

## Defence - Strongest Structural Growth Story Post-Operation Sindoor

### Key Metrics

**₹7.85L cr**

FY27 Defence Budget, all-time high (+15% YoY)

**₹1.85L cr**

Capex acquisition (+24%); 75% ring-fenced for domestic industry

**\$543bn**

Cumulative defence spend projected 2026-2030

**72%**

Defence contracts delayed (CAG 2025) - key execution risk

### Tailwinds & Headwinds

#### ► TAILWINDS

- FY27 budget ₹7.85L cr, up 15%; largest ever allocation at 2% of GDP
- Op. Sindoor triggered emergency procurement & reset political appetite
- ₹1.39L cr (75% of capex) ring-fenced for domestic industry 5+ yrs running

#### ► HEADWINDS

- Pension bill ₹1.71L cr - structurally growing cost compressing modernisation room
- 72% contracts delayed (CAG 2025); FY27-29 peak liability cycle crowds out new capex

- Operation Sindoor created an irreversible political imperative for modernisation - validated domestic platforms in real combat conditions for the first time. Direction is unambiguous.
- Procurement pace is the key risk: 72% contract delays and peak liability cycle (FY27-29) may crowd out discretionary new spending within the capital envelope.
- Indigenisation remains more assembly than component-level self-reliance. Stock selection separates structural winners from sentiment beneficiaries. Order pipeline is real; buy on dips.

**Bottom Line:** Clearly upgraded - the clearest structural growth story in our coverage. \$543bn potential pipeline now backed by hard budget intent and geopolitical necessity. Stance: **BULLISH** - Overweight; clear structural growth story post-Op Sindoor

## Metals - Trapped Between Solid Demand and China Dumping

### Key Metrics

**12%**

Safeguard duty on flat steel imports (Year 1), declining to 11% by Year 3

**0.7%**

Global Expected basic metals growth 2026 - Chinese overcapacity dominant risk

### EU CBAM

Carbon tax on Indian steel exports to EU - medium-term structural headwind

### Depressed

Near-term realisations under pressure as safeguard duty lapses effect imports

### Tailwinds & Headwinds

#### ► TAILWINDS

- WSA forecasts strong steel demand in India via urbanisation & infra buildout 2026
- Graduated safeguard duty (12%→11% over 3 yrs) provides near-term pricing support
- Defence manufacturing & real estate recovery supporting long-term structural demand

#### ► HEADWINDS

- China low-cost steel dumping pressuring domestic producers; 200-day duty lapsed late 2025
- EU CBAM: carbon tax on Indian steel exports to Europe - forces green steel capex transition

- Sector trapped in a recurring cycle: Chinese dumping, temporary tariff protection, pricing collapse when protection lapses. The 3-year safeguard is a runway, not a solution - structural problem persists.
- EU CBAM forces Indian steel exporters toward green steel capex - coal-intensive players face elevated transition costs alongside already compressed realisations.
- Prefer domestic-focused integrated producers with infrastructure order exposure over export-dependent players. Good long-term demand, but structurally suppressed near-term realisations.

**Bottom Line:** Domestic demand fundamentals solid but Chinese overcapacity overhang persists. Prefer integrated domestic producers over export-dependent players. Stance: **NEUTRAL** - Selective; good long-term demand, structurally suppressed near-term realisations

## Financial Services - Strong Banks, Stressed Microfinance: A Bifurcated Sector

### Key Metrics

#### ₹200L cr

Total bank credit (Jan 2026) +12% YoY;  
Gross NPAs 20-yr low of 2.31% by Mar-25

#### ₹75.6L cr

Mutual Fund AUM; ~20% of GDP vs US  
at ~90% - long structural runway

#### \$9bn

Private credit H1 2025 (record, +53%  
YoY)

#### 100%

Insurance FDI cap raised -  
financialisation of savings accelerating  
structurally

### Tailwinds & Headwinds

#### ► TAILWINDS

- Bank credit ₹200L cr; NPAs at 20-yr low; PSBs in strongest shape in a decade
- India mid-transition: physical savings (gold/RE) → financial assets (MF/insurance/NPS)
- Median age ~29 yrs - peak borrowing years drive multi-product simultaneous demand

#### ► HEADWINDS

- Microfinance: elevated leverage, margin compression, deteriorating asset quality
- NBFC bank credit stagnant at ₹13.8L cr despite the RBI rolling back higher risk weights; housing finance growth easing from 14% to 12-13%

- Banks, especially PSBs, are in the best shape in a decade: clean books, record profits, sustainable credit growth. This sub-segment warrants a premium multiple versus historical averages.
- Microfinance and small-ticket NBFC stress is not fully priced at mid-cap level. Deterioration in asset quality is accelerating - active position management required now, not later.
- MF AUM at 20% of GDP vs US at ~90% shows the structural runway. Insurance and wealth management are multi-decade compounders - no systemic risk, but stock selection matters more than ever.

