TOP PICKS

December 2023

Market Eyeing on a New High in Light of Favorable Macros

We are proud to share that our Axis Top Picks basket delivered impressive returns of 31% in the last one year till 1st Dec'23, beating the benchmark Nifty 50 index (8% return over the same period) by a wide margin. In Nov'23, the basket inched up further by 6% (till 1st Dec'23). We are extremely happy to inform you that our Top Picks Basket has delivered an astounding return of 231% since its inception (May'20). This stands well above the 119% return delivered by NIFTY 50 over the same period. Given these results, we maintain our confidence in our thematic approach to Top Picks selection.

Nov'23 turned out to be a recovery month for the Indian equity market on account of the change in the macroeconomic narrative in favour of the overall equity market. Thanks to this favourable narrative, Nifty touched an all-time high of 20,268 on 1st Dec'23, led by improvement in various macroeconomic parameters such as a) Cool-off in the US 10-year bond yields, 2) Moderation in Oil prices, 3) Sequential improvement in high-frequency indicators, 4) Robust Q2FY24 earnings performance, and 5) Expectations of better performance by ruling party in state elections. With this, the Indian market cap has touched $3.9 Tn for the first time on 1st Dec'23. This macroeconomic narrative has further strengthened after the big-bang performance of the BJP in 3 out of 4 key states in assembly elections. This narrative of the political continuity in the 2024 general elections has boosted the market confidence further. It has also bolstered visibility on the policy continuity, which will help the domestic economy to continue its growth momentum moving ahead. Keeping all these perspectives, we believe the Indian equity market will continue to trade at a higher premium to EM in the next one year which will be further supported by 1) Strong earnings outlook, 2) Banking sector in better shape, 3) and Encouraging Private Capex cycle expectations.

Our benchmark indices have reached all-time highs and the FTSE India is currently trading at a PE premium of 82% to the EM index (PE), vs. an average premium of 41%. It is noteworthy that at a similar time during the last year, India was trading at 110% PE premium. While the Indian market is again at an all-time high, the PE premium this time around is only 82%, indicating that the market, on a relative basis, is not as expensive as it was last year. We believe these favourable valuations will continue to attract inflows going forward.

In Nov'23, the broader market outperformed the Largecaps by a notable margin. Nifty 50 went up 5.5% in Nov'23 while the Midcap and Smallcap indices inched up by 10% respectively over the same period. Furthermore, all sectoral indices closed on a positive note and the biggest recovery was seen in Realty, Pharma, and Auto index. In Sep'23, 88% of the stocks were trading above the 200-day moving average while the market saw some correction in Oct'23. With this, 76% of the stocks were trading above the 200-day moving average in Oct'23. However, the macroeconomic situation has reversed in Nov'23 and now 84% of the stocks are trading above the 200-day moving average, indicating the market is now out of the concern zone.

Q2FY24 Review: Largely In line with expectations: Out of 49 companies from the Nifty 50 index, 73% of the companies have beaten or been in line with the earnings expectations as well as revenue expectations. Margin improvement was seen across the sectors during the quarter. Banks, Auto, Pharma, Industrials, and Oil Marketing companies have posted good numbers while IT, selected FMCG, and Discretionary have posted weaker results.

We believe that macroeconomic developments will continue to drive the market fundamentals in the near term. The critical near-term monitorables will be a) The outcome of the upcoming FOMC meeting and the RBI's MPC meeting, b) The direction of the US 10-year bond yields, c) The direction of the dollar index, d)The direction of crude prices. All these developments will keep the market volatile in the near term and respond in either direction based on the ensuing developments. We could see a new high in the market if the bond yields and the crude prices remain at the same levels for the entire month.

We believe style and sector rotation will play a critical role in alpha generation. With the strong catch-up of Midcaps and Smallcaps in the last couple of months, we believe the margin of safety at current levels has reduced as compared to that available in Largecaps in terms of valuations. Keeping this in view, the broader market may see some time correction in certain pockets in the near term and flows will likely shift to Largecaps. However, the long-term story of the broader market continues to remain attractive. In this context, the theme 'Growth at a Reasonable Price' looks attractive at the current juncture. Hence, we recommend investors to remain invested in the market and maintain good liquidity (10%) to use any dips in a phased manner and build a position in high-quality companies (where the earnings visibility is quite high) with an investment horizon of 12-18 months.

Keeping these latest developments in view, we have made two changes to our Top Picks recommendations. This includes booking profit in Kirloskar Brothers and Ashok Leyland and adding Bharti Airtel and TVS motors. Our modifications reflect the changing market style and shift towards the theme – 'Growth at a Reasonable Price'.

Our Key Themes:

Macro factors continue to take centre stage: We believe that macroeconomic developments will continue to drive the market direction moving forward and the critical near-term monitorables will be a) The outcome of the upcoming FOMC and RBI's MPS meeting, b) The direction of the US10-year bond yields, c) The direction of the dollar index, and d) The direction of crude prices. Currently, we are near the peak of the current rate hike cycle and the prospects of a soft landing have further strengthened during the last one month. Keeping this in view, the market is currently building an expectation of one rate cut by the US FED around May-Jun'24. Hence, any developments will be keenly watched by the street. We believe India will continue to attract FII flows in the upcoming quarters as its economy continues to be in the sweet spot of growth and this will remain the biggest driver of Indian equities moving forward.

Style rotation is the key; 'Growth at a Reasonable Price' is an overarching theme: With strong catch-up by Midcaps and Smallcaps in the last couple of months, we believe their margin of safety at current levels has reduced in certain pockets as compared to that available in Largecaps. Keeping this in view, the broader market may see some '*time-correction'* in the near term and the flows will likely shift to Largecaps. However, the long-term story of the broader market continues to remain attractive. On top of it, 'Growth at a Reasonable Price' looks attractive at the current juncture on account of domestic play, cool-off in commodity prices and inflation, and expectation of rural recovery in the upcoming quarters.

We roll over Nifty target to Dec'24 at 23000

Base case: The Indian economy stands at a sweet spot of growth and remains the land of stability against the backdrop of a volatile global economy. We continue to believe in its long-term growth story, supported by the emerging favourable structure as increasing Capex enables banks to improve credit growth. These factors will ensure that Indian equities will easily manage to deliver double-digit returns in the next 2-3 years with the support of double-digit earnings growth. We foresee 14% CAGR growth in Nifty earnings over FY23-26. Our estimates of FY24/25 stand conservative at 5% below street expectations. Financials remain the biggest contributors for FY24/25 earnings. In Our base case, we assume the continuation of the political stability and consequent visibility on the policy continuity after the 2024 general elections.

In our base case, we roll over the Nifty target to Dec'24 to 23,000 by valuing it at 20x on Dec'25 earnings, implying an upside of 13% from the 1st Dec'23 levels. The current level of India VIX is below its long-term average, indicating that the market is currently in a neutral zone (neither panic nor exuberance). While the medium to long-term outlook for the overall market remains positive, we may see volatility in the short run with the market responding in either direction. **Keeping this in view, the current setup is a 'Buy on Dips' market.** We recommend investors maintain good liquidity (10%) to use any dips in a phased manner and build a position in high-quality companies (where the earnings visibility is quite high) with an investment horizon of 12-18 months.

Bull case: In the bull case**, we value NIFTY at 22x, which translates into a Dec'24 target of 25,000 implying an upside of 23% from the 1st Dec'23 levels.** Our bull case assumption is based on the overall reduction in volatility and the success of a soft landing in the US market. Currently, we are near the peak of the current rate hike cycle and the prospects of a soft landing have further strengthened in the last one month. The market is currently building an expectation of one rate cut by US FED around May-Jun'24 and developments regarding the same will be keenly watched by the street. If the market sails through the next 1 or 2 quarters smoothly, we would likely see the next level of triggers along with money flowing to EMs. In the Bull case, we foresee the Nifty earnings to grow at a CAGR of 16% from FY23-26. This, in turn, would increase the market multiple.

Bear Case: In the bear case, we value NIFTY at 16x, which translates into a Dec'24 target of 18,500, translating a downside of 9% from 1st Dec'23 levels. We assumed the market to trade at an average valuation led by political instability in case of no clear mandate in the 2024 general election. Adding to that, we assumed inflation continues to pose challenges in the developed world. Currently, we are near the peak of the rate hike cycle and the market has not seen such levels of interest rate hike in the recent past. Hence the chances to go wrong have increased significantly. This would translate into a slowdown or heightened recession in the developed market, which will impact the export-oriented growth in the domestic market. It will consequently pose challenges to the earnings and market multiple of the domestic market.

Based on the above themes, we recommend the following stocks: **ICICI Bank, Maruti Suzuki India, State Bank of India, Lupin ltd, Federal Bank, Varun Beverages, TVS Motors, Bharti Airtel, PNC infra, ITC, Relaxo, CIE Automotive India, Bank of Baroda, Westlife Foodworld, CreditAccess Grameen, JTL Industries**

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INVEST IN ONE CLICK

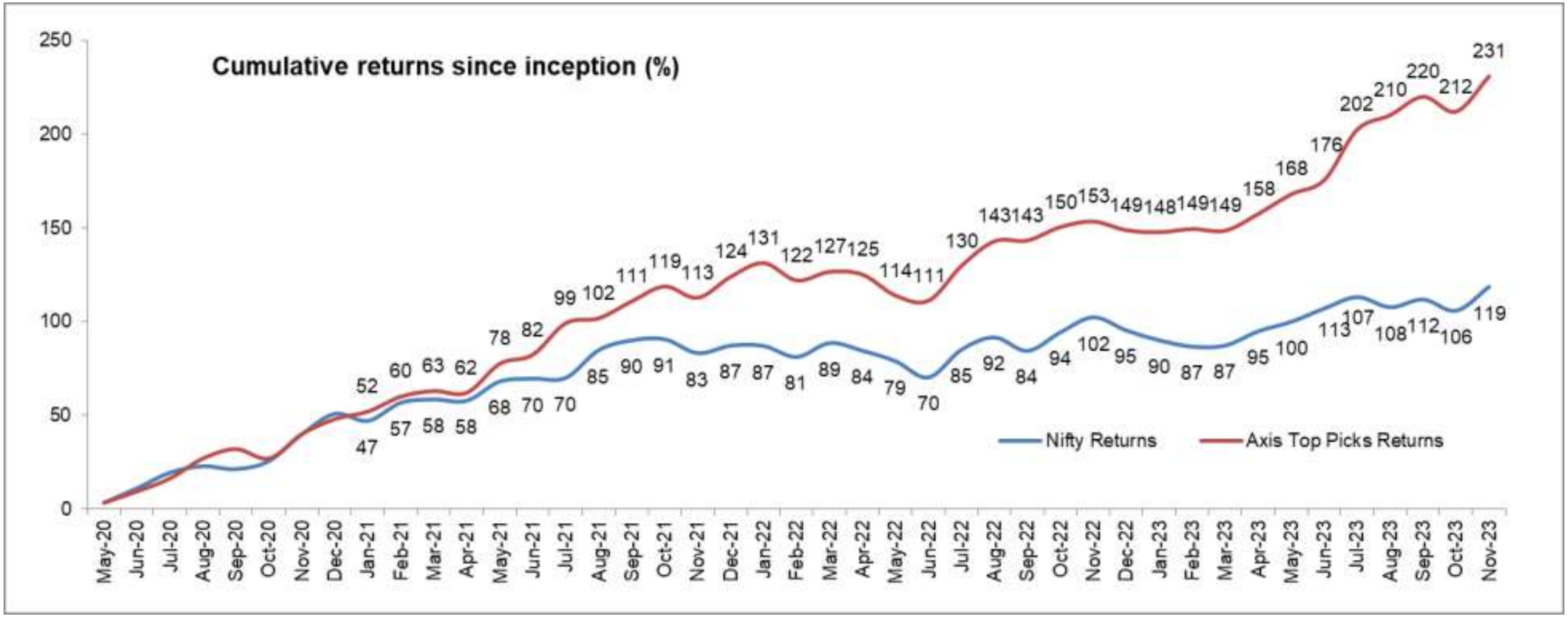
Axis Securities Top Picks

Category	Company Name	Sector	Stock price	Target Price	Upside (%)	12 Month Fwd PE	12 Month Fwd P/BV	Dividend Yield	TR 1M%	TR 3M%	TR 6M%	TR YTD %
Large Cap	ICICI Bank Ltd	Financials	947	1,250	32%	17.2	2.6	0.8	3.6	-2.3	2.0	7.1
Large Cap	Maruti Suzuki India Ltd	Consumer Discretionary	10,586	11,800	11%	27.8	4.6	0.9	3.5	2.5	14.5	27.3
Large Cap	State Bank of India	Financials	572	715	25%	8.3	1.3	2.0	0.9	0.4	-1.9	-5.0
Large Cap	Varun Beverages Ltd	Consumer Staples	1,089	1,200	10%	69.7	20.7	0.1	18.6	19.6	29.1	65.0
Large Cap	Bank of Baroda Ltd	Financials	202	255	26%	5.9	1.0	2.7	3.2	5.9	12.4	11.8
Large Cap	ITC Ltd	Consumer Staples	450	540	20%	26.8	7.8	2.8	5.1	2.0	2.3	40.7
Large Cap	Bharti Airtel Ltd	Communication Services	1,015	1,155	14%	48.1	6.0	0.4	11.1	17.2	23.1	26.5
Large Cap	TVS Motor Company Ltd	Consumer Discretionary	1,910	2,100	10%	45.5	11.7	0.3	22.4	31.3	50.1	76.8
Mid Cap	Lupin Ltd	Health Care	1,297	1,470	13%	36.3	4.2	0.3	14.5	18.5	60.3	77.5
Mid Cap	Federal Bank Ltd	Financials	149	180	21%	10.0	1.3	0.7	5.9	3.4	19.4	7.8
Mid Cap	Relaxo Footwears Ltd	Consumer Discretionary	915	1,020	11%	93.4	11.2	0.3	-2.3	-1.0	1.9	0.8
Small Cap	JTL Industries Ltd	Materials	217	265	22%	29.9	6.8	0.0	1.7	3.8	31.4	40.1
Small Cap	CIE Automotive India Ltd	Consumer Discretionary	485	585	21%	21.0	3.1	0.5	6.7	-6.6	5.7	41.7
Small Cap	Westlife Foodworld Ltd	Consumer Discretionary	894	1,000	12%	103.1	20.8	0.4	11.0	-7.4	8.3	13.7
Small Cap	CreditAccess Grameen Ltd	Financials	1,698	1,935	14%	19.5	4.2	NA	4.8	20.5	35.8	85.5
Small Cap	PNC Infratech Ltd	Industrials	334	415	24%	13.4	1.9	0.1	3.2	1.1	7.6	16.0

Source: Company, Axis Securities, CMP as on 1st December 2023

Top Picks Performance

Axis Top Picks Performance						
	1M	2M	3M	6M	1Y	Since Inception (May 20)
Axis Top Picks Returns	6.0%	3.4%	6.7%	23.5%	30.6%	230.9%
Nifty Returns	6.2%	3.21%	5.3%	9.4%	8.0%	118.6%
Alpha	**-0.2%**	**0.2%**	**1.4%**	**14.1%**	**22.5%**	**112.3%**



Note: Equal weight basket Performance as of 01st Dec2023

Sector Outlook

Sector	Current View	Outlook
Automobiles	Over Weight	The Indian Automobile sector is witnessing significant demand improvement which is becoming more broad-based on a sequential basis. Encouraging demand was visible in FY23 including PV, CV and 2W space. Demand momentum is expected to continue albeit at a slower growth rate in FY24 due to the higher base of FY23. We expect EBITDA Margins to remain stable or even improve going forward, which will be led by a richer product mix, higher realizations, softer RM input cost, and positive operating leverage. We maintain our positive outlook on the sector as demand drivers remain intact. Based on the current development and positive outlook, **we continue with our overweight stance on the sector.** However, due to the recent rally in stocks, valuations are no longer attractive. **Against this backdrop, we recommend a "Buy on Dips" strategy for Quality stocks.**
Banking & Financial services	Over Weight	FY23 was a robust year for the BFSI sector as most of the Banks/NBFCs under our coverage remain well-placed to capitalize on growth opportunities in FY24. Most of the banks have guided for healthy loan growth going forward. The pressures on margins will continue going into H2FY24, with CoF yet to peak. Most banks are likely to exit FY24 with NIMs broadly similar to or marginally lower than FY23. Credit growth momentum will continue to remain healthy, primarily led by retail and SME segments. We believe banks will continue to focus on deposit mobilization, keeping competitive intensity high. Deposit mobilization remains a key lever to support a bank's superior credit growth. The recent announcement of an increase in risk weight for unsecured lending categories of personal loans and credit card receivables could potentially slow down growth in these segments in the near term. Currently, no major Asset Quality challenges appear. Thus, credit cost trends should not look worrisome in FY24, thereby supporting earnings. We believe in banks' ability to deliver healthy earnings growth, largely supported by benign credit costs, while margin headwinds continue. The outlook on the asset quality is encouraging. Slippages are expected to moderate and recoveries are to remain healthy, which in turn, will improve asset quality further across the sector. Current valuations are very attractive as compared to the market. Hence, **we maintain the overweight stance on the sector.**
Capital Goods	Equal Weight	The Capital Goods sector normalised towards the end of FY22/23 and companies are now supported by the rise in the gross fixed capital formation. In the last three quarters, the domestic revenue of capital goods companies showed impressive growth on a YoY basis led by strong execution and a healthy order book. Moreover, the government's Capex cycle continues to be robust and house registrations in the metro cities continue to witness promising traction. The private Capex cycle is also expected to pick up soon, which would further support the sector. Notably, most companies are now witnessing excellent growth traction in terms of order inflows which was not the case in the past 8-10 years. These companies are now commanding significant operating leverage, which essentially implies that the profit growth will be higher than the revenue growth in the upcoming years with improvement in the Capex cycle. However, in the near term, a slowdown in global growth is likely to weigh the order book of capital goods companies. Based on these developments, **we maintain our Equal Weight stance on the sector.**

Sector Outlook (Cont'd)

Sector	Current View	Outlook
Cement	Equal Weight	In Q2FY24, cement volume for our coverage universe grew by 14%, driven by better demand from both trade and non-trade segments and we expect volume growth of 14% for our coverage universe in FY24. Demand remains robust on account of 1) Higher government spending on Infra, housing, and Residential, 2) Robust Real Estate demand, 3) Improvement in IHB (Individual Home Buyers) demand, and 4) Lower cost of construction. Cement prices are currently trending higher by 3-5% depending upon the region. The sustainability of cement prices is crucial for better profitability as fuel prices are up 25-30% from their recent lows. We expect companies' EBITDA/tonne to trend higher by 30% for our coverage universe at Rs 970/tonne vs. Rs 745/tonne in FY23, driven by higher volume and realizations, and lower costs. We remain positive on the sector from a medium to long-term perspective as demand drivers remain intact. The recovery is expected on account of the pick-up in infra projects, sustained housing demand, and the much-expected revival in the rural areas. Hence, **we maintain our Equal Weight stance on the sector.**
Consumer staples	Equal Weight	In Q2FY24, most of the FMCG companies reported subdued topline performance on account of slower rural recovery and shift in the festive season in Q3FY24. The majority of companies highlighted sustained signs of rural recovery, but full rural recovery will take a few more months and volume growth is likely to pick up gradually. On the negative side, increasing competitive intensity from smaller and regional players will be keenly watched out for. On the gross margins front, most companies have delivered sequential recovery as key raw material prices – crude, packing, and palm remained stable. However, an increase in ad-spends to regain market share will slow down EBITDA margin expansion, though it will benefit in the longer run. **Hence, we maintain our Equal Weight stance on the FMCG sector.**
Consumer Discretionary	Equal Weight	After eight quarters of outperformance, demand in the Consumer Discretionary space started showing signs of moderation from Q4FY23 onwards. Multiple reasons for the said slowdown in sales growth have been 1) High base of the last year, 2) Slowdown in discretionary spends, and 3) Inflationary pressure. Some of the categories such as paints and retail had weaker commentary for the first time in the last few quarters. While the Premium segment has remained relatively insulated from demand slowdown, the Value/Economy segment remained impacted during the quarter. Full rural recovery will take a few more months. Companies have highlighted that rural growth is likely to pick up gradually with faster growth expected in H2FY24. The focus is now shifted towards demand recovery as the slowdown in demand could limit the margin expansion from here onwards. Against this backdrop, we **continue with our Equal Weight stance on the sector** and remain watchful of the key developments in the space.
Information Technology	Equal Weight	After strong revenue growth momentum in FY22 and FY23, we believe Indian IT services may face short-term challenges on the demand front as well as on the margins front. This is on account of the economic slowdown, macroeconomic uncertainties, and weaker outlook. However, the industry's long-term outlook remains robust with the economy showing signs of recovery. We expect this recovery to begin in the second half of the year and FY24 will show strong revenue growth. We continue to believe that most IT services companies will regain momentum in H2FY24 as deal wins continue to remain resilient and supply-side challenges are gradually easing. Many companies are becoming increasingly system-oriented and will have to spend on automation to remain relevant in today's business landscape. This should lead to strong long-term demand and hence, **we maintain our Equal-weight stance on the sector**.

