow Q2 onwards.
Top picks: HUL, Britannia, Nestle	Stocks to avoid: VBL, United Spirits
Energy	
Positive highlights OMCs set to receive majority of cumulative LPG underrecoveries as subsidy from the government, but its timing is uncertain Pace of execution of RIL's New Energy business picks up pace	Negative highlights/concerns/risks Inventory losses affected GRMs of all refining companies; however, we expect it to be transitional GAIL cut guidance for its transmission volumes on account of weak demand ONGC cut its production volume guidance due to the inability to reverse natural decline Margin pressure for CGDs persists on account of decreasing allocation of APM gas
Top picks: RIL, PLNG	Stocks to avoid: OMCs, CGDs, GAIL, ONGC

Sector Highlights

Engineering & Capital Goods

Positive highlights

Power electrical equipment players, particularly across the HV value chain (transformers, switchgears, gensets, etc) continue to enjoy robust execution, all-time high order books and multi-year high OPM levels driven by better pricing power, favourable product mix, operational efficiencies and higher CUF on the back of ongoing Power T&D capex supercycle in India as well as select countries overseas. Large-ticket HVDC equipment ordering has already picked up pace over last six months (Khavda and Bhadla HVDCs won by a consortium of Hitachi-BHEL) and shall continue to hold strong for next three–five years given NEP's planned INR9.15tn Power T&D capex over 2022–32, consisting of another 8–10 HVDCs. While premium valuations remain a key concern across the space, we believe Power T&D and thermal pocket could still deliver high-paced earnings expansion.

Negative highlights/concerns/risks

While we remain cautiously optimistic of broader sectoral private capex reviving over the medium term given strong corporate B/S, rising profitability levels, and increasing RBI CUF rate (~75% currently), it is ongoing in selective pockets—green hydrogen, RE power gen, data centers, electronics, etc. Therefore, we remain directionally positive, but selective on a few growth pockets until secular private factory capex picks up.

Top picks: GE Vernova T&D, CG Power, Hitachi Energy, TARIL and Apar Industries

Stocks to avoid:

Home Décor

Positive highlights

Greenshoots have started appearing for woodpanel manufacturers as timber prices have begun to soften and imports have declined

Negative highlights/concerns/risks

In Q1FY26, performance was muted for most companies as demand continued to be a challenge for the building materials industry due to the early onset of monsoons and lower government spends
For Pipe players, margins too took a hit, impacted due to high competitive intensity and inventory loss due to falling PVC prices

Top picks: Venus Pipes, Greenply Industries, APL Apollo Tubes

Stocks to avoid: Greenlam

Sector Highlights

Information Technology	
Positive highlights Tier-2 companies continued to outperform large-cap peers, with Coforge and Persistent delivering double-digit YoY revenue growth (organically as well). We expect mid-caps to continue outperforming large-caps. The highlight of the quarter was the strong deal bookings—highest YoY growth in last five quarters (aggregate of 13 companies' ex-Birlasoft). Top picks: Mphasis, Coforge, Persistent, Infosys	Negative highlights/concerns/risks Q1FY26, as expected, turned out to be a soft quarter impacted by tariff uncertainty. Top-line growth was weak for large-caps (except Infosys) and strong for mid-caps. We expect the demand environment to remain challenging for the next one–two quarters due to the macro—tariff-related—uncertainty. A key risk is any adverse currency movement and sharp appreciation of INR vis-à-vis USD and other currencies can negatively impact financials. Stocks to avoid: Birlasoft, TechM
Media	
Positive highlights PVRINOX posted a strong revenue and EBITDA growth with Ad revenues and SPH at all-time highs. Hollywood collections remained strong while Bollywood collections saw a comeback. Q2 pipeline for all media companies looks strong, and we expect a strong Q2 for the industry. Top picks: PVRINOX	Negative highlights/concerns/risks Barring PVRINOX, revenue growth remained sluggish across Media sector. Ad revenues for broadcasters declined as FMCG companies cut down on ad spends during the quarter. Stocks to avoid:
Metals & Mining	
Positive highlights The higher steel prices and lower coking coal prices aided the improvement in steel margins. Non-Ferrous: During Q1FY26, CoP decreased QoQ due to lower inpur cost. For Q2FY26E, earnings are likely to improve QoQ amid higher base metal prices. Top picks: JSPL and Vedanta	Negative highlights/concerns/risks The early onset of monsoon and plant shutdown for maintainance during Q1FY26 led to lower steel volumes QoQ. We expect steel earnings in Q2FY26E to be subdued due to lower steel prices. Non-ferrous: Lower aluminium and zinc prices led to a fall in Q1FY26 EBITDA QoQ. Stocks to avoid: GMDC and Coal India

