

Dear Investor,

This note marks the third edition of our “Opportunities in Adversity” series, a framework we have previously used during periods of extreme uncertainty. In the earlier two instances—Part 1 during the COVID-led market collapse and Part 2 amid the Russia–Ukraine war-related disruptions—investors who stayed disciplined and invested through volatility were rewarded handsomely as fundamentals eventually reasserted themselves. We believe the current environment mirrors those earlier phases and is once again presenting a similar long-term opportunity.

The global landscape has undergone a dramatic shift over the past few years. What began with the COVID-19 pandemic was followed by prolonged supply-chain disruptions stemming from the Russia–Ukraine conflict, and has now evolved into heightened geopolitical tensions, rising protectionism, and tariff-related uncertainty. Major military and economic powers, particularly the US, appear increasingly assertive in securing influence over weaker, resource-rich nations, adding to global instability. Against this challenging backdrop, Indian equity markets have witnessed notable underperformance relative to both emerging and developed market peers, driven by relentless FII selling, the absence of large AI-led market narratives, and repeated delays in finalizing a trade agreement with the US. Recent headlines around the potential imposition of punitive tariffs—some as high as 500%—have further amplified investor pessimism and weighed heavily on sentiment.

The Indian rupee has also borne the brunt of these developments. Persistent trade deal uncertainty and sustained FII outflows have resulted in the rupee depreciating by ~6% against the US dollar, touching lows of around 91.72, making it one of the worst-performing major currencies in recent months. This currency weakness has further compounded negative sentiment toward Indian assets, particularly in the near term. However, it is important to separate sentiment-driven price action from underlying fundamentals. Despite the sharp correction in equity and currency markets, corporate earnings have not seen a meaningful deterioration, nor have earnings estimates been materially cut. Importantly, India’s macroeconomic strength remains intact, with FY26E GDP growth estimated at 7.4%, keeping India the fastest-growing major economy globally, supported by strong domestic demand, ongoing structural reforms, and a resilient financial system.

From a policy and geopolitical standpoint, we believe concerns around punitive US tariffs may be overstated. With India halting purchases of Russian oil—a key point of contention in trade negotiations—we expect the proposed 25% punitive tariffs to be revoked over time, which could act as a meaningful catalyst for sentiment and capital flows into Indian markets. While the recent underperformance has been mentally exhausting, especially for newer investors who entered the markets over the last 18–24 months and are yet to see meaningful returns, history reminds us that successful investing is not about speed but about consistency, discipline, and staying invested through cycles. To borrow an analogy from cricket, investing is a Test Match, not a T20—it requires patience, time at the crease, and the conviction to wait for the right opportunity. We believe the market today is once again offering such a moment, where patience and long-term conviction can be rewarded.

Stock Ideas...

Avenue Supermarts Ltd. | CMP Rs: 3662 | Target Rs: 4300 | Upside: 17.4%

Avenue Supermart Ltd (DMART) operates a differentiated, value-led food and grocery retail model built on everyday low pricing, high inventory turnover, and superior store-level economics, with large-format stores, direct sourcing, and tight cost control enabling competitive pricing alongside healthy profitability. As of 3QFY26, the company has expanded its footprint to 442 stores covering 18.3 million sq. ft., strengthening its presence across urban and semi-urban markets and reinforcing its position as one of India's most efficient brick-and-mortar retailers. Its well-balanced category mix, with Food contributing ~57% of revenues as the primary traffic driver and higher-margin segments such as General Merchandise, Apparel, and non-food FMCG accounting for the remaining 43%, supports margins, while a high proportion of owned stores and disciplined cost control have contained operating costs per square foot and driven a recovery in profitability, reflected in EBITDA margins of 8.4% and PAT margins of 5.2% in 3QFY26. Looking ahead, DMART's growth is anchored in accelerated store additions and gradual improvement in like-for-like growth amid increasing formalization of consumption, with profitability expected to normalize as operating leverage improves; despite trading at a premium FY27E P/E of 65x, the valuation appears justified given its superior execution, strong balance sheet, predictable cash flows, and long runway for store-led growth, supporting a constructive outlook on the stock..