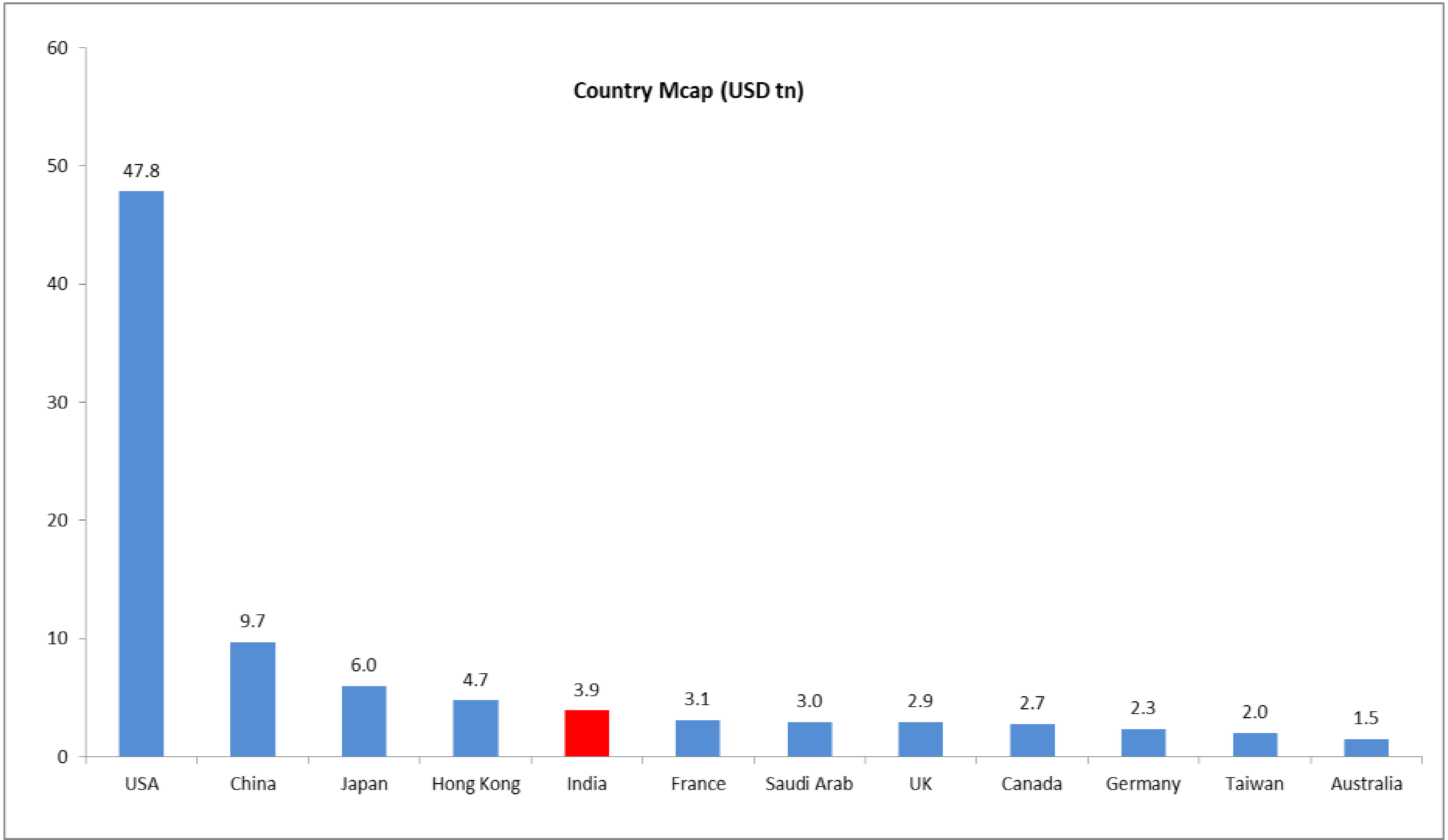
Sector Outlook (Cont'd)

Sector	Current View	Outlook
Metals &Mining	Equal Weight	In Q1FY24, Metals & Mining posted a weak set of results but they were in line with our expectations. Weaker results were on account of lower sales volumes and a drop in metal prices. In Q1FY24, the HRC prices (ex-Mumbai) declined by 15% YoY and 1% QoQ and averaged at ~Rs 58,500/t. The fall was lower than the Chinese HRC prices which fell by a higher quantum of 25%/9% YoY/QoQ, indicating robust domestic demand. China's 3MMA floor space declined by 30% in Jun'23. The floor space sold was down 22% YoY, indicating continued weakness in the real estate sector which consumes a major share of steel. In Q2FY24, the steel spreads are expected to improve or stay flat on a QoQ basis as the QoQ price decline will be offset by the benefit of the drop in coking coal prices which would accrue with a lag in Q2FY24. Furthermore, we expect profitability to recover in FY24 on account of the pick-up in the volumes of steel companies, led by higher infrastructure projects. In the near term, muted global demand and the decline in global metal prices continue to pose challenges. Hence, **we maintain our Equal Weight stance on the sector.**
Oil &Gas	Equal Weight	We have been noticing a high degree of uncertainty in the profitability of Oil marketing companies for the last several quarters. This is on account of 1) Limited ability to change the retail prices of automotive fuels and 2) Significant volatility in the crude prices leading to uncertainties in the retail margins. Fundamentally, higher crude prices result in losses for the OMCs and lower crude prices translate into profits. Encouragingly, the GOI cut the excise duty in Nov'21 and May'22 to mitigate the impact of high crude prices. Given the government's top priority clearly being inflation control, it seems unlikely that auto-fuel retail prices will be raised anytime soon. We, therefore, do not see an immediate recovery in the marketing margins of the OMCs. Factoring in these developments, we continue with our Equal Weight stance on the sector and will keep a close tab on further developments in the space.
Pharmaceuticals	Equal Weight	In Q2FY24, the Pharma Coverage universe posted robust revenue growth of 14.3%/1.7% YoY/QoQ on account of volume ramp-up, new launches (especially gRevlimid, gSpiriva, gPrezista), and stabilizing pricing pressure in the US base business. EBITDA margin improved by a healthy 210bps/50bps YoY/QoQ amidst normalizing cost inflation and stabilizing prices. The US sales were robust, aided by the new launches comprising gRevlimid, gSpiriva, and gPrezista and increased demand for resilient suppliers amid drug shortages. US price erosion is stabilizing due to benefits from drug shortages which are currently at an all-time high. Softening input costs and lower freights are improving margins. Therefore, we continue to keep a close tab on companies that are focused on launching niche products in the US market and have a strong product mix (Chronic Portfolio) in the Indian market. Against this backdrop, **we maintain an Equal Weight stance on the sector.** .

Sector Outlook (Cont'd)

Sector	Current View	Outlook
Real Estate	Equal Weight	The Real Estate sector is witnessing record registrations in metro cities. Demand has picked up and bookings are being witnessed in most of the new launches. The sector is likely to witness more traction going forward as the RBI has already taken an interest rate pause and we are near the peak of the rate hike cycle. Keeping these developments in view, **we maintain our Equal weight stance on the sector.**
Specialty Chemicals	Equal Weight	The Specialty Chemicals sector has been one of the sunrise sectors of the country. India has been gaining global market share in this space by leveraging its capabilities and supply chain re-alignment from China to India. We believe Indian companies would gain further ground as companies reduce their dependence on China after the COVID-19 pandemic and shift their supply chains to India. However, in the near term, input costs and high freight costs will continue to pose challenges to the sector. During Q1FY24/Q2FY24, the demand did not pick up as expected. This was mainly on account of Chinese players dumping products at aggressive prices which hurt domestic players. Moreover, volume growth is likely to remain subdued in the near term due to inventory destocking, which was visible in the developed market. While the sector's long-term outlook remains robust, near-term volume growth challenges are likely to be visible for the rest of FY24. **Keeping this in view, we downgrade our rating on the sector to Equal Weight from the earlier Over Weight.**
Telecom	Over Weight	Telecom has become the most critical sector during the current challenging times and has been playing a key role in keeping businesses up and running. The sector has been seeing an improved pricing environment even before the COVID-19 outbreak. The industry is highly consolidated with two strong and one weak player in the wireless space. Rising consumption of data with increasing rural penetration, and rising conversion to 4G and 5G from 2G will help to gain further realization for telecom players. **We recommend an Over Weight stance on the sector.**

India maintained the 5th place in the world in terms of Mcap in USD Tn (Earlier it was in Dec'22)



Source: Bloomberg, Axis Securities

Multi-Asset Scorecard

- The broader market has emerged as the best-performing asset class on a YTD basis
- The Indian market has outperformed the Emerging markets by a significant margin
- The structural trend for the equity market continues to remain positive
- Top 3 Winners: Midcaps/Smallcaps – 7 times out of the last 13 years
- The trend for the broader market is likely to continue in 2023 and it is likely to witness margin expansion in the upcoming quarters

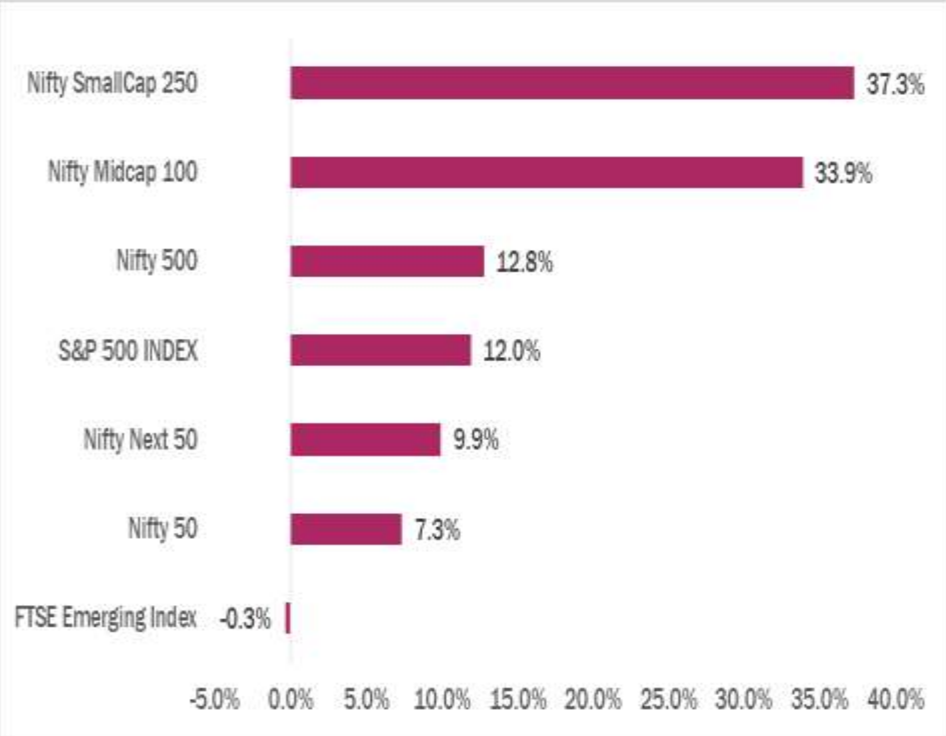
Rank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD (Jan-Nov'23)
1	MCX Gold: 32%	Mid Cap: 39%	S&P 500: 30%	Mid Cap: 56%	Crisil comp Bond: 9%	Crisil comp Bond: 13%	SmallCap: 57%	MCX Gold: 8%	S&P 500: 29%	MCX Gold: 28%	SmallCap: 59%	MCX Gold: 14.3%	SmallCap: 45.6%
2	Crisil comp Bond: 7%	SmallCap: 37%	Nifty 50: 7%	SmallCap: 55%	SmallCap: 7%	EM Index: 10%	Mid Cap: 47%	Crisil comp Bond: 6%	MCX Gold: 25%	Mid Cap: 22%	Mid Cap: 46%	Nifty 50: 4.3%	Midcap: 36.16%
3	S&P 500: 0%	Nifty 50: 28%	Crisil comp Bond: 4%	Nifty 50: 31%	Mid Cap: 6%	MCX Gold: 10%	EM Index: 29%	Nifty 50: 3%	EM Index: 17%	SmallCap: 21%	S&P 500: 27%	Mid Cap: 3.5%	S&P 500: 19%
4	EM Index: -21%	EM Index: 14%	Mid Cap: -5%	Crisil comp Bond: 14%	S&P 500: -1%	S&P 500: 10%	Nifty 50: 29%	S&P 500: -6%	Nifty 50: 12%	S&P 500: 16%	Nifty 50: 24%	BSE Bond index: 2.9%	MCX Gold: 13.7%
5	Nifty 50: -25%	S&P 500: 13%	EM Index: -6%	S&P 500: 11%	Nifty 50: -4%	Mid Cap: 7%	S&P 500: 19%	Mid Cap: -15%	Crisil comp Bond: 11%	Nifty 50: 15%	Crisil comp Bond: 2%	SmallCap: -13.8%	Nifty 50: 11.2%
6	Mid Cap: -31%	MCX Gold: 12%	MCX Gold: -8%	EM Index: -1%	MCX Gold: -7%	Nifty 50: 3%	MCX Gold: 6%	EM Index: -16%	Mid Cap: -4%	EM Index: 13%	EM Index: -2%	S&P 500: -19.2%	Crisil comp Bond: 6.9%
7	SmallCap: -34%	Crisil comp Bond: 9%	SmallCap: -8%	MCX Gold: -6%	EM Index: -18%	SmallCap: 2%	Crisil comp Bond: 5%	SmallCap: -29%	SmallCap: -10%	Crisil comp Bond: 12%	MCX Gold: -4%	EM Index: -19.6%	EM Index: 2.1%

Source: Bloomberg, Axis Securities, Note: Midcap is NSE midcap 100, Smallcap is NSE smallcap100 index, EM is FTSE EM index

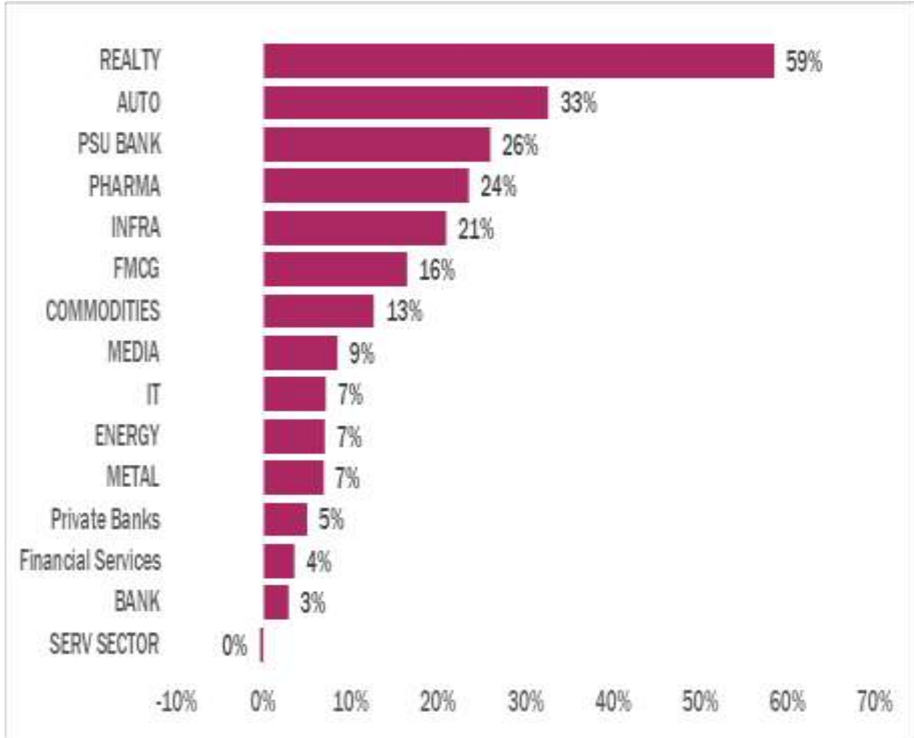
What Has Happened In The Last One Year!

- Small and Midcaps have been the winners in the last one year with growth of 37%/34% YoY respectively
- Over the past year, the benchmark index NIFTY 50 and the S&P 500 increased by 10% and 12%, respectively. Moreover, the Emerging Market Index went up by 5.5%.
- Indian investors have demonstrated a high degree of maturity over the past year – a key reason why the Indian market has not experienced negative panic reactions like other economies.
- On the sector front, Realty, Auto, PSU Banks, Pharma, and Infra indices have closed positively over the past year, while Services and Banking & Financial Services indices have closed weaker over the same period.

Benchmark Returns in the Last One Year



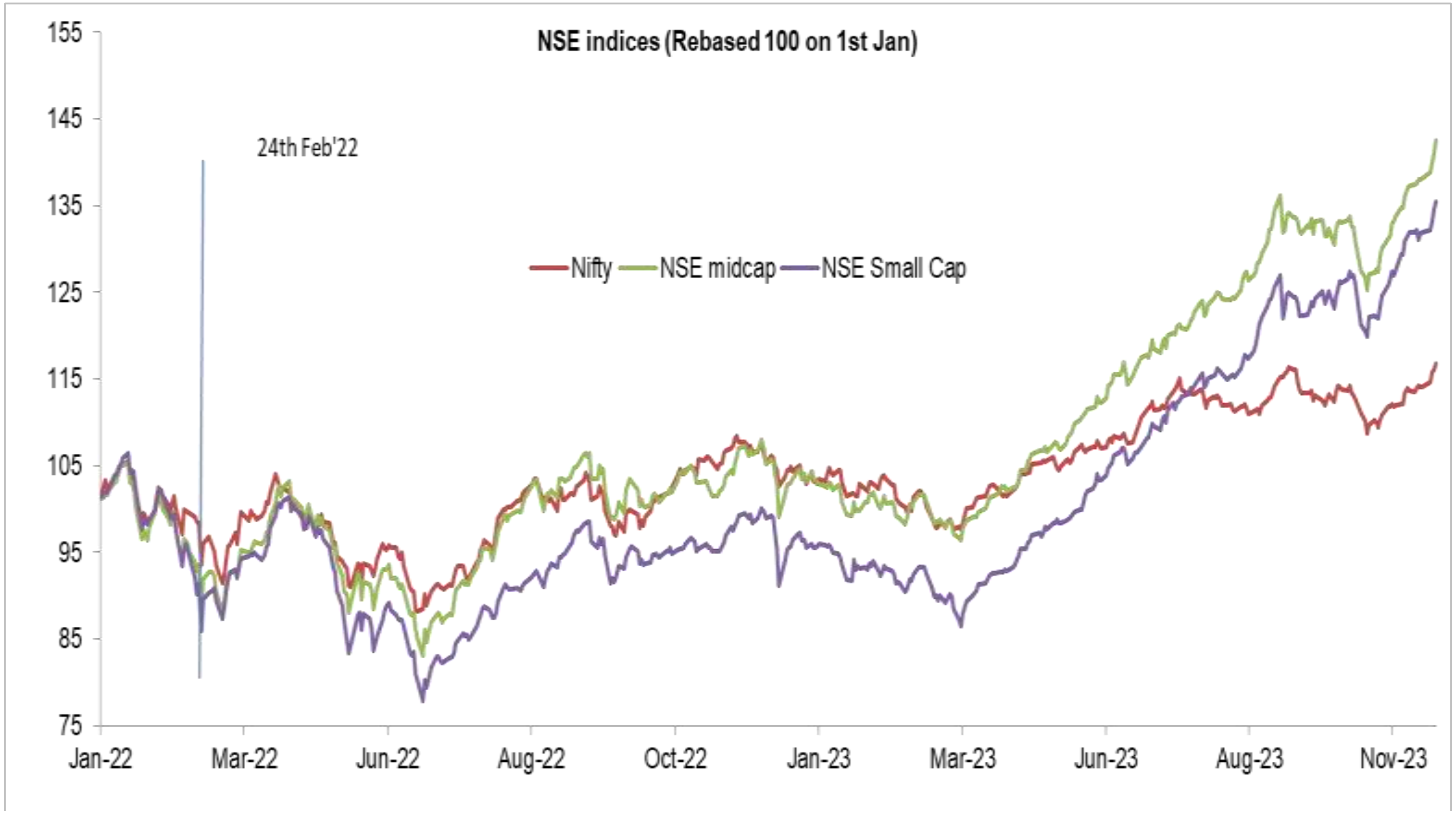
Sector-Wise Returns in the Last One Year



Source: Bloomberg, Axis Securities, Performance as of 30th November'"23

All Three Indices Moving in Tandem (Strong Recovery Seen in the Last 1 Month)

- The broader market has rebounded strongly from the Mar'23 low, thanks to the improved macro sentiment.
- Midcaps are in a sweet spot of growth and have significantly outperformed Largecaps in the recent past.
- A catch-up rally was also seen in the Smallcap Index, which has posted a robust 52% return since the Mar'23 low.



Returns Since 31st Mar'23

Nifty 50: 17%

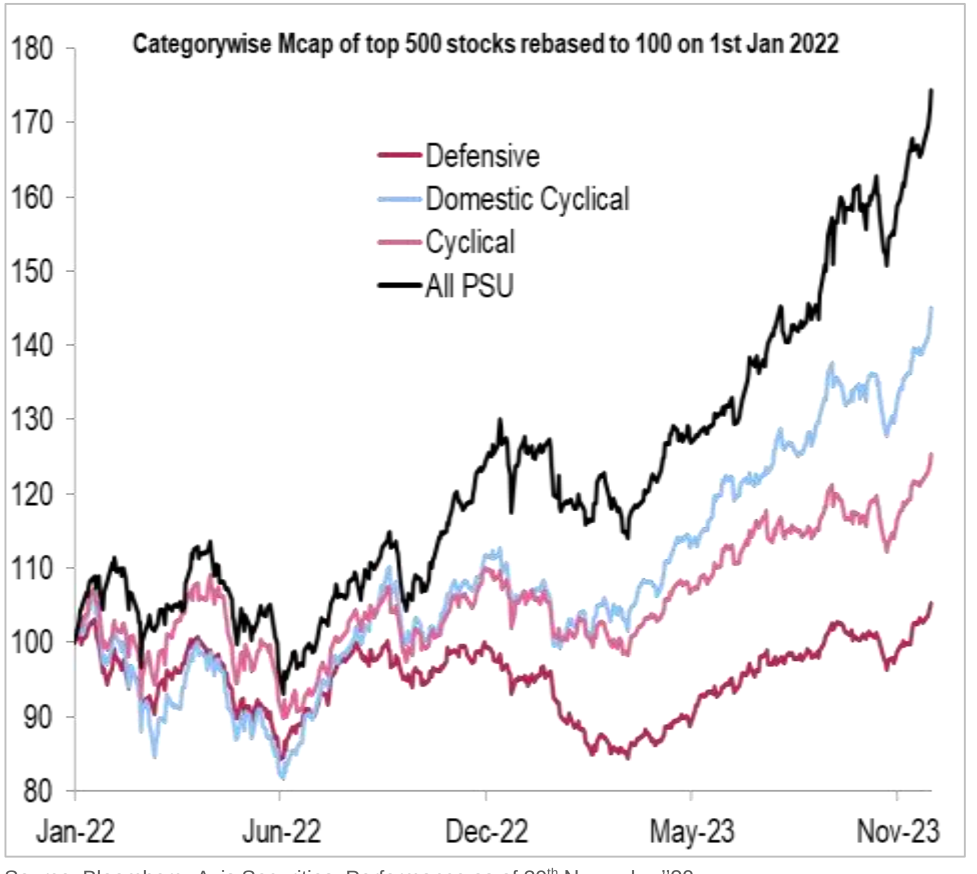
NSE Mid Cap 100: 44%

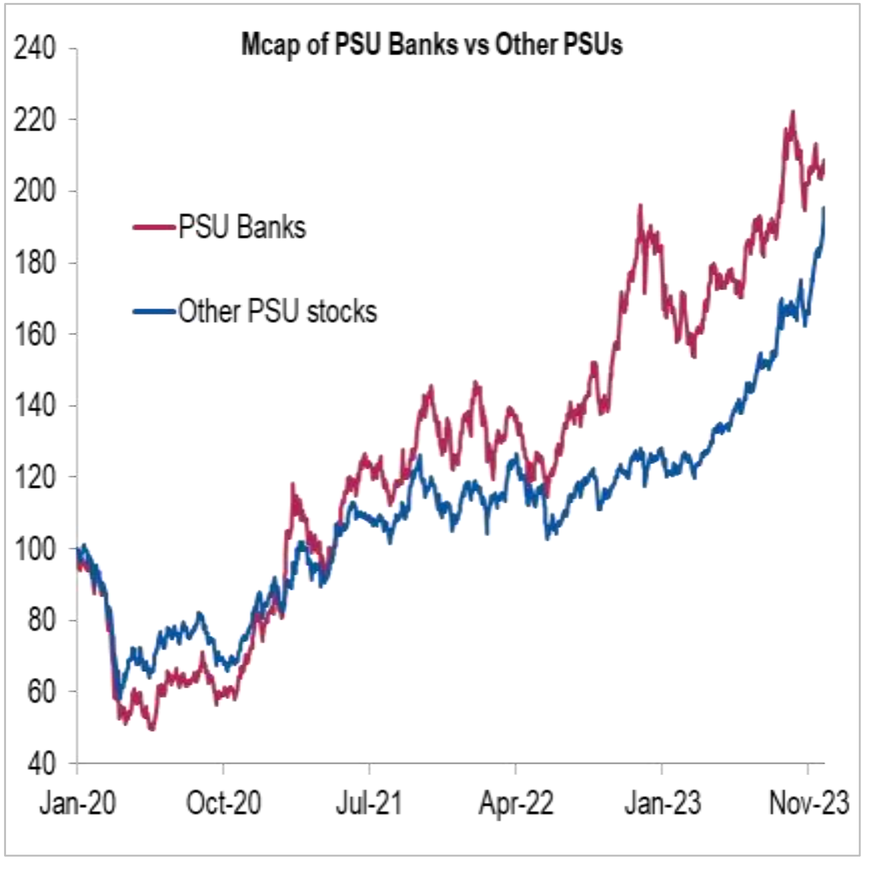
NSE Small Cap 250: 52%

Source: Bloomberg, Axis Securities

Other PSUs outperformed the Banking PSUs in last one month

- Since Jan'22, PSU stocks have outperformed other themes (Defensive, Cyclical, and Interest-rate sensitive).
- Other PSU stocks saw a sharp rally in the last one month on account of robust Q2FY24 performance and positive sentiments
- Defensive stocks are holding the performance