Sector Highlights

Pharma and Healthcare	
Positive highlights MR force additions continue, providing visibility in the domestic market; anti infective growth to pick up Domestic cardiac therapy continues to clock double-digit growth CDMOs can continue to see capex driven growth Optimism on GLP-1, complex generics and specialty drugs EM/RoW markets growth remained positive, expected to clock double-digit growth going ahead for most companies Large generic companies to see a meaningful number of new product launches in H2FY26 Hospitals – High growth to continue driven by strategic bed expansions and ramp-up in existing hospitals Diagnostics – Competitive pricing environment remains rational; volume-led growth rebounds after weak seasonality Medplus – Private label contribution and margin strong; SSSG for 12+ month stores set to rise driven by branded revenue recovery and back-end improvements	Negative highlights/concerns/risks Potential risk of US policy changes regarding pricing and tariffs continues to loom EBITDA margins to remain subdued due to Revlimid erosion gRevlimid expected to continue to see further fall over coming quarters due to erosion Litigation risk for Zydus and Lupin regarding gMybertriq may arise Hospitals – Bed Expansion to put pressure on margins and RoCEs Pharmacy – Weak SSSG for Medplus and high employee attrition
Top picks: Ajanta Pharma, Dr Reddy's, Jubilant Pharmova, IPCA, Metropolis, Apollo Hospitals, Vijaya Diagnostic	Stocks to avoid: Sun, Cipla

Real Estate	
Positive highlights Business development remains robust across companies	Negative highlights/concerns/risks Muted launches led to soft pre-sales Slow collections and higher land capex led to increase in debt for few companies
Top picks: Prestige Estates, Brigade	Stocks to avoid:

Sector Highlights

Retail	
Positive highlights Jewellery companies reported sustained strong growth driven by wedding and festive demand; margins as well came in healthy across companies driven by improved productivity.	Negative highlights/concerns/risks QSRs are still under pressure and reported negative-to-flat SSSGs, barring Jubilant and RBA. The demand scenario stays similar to Q4FY25. Missing productivity continues to impact margins across the board along with companies resorting to value offerings at the cost of gross margins, which was observed in Devyani and Sapphire. Footwear companies reported another soft quarter of growth as demand conditions continue to stay muted. Electronic retailers posted soft results this quarter given an early rainfall this year, leading to muted sales of cooling products.
Top picks: Titan, Aditya Vision, Jubilant FoodWorks	Stocks to avoid: Bata, Shoppers Stop
Telecom	
Positive highlights Telcos are capitalising on growth opportunities in Home Services by expanding FTTH networks, thereby deepening coverage and enhancing market footprint. With the peak radio capex cycle largely behind and no new cycle expected in near term, healthy FCF generation is expected.	Negative highlights/concerns/risks India's pricing structure remains skewed, with entry-level and near-entry plans offering generous data, voice, and messaging benefits, leaving limited incentive for customers to upgrade.
Top picks: Bharti Airtel	Stocks to avoid: Vodafone Idea

Sector Highlights

Utilities	
Positive highlights In Q1FY26, an early and intense monsoon softened power demand, impacting cooling load, industrial activity, and lowering PLFs for major utilities, while prolonged cloud cover temporarily weighed on solar generation in key states. On the infrastructure front, transmission rollout was slower due to RoW hurdles and labour shortages, but these constraints are expected to ease in FY26, paving the way for smoother execution. With demand already rebounding in Q2 and renewable additions gathering pace, the macro backdrop is turning favourable, and we remain directionally positive on generation growth and overall sector momentum.	Negative highlights/concerns/risks In Q1FY26, power sector performance was muted as electricity demand grew just ~2% YoY, with an early, active monsoon dampening cooling load and industrial consumption. Lower demand led to reduced PLFs for thermal utilities, weaker merchant prices, and curtailments for some renewable players, though transmission revenues stayed stable. We remain positive, however, as demand has begun to recover in Q2, likely providing some relief to utilities. For IEX, the recently introduced market coupling framework could be a headwind as it may dilute its pricing advantage and reduce market share, potentially moderating its growth trajectory despite a recovery in overall power demand.
Top picks: ACME Solar, NTPC	Stocks to avoid: PowerGrid, IEX