❖ Bharat Forge Ltd. | CMP: Rs 1,394 | Target Rs: 1,750 | Upside: 25.5%

Bharat Forge Ltd., part of the Kalyani Group, is a leading manufacturer and exporter of forged components serving the automotive and industrial sectors, with over 51% of its standalone FY25 revenue derived from the auto segment, positioning it as India's largest auto component exporter. The company has been strategically diversifying into defence, with its defence order book increasing to over ₹11,000 crore as of January 2026 from ~₹9,400 crore in September 2025, largely driven by a ₹1,661.9 crore contract awarded by the Indian Ministry of Defence for the supply of 255,128 CQB carbines to the Indian Army over the next five years. Looking ahead, defence and aerospace are expected to be key growth engines, complementing the core auto business, while export growth across both auto and non-auto segments remains partly contingent on the trajectory of US tariffs on Indian goods. With Q3 demand trends likely to remain similar to Q2 and a gradual improvement expected from Q4 onwards, Bharat Forge's expanding defence order book, strong domestic business momentum, diversified revenue mix, and stable margins support a constructive outlook on the stock, leading us to maintain a BUY rating with a target price of ₹1,750.

❖ BSE | CMP Rs: 2,653 | Target Rs: 3,200 | Upside: 20.6%

BSE Limited presents a highly attractive investment opportunity, supported by its strong legacy, exceptional financial performance, and diversified growth strategy. In FY 2024–25, the exchange delivered its best-ever results, with consolidated revenue surging 103%, primarily driven by the relaunch and rapid success of its equity derivatives segment, which has become the world's second largest within a year. The company benefits from a largely fixed-cost structure, allowing incremental revenues to directly enhance profitability. Larger trading volumes, supported by an increase in contract size, have further boosted revenue while keeping costs relatively low. The quality of premiums has improved as a greater number of trades shifted from expiry to non-expiry contracts, improving realization. Transaction revenues—spanning equity cash, equity derivatives, mutual funds, and clearing operations—continue to rise in line with growing derivatives activity. BSE's dominant 85–90% market share in mutual fund distribution through its StAR MF platform, robust balance sheet, shareholder-friendly policies, and expansion across equity, debt, currency, and international markets via India INX, all reinforce its growth potential. With increasing derivatives volumes, strong Sensex product performance, and continued technological innovation, BSE stands well-positioned for sustainable, long-term value creation.

❖ Emcure Pharma Ltd. | CMP Rs: 1,536 | Target Rs: 1,850 | Upside: 20.5%

Emcure Pharma represents a steady, high-quality compounding opportunity, anchored in a strong branded generics franchise across India and select international markets. The company derives 46.3% of FY25 revenues from India, where it ranks 13th by sales, and is now refocusing on the domestic market after years of underinvestment. A renewed push, including a 20% expansion in the domestic field force, deeper penetration into Tier 3/4 towns, and a stronger chronic therapy mix, is expected to drive double-digit domestic growth, ahead of industry averages. International operations, contributing 53.7% of revenues, are well diversified, with Europe and Canada offering stable, profitable growth supported by complex generics and injectables. This balanced geographic mix, coupled with operating leverage and margin expansion, positions Emcure to deliver a ~27% PAT CAGR over FY25–FY28E. With strong cash flow visibility, defensible end demand, and reasonable valuations relative to peers, Emcure stands out as a reliable long-term compounding in the Indian pharmaceutical space.

❖ **Larsen & Toubro Ltd.: | CMP Rs: 3,810 | Target Rs: 4,230 | Upside: 11.2%**

Larsen & Toubro, India's largest engineering and construction company, is well positioned to benefit from a sustained domestic and global capex upcycle, supported by its highly diversified business mix across infrastructure, hydrocarbons, energy, defence, heavy engineering, and services, which provides resilience across cycles. Strong order inflows have driven the order backlog to ~₹6.7 trillion, up ~31% YoY, offering multi-year revenue visibility, while improving execution, a favourable project mix, and a strategic focus on higher-margin segments are driving steady margin expansion. Management initiatives such as achieving breakeven in metro assets, maintaining capital discipline, and enhancing shareholder payouts are expected to lift ROE toward ~18% over the medium term. We expect L&T to deliver healthy earnings growth, with revenues and PAT likely to grow at a CAGR of ~14–15% and ~19% respectively over FY25–27, supported by robust execution and improving return ratios; we arrive at a target price of ₹4,230 based on SOTP and believe current valuations remain attractive given strong earnings visibility, balance sheet strength, and improving capital efficiency, implying meaningful upside over the medium term.