Source: Bloomberg, Axis Securities, Performance as of 30th November''23

52W-High Analysis

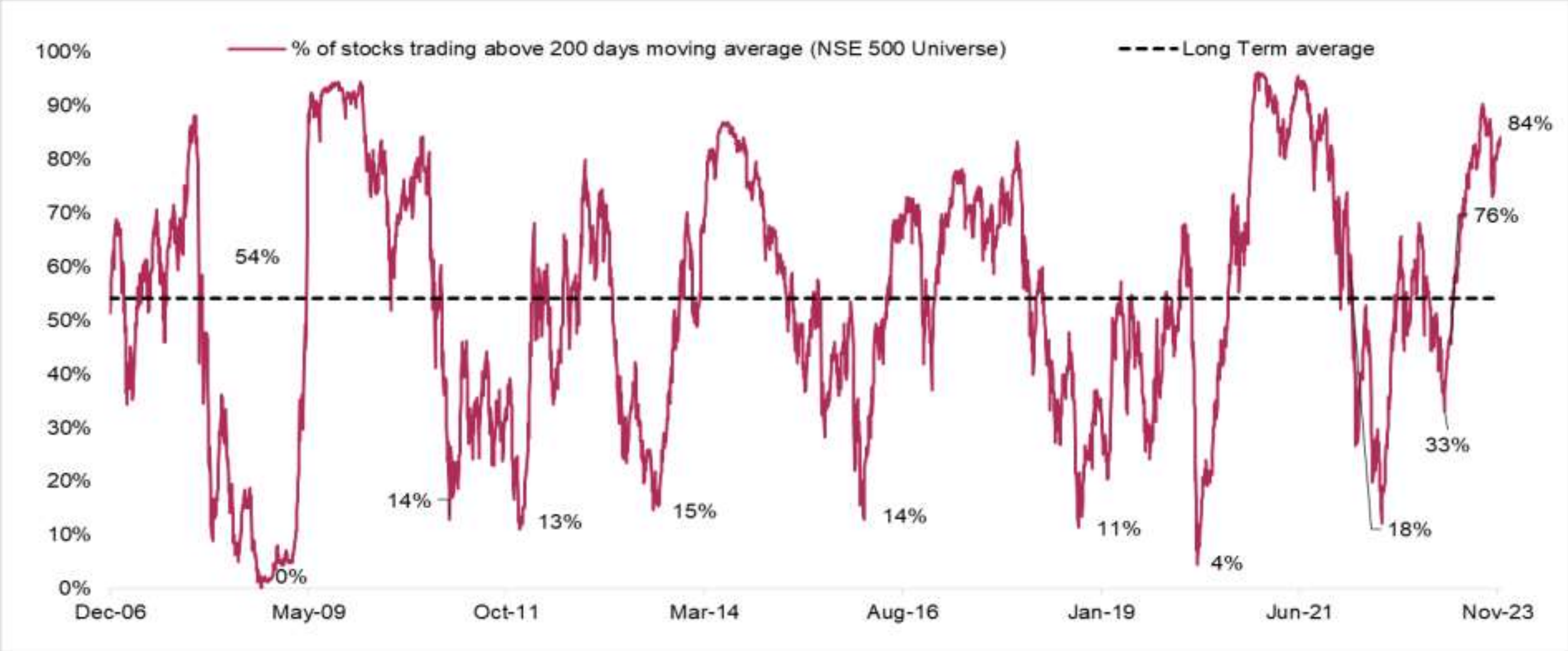
- 153 stocks are now trading at all-time high levels vs. 57 stocks in the last month
- 261 (52%) stocks are trading between 5%-20% below their 52W highs
- The broader market looks attractive at current levels
- Only 24 stocks are trading below 30% to their respective 52-week high
- Out of 55 PSUs, 21 stocks are now trading near their 52W high

		Current level of number of stocks as compared to 52W high			
Sector	**No of Stocks**	**Near to 52W high**	**5%-20% below 52W high**	**20%-30% below 52W high**	**Below 30%**
Agri & Chem	42	5	20	12	4
Auto &Anc	36	17	14	4	0
Banks	28	5	18	5	0
Build Mate	34	12	19	3	0
Discretionary	54	10	32	8	4
Healthcare	43	23	18	1	1
Industrials	40	7	24	8	0
IT	36	13	20	0	3
Metals & min	16	5	9	1	1
NBFC	50	22	24	4	0
Oil & gas	14	6	5	2	1
Others	49	10	25	9	5
Staples	26	8	15	2	1
Tele & Media	12	2	8	1	1
Transport	8	3	4	0	1
Utilities	13	5	6	0	2
Total	**501**	**153**	**261**	**60**	**24**
Large cap	**100**	**46**	**43**	**5**	**6**
Mid cap	**150**	**54**	**72**	**19**	**2**
Small cap	**250**	**53**	**145**	**36**	**14**
PSUs	**55**	**21**	**21**	**4**	**1**

Source: Bloomberg, Axis Securities, Performance as of 30[st] Nov 2023

NSE 500 Universe (200-Day Moving Average)

After a volatile Feb'23 and Mar'23, the market recovered in the last six to seven months. This was led by improvements in macroeconomic conditions. In Mar'23, 33% of the stocks were trading above the 200-day moving average, indicating that the market was in the oversold zone. Since then, the market has witnessed a sharp recovery. In Sep 88% of the stocks were trading above the 200-days moving average while the market saw some correction in Oct'23, with this 76% of the stocks were trading above the 200-day moving average. However, the macroeconomic situation reversed in Nov'23 and now 84% of the stocks are trading above the 200-day moving average, indicating the market is out of the concern zone. Nonetheless, in the near term, the market will continue to be driven by macroeconomic data and its performance is likely to be range-bound for at least one quarter until signs of inflation moderating become visible. **Sector and Style Rotation are likely to be visible in the market moving forward.**



Source: Bloomberg, Axis Securities

NSE200 Top Gainers & Losers (Last 1 Month)

Top Gainers	Last Price	% 1M Chg	Top Losers	Last Price	% 1M Chg
Power Fin. Corpn.	365	50.8%	Whirlpool India	1,416	-12.2%
B H E L	171	40.3%	Indian Bank	401	-6.9%
Prestige Estates	1,038	38.4%	Devyani Intl.	175	-4.9%
H P C L	346	37.2%	One 97	871	-4.7%
Hind. Aeronautics	2,462	35.1%	Piramal Enterp.	929	-3.9%
Torrent Power	952	32.5%	Bajaj Finance	7,259	-2.8%
REC Ltd	374	32.2%	P & G Hygiene	17,393	-2.4%
Trent	2,808	27.8%	Cholaman.Inv.& Fn	1,128	-1.8%
Adani Total Gas	701	27.1%	Delhivery	397	-1.3%
FSN E-Commerce	177	26.6%	Tata Comm	1,660	-0.7%

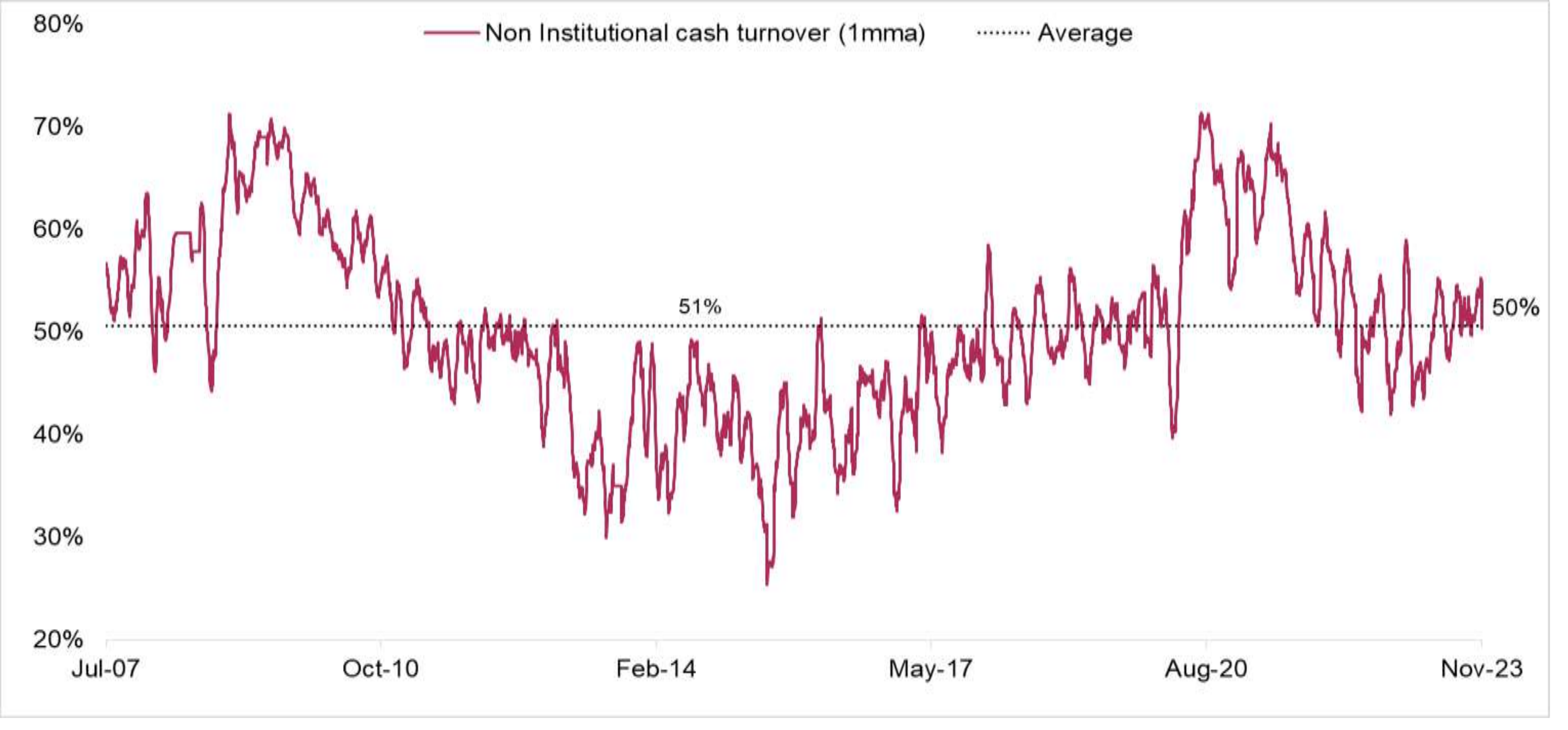
NSE200 Top Gainers & Losers (Last 3 Months)

Top Gainers	Last Price	% 3M Chg	Top Losers	Last Price	% 3M Chg
Power Fin.Corpn.	365	77.3%	NavinFluo.Intl.	3,730	-18.8%
REC Ltd	374	56.6%	Indraprastha Gas	395	-15.5%
Prestige Estates	1,038	55.3%	PiramalEnterp.	929	-13.8%
Coal India	347	46.3%	Whirlpool India	1,416	-13.2%
Torrent Power	952	43.2%	SBI Cards	740	-11.9%
NMDC	182	39.5%	Devyani Intl.	175	-11.1%
H P C L	346	38.1%	Tata Comm	1,660	-10.4%
Trent	2,808	36.1%	Tata Chemicals	970	-9.4%
I R F C	75	35.2%	Delhivery	397	-9.3%
Adani Power	440	33.4%	M & M Fin. Serv.	274	-8.5%

Source: Bloomberg, Axis Securities

Non-Institutional Turnover Recovered in the Last One Month

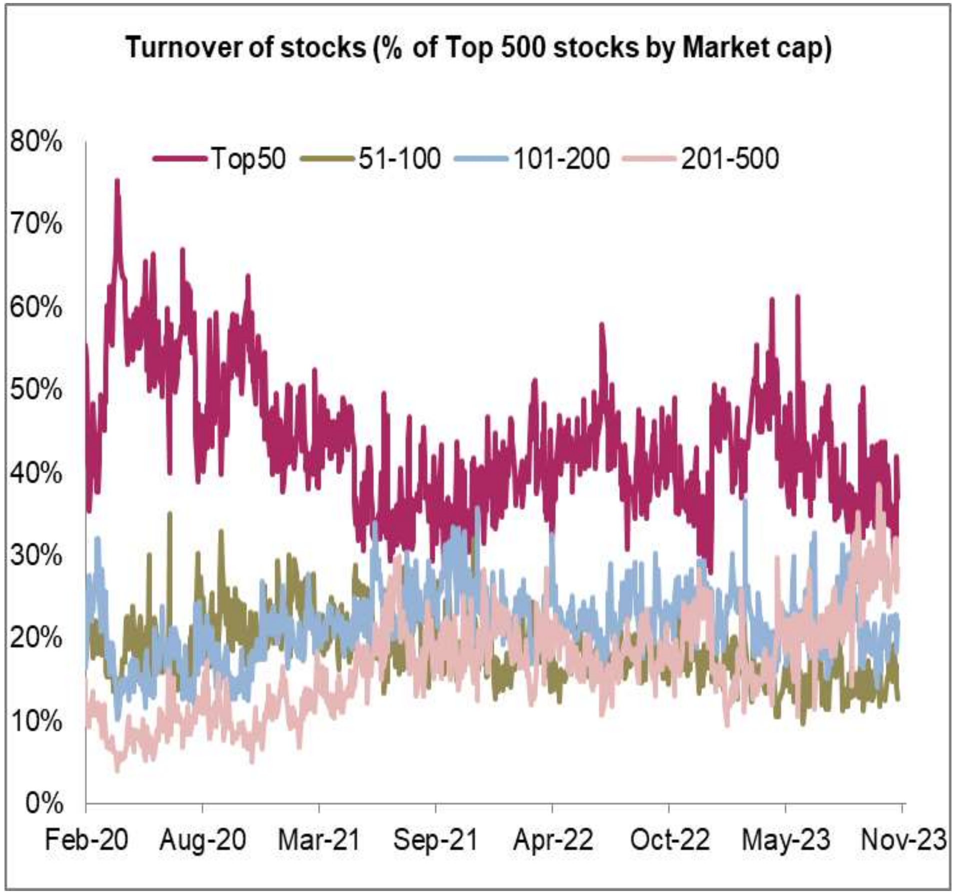
Non-Institutional (Retail) turnover is currently at 50%, which is at its long-term average of 51%. While it had fallen below the LTA in Feb/Mar'23 due to volatility in the domestic market, some recovery has been observed in the last month. Participation by Retail investors is expected to improve further in the coming months given equities to be the only asset class that can beat the current inflationary scenario.

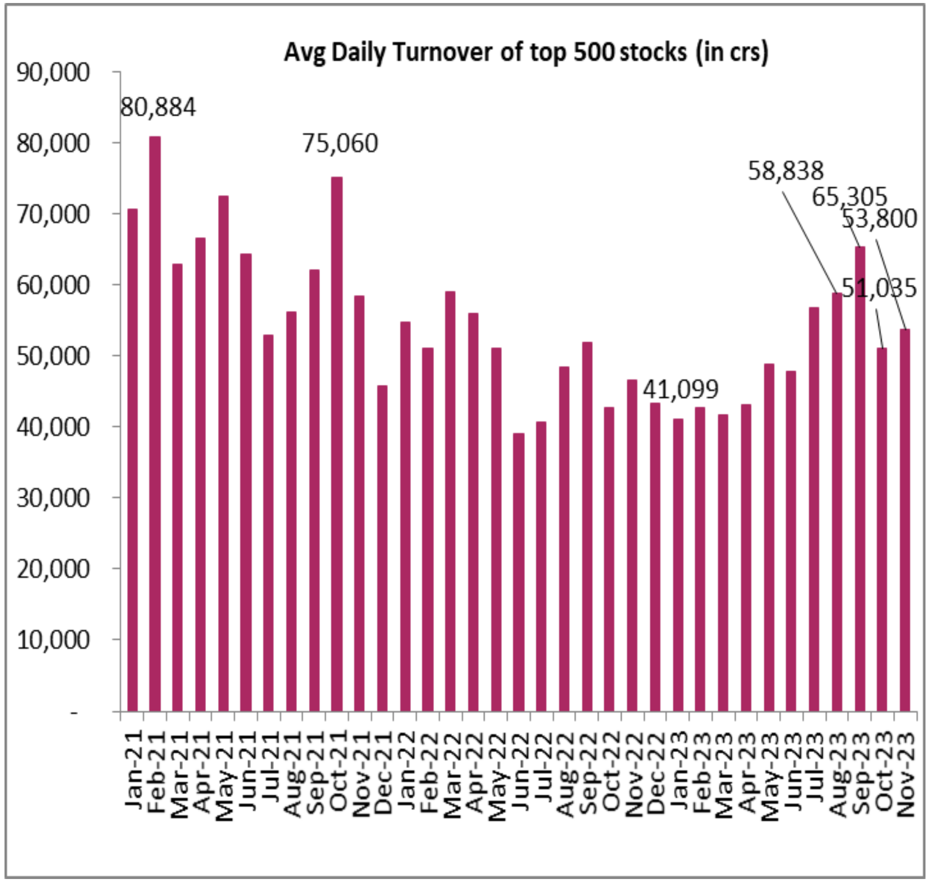


Source: Bloomberg, Axis Securities

Market Turnover (% of the Top 500 Names)

- Market turnover maintained above 50,000 Cr in Nov'23 and improved on an MoM basis on account of improved sentiments.
- Market turnover has slightly shifted towards a broader market over the last two months





Source: Bloomberg, Axis Securities

Style Indicators

Quality & Momentum continue to be a dominating theme in the last six months

- In the last one year, Quality and Momentum themes delivered the highest returns. However, the Momentum theme was the dominating theme in the last 1 month, 3 months, and 6 months period.
- Over the 2-year duration, Growth and Momentum themes have been the most dominating themes in the market.
- The theme 'Growth at a Reasonable Price' looks attractive on account of the robust growth expectation, the cool-off in commodity prices and inflation, rural recovery, and the expectation of margin recovery in the upcoming quarters.
- The selected Value stocks from the PSU, Metals, Commodities, Utility, and Cement sectors are well-placed to deliver superior performance. Value stocks in the BFSI space have outperformed other themes for the last couple of months and their outperformance is likely to continue moving forward. Furthermore, a structural growth play offering long-term earnings visibility will continue to do well even amidst the prevailing challenging environment.

Performance (%)				
Perf	Value	Growth	Quality	Momentum
2020	24.9%	10.2%	22.6%	6.6%
2021	34.1%	8.8%	22.2%	32.6%
2022	-0.9%	12.4%	-0.9%	7.1%
1M	6.4%	5.4%	7.2%	11.7%
3M	7.2%	5.3%	8.2%	14.1%
6M	11.7%	8.9%	12.6%	25.6%
1YR	14.1%	12.4%	17.3%	20.9%
2YR	24.5%	33.9%	26.9%	37.9%

Source: Bloomberg, Axis Securities

India's Performance vis-à-vis Peers

Indian Market Bounced Back Sharply in Last One Month

On 1st Dec'23, NIFTY made an all-time closing high of 20,267 on account of improvement in various macroeconomic indicators. These indicators are: 1) Cool-off in the US 10-year bond yields, 2) Reduction in Oil prices, 3) Robust Q2FY24 performance, 4) Improvement in high-frequency indicators, and 5) Positive sentiments towards the state election results.

In the last one month, the broader market has outperformed Largecaps by a notable margin and Realty, Auto, Pharma, and Commodities have given the highest returns. In the last one year, Realty, Auto, Infra, Pharma, and FMCG have given the highest returns while Services, Private banks and Metals index were the biggest laggards.

Positive Near-term Outlook: Domestic-oriented stocks, Telecom, Auto, Domestic cyclical
Improving Outlook: BFSI, Industrials, PSUs, Rural theme
Mixed bag: Export-oriented themes, Pharma, Discretionary, and IT
Near-term challenging but well-placed for longer-time horizons: Metals, Commodity-linked stocks, and Selective Cyclicals (Cement).