Specialty Chemicals	
Positive highlights Tailwinds in the refrigerant gas portfolio continue, with more capacities of R-32 being announced by incumbents. Gradual volume-led recovery on a low base continues to be an FY26 phenomenon. Positive traction on the thematic "China+1" continues and is in flavour.	Negative highlights/concerns/risks Higher capacity from Chinese companies will keep realisations under pressure. USA tariff uncertainty dissuaded customers from planning inventories and led to deferred orders. Agrochem intermediates may see only a gradual improvement from 2HFY26E.
Top picks: SRF, Jubilant Ingrevia	Stocks to avoid: Aarti Industries

Sector Highlights

Internet	
Positive highlights IndiaMART is showing early signs of growth revival, with leading indicators such as traffic and unique business enquiries already improving. Lagging indicators, including supplier retention and moderated churn, are also expected to improve in the near term. Consolidated collections grew 17.5% YoY, highest in last seven quarters. In IEL, Naukri billings grew +9.0% YoY, partially impacted by deferral of contracts to the next quarter. Billing and collections picked up in July by 13%/19% YoY. Management remains cautiously optimistic on delivering growth momentum in coming quarters despite recent moderation in billings. Recent correction in stock price offers an attractive risk-reward. In Eternal, Blinkit reported NOV growth of 127% YoY—ahead of expectations. Control over marketing expenses and operation efficiencies curbed losses on adjusted EBITDA levels. As most of the business transition from 3P to 1P model is behind, margins are expected to expand by ~100bp. Food delivery business shall focus on growth acceleration.	Negative highlights/concerns/risks Route Mobile's growth was impacted as a large client sourced directly from MNOs coupled with persistent industry headwinds in the ILD segment. While EBITDA margin improved sequentially to 11.3%, it remains below the historical range of ~12.5%.
Top picks: IndiaMART, Eternal, InfoEdge	Stocks to avoid: Route Mobile
Asset Management/MF RTAs	
Positive highlights Sustained flows along with strong market momentum in Q1FY26 Nifty 50 led to a surge in AMCs' QAAUM. Introduction of the new asset class, "SIFs", is set to be a positive for the industry, enabling broader product offerings.	Negative highlights/concerns/risks Yield pressure continues to be a hurdle for revenue growth for AMCs and RTAs.
Top picks: KFINTECH, HDFCAMC, NAM	Stocks to avoid:

Sector Highlights

Insurance	
Positive highlights Life insurers witnessed improvement in VNB margin in Q1FY26 as the product mix shifted away from linked products towards protection, NPAR (higher margin products) along with higher rider attachment. Motor TP price hikes to aid multiline insurers (eg ICICI GI, GODIGIT). Investment income drives profitability.	Negative highlights/concerns/risks Growth in APE in H1FY26 on a high base of H1FY25 will be a key challenge for life insurers. CoRs remain elevated, hurting underwriting profits. Soft GWP growth due to slowing motor sales, and deferred accounting of long-term products. PSU general insurers continued to aggressively gain market share as indicated by growth in OD/TP segments.
Top picks: STARHEAL, HDFCLIFE, Max Financials	Stocks to avoid:

Capital Markets	
Positive highlights BSE delivered strong ADPTV at INR149bn (+108.1% YoY/26.5% QoQ). BSE is aggressively expanding its colocation facility. CDSL's annual issuer charges jumped 50% YoY. Strong IPO pipeline to aid CDSL's IPO revenue and transaction charges growth.	Negative highlights/concerns/risks While Jul-25 ADPTV reduced 10.2% MoM due to lower IVs, we estimate that expiry swap beginning Sep-25 would result in a drop in BSE's ADPTV and premium to notional turnover. CDSL's cost base has grown considerably, and the company continues to guide for high costs.
Top picks: CDSL, BSE	Stocks to avoid:

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