**Bottom Line:** No systemic risk, but stock selection matters more now than it has in years. Overweight large PSBs and quality private banks; underweight MFIs and small-ticket NBFCs. Stance: **BULLISH** - Bifurcated; overweight large PSBs and private banks, underweight MFIs

## Pharma - Generics Exempted Today; 12-Month US Review Creates Structural Overhang

### Key Metrics

**\$32bn**

India pharma export target; domestic market growing at 8-9% YoY

**38%**

India pharma export concentration in US - key vulnerability to monitor

**\$200bn+**

Global patent cliff 2026-29

**\$11.75bn**

Sun Pharma-Organon deal; India's largest overseas pharma acquisition in 20 yrs

### Tailwinds & Headwinds

#### ▶ TAILWINDS

- US Section 232 tariffs (Apr 2026) explicitly exempt generics & biosimilars
- Patent cliff 2026-29: \$200bn+ drugs losing exclusivity - massive generic opportunity
- Novo Nordisk GLP-1/Semaglutide patent expired in India Mar 2026; Indian firms cleared to manufacture

#### ▶ HEADWINDS

- US 1-yr review on extending tariffs to generics - binary risk on \$10bn US export base
- US generics pricing eroding; no reshoring deal with US unlike UK/EU - structurally vulnerable

- ▶ Near-term relief, medium-term anxiety. Generics exemption has a hard expiry - the one-year US review is a binary risk that the market appears to underestimate at current multiples.
- ▶ Sun Pharma Organon (\$11.75bn) is transformational - top-25 global pharma, top-10 biosimilar player. Transaction close expected early 2027; integration execution is now the key monitor. This Deal is expected set precedent and open floodgates for overseas acquisitions.
- ▶ 38% US export concentration is underpriced structural risk. Buy diversified exporters with CDMO/biosimilar exposure; reduce US-generic-heavy names ahead of review window closing.

**Bottom Line:** 38% US export concentration is underpriced risk. Buy diversified exporters with CDMO/biosimilar exposure; reduce US-generic-heavy names ahead of the review window. Stance: **BEARISH** - Near-term cautious; 12-month US tariff review creates structural overhang

## Energy (Power & Renewables) - Record Capacity Added; Returns Now Selective, Not Broad

### Key Metrics

**55.29 GW**

Non-fossil capacity added in FY26 (record); total 283.46 GW installed

**>50%**

Non-fossil share of installed capacity (Jun 2025) - 5 yrs ahead of Paris target

**29.2%**

Actual generation from non-fossil - large gap vs installed capacity (intermittency)

**16.3 GW**

Rooftop/distributed solar added in FY26; decentralised demand scaling rapidly

### Tailwinds & Headwinds

#### ► TAILWINDS

- Record 55.29 GW non-fossil added FY26; 150 GW solar, 56 GW wind now installed
- IEA: India one of fastest-growing electricity markets; industrialisation & AC penetration key
- Grid capex rising; regulated transmission utilities (Power Grid) with visible cash flows

#### ► HEADWINDS

- India has only 25.6 GW solar cell capacity vs 50 GW demand; 90%+ imports from China
- DISCOM financial stress & transmission bottlenecks constrain renewable project cash flows

- Long-term conviction intact but near-term stock selection is critical. Actual generation (29.2% non-fossil) significantly lags installed capacity - earnings conversion depends on land, storage and grid.
- Investable opportunity is shifting from megawatts installed to megawatts delivered: grid modernisation, battery storage, transmission EPC, and smart metering offer superior near-term cash-flow visibility.
- Solar cell shortage is the acute near-term risk: mandatory domestic content rules from June 2026 could derail project timelines where Chinese cells cannot be substituted quickly.

**Bottom Line:** Long-term story intact, near-term selective. Battery storage, Grid EPC & Digitization and smart metering are the next alpha generators. Stance: **NEUTRAL** - Positive long-term; near-term returns selective, not broad-based

## IT - Structural Disruption Underway; AI Opportunity Real but Transition Pain Persists

### Key Metrics

### 15%

Operating margins (Dec 2025) vs 19% long-term avg - severely compressed

### 7%

CY25 revenue growth vs 17% long-term avg - at multi-year low

### 12,000

TCS layoffs (Jul 2025) - largest ever; AI-driven skill mismatch signal

### 21x PE

Nifty IT; risk of further de-rating if US BFSI budgets slow further

### Tailwinds & Headwinds

#### ► TAILWINDS

- AI opening higher-value services: data engineering, model deployment, compliance
- Large-caps beginning to monetise AI engagements at early but visible scale