National Index						
Index Performance (%)	**1M**	**3M**	**6M**	**30th Nov'22**	**YTD**	**1 YR**
Nifty 50	5.5%	4.6%	8.6%	7.3%	11.2%	7.3%
Nifty Next 50	9.1%	8.1%	14.2%	9.9%	13.8%	9.9%
Nifty 500	7.1%	6.3%	14.1%	12.8%	16.4%	12.8%
Nifty Midcap 100	10.4%	9.7%	27.1%	33.9%	36.2%	33.9%
Nifty SmallCap 250	10.2%	11.1%	33.7%	37.3%	39.8%	37.3%
Sector Index (%)	**1M**	**3M**	**6M**	**30th Nov'22**	**YTD**	**1 YR**
NIFTY AUTO	10.3%	12.0%	23.6%	32.6%	39.2%	32.6%
NIFTY BANK	3.8%	1.1%	0.8%	2.9%	3.5%	2.9%
NIFTY COMMODITIES	9.5%	10.1%	17.3%	12.7%	15.3%	12.7%
Nifty Financial Services	4.4%	2.3%	3.1%	3.6%	5.7%	3.6%
NIFTY ENERGY	9.4%	13.9%	22.7%	7.1%	13.2%	7.1%
NIFTY FMCG	3.4%	3.8%	3.9%	16.4%	20.0%	16.4%
NIFTY IT	6.5%	4.5%	11.1%	7.2%	13.8%	7.2%
NIFTY INFRA	8.0%	10.7%	20.6%	20.9%	25.4%	20.9%
NIFTY MEDIA	4.4%	0.2%	30.8%	8.5%	15.3%	8.5%
NIFTY METAL	8.8%	5.4%	19.1%	6.9%	4.4%	6.9%
NIFTY PHARMA	10.6%	7.6%	28.1%	23.5%	28.9%	23.5%
NIFTY PSU BANK	2.2%	12.8%	25.1%	26.0%	16.7%	26.0%
Nifty Private Banks	4.1%	0.9%	3.0%	5.1%	5.8%	5.1%
NIFTY REALTY	18.3%	27.8%	49.0%	58.5%	65.3%	58.5%
NIFTY SERV SECTOR	5.2%	3.6%	5.8%	-0.4%	3.0%	-0.4%

Source: Bloomberg, Axis Securities, Performance as of 30st Nov'23

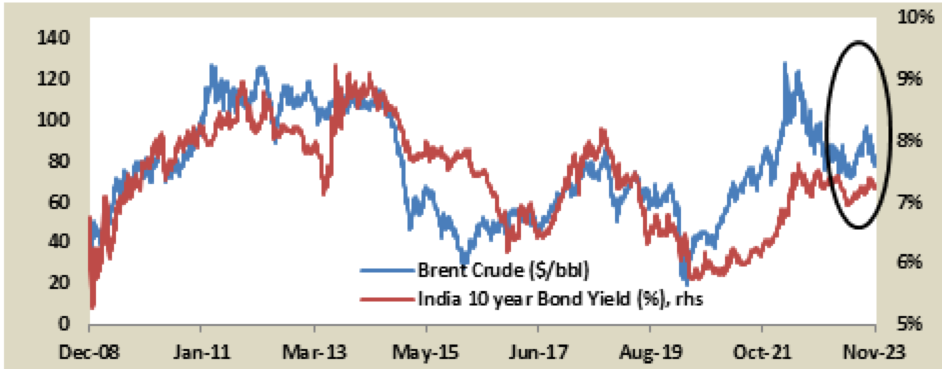
International Index						
Index Performance (%)	**1M**	**3M**	**6M**	**30th Nov'22**	**YTD**	**1 YR**
Shanghai Comp	0.4%	-2.9%	-5.5%	-3.9%	-1.9%	-3.9%
Bovespa	12.5%	10.0%	17.5%	13.2%	16.0%	13.2%
Russia	3.3%	5.3%	5.6%	-0.9%	14.9%	-0.9%
south africa	9.0%	0.5%	-0.5%	1.6%	4.0%	1.6%
Korea	11.3%	-0.8%	-1.6%	2.5%	13.4%	2.5%
Mexico	10.0%	0.9%	1.2%	4.2%	11.4%	4.2%
Indonesia	4.9%	1.8%	6.7%	0.0%	3.4%	0.0%
Argentina	40.4%	24.4%	137.8%	382.7%	302.5%	382.7%
Japan	8.5%	2.7%	8.4%	19.7%	28.3%	19.7%
Hongkong	-0.4%	-7.3%	-6.5%	-8.4%	-13.8%	-8.4%
Philipines	4.2%	0.8%	-3.9%	-8.2%	-5.2%	-8.2%
Taiwan	9.0%	4.8%	5.2%	17.2%	23.3%	17.2%
Singapore	0.2%	-5.0%	-2.7%	-6.6%	-5.5%	-6.6%
Thailand	-0.1%	-11.9%	-10.0%	-15.6%	-17.3%	-15.6%
Veitnam	6.4%	-10.6%	1.8%	4.4%	8.6%	4.4%
Dow	8.8%	3.5%	9.2%	3.9%	8.5%	3.9%
Nasdaq	10.7%	1.4%	10.0%	24.1%	35.9%	24.1%
FTSE 100 INDEX	1.8%	0.2%	0.1%	-1.6%	0.0%	-1.6%
DAX INDEX	9.5%	1.7%	3.5%	12.6%	16.5%	12.6%
CAC 40 INDEX	6.2%	-0.1%	3.0%	8.5%	12.9%	8.5%
S&P 500 Index	8.9%	1.3%	9.3%	12.0%	19.0%	12.0%

Cool-Off Seen in All Major Commodities

- **Precious Metals:** Gold prices went up by 5% in the last 1 month on account of the geopolitical tension.
- **Commodities:** Steel prices have corrected by 1% over the last 6 months. Aluminium prices, too, have corrected by 4% over the same period on account of expectations of a slowdown in global growth.
- **Crude:** Brent crude is now trading around $83bbl and has been highly volatile due to the rising geopolitical risk and ongoing supply-side concerns.

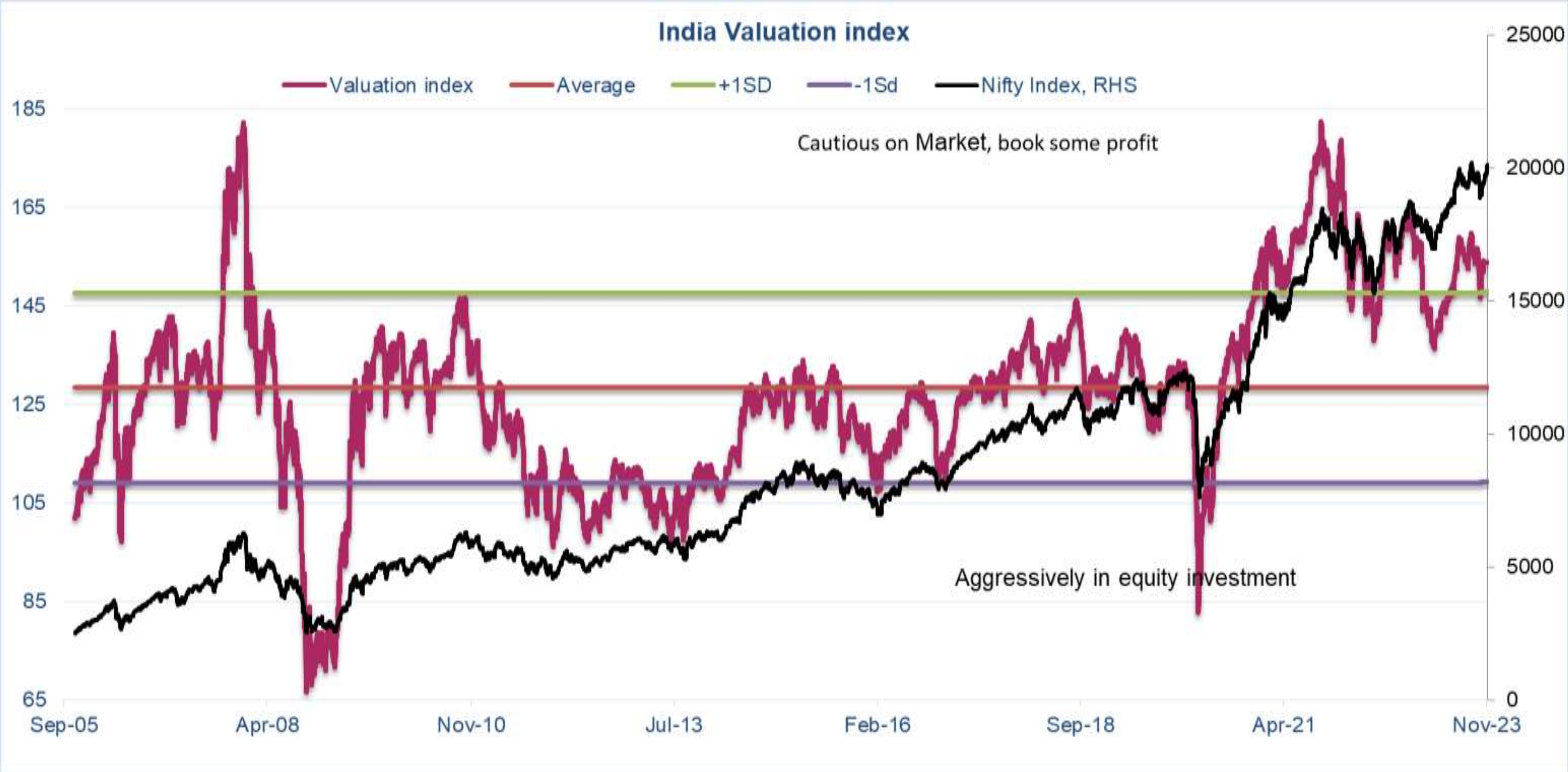
Market Indicator	30-11-2023	1m ago	3m ago	Nov-22	YTD	1 YR
Brent Crude ($/bbl)	82.8	87.4	86.9	85.4	85.9	85.4
Bond Yield (GOi 10Yr)	7.3	7.4	7.2	7.3	7.3	7.3
USD/INR	83.4	83.3	82.8	81.4	82.7	81.4
India Vix	12.7	11.8	12.1	13.8	14.9	13.8

Commodity Index	1m	3m	6m	Since 01 Aug	YTD	1 YR
Gold ($/OZ)	2.6%	5.0%	3.8%	15.1%	11.6%	15.1%
Steel ($/ton)	2.9%	-2.7%	-0.9%	0.9%	-7.7%	0.9%
Aluminium ($/ton)	-3.5%	-0.4%	-4.3%	-9.6%	-8.6%	-9.6%
Copper ($/ton)	4.5%	-0.2%	3.9%	2.0%	0.3%	2.0%
Zinc ($/ton)	1.9%	2.7%	11.2%	-16.7%	-18.1%	-16.7%



India Valuation Index: Trading below 1std; Earnings Upgrades/Downgrades Remain Critical

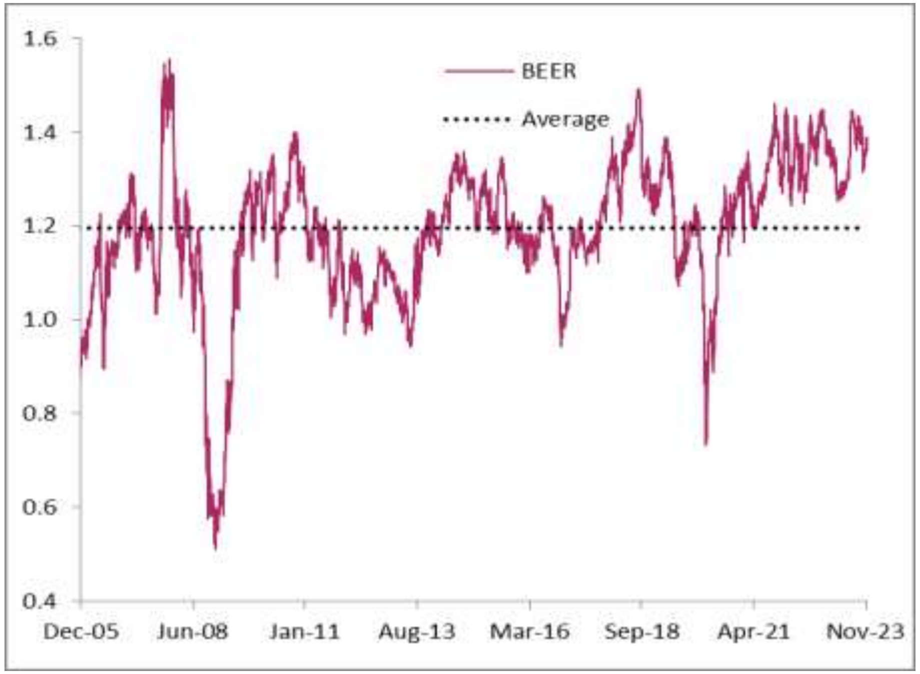
Our Market Valuation Index has retraced back to 1stdev after the recent rally. Current valuations offer a good entry point for long-term investors. At current levels, **stock selection and sector rotation are key to achieving outperformance**. The calculation of the India Valuation Index is based on four fundamental market parameters (12m fwd PE, 12m fwd PB, Bond Equity Earnings Yield Ratio, and Mcap to GDP Ratio).



Source: Bloomberg, Axis Securities

In terms of Mcap to GDP, India is less expensive than the US market

- **BEER:** After a status quo by the US FED in the Nov FOMC meeting, a sharp correction was seen in the US 10-year bond yields. Indian bond yields have also corrected by 6bps in the last one month. BEER ratio is now trading above its LTA, suggesting that the stock market is slightly more expensive than the Bond market at current levels.
- **India's Total Market Cap to GDP** is trading at 118% above its long-term average (rebased after FY23 GDP of Rs 273 Tn released by the government on 1st Feb'23). However, at projected levels of nominal GDP for FY24, the Mcap/GDP ratio translates into 107% (fairly valued). As per the Union Budget 2023-24, the FY24 GDP assumption is pegged at Rs 301 Tn.
- **Historical perspective:** Historically, similar upward earnings momentum was witnessed in FY10 earnings immediately after the GFC crisis, leading to the Market Cap to GDP ratio of 95-98%. With a positive earnings momentum in the current cycle, we are likely to see higher levels of the Mcap to GDP ratio in the upcoming quarters.

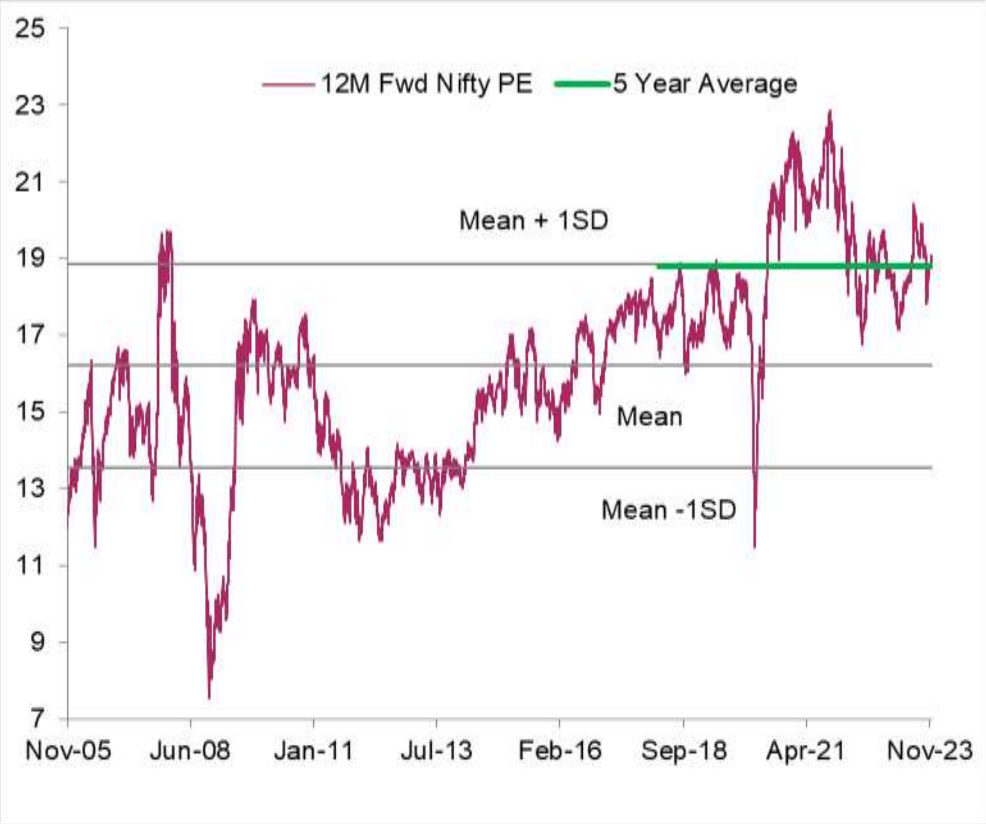


Source: Bloomberg, Axis Securities

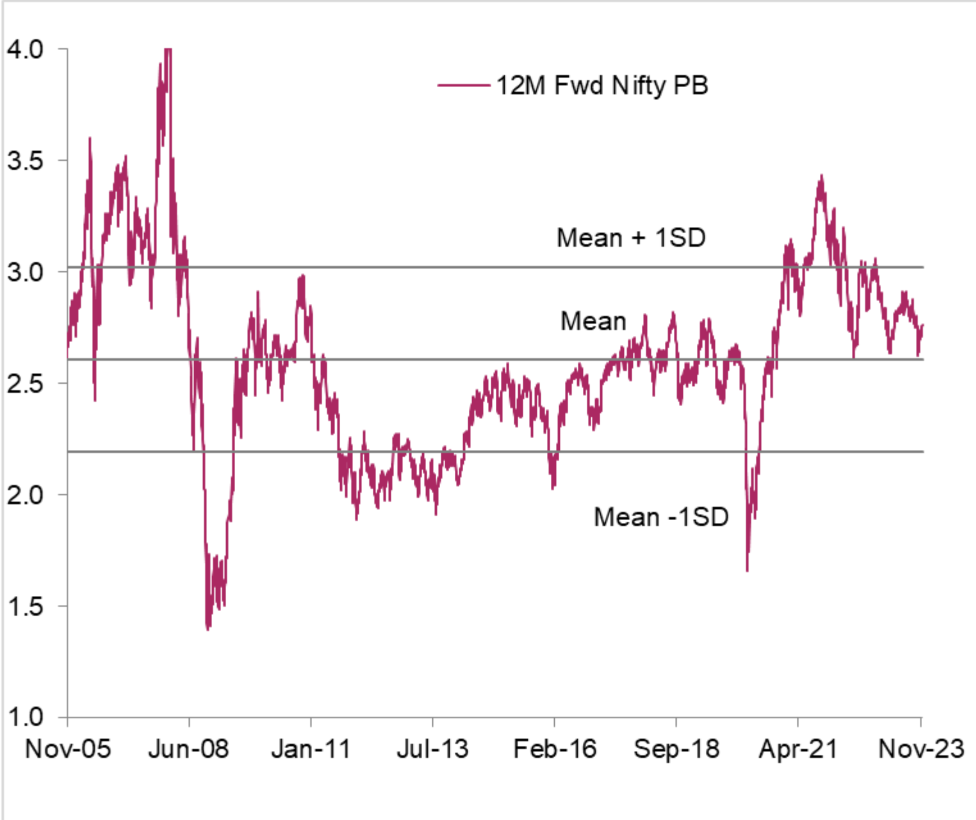
Market Valuations: 12M Fwd PE Now Trading at 19.0x

- NIFTY is currently trading at 19.0x on a 12M Fwd PE, which stands at 1std to its long-term average (16.2x). However, it is trading slightly above to long-term average on a 12M Fwd PB.
- Current valuations are slightly above a 5-year average (18.8x), providing a good entry point for long-term investors.
- **Style Rotation and Sector Selection are keys** to generating alpha as the earning expectations from the broader market remain intact.

Nifty 12M Fwd PE



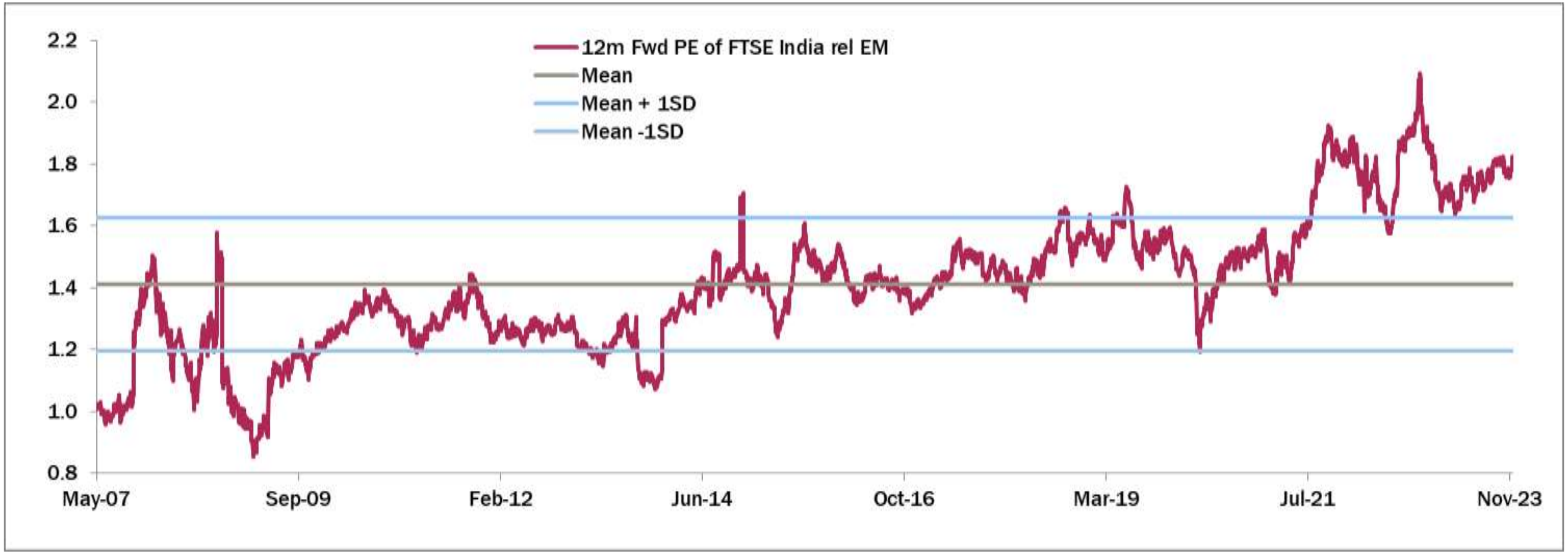
Nifty 12M Fwd PB



Source: Bloomberg, Axis Securities

Market Valuations: FTSE India rel. FTSE EM

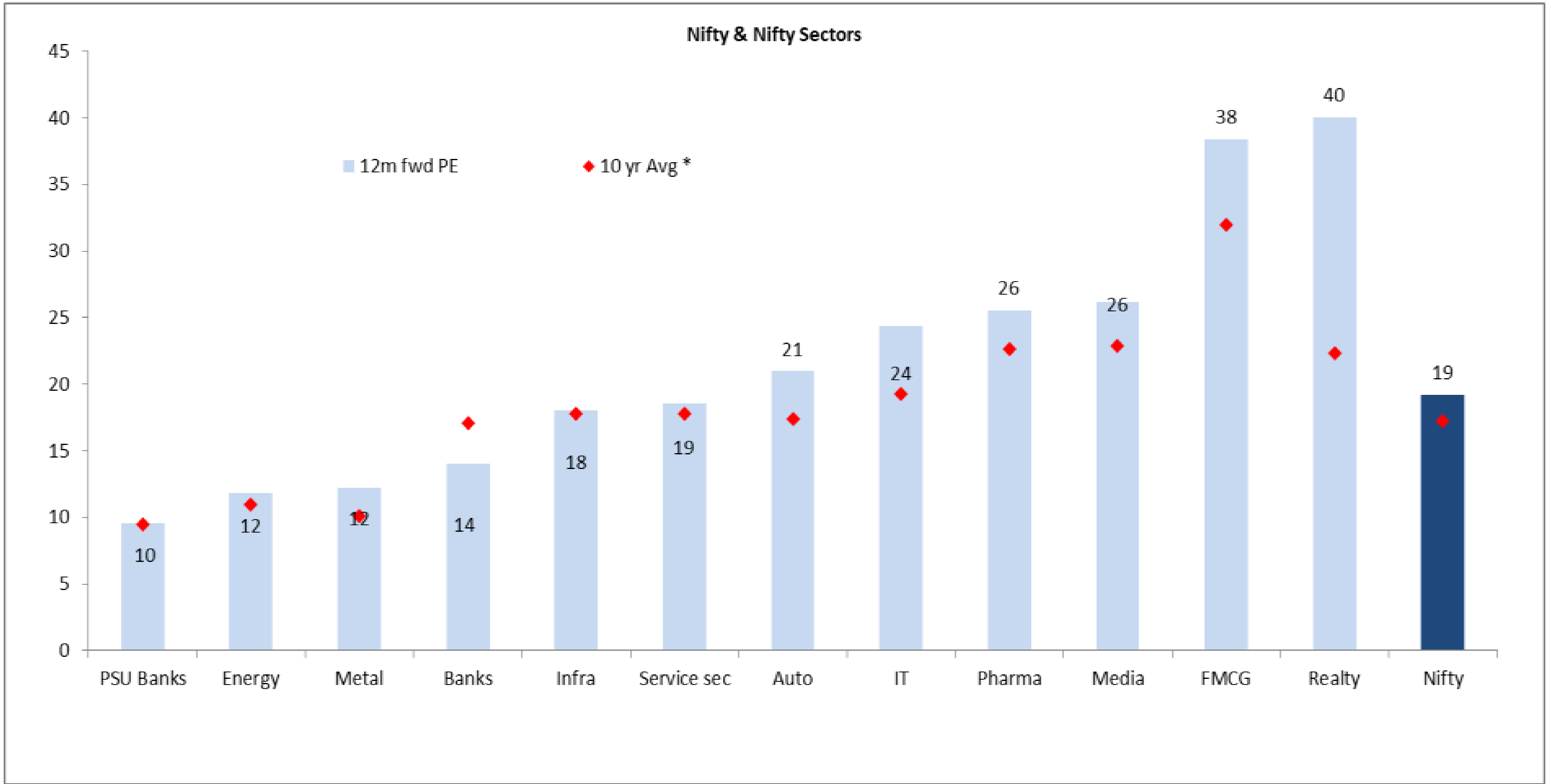
- Benchmark indices have reached all-time highs and the FTSE India is currently trading at a PE premium of 82% to the EM index (PE), vs. an average premium of 41%. Last year, during Oct/Nov'22, the Indian market reached a previous all-time high on account of the underperformance of the Chinese equity market due to its zero-Covid policy. During this time, the Indian PE premium had risen to 110%. However, this huge divergence has narrowed over the last six months.
- While the Indian market is again at an all-time high, the PE premium this time is only 82%, which shows that on a relative basis, the market is not as expensive as it was last year. We believe these favourable valuations will continue to attract inflows going forward.
- We believe the Indian equity market will continue to trade at a higher premium to EM in the next one year due to a) Robust economic growth relative to other EM countries, b) Strong earnings outlook, c) Robust demand across sectors, d) Banking sector in better shape, e) Private Capex cycle expectations, f) Better performance of the ruling party in the state election, and g) Strengthening of market confidence on political continuity in 2024 general election with continuation of macro policies.



