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Market Wrap

Ongoing US-Iran conflict keeps markets in a corrective phase

- With the looming threat of a US-Iran conflict, the market remains in a corrective phase after multiple failed attempts to hold above short-term averages.
- For a meaningful pullback to materialise, the Nifty must reclaim its short-term moving average (23,800) and establish a 'higher high-higher low' pattern on the weekly chart in the upcoming truncated week.
- Crude, FPIs and Corrections: Mirroring the Feb-22 Crash: The recent market weakness triggered by Middle East tensions closely mirrors the Russia-Ukraine crisis of February 2022. During that period, surging crude prices and aggressive FII selling pressure led to a sharp decline in Indian equities.
- Energy prices have shot up sharply ($73 to $110) recently putting pressure across the asset classes. Even in 2022, the crude prices have seen a surge of ~35% ($98 to $135). However, due to Indian dependency on middle east, we are relatively more impacted than 2022.
- In February 2022, FIIs offloaded nearly ₹70,000 crore in a single month, pulling the Nifty down by approximately 11% (from a base of ~18,000). As of now, Nifty has given away ~12% from 27th Feb amid intense sell-off of ~105k crores during the March month itself. However, Nifty has been consolidating around 23,000 level in the second half of March amid high volatility.
- Furthermore, despite the weakness, we haven't seen any incremental shorts from FPIs and their net shorts remained ~240k contracts. Rollover of these positions should dictate the directional move for the April series. We expect a change of bias in the new financial year and relatively low short are likely to be rolled into the April series.

Sectoral Outlook

- Apart from Technology, private sector banking heavyweights have witnessed major short positions. We expect Technology stocks may witness a short covering move ahead of quarterly results next month providing cushion to the headline index. Also, the sharp decline in the currency should also help the Technology stocks ahead of their quarterly results.
- The Bank Nifty rebalancing today, marks the final phase of a SEBI-mandated methodology change to cap top constituent weights and improve diversification. We believe that additional burden on private sector banking heavyweights may be over now, and inline performance is likely to be seen here onwards.

Government cuts excise duty on petrol and diesel by Rs 10/litre.

- Petrol and diesel prices may not see a sharp decline despite the duty cut, but the move is expected to pacify market sentiment as there was apprehension that retail prices may have to be increased and that could be significantly inflationary directly and indirectly across segments.
- The impact of this announcement is more on the Government revenue than on consumers or industry.
- The rough estimates suggest that the fiscal impact on the government revenue could be around Rs 1.55 lakh crore annually (if this revenue forgone remain for whole of the year).
- The real pressure is on debt market with 10-Year G-Sec yield up by 7bps after this announcement to 6.94%. Bond yields are already under pressure with 10-year yield up by 25bps in last 2 weeks (bond yields uptill now was holding up despite global yields moving up)
- However, Government has also levied export tax on refineries and that may offset the fiscal impact to some extent.

Nifty Target and Corporate Earnings: Too Early to take a call

- In the current conflict, from the corporate earnings perspective, the main implication for India is the rise in Crude prices (up 50% since the start of conflict), depreciation of Indian currency and supply shock of essential commodities such as LPG (due on disruption of key shipping routes). However, it seems to be more transitory in nature than being structural.
- If the current conflict sustains, higher crude and its derivates can potentially lower the earnings growth trajectory, given we import ~85% of our crude and ~50% of our gas requirements.
- Corporates have started to feel the pinch of the current geopolitical tensions as crude derivatives form a reasonable proposition of raw material costs, the price rise of the which as well as availability is under check.
- Interestingly, in the last global geopolitical conflict i.e. Russia-Ukraine war (early 2022); corporate earnings were resilient with only 2.5% decline in EPS estimates.
- However, this might not be true in the current scenario as supply chain shock is far bigger. Corporates are non-committal on the impact at this point in time. Q4FY26 could still sail through, however earnings impact could be seen in H1FY27.
- Even if corporate earnings were to correct by 5-6%, we could still manage a Nifty EPS of ~₹ 1,350 for FY28E vs. our current estimates of ₹ 1,415 and assigning a reduced PE multiple of ~20x; our base case Nifty target is still placed at 27,000 levels; offering healthy 17% upside potential.
- However, as situation is fluid, as of now, we stick to our CY26 end Nifty target is placed at 29,500 wherein we have valued the index at 21x PE on FY28E. Our corresponding target for Sensex is pegged at 98,500. We expect markets to deliver healthy double digit returns over the next 12 months.
- Nifty 50 trades at ~16x P/E on forward basis vs. earnings CAGR of ~16% (PEG:1.0x); while Nifty Mid-Cap trades at ~19x P/E on forward basis vs. earnings CAGR of ~15% (PEG: 1.3x).
- Nifty Small Cap index trades at ~15x P/E on 2-yr forward basis vs. earnings CAGR of ~23%; i.e. attractive (0.7x PEG) vs. its peers. This space looks most attractive to us.