❖ **SBI | CMP Rs: 1,036 | Target Rs: 1,250 | Upside: 20.6%**

State Bank of India offers a compelling investment case anchored in its scale advantage, improving asset quality, strong capital position, and attractive valuations. As India's largest bank with ~23% loan market share, SBI is well positioned to benefit from the ongoing credit cycle, with loans and deposits growing at ~12% YoY and a comfortable domestic LDR of ~77%, leaving ample headroom for growth. While near-term NIMs are under pressure due to rate transmission and deposit repricing, management expects margins to bottom out in 2QFY26 and recover gradually in 2HFY26, supporting a normalized ROA of ~1% over the medium term. Asset quality remains a key strength, with GNPA/NNPA at 1.8%/0.5%, declining slippages, and credit costs guided to remain contained at ~50 bps, reflecting a structurally healthier loan book across corporate, SME, and retail segments. Operational efficiency continues to improve, with the cost-to-income ratio trending below 50%, aided by scale benefits and cost discipline. SBI's recent ₹250 bn capital raise has further strengthened its CET-1 to ~12.3%, enabling it to support multi-year loan growth without balance sheet stress. Importantly, the bank's valuable subsidiaries in life insurance, asset management, cards, and capital markets provide significant embedded value, enhancing return potential under a SOTP framework. Trading at ~0.9x FY27E core P/B for an average ROE of ~13–14%, SBI remains attractively valued relative to its fundamentals, offering a favourable risk-reward with strong earnings visibility and upside from margin normalization, steady credit growth, and improving capital efficiency.

❖ SJS Enterprises: | CMP Rs: 1,579 | Target Rs: 2,000 | Upside: 26.6%

SJS Enterprises is a leading Indian player in decorative aesthetics, providing high-precision and customized solutions such as appliques, decals, badges, overlays, in-mould labels, and chrome-plated or painted injection-molded parts across diversified end markets including two-wheelers, passenger vehicles, commercial vehicles, farm equipment, medical devices, and consumer durables. The company is a preferred supplier to marquee OEMs like Mahindra, Bajaj, TVS, and Tata Motors, with recent customer additions such as Nissan, Hero, and Whirlpool, reflecting strong execution, quality focus, and innovation-led product development that continues to increase content per vehicle and deepen OEM relationships. SJS is a clear beneficiary of the structural shift toward premiumization, aesthetics, and personalization, which has driven a meaningful rise in content per vehicle across segments and provides multi-year growth visibility, supported further by exports expected to double by FY28 and tailwinds from EV launches and policy support. Its expanding OEM footprint, entry into automotive displays through a strategic partnership with BOE Varitronix, and consistent above-industry growth with margin expansion underpin a strong long-term outlook, and despite trading at ~30x FY27 EPS, the stock remains attractive given its niche positioning and growth visibility; we assign a target price of ₹2,000.

❖ Steelcast Ltd. | CMP Rs: 192 | Target Rs: 250 | Upside: 29.9%

Steelcast is a niche, high-quality manufacturer of steel and alloy castings with deep relationships with global OEMs such as Caterpillar, JCB, and BEML, supplying critical components for mining, earthmoving, and heavy engineering applications. The company operates with an installed capacity of 29,000 tonnes, while current utilization remains at ~43% in FY25, providing significant headroom for growth without near-term capex. Over the last five years, Steelcast has steadily expanded its product portfolio from 142 to 298 components, increasing wallet share with existing customers and improving relevance in global supply chains. Strong cost controls, process efficiencies, and a favourable export mix have structurally improved profitability, with EBITDA margins sustaining at elevated levels. The balance sheet remains a key strength, with a net cash position of ~₹100 crore, strong operating cash flows, and ROCE above 30%, offering downside protection. Management's calibrated growth strategy, focused on utilization-led expansion and phased capex, reduces execution risk. While near-term sentiment is impacted by temporary export-related concerns, Steelcast's strong fundamentals, surplus capacity, and long runway with global OEMs make it an attractive medium- to long-term compounding opportunity.