Source: Bloomberg, Axis Securities

Nifty and Sectors

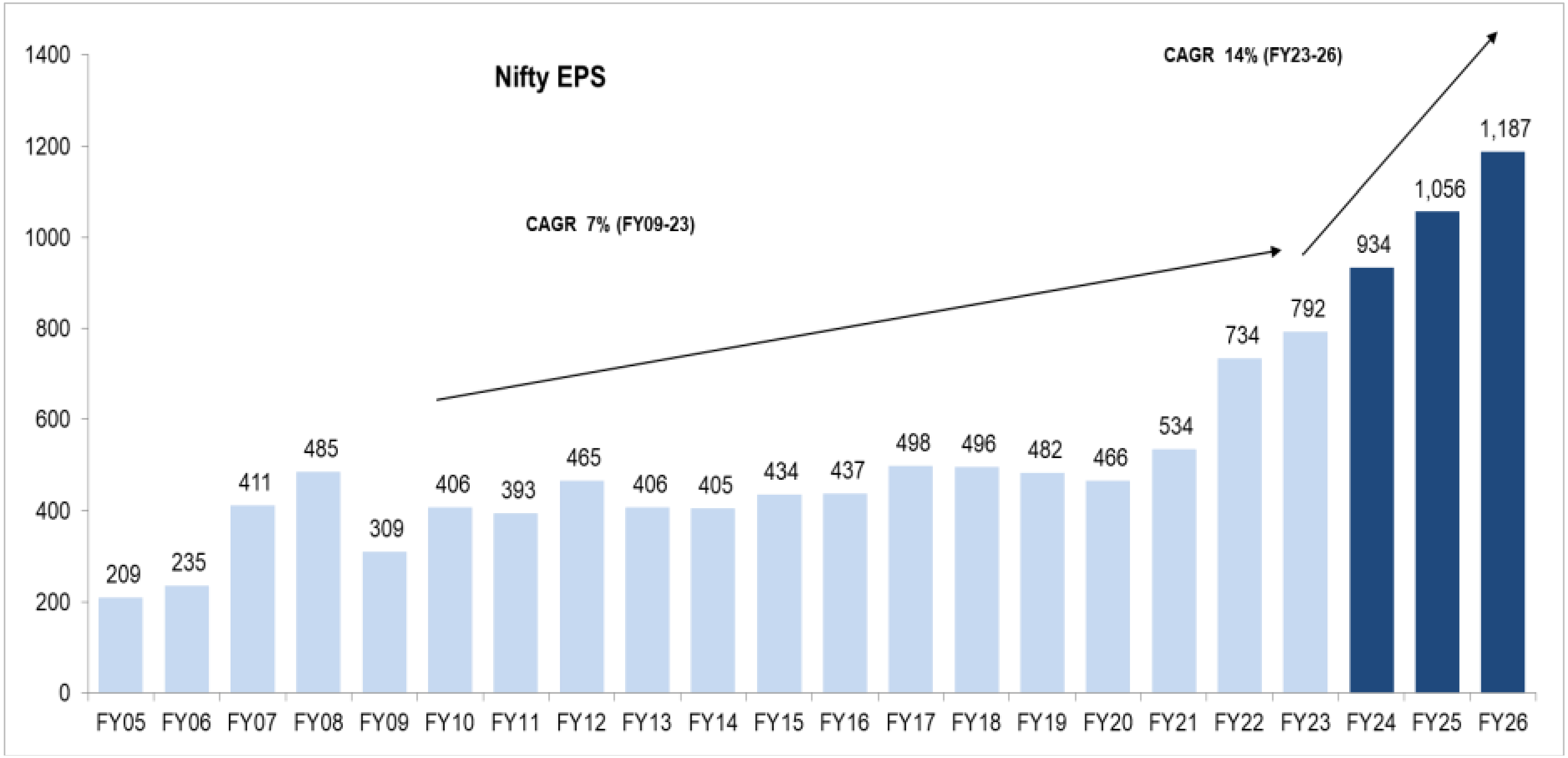
At current levels, PSU Banks, Energy, and the Metal Index are exhibiting valuation comfort. On the other hand, valuations for the IT, Pharma, and Auto sectors appear expensive. Post correction, the Banking sector looks attractive.



Source: Bloomberg, Axis Securities, Note: 10 yr average means historical 10 yr average of 12m fwd PE

NIFTY EPS Growth Expectation Remains Robust

Nifty EPS is expected to grow at 14% CAGR over FY23-FY26 vs. 7% CAGR over FY09-FY23



Source: Bloomberg, Axis Securities

Marginal Upgrade in Nifty EPS

- We foresee FY24/25 NIFTY Earnings at 935/1056 after Q2FY24. FY24/25 expectations are marginally upgraded by 0.7%/0.7% respectively. For FY24, upgrades in Financials, Auto, Industrials and Oil & Gas (BPCL) are compensated by downgrades in IT and Metals
- We foresee 18%/13%/12% earnings growth in the Nifty EPS for FY24/25/26.
- Our estimates of FY24/25 stand conservative at 5% below street expectations. Financials remain the biggest contributors for FY24/25 earnings.

Nifty EPS	Post Q1FY24		Post Q2FY24			Chg post Q2FY24	
Sector	FY24	FY25	FY24	FY25	FY26	FY24	FY25
Financial	390	443	395	449	511	1.5%	1.2%
IT	106	120	103	118	132	-2.7%	-1.6%
Oil & Gas	126	134	129	134	145	2.9%	0.0%
FMCG	57	63	57	62	71	-0.3%	-1.0%
Power	38	39	39	39	43	1.3%	0.8%
Industrial	38	48	40	50	57	4.0%	4.0%
Pharma	31	36	31	36	40	-0.3%	-0.4%
Metals	59	71	54	70	77	-8.3%	-1.0%
Automobile	62	67	66	71	78	6.9%	5.0%
Cement	7	8	7	8	9	1.8%	3.1%
Telecom	14	19	12	19	25	-8.3%	-2.0%
Total	**928**	**1048**	**935**	**1056**	**1187**	0.7%	0.7%
Growth Rate (%)			**18%**	**13%**	**12%**		

Source: Bloomberg, Axis Securities

The last 4 quarters' rolling profits for NSE 500 (Sum of the last 4 quarters earnings)

A few interesting findings from our study: Sector-wise

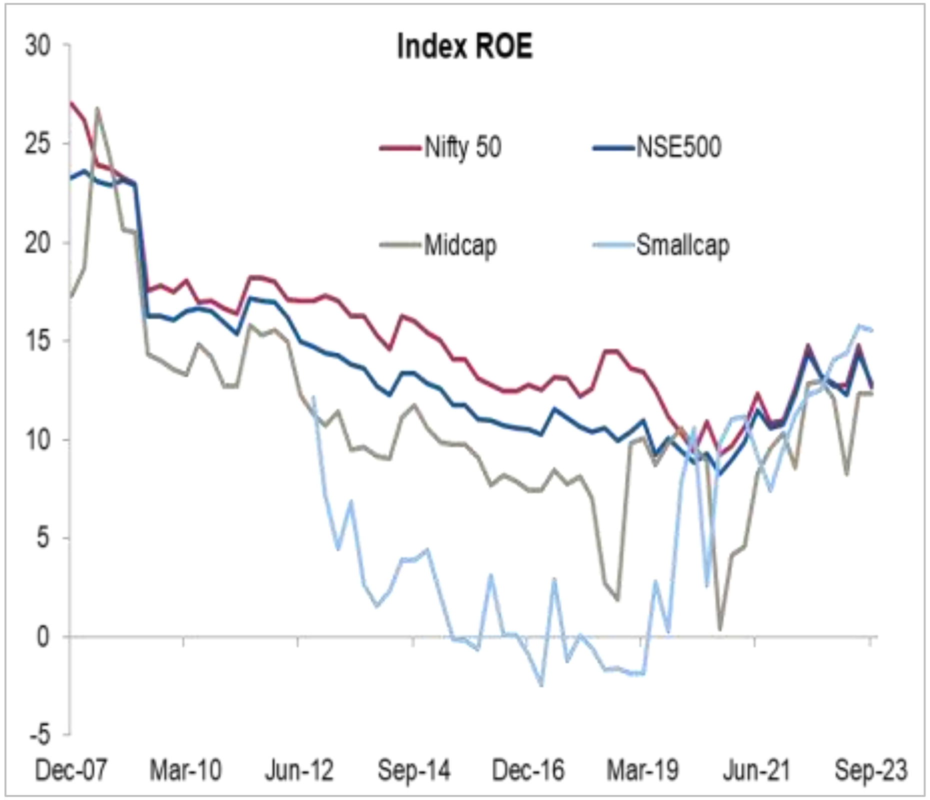
- The last 4 quarters' cumulative net profit reached an all-time high in Q1FY24, crossing the mark of 11 Lc Cr, led by improvement in Oil Marketing companies.
- **Sequential improvement was seen in Oil & Gas, Automobiles, and Financials while a dip was observed in Metals, Agri, and Chemical space.**
- Significant improvement was seen in the profitability of Oil & Gas, up 35% QoQ vs. a decline seen in the last quarter due to inventory losses.
- Metals and Mining continue to show a dip in profitability due to lower realization as compared to previous quarters.
- Financials, Oil & Gas, Metals, and IT are now contributing 68% of the NSE 500 profitability.
- Loss-making sectors have turned positive post witnessing significant disruption by the pandemic.
- The Airlines sector has seen significant improvement in profitability. (Interglobe Aviation reported a profit of 3,000 Cr in Q1FY24).

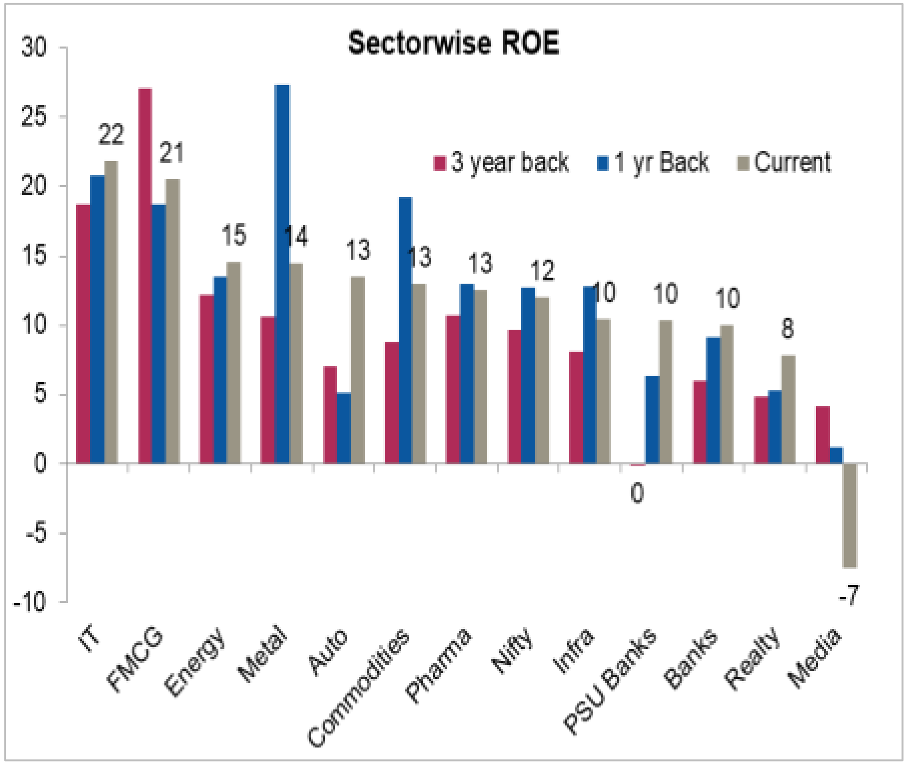
Sector-wise Net profit for NSE 500 – Trailing 4 Quarters (In Cr)							
	Q2FY20	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Growth %
Auto &Anc	36,212	40,331	42,081	45,088	43,028	49,650	15.4%
Staples	34,044	42,652	43,919	45,919	49,516	51,167	3.3%
Discretionary	18,283	21,470	24,360	25,563	30,085	30,501	1.4%
Financials	85,507	2,69,282	2,95,407	3,25,923	3,87,050	4,22,052	9.0%
IT	81,462	1,05,164	1,06,797	1,09,167	1,14,293	1,17,849	3.1%
Oil & gas	1,00,204	1,63,364	1,42,301	1,31,123	1,28,660	1,73,424	34.8%
Metals & min	58,266	1,47,291	1,19,152	99,487	88,438	76,782	-13.2%
Industrials	31,188	33,254	34,465	36,668	37,174	37,386	0.6%
Build Mate	22,387	32,381	29,296	28,432	23,965	22,436	-6.4%
Healthcare	28,133	41,786	39,280	41,744	39,045	41,068	5.2%
Utilities	27,165	52,660	54,488	55,146	59,631	63,288	6.1%
Transport	2,462	-1,624	-1,495	97	4,152	8,632	107.9%
Agri&Chem	12,424	24,919	25,999	26,702	31,842	27,988	-12.1%
Tele & Media	-19,015	13,207	13,347	11,188	12,474	13,107	5.1%
Others	12,486	25,407	17,533	17,011	16,661	18,422	10.6%
Total	5,31,208	10,11,545	9,86,930	9,99,258	10,66,015	11,53,755	
Ex Oil and Gas	4,31,004	8,48,181	8,44,629	8,68,135	9,37,354	9,80,330	
Total Growth		5%	-2%	1%	2%	7%	
Growth ex Oil and Gas		7%	0%	3%	8%	5%	

Source: Bloomberg, Axis Securities, Note: Tata Motors and Vodafone are not included in the study, Data of Q4FY23 , Q1FY24 and Q2FY24 are based on new constituents,

Return Ratios Improving

- ROE is improving across the market caps. Smaller stocks, too, have been showcasing a significant improvement.
- Some moderation was seen in the ROE of the cyclical sector. However, current ratios are higher than the pre-pandemic levels.
- Significant improvement has been seen in the PSU banks in the last 3 years.
- Profitability of the Auto, Pharma, and Infra sectors has improved in the past couple of years, led by the positive outlook

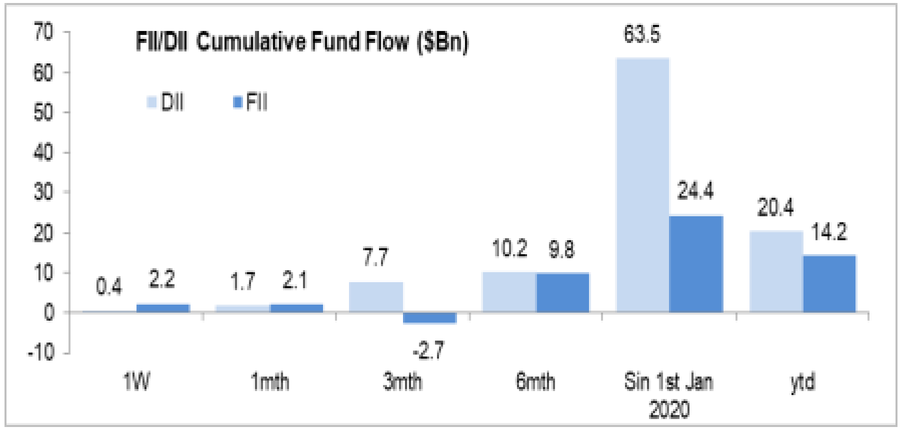


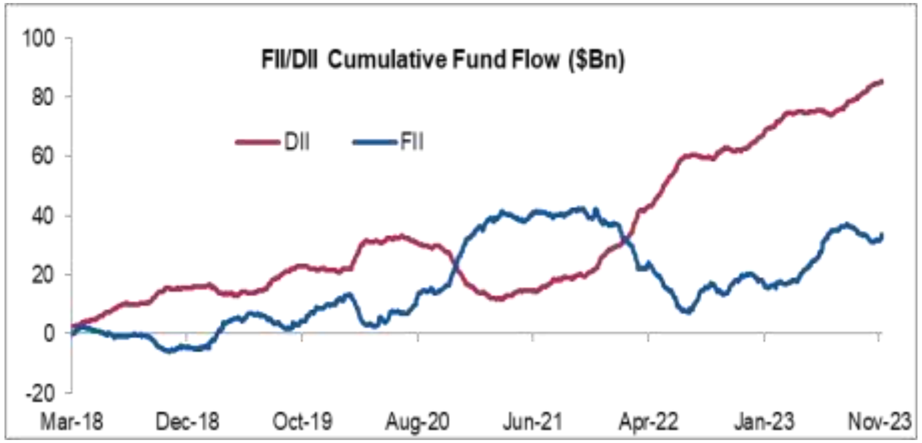


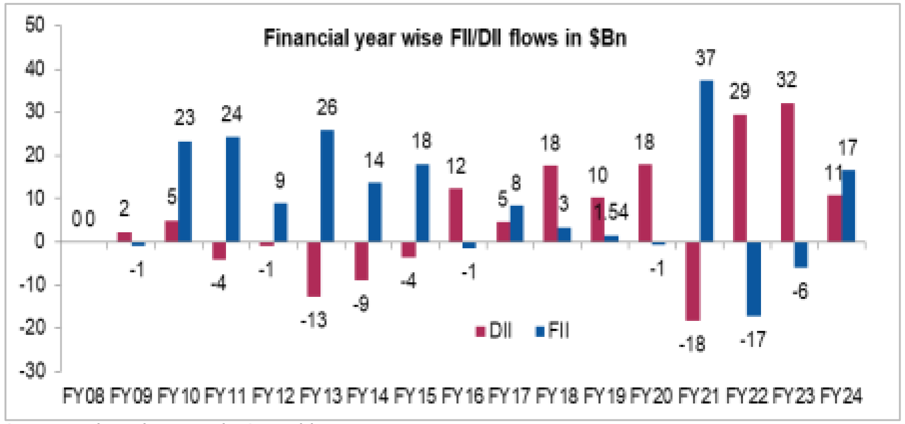
Source: Bloomberg, Axis Securities

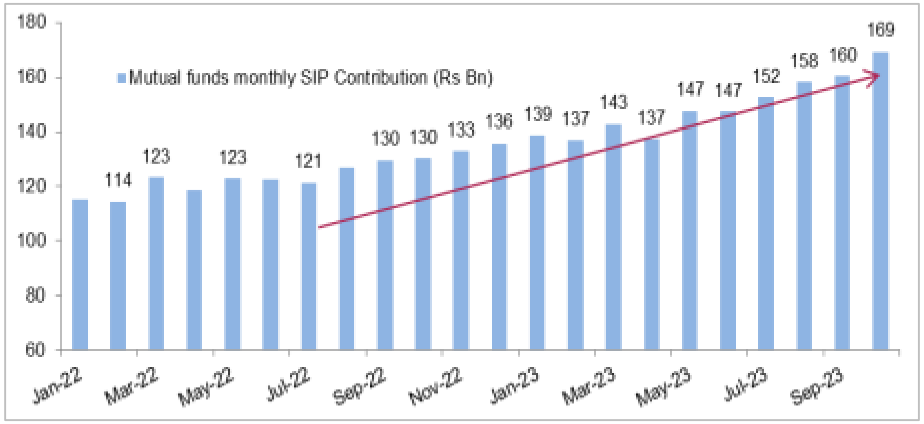
Both FIIs and DIIs turned net buyers in Nov'23

On a YTD basis, both FIIs and DIIs have been net buyers in the Indian equity market. FIIs have pulled out the majority of the easy money from the Indian market which they had pumped in after the Covid-19 crisis in Mar'20. FIIs pulled out $23 Bn in FY22/23 out of $37 Bn that had been pumped in FY21. Nonetheless, the pace of selling has reduced in FY24, and so far in FY24, FIIs have added $17 Bn to the Indian equity market. In the last one month, FIIs added $2.1 Bn in the Indian market. SIP flow for Oct'23 reached to Rs 16,900 Cr.





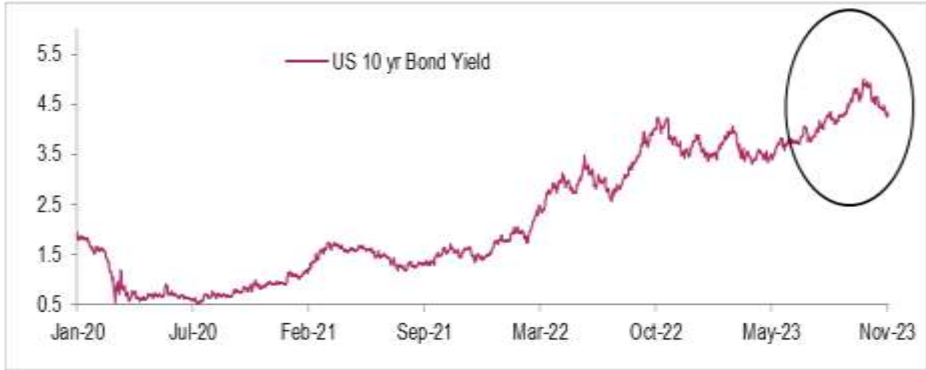


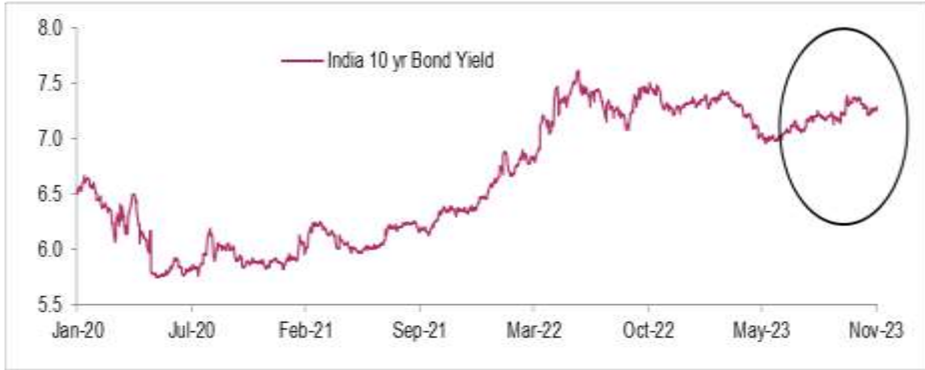


Source: Bloomberg, Axis Securities

Macro will continue to drive near-term market fundamentals

- The US bond yields went up to 4.99% in Oct'23. However, a sharp correction was seen in the last one month after the status quo maintained by the FOMC in the Nov'23 meeting. Currently, the US bond yields are trading around 4.3% levels and have corrected by 70bps in the last one month.
- In a similar move, Indian bond yields are also corrected by 8bps in the last one month
- The correlation between the Indian market and the US market remains high at 73%.