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Generic version of obesity drug to open up new opportunities for Indian Pharma

- Obesity / Anti-diabetic GLP-1 drug semaglutide has gone off-patent in India, triggering a wave of generic launches by almost 10 players, in the initial phase.
- The products have been introduced across multiple formats—including vials, pens, reusable multi-dose pens and oral formulations—with pricing starting at ~₹1,300/month for vials (Natco, Glenmark), ~₹2,200 for reusable pens (Zydus, Lupin), and ~₹3,000 for pens (Sun Pharma), indicating aggressive pricing to drive adoption.
- We expect Obesity care as an altogether new therapy category to emerge given that ~18 crore people in India are either overweight or obese, which is second highest globally.
- Note that most of the players are pitching semaglutide to diabetologists, cardiologists among others.
- Companies have already deployed a dedicated sales force for this opportunity- a case in point is Lupin which has added 200 MRs for Semaglutide.
- From a yearly run-rate of ~₹ 1500 crore, we believe this category has a potential to grow multifold as the acceptance and reach improves and can add an additional 1-2% to the overall Indian pharma growth.
- After an initial rush and pushing, we expect 7-8 large players with deep pockets to dominate the market which is expected to grow at +10% on a steady state basis.
- We expect Sun Pharma(TP - ₹1910), DRL(TP - ₹1490) and Zydus(TP - ₹1055) to be likely beneficiaries among others.

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Energy Security becoming core at the Bharat Electricity Summit

- The government outlined a clear roadmap for a resilient, future-ready power sector, with focus on renewables, storage, transmission expansion and digitalisation. India's installed power capacity has reached ~520 GW, with ~50% from non-fossil sources, while renewable additions continue to dominate (With record ~52.5 GW capacity addition in FY26, with ~75% from renewables, led by solar expansion), highlighting strong energy transition momentum.
- Power demand is expected to grow >30% by 2030, with peak demand already touching ~242 GW, indicating strong medium-term capacity addition and equipment demand.
- Bharat Electricity Summit 2026 – Key Highlights
- Government released National Resource Adequacy Plan and Transmission Plan, targeting integration of ~900 GW non-fossil capacity by 2035-36, indicating massive long-term capacity addition.
- Peak demand projected to reach ~459 GW with energy requirement of ~3,365 BU by 2036, driven by data centres, EV adoption and industrial growth.
- Significant push towards flexibility with ~ (174 GW / 888 GWh) energy storage (80 GW / 321 GWh BESS)+ (94 GW / 567 GWh pumped hydro), along with ~22 GW nuclear and ~20 GW gas-based capacity expansion.
- Power Infrastructure Boost: A major transmission roadmap has been unveiled, proposing an investment of ₹7.93 lakh crore to build 1,37,500 circuit kilometres of new lines and 8,27,600 MVA of substation capacity by 2035-36. This expansion is designed to strengthen grid resilience and ensure the seamless evacuation of renewable energy across India.
- ~₹32,000 crore capex pipeline announced by power equipment manufacturers, signalling improving order inflows for capital goods players.
- Overall power sector investment opportunity estimated at ~₹200 lakh crore over next two decades, highlighting structural growth visibility.
- Positive for power and capital goods companies such as NTPC, Power Grid , Tata Power, Bharat Heavy Electricals Limited, Siemens, KEC International, Kalpataru Projects International and ABB India, given strong visibility on capex, transmission build-out and energy transition-led investments.

Indian IT Industry and GenAI: Front ended risks followed by massive back ended opportunities

- Indian IT stocks have seen a sharp correction with the Nifty IT index down ~25% YTD, largely driven by rising concerns around Gen AI disruption, macro uncertainty and a valuation reset rather than any major deterioration in fundamentals. Operating performance across companies remains relatively stable with continued deal wins, but investors are worried about the long-term impact of AI on the traditional effort-based services model.
- The key concern is productivity-led deflation; industry commentary suggests Gen AI could lead to ~2–3% annual revenue deflation in traditional services over the next few years as automation reduces effort and pricing. This creates a near-term phase where productivity gains reduce revenues before new AI-led demand scales up.
- However, structurally the opportunity remains large as Gen AI is expected to expand the technology services opportunity meaningfully over the medium term by accelerating automation and digital transformation initiatives. AI-led services are expected to create an incremental TAM of $300–400bn by 2030, which is larger than the current Indian IT industry size of ~$280bn. It is also expected to create 170 mn jobs vs the 92 mn traditional jobs it displaces, implying the long-term opportunity is bigger than the near-term risk. Thus, the current phase should be viewed as a transition, where deflationary pressures precede a broader expansion cycle.
- Notably, AI-enabled software pricing and rising tech salaries are pushing enterprise tech budgets higher. The advantage for India remains in its labour arbitrage as a senior engineer in the US costs ~US$280k annually versus ~US$52k in India including AI tools, strengthening the AI + offshore delivery model. Thus, strong tech spending growth in India is going to be a positive for IT services.
- Valuation wise too, most IT stocks are now trading at 17–43% discount to their 5-year average 1 year forward PE multiples, which provides valuation comfort at current levels.
- Overall, the sector is likely to see near-term growth moderation but medium-term opportunity expansion, with recovery expected to be back-ended towards FY28 and driven by scaling of enterprise AI deployments. Our stance on the sector remains Neutral, with preference for companies showing early AI monetisation and resilient growth such as TCS, Persistent and LTM. We believe that staggered investments (over the next couple of months) in the selected IT stocks will yield healthy returns over the next 18-24 months.