❖ **Tata Steel Ltd. | CMP Rs: 183 | Target Rs: 220 | Upside: 20.0%**

Tata Steel's growth outlook is driven by expanding domestic capacity and an improving product mix. The commissioning of the 5 mtpa Kalinganagar expansion increases exposure to value-added flat steel products catering to automotive, infrastructure, and manufacturing demand. Additionally, the 4.8 mtpa expansion at NINL strengthens the company's presence in long products, improving access to retail and construction markets. These capacity additions support Tata Steel's stated ambition of reaching 40 mtpa crude steel capacity in India by CY30, enhancing scale and market relevance. Strong raw material integration through captive iron ore mines provides cost stability and resilience across steel cycles. In Europe, Tata Steel is progressing with operational restructuring, cost rationalisation, and capacity realignment, aimed at improving efficiency and reducing earnings volatility. Continued investments in downstream and branded products are increasing the share of value-added sales and improving customer stickiness. Alongside these operational initiatives, the company's focus on cash flow generation and balance-sheet strengthening enhances financial flexibility. Overall, Tata Steel is well positioned to benefit from sustained domestic infrastructure, housing, and manufacturing-led demand growth, while gradually stabilising its European operations.

❖ **Trent | CMP Rs: 3,836 | Target Rs 4,600 | Upside 19.9%**

Trent Limited, a flagship company of the Tata Group, is a leading omni-channel fashion and lifestyle retailer in India with a strong brand portfolio that includes Westside (premium apparel), Zudio (value-led youth fashion), and Burnt Toast (focused on Gen-Z and millennial consumers). Founded in 1998, the company now operates over 1,000 stores across India and has begun expanding internationally through Zudio's entry into the UAE, leveraging Tata Group's trusted brand, robust supply chain, and execution capabilities. In Q2FY26, Trent reported revenues of ₹47 billion, surpassing its full-year FY22 revenues of ₹38 billion, highlighting the strength of its growth trajectory. Over FY22–FY25, the company delivered exceptional revenue, EBITDA, and PAT CAGRs of 51%, 48%, and 62% respectively, driven by aggressive store additions, strong demand, and operational excellence. Strategic expansion into tier-2 and tier-3 micro-markets has significantly enhanced its geographic footprint, with presence across 251 cities, up 39% YoY, led by Zudio's expansion to 244 cities (up 33% YoY, including two in the UAE). This scale-led growth strategy, focused on increasing reach rather than relying solely on same-store sales, provides strong long-term visibility. Trent's rapid growth, deepening market penetration, and strong Tata Group backing position it well to continue outperforming in India's fast-expanding retail landscape.

❖ **UPL | CMP Rs: 723 | Target Rs: 850 | Upside: 17.6%**

We like UPL as inventory destocking in key Latin American markets is largely behind, driving a strong volume recovery of ~13% in FY25, while significant cost-efficiency initiatives undertaken by the company have resulted in a ~460 bps expansion in margins during the year. The balance sheet has strengthened meaningfully, with net debt reduced from ₹22,170 crore in FY24 to ₹13,520 crore in FY25, enhancing financial flexibility and earnings quality. Additionally, UPL is actively exploring options to unlock value across its platforms, which we believe can further accelerate debt reduction and drive a valuation re-rating. On the industry front, China's decision to cut export rebates on key agrochemical products, including glufosinate—one of UPL's largest products—is a key positive, with prices expected to improve by ~9%, providing an incremental tailwind to profitability. Given the improving operating performance, strengthening balance sheet, and favourable industry dynamics, we believe investors should keep UPL as a key holding in their portfolio.

Stock Ideas	CMP Rs	Target Rs	Upside
Avenue Supermarts Ltd	3,662	4,300	17.40%
Bharat Forge Ltd	1,394	1,750	25.50%
BSE	2,653	3,200	20.60%
Emcure Pharma Ltd	1,536	1,850	20.50%
Larsen & Toubro Ltd	3,810	4,230	11.20%
SBI	1,036	1,250	20.60%
SJS Enterprises Ltd	1,579	2,000	26.60%
Steelcast Ltd	192	250	29.90%
Tata Steel Ltd	183	220	20.00%
Trent	3,836	4,600	20.00%
UPL	723	850	17.60%

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