Source: Bloomberg, Axis Securities

Q2FY24 Earnings Performance So Far: Largely In line with Expectations

Of the results of 49 companies from the Nifty 50 index so far, 73% of the companies have beaten or been in line with the earnings expectations as well as on revenue expectations.

- Margin improvement was seen across the sectors during the quarter. Banks, Auto, Pharma, Industrials, and Oil Marketing companies have posted good numbers while IT, selected FMCG, and Discretionary have posted weaker results.
- Domestic cyclical like Oil & Gas, Automobiles, Cement drove the overall profit growth for the NSE 500 Universe.
- Financial heavyweights delivered a robust set of numbers with a stable asset quality trend while some pressure on margins was visible during the quarter.
- IT Services companies posted muted Q2FY24 primarily on account of challenging economic phase of the world's largest economies. The December quarter for IT companies is also considered to be a seasonally weak quarter because of the vacations. We can expect some recovery in Q4FY24 and ramp up of the deals they have won in the previous quarters.
- FMCG demand remains stable during Q2FY24 with urban demand continuing to lead and the rural markets remaining muted during the quarter.
- Double digit upgrades was seen in BPCL, Maruti and Tata motors while the downgrades was seen in Tata steel, Tech Mahindra and UPL ltd.

Q2FY24 Performance:

Beat results: Maruti, Bajaj Auto, Titan, Cipla, L&T, BPCL

Missed results: Asian Paint, Tech Mahindra, Wipro, Tata steel, UPL

Nifty Q2FY24	Earnings			EBITDA			Revenue		
Results Out	BEAT	INLINE	MISS	BEAT	INLINE	MISS	BEAT	INLINE	MISS
49	19	17	13	20	16	11	10	26	13

FY24 EPS

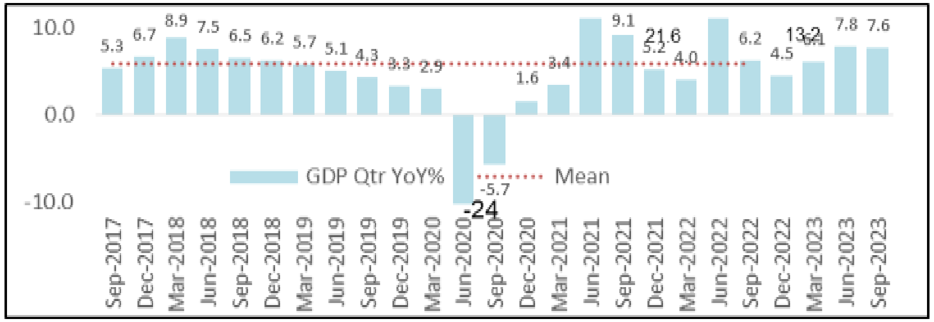
- **Key Upgrade:** BPCL (+40%), Maruti (11%), Tata Motors (+10%), Cipla (7%), Dr Reddy (5%), Coal India (13%), ICICI bank (+3%)
- **Key Downgrade:** Tata Steel (-34%) Tech Mahindra (-24%), UPL (-23%), Divis Lab (-10%), Wipro (-6%), JSW Steel (-8%)

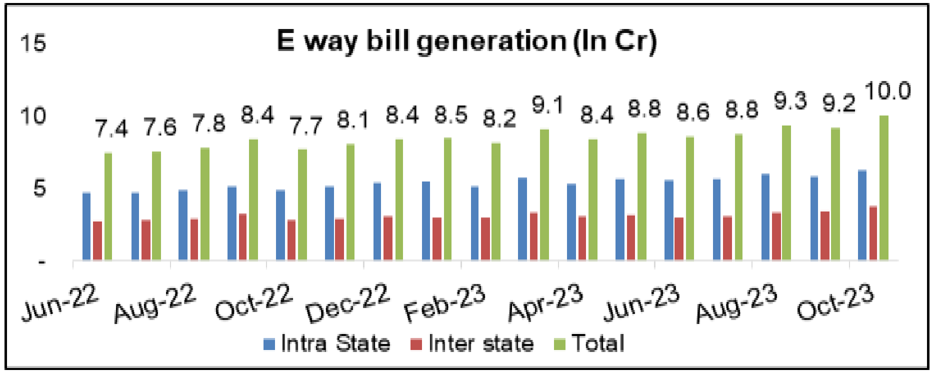
Note: Adani enterprises not included

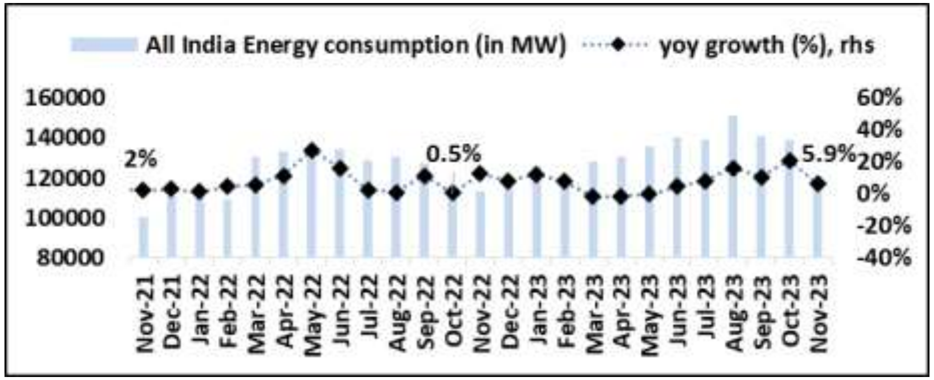
Macro Indicators

Healthy Pick Up In the Economic Activities Continued in the Last Quarter

- **GDP**: The country's GDP in Sep'23 was at 7.6%, higher than the consensus expectation of 7%. GDP growth was led by robust expansion in investments and government revenue expenditure. This rapid expansion in the GDP number brings confidence towards the RBI's projection of 6.5% for FY24.
- **Electricity generation & E-way bills**: The country witnessed a surge in electricity demand. It went up by 5.9% YOY, led by the pick-up in economic and festival activities. Healthy pick-up in the economic activities continued in Oct'23 with 10 Cr E-way bills reported in Oct'23.
- **CPI:** India's retail inflation fell to 5% for Sep'23. This sharp decline in inflation is led by the sharp decline in the selected food items including vegetables and edible oils. We believe the RBI will likely remain in the pause mode and continue to focus on curtailing inflation and bringing it down within the threshold band of 4%.







Source: Bloomberg, Axis Securities

ICICI BANK – CONSISTENT OUTPERFORMER

ICICI Bank (ICICIBC) is one of the largest private sector banks in India with business operations spread across Retail, Corporate, and Insurance. It is supported by a strong liability franchise and a healthy retail corporate mix. The bank's subsidiaries such as ICICI Venture Funds, ICICI Pru AMC, ICICI Securities, ICICI Prudential, and ICICI Lombard are among the leading companies in their respective domains.

Industry view

Equal Weight

CMP
947

Target Price
1,250

Upside
32%

Key Rationale

- **Strong credit growth:** The bank continued its growth momentum in Q2FY24 across segments, clocking a healthy advances growth of 18/5% YoY/QoQ, primarily driven by Retail loan (+21/6% YoY/QoQ), Business Banking portfolio (+30/11%YoY/QoQ), SME(+29/7% YoY/QoQ) and Corporate segment (+15/3% YoY/QoQ).Credit demand across segments continues to remain buoyant. The bank has not seen any softening of demand for secured products and will continue to explore opportunities where the risk-reward is favorable. In terms of the unsecured portfolio, ICICIB will continue to expand its credit card portfolio. However, it will continue to closely monitor the personal loans portfolio. Asset quality trends in personal loans have been worrying with increasing delinquencies, especially in the smaller ticket-size loans. However, ICICIB's presence in this segment is limited. Keeping this in view, we expect ICICIB's growth momentum to sustain and expect it to deliver a healthy advances growth of ~17% CAGR over FY23-25E.
- **Pace of NIM moderation to slow down –** Margin compression has been led by the lag in deposit repricing and largely stable yields. The CoD continues to rise further over the next couple of quarters, primarily owing to the repricing of older deposits while the rates on fresh term deposits have stabilized. The management expects further compression in margins in the coming quarters. However, the quantum of NIM compression is expected to be lower. Margins for FY24 are expected to remain flat YoY at ~4.5%
- **Well-placed to deliver 2%+ RoA over the medium term:** A sharper increase in CoF and no benefit flowing in from lending yield improvement should result in margin contraction. However, despite this moderation, NIMs are expected to remain healthy at 4.4-4.5% in FY24 (at FY23 levels). The bank is not eyeing aggressive branch expansion and will decide the course of further additions to the distribution network based on the opportunity in the target micro markets. Despite continuous investments in tech, employees and distribution network, we expect cost ratios to remain largely stable and range between 40-42% over FY23-25E. The asset quality continues to remain strong with no major headwinds visible. Thus, credit costs should continue to remain benign. We expect ICICIB to continue delivering strong RoA of 2.1-2.3% over the medium term.
- **Outlook & Valuation:** The bank has been consistently outperforming its peers and has been firing on all cylinders. We continue to like ICICIB for its (1) Strong retail-focused liability franchise, (2) Buoyant growth prospects, (3) Stable asset quality along with healthy provision cover, (4) Adequate capitalization, and (5) Potential to deliver robust return ratios. We maintain our BUY rating on the stock with a target price of Rs 1,250/share (SOTP basis core book at 3x FY25E and Rs 157 Subsidiary value).
- **Key risks:** a) Slowdown in credit growth momentum

Key Financials (Standalone)

Y/E Mar (Rs Bn)	NII (Rs Bn)	PPOP (Rs Bn)	PAT (Rs Bn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY22	475	393	233	33.6	225.7	4.2	1.7	0.8
FY23P	621	491	319	45.7	270.0	3.5	2.1	0.5
FY24E	724	568	397	56.8	315.8	3.0	2.3	0.4
FY25E	826	656	435	62.2	365.0	2.6	2.1	0.4

Source: Company, Axis Securities

Income Statement (RsBn)

Y/E March	FY22	FY23	FY24E	FY25E
Net Interest Income	**475**	**621**	**724**	**826**
Other Income	185	198	234	283
Total Income	**660**	**820**	**958**	**1,109**
Total Operating Exp	267	329	390	453
PPOP	**393**	**491**	**568**	**656**
Provisions & Contingencies	86	67	37	75
PBT	**306**	**424**	**530**	**581**
Provision for Tax	73	105	134	147
PAT	**233**	**319**	**397**	**435**

Source: Company, Axis Research

Balance Sheet (RsBn)

Y/E March	FY22	FY23	FY24E	FY25E
SOURCES OF FUNDS				
Share Capital	14	14	14	14
Reserves	1,691	1,993	2,315	2,664
Shareholder's Funds	**1,705**	**2,007**	**2,329**	**2,678**
Total Deposits	10,646	11,808	13,703	16,005
Borrowings	11,718	13,002	15,434	17,964
Other Liabilities & Provisions	690	833	976	1,134
Total Liabilities	**14,113**	**15,842**	**18,739**	**21,776**
APPLICATION OF FUNDS				
Cash & Bank Balance	1,678	1,194	1,167	1,363
Investments	3,102	3,623	4,520	5,119
Advances	8,590	10,196	12,092	14,178
Fixed &Other Assets	742	828	961	1,116
Total Assets	**14,113**	**15,842**	**18,739**	**21,776**

Source: Company, Axis Research

Valuation ratios (%)

Y/E March	FY22	FY23	FY24E	FY25E
EPS	33.6	45.7	56.8	62.2
Earnings growth (%)	*43.7*	*36.0*	*24.3*	*9.6*
Adj. BVPS	225.7	270.0	315.8	365.0
ROAA (%)	1.7	2.1	2.3	2.1
ROAE (%)	14.7	17.2	18.3	17.4
P/ABV (x)	4.2	3.5	3.0	2.6
Dividend Yield (%)	0.5	0.9	1.2	1.3
PROFITABILITY				
Yield on Advances (%)	8.3	8.9	9.7	9.4
Cost of Funds (%)	3.7	3.9	5.0	4.9
Cost of Deposits (%)	3.5	3.7	4.7	4.6
NIM (%)	4.0	4.5	4.5	4.4
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	2.0	2.2	2.3	2.2
Cost-Income Ratio (%)	40.5	40.1	40.7	40.8

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E March	FY22	FY23	FY24E	FY25E
Loan Growth (%)	17.1	18.7	18.6	17.3
Deposit Growth (%)	14.2	10.9	16.0	16.8
C/D Ratio (%)	80.7	86.3	88.2	88.6
Equity/Assets (%)	12.1	12.7	12.4	12.3
Equity/Advances (%)	19.8	19.7	19.3	18.9
CASA (%)	48.7	45.8	42.6	40.5
Total Capital Adequacy Ratio	19.2	18.3	17.4	16.4
Tier I CAR	*18.4*	*17.6*	*16.7*	*15.9*
ASSET QUALITY				
Gross NPLs	333	300	291	320
Net NPLs	70	52	54	59
Gross NPLs (%)	3.9	2.9	2.4	2.3
Net NPLs (%)	0.8	0.5	0.4	0.4
Coverage Ratio (%)	79.1	82.8	81.4	81.5
Provision/Avg. Loans (%)	1.1	0.7	0.3	0.6
ROAA TREE				
Net Interest Income	3.6	4.1	4.2	4.1
Non-Interest Income	1.4	1.3	1.4	1.4
Operating Cost	2.0	2.2	2.3	2.2
Provisions	0.7	0.4	0.2	0.4
Tax	0.6	0.7	0.8	0.7
ROAA	1.7	2.1	2.3	21
Leverage (x)	8.3	8.1	8.0	8.1
ROAE	14.7	17.2	18.3	17.4

Source: Company, Axis Research

MARUTI SUZUKI INDIA LTD – STRONG MARGINS ON RICHER SALES MIX

Maruti Suzuki India Ltd (MSIL) is the market leader in the domestic passenger car industry commanding a market share of about 43%. Suzuki Motor Corporation (SMC) currently holds 56.37% of its equity stake.The Company has two state-of-the-art manufacturing facilities located in Gurugram and Manesar in Haryana, capable of producing ~1.5 Mn units per annum. Suzuki Motor Gujarat Private Limited (SMG), a subsidiary of SMC, was set up in Hansalpur, Gujarat to cater to the increasing market demand for the Company's products and has been operational since 2017. Through this new facility, an additional annual production capacity of 0.75 Mn units has been made available, thereby taking the combined production capability to~2.25Mn units.

Industry view

Over Weight

CMP
10,586

Target Price
11,800

Upside
11%

Key Rationale

- **Margins beat estimates:** The company's EBITDA margins stood impressive at 12.9% in Q2FY24 led by a confluence of positive factors. Higher volumes, sales mix, FX benefit and drop in RM costs drove the beat. We also note theimpactof the inventory build-up of ~Rs 815 Cr, which led to lower RM to sales. The management said it does not include any one-offs. We foresee margins to remain elevated YoY in coming quarters on account of soft RM prices (precious metals are soft, while steel prices are slightly increasing), probable FX benefit and sales mix (higher share of SUVs).
- **Supply-side issues easing:** With the easing of the semiconductor shortages, the pending orders at the end of Q2FY24 have come down to about 2.88 Lc units (3.55 Lc units as of the end of Q1FY24) and further corrected to about 2.5 Lc units. Out of the current total order book of 2.5 lc units – CNG accounts for 123k units, Ertiga at 73.7k units of pending orders,followed by the recently-launched SUVs such as Grand Vitara, Jimny, and Invicto forming the large part of the order book.
- **Long-term Expansion plan:** Maruti will add 2 Mn units by FY31 over the existing capacity of ~2.25 Mn units. 1 Mn units will be from Kharkhoide by 2028. A second site for 1 Mn units is under selection and work will start in 2024. Of this volume of ~4 Mn, over 3 Mn units will be sold in the domestic. market including sales to other OEMs and ~750K units to 800K units will be exported. The number of models is likely to increase from 17 to 27-28,of these, 6 are expected to be EVs
- **Recovery in CNG sales:** CNG penetration for the company has gone up by 4% in 1 year from 20% in the last year to 24% this year. CNG vehicles continue to see strong demand and the share of CNG vehicles in the industry has now reached at 15%.The share of diesel vehicles continues to decline and it is now at 17% compared to 19% in the last year. Hybrid vehicle share has increased to 2% and it's seeing good traction.
- **Valuation:** MSIL's has completely refreshed its portfolio and higher share of premium MPV/SUVs in the sales mix will drive the Revenue/EBITDA/PAT growth in FY23-26E. Strong order book, higher share of premium SUVs, CNG vehicles in the sales mix to improve ASP in FY24/25; further improved chip supplies and stable commodity prices to drive Revenue/EBITDA/PAT CAGR of 14%/20%/19% from FY23-26E. We maintain our BUY rating on the stock and value it at 27xP/E of its Sep'25E EPS (from 28x) to arrive at our TP of Rs 11,800/share (unchanged), which implies an upside of 11% from the CMP.
- **Key Risks:** (1) Multiple launches from competitors will make the UV space more cluttered and competitive in future. (2) Lower demand scenario which may hamper the off-take of vehicles, impacting our sales volumes growth forecasts, which would impact the company's gross margins negatively.

Key Financials (Standalone)

Y/E March (Rs Cr)	NET SALES	EBITDA	PAT	EPS	ROE (%)	ROCE (%)	P/E (X)	EV/EBITDA (X)
FY23P	1,17,523	10,864	8,049	266.5	13.8%	13.8%	31.08	22.84
FY24E	1,39,288	13,981	10,785	357.0	19.3%	19.1%	24.85	19.31
FY25E	1,56,111	15,836	11,794	390.4	16.5%	16.4%	24.55	17.82
FY26E	1,72,876	17,443	12,932	428.1	13.9%	13.9%	24.46	16.79

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E	FY26E
Net revenues	1,17,523	1,43,470	1,57,396	1,71,987
Operating expenses	1,06,504	1,27,031	1,39,146	1,52,927
EBIDTA	11,019	16,439	18,250	19,060
EBIDTA margin (%)	9.38%	11.46%	11.59%	11.08%
Other income	2,161	3,417	3,480	3,825
Interest	187	152	200	225
Depreciation	2,823	3,279	4,376	5,442
Profit Before Tax	10,159	16,425	17,154	17,219
Tax	2,248	3,559	3,602	3,616
Reported Net Profit	7,912	12,866	13,552	13,603
Net Margin (%)	6.73%	8.97%	8.61%	7.91%
Adjusted Net Profit	8,058	12,866	13,552	13,603

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E	FY26E
Equity capital	151	151	157	157
Reserves & surplus	60,231	69,020	90,983	99,714
Shareholders' funds	60,382	69,171	91,140	99,872
Total Loans	1,247	1,247	1,247	1,247
Deferred tax liability	-	-	-	-
Total Liabilities and Equity	**61,629**	**70,418**	**92,387**	**1,01,119**
Gross block	37,858	47,302	66,373	74,973
Depreciation	20,054	23,332	27,709	33,150
Net block	17,805	23,970	38,664	41,823
Capital WIP	2,897	1,454	3,200	3,600
Investments	47,756	47,806	47,856	47,906
Inventory	4,284	5,220	5,718	6,285
Debtors	3,296	3,931	4,312	4,712
Cash & Bank Bal	38	3,585	8,715	13,909
Loans & Advances	7,103	10,294	10,990	11,720
Current Assets	**14,720**	**23,030**	**29,735**	**36,625**
Sundry Creditors	11,780	12,958	13,862	15,157
Other Current Liability	9,769	12,884	13,207	13,678
Current Liability& Provisions	21,549	25,842	27,069	28,835
Net current assets	(6,829)	(2,811)	2,667	7,790
Total Assets	**61,629**	**70,418**	**92,387**	**1,01,119**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E	FY26E
EBIT	8,196	13,160	13,874	13,619
Other Income	2,161	3,417	3,480	3,825
Depreciation & Amortization	2,823	3,279	4,376	5,442
Interest Paid (-)	(187)	(152)	(200)	(225)
Tax paid (-)	(2,110)	(3,559)	(3,602)	(3,616)
Extra Ord Income	(12)	-	-	-
Operating Cash Flow	**10,873**	**16,145**	**17,928**	**19,045**
Change in Working Capital	925	(470)	(349)	71
Cash Flow from Operations	**11,798**	**15,675**	**17,579**	**19,116**
Capex	(6,879)	(8,000)	(20,818)	(9,000)
Strategic investments	(11,093)	-	-	-
Non-Strategic Investments	4,100	(50)	(50)	(50)
Cash Flow from Investing	**(13,872)**	**(8,050)**	**(20,868)**	**(9,050)**
Change in borrowing	828	-	-	-
Others	965	0	12,818	-
Dividends paid (-)	(2,718)	(4,077)	(4,400)	(4,872)
Cash Flow from Financial Activities	**(925)**	**(4,077)**	**8,417**	**(4,872)**
Change in Cash	(2,999)	3,548	5,129	5,194
Opening Cash	3,036	38	3,585	8,715
Closing Cash	**38**	**3,585**	**8,715**	**13,909**

Source: Company, Axis Research

Ratio Analysis (%)

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E	FY26E
Revenue Growth	33.1	22.1	9.7	9.3
EBITDA Margin	9.4	11.5	11.6	11.1
Net Profit Margin	6.9	9.0	8.6	7.9
ROCE (%)	13.8	19.1	16.4	13.9
ROE (%)	13.8	19.3	16.5	13.9
EPS (Rs)	266.8	425.9	431.1	432.7
P/E (x)	31.1	24.9	24.6	24.5
P / BV (x)	4.1	4.6	3.7	3.3
EV / EBITDA (x)	22.8	19.3	17.8	16.8
Fixed Asset TR (x)	5.7	5.6	3.8	3.8
Debt Equity (x)	0.0	0.0	0.0	0.0
EV / Sales	2.1	2.2	2.1	1.9

Source: Company, Axis Research

STATE BANK OF INDIA –RoA DELIVERY OF 1% TO CONTINUE

State Bank of India (SBIN) is the largest public sector bank in terms of assets, deposits, branches, number of customers, and employees and has a pan-India presence. The RBI has designated SBI as a Domestic Systemically Important Bank (D-SIB), underscoring its continued functioning as critical for the Indian economy.