Company	Rating	Old TP	New TP	Old Multiple	New Multiple	CMP	Upside
TCS	BUY	3,780	3,140	23	20	2,377	32%
Infosys	HOLD	1,550	1,400	19	18	1,279	9%
HCLTech	HOLD	1,650	1,500	20	19	1,381	9%
TechM	BUY	2,000	1,650	23	20	1,408	17%
LTM	BUY	7,400	5,200	30	22	4,293	21%
Coforge	BUY	1,980	1,350	32	22	1,163	16%
Persistent Systems	BUY	7,200	5,750	41	35	4,928	17%
Mphasis	BUY	3,250	2,550	24	20	2,132	20%

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Indian Graphite Electrode Industry: Finally, some Light at the end of tunnel!!

- Graftech, an US based industry leader in graphite electrode domain has announced graphite electrode price hike by a minimum of $600 to $1,200 per metric ton, depending on region, effective immediately on uncommitted volumes (contributes ~35% of total sales volume).
- Graftech is the industry leader with nearly ~15% global market share in the global graphite electrode industry with annual volumes nearing a lakh tonne
- The price increase is in response to lower graphite electrode prices over the past few years (below sustainable levels leading to EBITDA loss for the company in Q4CY25) coupled with rise in raw material costs amidst ongoing geo-political conflict.
- Last reported graphite electrode realization by Graftech was to the tune of ~$4,000/tonne, hence the current price hike of $600-1200/tonne corresponds to a price hike of 15-30%.
- We see this as a positive development for the domestic graphite electrode players which were also under profitability pressure on account of subdued pricing environment globally.
- However, we await management commentary as to what price hike Indian players can take amid potential rise in key crude derived raw material such as needle coke, to assess the real follow though to profitability.
- This is sentimentally big positive for HEG Ltd and Graphite India as any price hike by these players amid existing needle coke inventory will lead to near term gains.
- One point to also note is that both the players i.e. HEG Ltd and Graphite India have announced capacity addition in the graphite electrode space (15,000 tonne and 25,000 tonne respectively) and are also shareholders in Graftech thereby amplifying the gains in this domain.
- We have a BUY rating on HEG with a SoTP based target price of ₹ 635/share
- With global transition towards EAF route of steel making we continue to remain positive on this space with HEG as our top pick.

Paint companies: Asian Paints will take 6-8% price increase in Apr,26 to mitigate cost pressure

- Asian Paints will take price increase of 6-8% in its portfolio to mitigate the impact of spike in the brent crude prices. The price hikes will be taken in two tranches depending on volatility in the crude prices. First tranche of price hike is expected in Apr,26.
- Brent crude prices have remained volatile and remain in the range of $90 to $110 per barrel. Crude and crude derivatives form 25-30% of the paint's input cost.
- According to the industry, if crude prices go-up by 40%, effective increase in the raw material cost would 12%. Current volatility in the crude prices indicates 12-13% increase in the raw material cost of the paint companies.
- We expect the company to pass-on 50-60% of increase in the input prices to customers through price hikes. Asian Paints has already taken 6-8% price hike while Berger Paints will take price hike of 3% in Apr,26. Berger Paints management has indicated of further price increase of 3-5% in the subsequent months.
- Above price hike will come with the lag and will be lesser compared to increase in the crude prices. Hence, we should expect decline in the EBIDTA margins in H1FY27. However, if crude prices correct and stabilises below $75-80 per barrel, then we might see sequential recovery in the EBIDTA margins in H2FY27.
- We will keenly monitor the volatility in the key input prices in the near term to firm up our view. Having said that price hikes by top players in the paints industry provides glimpse of fading competitiveness in the domestic paints industry. Asian Paints stock price has corrected by 29% from its high (trading at 44x/38x its FY27E/FY28E EPS) and factors in the near-term uncertainties. We have a Buy rating on the stock with price target of Rs3055.

- Stocks Preferred

Stock	Target Price
1. L&T	5030
1. Maruti	17650
1. M&M	4500
1. Bharti Airtel	2450
1. Ultratech	15000
1. Solar Ind	16700

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