#### ► HEADWINDS

- Margins at 15% vs 19% LT avg; CY25 revenue growth at 7% vs 17% LT avg - both multi-year lows
- TCS: 12,000 layoffs (largest ever); AI-driven skill mismatch restructuring only beginning
- FII net outflows from IT: 26.1% (Jan-Aug 2025) - sharpest of any major sector in India

- AI is simultaneously the threat (automating traditional outsourcing) and the opportunity (new service lines) - but the transition creates a near-term earnings valley not yet fully played out. Recovery depends on US BFSI budget normalisation, not visible in next 2 quarters.
- FII outflows of 26.1% net (sharpest of any sector) signal structural institutional de-rating. Nifty IT at 21x PE may not fully capture margin risk if US macro deteriorates further.
- Indian IT workforce currently helps foreign players build/support AI models rather than owning IP - a structural vulnerability as AI advantage compounds with data and time. Earlier movers (US, China) hold the durable edge.

**Bottom Line:** Market correctly repricing Indian IT from compounder to disrupted business. Accumulate large-caps with demonstrated AI monetisation on significant dips only. Avoid mid-cap IT. Stance: **BEARISH** - Underweight; structural AI disruption creating near-term earnings valley

## FMCG - Strongest Demand Setup in Years, But Monsoon Risk & Margin Squeeze Loom

### Key Metrics

**6%**

FMCG value growth FY26 vs 9.5% in FY25 - decelerating despite macro tailwinds

**-18%**

Nifty FMCG index CY26 till Mar 2026 - underperforming broader market pre-monsoon miss

**6-9%**

Estimated cost hit from crude-linked packaging & palm oil volatility

**45-50%**

Dabur rural sales - most exposed to monsoon shortfall; Britannia ~40%

### Tailwinds & Headwinds

#### ► TAILWINDS

- Tax relief, GST 2.0, 125 bps repo cuts simultaneously boosting urban & rural incomes
- Premiumisation in urban + rural recovery: rare dual-engine demand dynamic in FY26

#### ► HEADWINDS

- Skymet's below-normal 2026 monsoon forecast - single biggest near-term sector risk
- Crude-linked input cost margin damage arrives with lag - Q2/Q3 FY27 most at risk
- D2C & regional brand competition eroding distribution moat of large incumbents

- Monsoon is the single biggest near-term risk - Skymet's below-normal 2026 forecast could unwind rural recovery that drove FY26 outperformance. Dabur (45-50% rural) and Britannia (40-45%) most exposed.
- Margin damage from crude-linked inputs arrives with a lag. Q2/Q3 FY27 is where true impact shows in earnings - small and mid-cap names with limited pricing power are most vulnerable.
- Small-cap FMCG is the real danger zone: high P/E multiples with zero earnings cushion. An earnings disappointment is now base-case risk, not a tail risk. Nifty FMCG's -18% till Mar 2026 end is a warning.

**Bottom Line:** Avoid small-cap FMCG. Macro setup strong but monsoon + input timing could reverse sentiment sharply in Q2/Q3 FY27. Stance: **NEUTRAL** - Cautious; large-caps only, bifurcated with clear monsoon and margin tail risks.

## Auto - Policy Tailwinds Reset Growth to Moderately Positive; EV Transition Accelerates

### Key Metrics

**6-7%**

PV volume growth reset for FY26; rate cuts + tax relief + GST 2.0 driving

**16%**

EV scooter penetration 2025 - all-time high; PV EV target 15% by 2030

**18%**

US tariff on Indian auto exports post Feb 2026 deal (down from 50%)

**<8%**

OEM EBITDA margins Q3 2025 - compressed from ~11%; transitional not structural

### Tailwinds & Headwinds

#### ► TAILWINDS

- Repo cuts + income tax relief + GST 2.0 resetting PV demand to 6-7% growth
- EV GST cut to 5% + ₹10,900 cr PM E-DRIVE scheme through 2028; adoption accelerating
- 8th Pay Commission boosts govt employee disposable income - fresh PV demand catalyst

#### ► HEADWINDS

- US tariff 18% (down from 50%) + Mexico duties add near-term export risk for ancillaries
- Entry-level PV market structurally weak; OEM EBITDA compressed to below 8% in Q3 FY26

- Policy tailwinds are real and multi-pronged - rate cuts, tax relief, and GST reform simultaneously boosting urban premium buyers, rural tractor demand, and govt employee segments. A rare multi-front recovery.
- US tariff normalisation (50%→18%) partially contains export risk, but export diversification from US/Mexico is now a strategic necessity. Ancillary suppliers remain most exposed.
- EV growth concentrated in SUVs and premium; entry-level market structurally challenged. Charging infrastructure gap and rare earth supply chain risk are unresolved medium-term concerns.

**Bottom Line:** Neutral from cautious. OEM margin compression is transitional. Avoid entry-level OEMs with limited EV exposure. Stance: **NEUTRAL** - Moderately positive; policy tailwinds real, EV transition accelerating

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