Industry view

Equalweight

CMP
572

Target Price
715

Upside
25%

Key Rationale

- **Business growth to remain healthy**: In Q1FY24, SBI reported broad-based credit growth of 14/1% YoY. Growth in corporate loan books was primarily driven by well-rated NBFCs and the infrastructure sector. We believe demand from the same is expected to sustain going forward and will be supported by a strong pipeline of corporate loans amounting to Rs ~4 Tn. Furthermore, the management is confident of growing retail personal loans at ~17% YoY. With growth visibility remaining strong, we expect SBI to register credit growth of ~13% CAGR over FY24-25E.
- **Margins expected to remain at current levels in the near term** – In Q1FY24, domestic margin contraction of 37bps QoQ was primarily owing to a sharp increase in CoD (+56bps QoQ). Given that interest rates are expected to remain stable from hereon, the CoF are likely to stabilize at current levels. With the pace of increase in CoF decelerating, margins are expected to remain steady at ~3.47% for FY24 vs. 3.37% in FY23. The focus in the international business remains on maintaining margins vs. growing the loan book. We expect the bank to report margins at ~3.3% for FY24/25E.
- **Continued Asset quality improvement**: A significant moderation in slippages and healthy recoveries resulted in asset quality improvement during FY23. With visibility on fresh stress formation being low, we do not expect any major challenges on the asset quality, which in turn, would keep credit costs benign. The management expects the impact of ECL norms, if and when implemented, to be minimal.
- **Non-banking subsidiaries to boost overall performance:** Apart from the core banking, SBI's subsidiaries are expected to continue adding further value.The bank has a strong presence in various financial services operations, most of which are generating stable returns and support the overall performance of the bank.
- **Outlook**: The management is confident in maintaining margins at current levels, with CoF gradually stabilizing and healthy credit growth sustaining. The bank is looking at expanding phygitally (physical plus digital). In terms of physical branches, the bank has planned to add 300 branches in FY24. Opex ratios are expected to remain at elevated levels with the bank recording provision for wage revision. However, focus remains on improving C-I Ratio aided by improving productivity, digital sourcing, and increasing income. Thus, we believe, the bank is well-placed to deliver RoA of 1+% over FY24-25E.
- **Valuation:** Among PSU banks, SBI remains the best play on the gradual recovery of the Indian economy on account of its healthy PCR, robust capitalization, strong liability franchise, and improved asset quality outlook. We believe despite the margin pressures, SBIN remain well poised to deliver RoA/RoE of 1%/15-17% over FY24-25E supported by stable credit costs and steady cost ratios. We maintain our BUY rating on the stock with a target price of Rs 715/share (core bookat 1.3x Sep'24E and subsidiaries at Rs 164/share)
- **Key risks:** a) Significant slowdown in credit growth

Key Financials (Standalone)

Y/E Mar	NII (Rs Bn)	PPOP (Rs Bn)	Net Profit (Rs Bn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY22	1,207	679	317	35.5	282.7	2.0	0.7	1.0
FY23E	1,448	837	502	56.3	343.0	1.6	1.0	0.7
FY24E	1,554	948	599	67.2	397.7	1.4	1.0	0.6
FY25E	1,727	1,048	639	71.6	453.9	1.2	1.0	0.5

Source: Company, Axis Securities.

Profit & Loss (Rs Bn)

Y/E MAR	FY22	FY23P	FY24E	FY25E
Net Interest Income	1,207	1,448	1,554	1,727
Other Income	406	366	485	539
Total Income	1,613	1,815	2,039	2,266
Total Operating Exp.	934	977	1,091	1,217
Staff expenses	576	573	642	719
Other operating expenses	358	405	449	498
PPOP	**679**	**837**	**948**	**1,048**
Provisions & Contingencies	245	165	146	194
PBT	434	672	801	855
Provision for Tax	117	170	202	215
PAT	**317**	**502**	**599**	**639**

Source: Company, Axis Research

Balance Sheet (Rs Bn)

Y/E MAR	FY22	FY23P	FY24E	FY25E
SOURCES OF FUNDS				
Share capital	9	9	9	9
Reserves and surplus	2,792	3,267	3,747	4,258
Shareholders' funds	**2,801**	**3,276**	**3,756**	**4,267**
Total Deposits	40,515	44,238	48,976	54,431
Total Borrowings	44,776	49,169	53,977	60,731
Other Liabilities, provisions	2,299	2,725	2,904	3,269
Total	**49,876**	**55,170**	**60,636**	**68,268**
APPLICATION OF FUNDS				
Cash & Bank Balance	3,946	3,079	3,409	3,788
Investments	14,814	15,704	16,651	18,506
Advances	27,340	31,993	35,868	40,672
Fixed Assets & Other Assets	3,776	4,394	4,709	5,301
Total assets	**49,876**	**55,170**	**60,636**	**68,268**

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY22	FY23P	FY24E	FY25E
VALUATION RATIOS				
EPS	35.5	56.3	67.2	71.6
Earnings Growth (%)	*55.2*	*58.6*	*19.3*	*6.6*
BVPS	313.8	367.1	420.8	478.1
Adj. BVPS	282.5	343.0	397.7	453.9
ROAA (%)	0.7	1.0	1.0	1.0
ROAE (%)	11.9	16.5	17.0	15.9
P/E (x)	15.9	10.0	8.4	7.9
P/ABV (x)	2.0	1.6	1.4	1.2
Dividend Yield (%)	1.2	2.0	2.3	2.5
PROFITABILITY				
NIM (%)	3.1	3.4	3.3	3.3
Cost-Income Ratio	57.9	53.9	53.5	53.7

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY22	FY23P	FY24E	FY25E
Loan Growth (%)	11.6	17.0	12.1	13.4
Deposit Growth (%)	10.1	9.2	10.7	11.1
C/D Ratio (%)	67.5	72.3	73.2	74.7
CASA	44.5	42.1	41.5	41.1
Tier 1	12.0	12.1	11.9	11.3
CAR	14.3	14.7	14.5	14.0
ASSET QUALITY				
Gross NPLs (%)	4.0	2.8	2.5	2.2
Net NPLs (%)	1.0	0.7	0.6	0.5
PCR	75.0	76.4	77.3	76.1
Credit cost	0.9	0.6	0.4	0.5

Source: Company, Axis Research

VARUN BEVERAGES – GEARED FOR GROWTH

VBL – the second largest franchisee of PepsiCo in the world (outside the USA), manufactures Carbonated Soft Drinks including Pepsi, Mountain Dew, Seven Up, and Mirinda; Non-Carbonated Beverages – Tropicana Slice, and Tropicana Frutz; and Bottled water – Aquafina. The company accounts for ~90% of PepsiCo's beverage sales volume in India and is present in 27 States and seven UT. It is also the exclusive bottler for PepsiCo in Nepal, Sri Lanka, Morocco, Zambia, and Zimbabwe.

Industry view

Equal Weight

CMP
1,089

Target Price
1,200

Upside
10%

Key Rationale

- **Distribution-led market share gains:** VBL acquired South and West territories in CY19. However, due to COVID-19 disruption, it lost significant market share as it faced integration challenges. On the brighter side, the operations are now normalized and a new GTM strategy is in place (through this strategy, the company intends to increase the number of reach per route by ~40%). Keeping this in view, VBL seems to be well-placed to increase its lost market share. In CY23, it plans to increase the overall reach to 3.5 Mn outlets from ~3 Mn in CY22 and plans to add 40,000-50,000 visi-coolers annually going forward.
- **Energizing on Sting Energy Drink:** Sting contributed ~10% of CY22 sales, while its distribution reach stands at ~2 Mn outlets vs. the company's overall ~3 Mn outlets. The management highlighted that Sting's overall realization is higher by 65% vs. average realization which we believe will give further fillip to the overall margins going forward as it expands Sting's portfolio.
- **Other businesses**: **Dairy business –** VBL has now turned its focus on expanding its Value-Added Dairy, Sports Drinks (Gatorade) and Juice segments. Currently, it is present in certain markets but plans to expand pan-India post commencement of two new facilities in Maharashtra and Uttar Pradesh in CY24. **Morocco -** The company begins distribution of Lays, Doritos, and Cheetos on 1st Jan'23 in Morocco. VBL currently is importing the products, however, as the business stabilizes, VBL plans to manufacture these products locally in Morocco.
- **Favourable macro indicators:** India's per-capita soft drink consumption of 24 bottles stands much lower than 271 bottles in China, 1,496 bottles in the USA, and 1,489 bottles in Mexico, offering massive growth headroom. The soft drinks industry in India is expected to report healthy growth across categories on the back of better demographics, improving retail penetration across markets, better macroeconomics, and a rising trend of in-home consumption.
- **Outlook**: We believe VBL is expected to continue its strong growth momentum on account of 1) Normalcy of operation and market share gains of newly acquired territories post COVID-19 disruptions, 2) The management's continued focus on the efficient go-to-market execution in acquired and underpenetrated territories as reflected in its recently commissioned Bihar plant operations (it has started gaining market share), 3) Expansion in its distribution reach to 3.5 Mn outlets in CY23 from 3 Mn currently, 4) Focus on expanding high-margin Sting energy drink across outlets coupled with increased focus on expansion of Value Added Dairy, sports drink (Gatorade) and Juice segment and 5) Robust growth in the International geographies.

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	NetProfit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBITDA (x)	ROE (%)	ROCE (%)
CY22	12,921	2,788	1,497	23.1	45.6	26.6	30.4	24.4
CY23E	16,044	3,589	2,063	15.9	68.6	40.3	30.2	26.7
CY24E	19,056	4,640	2,815	21.7	50.3	30.7	30.2	28.6
CY25E	22,428	5,584	3,484	26.8	40.6	25.1	27.9	27.6

Source: Company, Axis Securities; * OOH – Out-of-Home

Profit & Loss (Rs Cr)

Y/E DEC	CY22	CY23E	CY24E	CY25E
Net sales	**12,921**	**16,044**	**19,056**	**22,428**
Growth, %	49.5	24.2	18.8	17.7
Other operating income	252	277	305	336
Total income	13,173	16,321	19,361	22,764
Raw material expenses	(6,261)	(7,576)	(8,712)	(10,141)
Employee expenses	(1,217)	(1,509)	(1,735)	(2,030)
Other Operating expenses	(2,907)	(3,648)	(4,273)	(5,009)
EBITDA (Core)	**2,788**	**3,589**	**4,640**	**5,584**
Growth, %	68.5	28.7	29.3	20.3
Margin, %	21.6	22.4	24.3	24.9
Depreciation	(617)	(725)	(788)	(851)
EBIT	**2,171**	**2,864**	**3,852**	**4,733**
Growth, %	93.2	31.9	34.5	22.9
Margin, %	16.8	17.9	20.2	21.1
Other Income	39	43	47	52
Non-recurring Items	-	-	-	-
Pre-tax profit	**2,024**	**2,693**	**3,674**	**4,549**
Tax provided	(474)	(630)	(860)	(1,064)
Net Profit	**1,550**	**2,063**	**2,815**	**3,484**
Unadj. shares (Cr)	65	130	130	130

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E DEC	CY22	CY23E	CY24E	CY25E
Cash & bank	285	625	2,548	5,161
Debtors	299	440	522	614
Inventory	1,994	2,476	2,941	3,461
Loans & advances	436	436	436	436
Other current assets	389	389	389	389
Total current assets	3,404	4,366	6,836	10,062
Investments	0	0	0	0
Gross fixed assets	10,337	12,037	13,037	14,037
Less: Depreciation	(3,405)	(4,130)	(4,917)	(5,769)
Add: Capital WIP	607	607	607	607
Net fixed assets	7,539	8,514	8,726	8,875
Non-current assets	627	627	627	627
Total assets	**11,618**	**13,556**	**16,237**	**19,612**
Current liabilities	3,969	4,168	4,360	4,575
Provisions	204	204	204	204
Total current liabilities	4,173	4,372	4,564	4,779
Non-current liabilities	2,230	2,230	2,230	2,230
Total liabilities	6,403	6,602	6,794	7,009
Paid-up capital	650	650	650	650
Reserves & surplus	4,453	6,191	8,681	11,840
Shareholders' equity	5,215	6,954	9,443	12,603
Total equity & liabilities	**11,618**	**13,556**	**16,237**	**19,612**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	CY22	CY23E	CY24E	CY25E
Pre-tax profit	2,024	2,693	3,674	4,549
Depreciation	617	725	788	851
Chg in working capital	(280)	(423)	(355)	(398)
Total tax paid	(445)	(630)	(860)	(1,064)
Cash flow from operating activities	**1,915**	**2,365**	**3,247**	**3,938**
Capital expenditure	(1,349)	(1,700)	(1,000)	(1,000)
Chg in marketable securities	221	-	-	-
Cash flow from investing activities	**(1,127)**	**(1,700)**	**(1,000)**	**(1,000)**
Free cash flow	788	665	2,247	2,938
Equity raised/(repaid)	217	-	-	-
Dividend (incl. tax)	(162)	(325)	(325)	(325)
Cash flow from financing activities	**(36)**	**(325)**	**(325)**	**(325)**
Net chg in cash	752	340	1,923	2,613
Opening cash balance	337	285	625	2,548
Closing cash balance	285	625	2,548	5,161

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY22	CY23E	CY24E	CY25E
Per Share data				
EPS (INR)	23.1	15.9	21.7	26.8
Growth, %	38.5	(33.5)	36.4	23.8
Book NAV/share (INR)	78.6	52.7	71.8	96.1
FDEPS (INR)	23.9	15.9	21.7	26.8
CEPS (INR)	33.4	21.5	27.7	33.4
CFPS (INR)	14.7	17.9	24.6	29.9
DPS (INR)	2.5	2.5	2.5	2.5
Return ratios				
Return on assets (%)	16.4	18.1	20.4	20.8
Return on equity (%)	30.4	30.2	30.2	27.9
Return on capital employed (%)	24.4	26.7	28.6	27.6
Turnover ratios				
Asset turnover (x)	1.7	1.7	1.9	2.1
Receivable days	8.5	10.0	10.0	10.0
Inventory days	56.3	56.3	56.3	56.3
Payable days	29.0	29.3	30.1	30.4
Working capital days	(24.0)	(9.7)	(1.4)	5.3
Liquidity ratios				
Current ratio (x)	0.9	1.0	1.6	2.2
Quick ratio (x)	0.4	0.5	0.9	1.4
Interest cover (x)	11.7	13.4	17.1	20.1
Total debt/Equity (%)	0.7	0.5	0.4	0.3
Net debt/Equity (%)	0.3	0.1	(0.2)	(0.4)
Valuation				
PER (x)	45.6	68.6	50.3	40.6
PEG (x) - y-o-y growth	1.2	(2.0)	1.4	1.7
Price/Book (x)	13.9	20.7	15.2	11.3
EV/Net sales (x)	5.7	9.0	7.5	6.2
EV/EBITDA (x)	26.6	40.3	30.7	25.1

Source: Company, Axis Research

BANK OF BARODA –STEADY GROWTH WITH STABLE ASSET QUALITY

Bank of Baroda (BoB) is the second-largest PSU bank in India and is focused on unlocking its value by improving its retail distribution network and leveraging digitization across the value chain.BoBhas a strong domestic presence of 8,200 branches and 11,401ATMs and cash recyclers supported by self-service channels. It also has a significant international presence with anetwork of 93 overseas branches in 17 countries.

Industry view

Equal weight

CMP
202

Target Price
255

Upside
26%

Key Rationale

- **Credit growth to remain buoyant** – BoB's relative underperformance vis-à-vis its peers in the past was majorly due to defaults on large corporate books. However, as the bank continues to focus on improving the retail mix in the portfolio, we believe BoB will be able to overcome the business cyclicality over the long run. We believe this to be akey enabler for the bank to sustain its growth momentum and reduce major corporate shocks during economic downturns. Keeping this in view, we expect the bank to report healthy loan book growth of ~15% over FY23-26E.
- **NIMs to remain steady at>3% going forward –**Post a stellar show on NIMs in FY23 supported by faster loan repricing, we expect some pressure on margins going into FY24, as the CoF continues to catch-up. This was visible in Q1FY24, where-in NIMs contracted by 26bps QoQ. However, supported by a change in advances mix and control over the cost of funds, we expect NIMs to sustain over 3% over the medium term. We expect the bank to report NIMs ranging between 3.1-3.2% over FY24-26E.
- **Asset Quality to remain reasonably strong going forward –** As the broader Indian corporate balance sheets have strengthened over the last 5 years, there has been significant improvement in Indian banking asset quality across the board. Driven by lower slippages (slippage ratio of 1.3% in FY23) and strong recoveries, BoB witnessed a remarkable improvement in asset quality. We expect a far-ended resurgence in the broader NPA cycle, which will keep its GNPA below 3.1% till FY25E. BoB has also been aggressive in provisioning which will keep the PCR at >75% going forward.
- **Outlook:** With a focus on expanding its retail portfolio and provision for wage revision, Opex ratios are expected to remain at current levels. Asset quality is expected to remain healthy with slight moderation in credit cost as compared to FY23. Moreover, the SMA 1 and SMA 2 have stayed below 0.5% indicating no incremental stress in asset quality in the near term. Thus, credit cost is expected to be contained well below 1% in FY24.This would be the key lever for ROA sustainability. Presently, the banking industry is in its best phase in terms of asset quality and we expect it to remain strong over the medium term. Furthermore, with key levers of growth remaining intact, we are confident that BoB would sustain its RoA at 1%+ over FY24-25E.
- **Valuation:** With strong advances growth, stable margins, healthy NII, asset quality under control and adequate capital, we believe the bank is well-positioned to deliver a sustainable RoA of 1% going forward. We believe current valuations of 0.9x FY25E ABV are attractive and believe BoB is ripe for re-rating, especially given its growth potential. We value BoB at 1.1x FY25E ABV to arrive at a target price of Rs255/share.
- **Key risks:** a) Slowdown in systemic credit growth

Key Financials (Standalone)

Y/E Mar	NII (Rs Cr)	PPOP (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY23	41,356	26,863	14,109	27.3	174	1.1	1.0	0.9
FY24E	45,432	31,388	16,905	32.7	200	1.0	1.1	0.7
FY25E	50,478	33,755	17,817	34.4	225	0.9	1.0	0.7
FY26E	55,918	36,447	18,580	35.9	249	0.8	0.9	0.7

Source: Company, Axis Securities.

Profit & Loss (Rs Cr)

Y/E MAR	FY23	FY24E	FY25E	FY26E
Net Interest Income	41,356	45,432	50,478	55,918
Other Income	10,026	13,148	13,733	14,639
Total Income	51,381	58,580	64,210	70,557
Total Operating Exp.	24,518	27,192	30,455	34,110
Staff expenses	13,353	15,022	16,824	18,843
Other operating expenses	11,166	12,171	13,631	15,267
PPOP	26,863	31,388	33,755	36,447
Provisions & Contingencies	7,137	8,230	9,935	11,607
PBT	19,726	23,158	23,820	24,840
Provision for Tax	5,617	6,253	6,003	6,260
PAT	14,109	16,905	17,817	18,580

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E MAR	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS				
Share capital	1,036	1,036	1,036	1,036
Reserves and surplus	97,187	1,10,416	1,24,143	1,38,374
Shareholders' funds	98,223	1,11,452	1,25,179	1,39,410
Total Deposits	12,03,688	13,63,131	15,42,488	17,48,291
Total Borrowings	13,05,598	14,83,132	16,69,744	18,82,565
Other Liabilities, provisions	54,740	57,031	64,196	72,317
Total	**14,58,562**	**16,51,615**	**18,59,118**	**20,94,291**
APPLICATION OF FUNDS				
Cash & Bank Balance	95,703	94,749	1,07,216	1,15,685
Investments	3,62,485	3,96,870	4,25,951	4,65,300
Advances	9,40,998	10,91,111	12,46,553	14,21,769
Fixed Assets & Other Assets	59,375	68,885	79,399	91,537
Total assets	**14,58,562**	**16,51,615**	**18,59,118**	**20,94,291**

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY23	FY24E	FY25E	FY26E
VALUATION RATIOS				
EPS	27.3	32.7	34.4	35.9
Earnings Growth (%)	94%	20%	5%	4%
BVPS	190	215	242	269
Adj. BVPS	174	200	225	249
ROAA (%)	1.0	1.1	1.0	0.9
ROAE (%)	15.3	15.8	14.4	13.4
P/E (x)	7.2	6.0	5.7	5.5
P/ABV (x)	1.1	1.0	0.9	0.8
DPS	5.5	7.1	7.9	8.4
Dividend Yield (%)	2.6	3.3	3.7	3.9
PROFITABILITY				
NIM (%)	3.3%	3.2%	3.1%	3.1%
Cost-Income Ratio	47.7%	46.4%	47.4%	48.3%

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY23	FY24E	FY25E	FY26E
Loan Growth (%)	21.1	16.0	14.2	14.1
Deposit Growth (%)	15	13	13	13
C/D Ratio (%)	78.2	80.0	80.8	81.3
CASA Ratio (%)	42.2	41.0	39.8	38.7
Tier 1 (%)	14.0	13.9	13.4	12.8
CAR (%)	16.2	16.1	15.6	15.1
ASSET QUALITY				
Gross NPLs (%)	3.4	3.2	3.1	3.3
Net NPLs (%)	0.9	0.7	0.7	0.7
PCR (%)	74	78	78	78
Credit cost (%)	0.8	0.8	0.9	0.9

Source: Company, Axis Research

ITC – FIRING ON ALL CYLINDERS

ITC Limited – an Indian conglomerate company headquartered in Kolkata, has a diversified presence across industries such as Cigarettes, FMCG, Hotels, Packaging & Paperboards, Agribusiness, and Software. The company is the market leader in the domestic cigarette and PPP segments. It is also the second-largest hotel chain by revenue and has a strong distribution reach of over ~7 Mn outlets in the FMCG space.

Industry view

Over Weight

CMP
450

Target Price
540

Upside
20%

Key Rationale

- **Expect stable cigarette volume growth:** We expect overall cigarette volume growth to remain stable. At the industry level, the cigarette volumes have surpassed the pre-Covid levels and ITC is gaining lost market share from its peers. Moreover, the government's stance on stable taxation and crackdown on the illicit cigarette players has been icing on the cake, especially for the ITC which has been grappling with this issue for the last few years. Over the years, ITC has strengthened its distribution reach in rural and semi-urban regions and expanded its portfolio by launching new products and adopting regional customization. These attributes are likely to bolster ITC's footing among its peers.
- **FMCG has reached its inflection point:** ITC delivered 7.2% FMCG EBIT margins in FY23 which is likely to inch up further due to the initiatives such as 1) Launching new products and driving premiumisation, 2) Effectively implementing localisation strategy, 3) Leveraging technology to identity demand trend and rapidly scaling up "Unnati" and "VIRU" platform across retailers (3 Lc outlets) for direct ordering, and 4) Limited impact of RM inflation compared to its peers which will strengthen the company's margin story.
- **Other business:** Recent announcement in demerger of the hotel business is step in the right direction as it will improve overall return ratios of the ITC. Moreover steady and decent performance in paperboard and agribusiness witnessed in FY23 makes ITC a compelling play in FMCG sector
- **Valuation & Outlook**:We believe the narrative around the ITC is getting stronger as all its businesses are on the right track – 1) Stable cigarette volume growth led by market share gains and new product launches; 2) FMCG business reaching the inflexion point as its EBIT margins expected to inch up further and would be driven by – the ramp up in the outlet coverage, effective implementation of localisation strategy, driving premiumisation, leveraging technology on demand and supply side; and moderation of raw material input cost; 3) Strong and stable growth in hotels as travel, wedding, and corporate activities pick up; 4) Stedy and decent performance in paperboard and agribusiness witnessed in the last few quarters. Moreover, reasonable valuation among the entire FMCG pack provides a huge margin of safety.
- **Key risks:** a) increase in cigaratte taxation, b) increase competition and c) economy slowdown.

Key Financials (Standalone)

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (X)	ROE (%)	ROCE (%)	EV/EBITDA (X)
FY23	65,273	23,944	18,680	15.0	29.9	27.6	28.2	22.5
FY24E	72,161	27,413	21,488	17.3	26.0	29.7	29.8	19.6
FY25E	79,127	30,475	23,919	19.2	23.3	30.3	30.8	17.5
FY26E	86,860	33,452	26,304	21.2	21.2	30.0	30.8	15.7

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar, Rs Cr	FY23	FY24E	FY25E	FY26E
Net sales	**65,273**	**72,161**	**79,127**	**86,860**
Growth, %	17	11	10	10
Other operating income	770	847	932	1,025
Total income	66,043	73,009	80,059	87,886
Raw material expenses	(28,880)	(31,191)	(33,686)	(36,886)
Employee expenses	(3,569)	(3,926)	(4,319)	(4,751)
Other Operating expenses	(9,649)	(10,478)	(11,579)	(12,797)
EBITDA (Core)	**23,944**	**27,413**	**30,475**	**33,452**
Growth, %	26	14	11	10
Margin, %	37	38	39	39
Depreciation	(1,663)	(1,788)	(1,918)	(2,051)
EBIT	**22,282**	**25,626**	**28,557**	**31,400**
Growth, %	29	15	11	10
Margin, %	34	36	36	36
Interest paid	(42)	(42)	(43)	(43)
Other Income	2,438	2,803	3,084	3,392
Non-recurring Items	73	-	-	-
Pre-tax profit	**24,750**	**28,387**	**31,598**	**34,749**
Tax provided	(5,997)	(6,898)	(7,679)	(8,445)
Profit after tax	**18,753**	**21,488**	**23,919**	**26,304**
Others (Minorities, Associates)	-	-	-	-
Wtd avg shares (Cr)	1,243	1,243	1,243	1,243

Source: Company, Axis Research

Balance Sheet (Rs Cr)

As at 31st Mar, Rs Cr	FY23	FY24E	FY25E	FY26E
Cash & bank	3,831	4,577	9,300	16,419
Marketable securities at cost	16,357	16,357	16,357	16,357
Debtors	2,321	4,943	5,420	5,949
Inventory	10,594	11,712	12,842	14,098
Loans & advances	6	6	6	6
Other current assets	2,094	2,094	2,094	2,094
Total current assets	35,203	39,689	46,019	54,923
Investments	16,364	16,364	16,364	16,364
Gross fixed assets	34,261	36,761	39,361	41,961
Less: Depreciation	(10,087)	(11,875)	(13,793)	(15,844)
Add: Capital WIP	1,697	1,697	1,697	1,697
Net fixed assets	25,871	26,583	27,265	27,813
Non-current assets	4,824	4,824	4,824	4,824
Total assets	**82,262**	**87,459**	**94,472**	**1,03,924**
Current liabilities	11,639	12,105	12,577	13,100
Provisions	978	999	1,021	1,045
Total current liabilities	12,617	13,105	13,597	14,144
Non-current liabilities	2,050	2,050	2,050	2,050
Total liabilities	14,668	15,155	15,648	16,195
Paid-up capital	1,243	1,243	1,243	1,243
Reserves & surplus	66,351	71,061	77,581	86,486
Shareholders' equity	67,594	72,304	78,824	87,729
Total equity & liabilities	**82,262**	**87,459**	**94,472**	**1,03,924**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E	FY26E
Pre-tax profit	24,750	28,387	31,598	34,749
Depreciation	1,663	1,788	1,918	2,051
Chg in working capital	(796)	(3,252)	(1,115)	(1,238)
Total tax paid	(5,818)	(6,898)	(7,679)	(8,445)
Other operating activities	-	-	-	-
Cash flow from operating activities	**19,799**	**20,024**	**24,722**	**27,118**
Capital expenditure	(1,847)	(2,500)	(2,600)	(2,600)
Chg in investments	(706)	-	-	-
Chg in marketable securities	(4,732)	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing activities	**(7,285)**	**(2,500)**	**(2,600)**	**(2,600)**
Free cash flow	12,514	17,524	22,122	24,518
Equity raised/(repaid)	2,567	0	(0)	-
Debt raised/(repaid)	(1)	-	-	-
Dividend (incl. tax)	(19,255)	(16,778)	(17,399)	(17,399)
Cash flow from financing activities	**(16,689)**	**(16,778)**	**(17,399)**	**(17,399)**
Net chg in cash	(4,176)	746	4,723	7,119
Opening cash balance	3,878	3,831	4,577	9,300
Closing cash balance	3,831	4,577	9,300	16,419

Source: Company, Axis Research

Ratio Analysis (%)

Y/E Mar	FY23	FY24E	FY25E	FY26E
EPS (INR)	15.0	17.3	19.2	21.2
Growth, %	23.0	15.0	11.3	10.0
Book NAV/share (INR)	54.4	58.2	63.4	70.6
FDEPS (INR)	15.0	17.3	19.2	21.2
CEPS (INR)	16.3	18.7	20.8	22.8
CFPS (INR)	15.6	13.9	17.4	19.1
DPS (INR)	15.5	13.5	14.0	14.0
Return ratios				
Return on assets (%)	23.9	25.4	26.3	26.6
Return on equity (%)	27.6	29.7	30.3	30.0
Return on capital employed (%)	28.2	29.8	30.8	30.8
Turnover ratios				
Asset turnover (x)	2.2	2.3	2.3	2.4
Sales/Total assets (x)	0.8	0.9	0.9	0.9
Sales/Net FA (x)	2.5	2.8	2.9	3.2
Working capital/Sales (x)	0.0	0.1	0.1	0.1
Receivable days	13.0	25.0	25.0	25.0
Inventory days	59.2	59.2	59.2	59.2
Payable days	37.7	38.5	38.8	38.8
Working capital days	14.5	29.7	32.3	34.8
Liquidity ratios				
Current ratio (x)	2.8	3.1	3.4	4.0
Quick ratio (x)	2.0	2.2	2.5	2.9
Interest cover (x)	532.9	606.8	669.6	728.9
Net debt/Equity (%)	(5.7)	(6.3)	(11.8)	(18.7)
Valuation				
PER (x)	29.9	26.0	23.3	21.2
PEG (x) - y-o-y growth	1.3	1.7	2.1	2.1
Price/Book (x)	8.3	7.7	7.1	6.4
EV/Net sales (x)	8.2	7.4	6.7	6.0
EV/EBITDA (x)	22.5	19.6	17.5	15.7
EV/EBIT (x)	24.1	21.0	18.6	16.7

Source: Company, Axis Research

Bharti Airtel Ltd – Highest ARPU in the Industry

Bharti Airtel Limited, commonly known as Airtel, is an Indian multinational telecommunications services company based in New Delhi. It operates in 18 countries across South Asia and Africa, as well as the Channel Islands. Bharti Airtel is India's second-largest telecom operator. The company has a strong presence in India with a strong digital services portfolio comprising fibre optic cables, desktop telephones, and mobile phones to name a few.

Industry view

Over Weight

CMP
1,015

Target Price
1,155

Upside
14%

Key Rationale

- **Best ARPU in the industry:** Bharti Airtel has the leading ARPU in the industry. The management expects ARPU to improve from the current level of Rs 203 (the current ARPU of Reliance is Rs 181). This improvement can be attributed to a richer customer mix. Moreover, aided by strong customer conversion from 2G to 4G/5G and other services, it continues with its ARPU trajectory and expects it to reach Rs 300 going ahead. The company has a strong focus on customers and will continue to increase its realizations going forward. An increase in data consumption with rising rural penetration would also help in gaining the ARPU. Average data usage per customer stands healthy at 21.7 GB/month.
- **Huge revenue and profit growth potential** – The Company's business fundamentals remain strong and continue to improve. The management foresees huge potential for continued strong revenue and profit growth, supported by expanding distribution in rural areas, investments in the network, and increasing 4G coverage. Furthermore, strategic investment opportunities are available in tower sales, minority, and IPO investments in mobile money, among others. The company's digital portfolio is gaining momentum along with market share gains. The company continued a strong share of 4G/5G net ads in the market with the 4G customer base growing by 7.7 Mn QoQ and 27.2 Mn YoY. This forms 69% of the overall customer base now.
- **Improvement in the Digital/Home Segment:** The management sees improvement in the Home Segment with multiple solutions in one go. It has a strong strategy of Hunting (offering different solutions to existing customers (mainly 50 Mn customers having strong financial conditions) and mining new customers. Rising in the Home segment will also help Airtel to grow realization and make the business model more robust. The management is confident of gaining industry-leading growth backed by strong rural penetration and a better service portfolio.
- **Moderated Capex and const optimization effort:** The company does not foresee any immediate large Capex even with the 5G rollout. The management is expecting similar Capex levels to continue. It will also spend on broadband, enterprise, and data centres. However, 4G-related radio Capex is likely to decline. The company has identified more than 2,500 sites for reducing the network cost which will help reduce the operating cost moving ahead.
- **Valuation & Recommendation:** We maintain our BUY rating on the stock given the company's superior margins, stronger subscriber growth, and higher 4G conversions. We value the stock at Rs 1,155/share based on SOTP valuation and the TP indicates a robust upside of 14% from the CMP.
- **Key risks:** a) Competitors may eat market share resulting in losing sustainable revenue.

Key Financials (Consolidated)

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (X)	ROE (%)	ROCE (%)	EV/EBITDA (X)
FY22	1,16,547	57,534	6,607	11.8	99.2	7.77	11.9	9.1
FY23	1,39,145	71,274	15,356	27.5	50.9	15.3	22.5	8.8
FY24E	1,57,219	65,934	13,522	18.8	105	16.7	26.6	8.1
FY25E	2,01,095	1,11,297	49,958	21.9	67.2	20.7	30.2	3.5

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Net sales	**1,16,547**	**1,39,145**	**1,57,219**	**2,01,095**
Growth, %	16	19	13	28
Total income	1,16,547	1,39,145	1,57,219	2,01,095
Raw material expenses	(6,761)	(7,621)	(8,653)	(10,272)
Employee expenses	(4,433)	(4,831)	(5,314)	(5,436)
Other Operating expenses	(57,894)	(66,626)	(89,889)	(88,227)
EBITDA (Core)	**57,534**	**71,274**	**65,934**	**1,11,297**
Growth, %	27	24	(7)	69
Margin, %	49	51	42	55
Depreciation	(33,091)	(36,432)	(39,523)	(39,466)
EBIT	**24,443**	**34,842**	**26,411**	**71,830**
Growth, %	53	43	(24)	172
Margin, %	21	25	17	36
Interest paid	(16,616)	(16,901)	(17,878)	(18,196)
Other Non-Operating Income	534	937	1,353	1,342
Non-recurring Items	-	-	-	-
Pre-tax profit	10,785	19,629	12,093	57,057
Tax provided	(4,178)	(4,273)	(1,571)	(7,099)
Profit after tax	**6,607**	**15,356**	**10,522**	**49,958**
Net Profit	**6,607**	**15,356**	**10,522**	**49,958**
Growth, %	(188)	132	(31)	375
Net Profit (adjusted)	**6,607**	**15,356**	**10,522**	**49,958**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Cash & bank	12,980	19,088	14,649	14,417
Other current assets	38,659	39,033	39,109	37,672
Total current assets	51,640	58,121	53,758	52,089
Gross fixed assets	2,71,414	2,75,280	2,75,464	2,78,465
Net fixed assets	2,71,414	2,75,280	2,75,464	2,78,465
Non-current assets	32,806	32,435	32,973	33,102
Total assets	**3,82,132**	**4,69,456**	**4,51,173**	**5,01,139**
Current liabilities	1,14,026	1,21,964	1,21,964	1,21,964
Total current liabilities	1,14,026	1,21,964	1,21,964	1,21,964
Non-current liabilities	1,57,695	2,18,225	2,18,225	2,18,225
Total liabilities	2,71,721	3,40,189	3,40,189	3,40,189
Paid-up capital	2,795	2,795	2,795	2,795
Reserves & surplus	82,235	97,591	1,08,113	1,58,071
Shareholders’ equity	1,10,411	1,29,267	1,10,984	1,60,950
Total equity & liabilities	**3,82,132**	**4,69,456**	**4,51,173**	**5,01,139**

Source: Company, Axis Research

Valuation ratios (%)

Y/E March	FY22	FY23	FY24E	FY25E
Per Share data				
EPS (INR)	12	27	19	89
Growth, %	(186)	132	(31)	375
Book NAV/share (INR)	152	180	198	288
FDEPS (INR)	12	27	19	89
CEPS (INR)	71	93	90	160
CFPS (INR)	63	104	83	156
Return ratios				
Return on assets (%)	5	7	6	17
Return on equity (%)	8	15	9	31
Return on capital employed (%)	6	8	6	17
Turnover ratios				
Asset turnover (x)	1	1	1	1
Sales/Total assets (x)	0	0	0	1
Sales/Net FA (x)	0	1	1	1
Working capital/Sales (x)	(1)	(1)	(1)	(0)
Fixed capital/Sales (x)	2	2	2	1
Working capital days	(236)	(218)	(192)	(153)
Liquidity ratios				
Current ratio (x)	0	0	0	0
Quick ratio (x)	0	0	0	0
Interest cover (x)	1	2	1	4
Dividend cover (x)				
Total debt/Equity (%)	168	202	182	126
PEG (x) - y-o-y growth	(0)	0	(1)	0
Price/Book (x)	5	4	4	2
Yield (%)				
EV/Net sales (x)	4.5	4.1	3.7	2.9
EV/EBITDA (x)	9.1	8.1	8.8	5.2

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Pre-tax profit	10,785	19,629	12,093	57,057
Depreciation	33,091	36,432	39,523	39,466
Chg in working capital	1,254	1,131	(606)	1,163
Total tax paid	(3,340)	(4,646)	(1,571)	(7,099)
Cash flow from operating activities	**41,644**	**52,509**	**49,431**	**90,732**
Capital expenditure	(51,864)	(40,299)	(39,706)	(42,468)
Chg in marketable securities	(1,451)	(374)	(76)	1,437
Other investing activities	(6,560)	(12,647)	(3,542)	-
Cash flow from investing activities	(56,001)	(52,193)	(41,041)	(40,387)
Free cash flow	**(14,356)**	**316**	**8,389**	**50,345**
Equity raised/(repaid)	49	-	-	-
Debt raised/(repaid)	6,922	59,807	-	-
Cash flow from financing activities	10,078	63,308	(28,805)	7
Net chg in cash	(4,278)	63,623	(20,416)	50,352
Opening cash balance	17,582	12,980	19,088	14,649
Closing cash balance	**12,980**	**19,088**	**14,649**	**14,417**

Source: Company, Axis Research

TVS MOTOR COMPANY LTD –EXPORTS BOOST TO DRIVE GROWTH

TVS Motor Company Ltd. (TVSL) is the 3rd largest 2-wheeler company in India with an annual sale of more than 30 Lc units and annual 2-wheeler (2W) and 3-wheeler (3W) capacity of over ~50 Lc and ~1.2 Lc respectively. It manufactures the largest range of 2Ws including mopeds, scooters, commuter motorcycles, and premium bikes. TVS is also India's 2nd largest exporter with exports to over 60 Countries. The company has four manufacturing plants, three located in India (Hosur in Tamil Nadu, Mysore in Karnataka, and Nalagarh in Himachal Pradesh) and one in Indonesia at Karawang.

Industry view

Over Weight

CMP
1,910

Target Price
2,100

Upside
10%

Key Rationale

- **Market Outlook:** In the medium to long term, rural demand, specifically for the entry-level segment, is slowly expected to pick up on account of increased infrastructure spending by the government and higher retail finance penetration along with expected stability in vehicle prices. Exports have bottomed out and are expected to recover MoM; stocks are at the right level as dispatches were earlier reduced to match retail levels. TVSL expects high demand from the LATAM region followed by African and Asian markets.
- **EBITDA margins:** Moderate price hikes with RM tailwinds expected to continue for H2FY24. Furthermore, as the company builds scale in EV volumes, margins from EVs will aid improvement going ahead.
- **EV Business:** The EV market share of TVSL in H1FY24 stands at ~20%, higher than ICE market share level (~16%). Multiple new products are expected to be launched over the next 2-3 years targetted at 2W segments such as premium, sporty, commuter, delivery, and also e3Ws. The iQube network is available at 337 stores as of Sep'23, (309 stores in Q1). TVSL plans to export iQube in the next 2-3 quarters both to developing and developed markets.
- **Robust demand for Newly launched Products:** Raider, Ntorq and Jupiter in the 125cc segment has shown good traction and is growing ahead of the industry. In the current quarter, TVSL introduced two more new products: TVS X, the premium electric crossover and TVS Apache RTR 310. The management showed confidence in the response received for these products.
- **Valuation & Outlook:** We continue to like TVSL considering its strong focus on the EV product pipeline ahead of incumbent 2W OEMs, product premiumisation in the ICE category, and growth in export markets. Being well-placed among listed players, we expect the company's Revenue/EBITDA/PAT to grow by ~18%/24%/28% CAGR over FY23E-26E. FY24/FY25 to be critical for the company as it executes its EV strategy for the domestic and export markets. Based on the above strong fundamental outlook, we expect the company to deliver a strong ROE ranging between 25%-29% over the next few years. We reiterate our BUY rating on the stock with a revised TP at Rs 2,100/share, valuing it at a sustainable premium P/E multiple of 30X (earlier 25X) on Dec'25 core EPS (rollover from Jun'25 core EPS) and other investments at 1x P/BV and TVS Credit Services at 2X P/BV. The TP implies an upside of 10% from the CMP.
- **Key risks:** a) Higher Interest rate, b) Macro Economic risks, and c) Higher fuel prices.

Key Financials (Standalone)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	ROCE (%)	ROE (%)	EV/EBIDTA (x)
FY23A	26,378	2,675	1,491	31.0	37.7	26.6	19.5	21.7
FY24E	32,141	3,525	2,094	44.1	43.3	29.5	22.8	26.2
FY25E	37,481	4,449	2,697	56.8	33.6	29.0	24.2	20.4
FY26E	43,291	5,133	3,151	66.3	28.8	26.2	23.4	17.3

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY23A	FY24E	FY25E	FY26E
Net revenues	**26,378**	**32,141**	**37,481**	**43,291**
Operating expenses	23,703	28,616	33,032	38,157
EBIDTA	**2,675**	**3,525**	**4,449**	**5,133**
EBIDTA margin (%)	**10.1**	**11.0**	**11.9**	**11.9**
Other income	76	124	80	80
Interest	141	187	144	144
Depreciation	631	659	750	823
Profit Before Tax	2,003	2,802	3,635	4,246
Tax	512	709	938	1,096
Reported Net Profit	**1,491**	**2,094**	**2,697**	**3,151**
Net Margin (%)	5.7	6.5	7.2	7.3
Adjusted Net Profit	**1,473**	**2,094**	**2,697**	**3,151**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY23A	FY24E	FY25E	FY26E
Equity capital	48	48	48	48
Reserves & surplus	6,000	7,894	10,391	13,342
Shareholders funds	**6,048**	**7,942**	**10,439**	**13,389**
Total Loans	2,663	2,263	1,863	1,463
Deferred tax liability	235	235	235	235
Total Liabilities and Equity	**8,947**	**10,440**	**12,537**	**15,088**
Gross block	7,988	9,366	10,366	11,291
Depreciation	4,392	5,051	5,801	6,624
Net block	3,596	4,314	4,564	4,666
Capital WIP	628	250	250	225
Investments	5,492	6,342	7,142	7,942
Inventory	1,236	1,761	2,054	2,372
Debtors	955	1,585	1,848	2,135
Cash & Bank Bal	242	500	1,675	3,488
Loans & Advances	1,843	2,327	2,594	2,885
Current Assets	**4,277**	**6,173**	**8,171**	**10,879**
Sundry Creditors	4,131	5,724	6,675	7,709
Other Current Liability	274	274	274	274
Current Liability& Provisions	5,046	6,639	7,590	8,625
Net current assets	-769	-466	581	2,255
Total Assets	**8,947**	**10,440**	**12,537**	**15,088**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
EBIT	2,043	2,866	3,699	4,310
Other Income	76	124	80	80
Depreciation & Amortisation	631	659	750	823
Interest paid(-)	-141	-187	-144	-144
Tax paid(-)	-512	-709	-938	-1,096
Extra Ord Income	25	0	0	0
Operating Cash Flow	**2,122**	**2,753**	**3,447**	**3,974**
Change in Working Capital	-680	-45	128	139
Cash flow from Operations	**1,443**	**2,708**	**3,575**	**4,113**
Capex	-1,124	-1,000	-1,000	-900
Strategic Investment	-944	-850	-800	-800
Non Strategic Investment	38	0	0	0
Cash flow from Investing	**-2,030**	**-1,850**	**-1,800**	**-1,700**
Change in borrowing	701	-400	-400	-400
Others	-58	0	0	0
Dividends paid(-)	-214	-200	-200	-200
Cashflow from Financial Activities	**428**	**-600**	**-600**	**-600**
Change in Cash	-159	258	1,175	1,813
Opening cash	401	242	500	1,675
Closing cash	242	500	1,675	3,488

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY23	FY24E	FY25E	FY26E
Revenue Growth	26.9	21.8	16.6	15.5
EBITDA Margin	10.1	11.0	11.9	11.9
Net Profit Margin	5.6	6.5	7.2	7.3
ROCE (%)	19.5	22.8	24.2	23.4
ROE (%)	26.6	29.5	29.0	26.2
EPS(Rs)	31.0	44.1	56.8	66.3
P/E (x)	37.7	43.3	33.6	28.8
P/ BV (x)	9.2	11.4	8.7	6.8
EV/ EBITDA (x)	21.7	26.2	20.4	17.3
Fixed Assets Turnover Ratio (x)	7.3	7.5	8.2	9.3
Debt / Equity (x)	0.4	0.3	0.2	0.1
EV/ Sales (x)	2.2	2.9	2.4	2.0

Source: Company, Axis Research

LUPIN LIMITED – NICHE APPROVALS AND LOW INPUT COSTS, POSITIVE OUTLOOK

Lupin is an innovation-led transnational pharmaceutical company. It develops and commercializes a wide range of branded and generic formulations, biotechnology products, and APIs. The company enjoys a leadership position in the cardiovascular, anti-diabetic, and respiratory segments and has a significant presence in the anti-infective, gastrointestinal (GI), central nervous system (CNS), and women's health areas. Lupin is the third-largest pharmaceutical company in the US by prescriptions. The company invested 7.9% of its revenue in research and development in FY23.

Industry view

Over Weight

CMP
1,297

Target Price
1,470

Upside
13%

Key Rationale

- **Strong execution in gSpiriva & gPrezista:** Lupin has received approval for the generic version of Spiriva HandiHaler (Tiotropium Bromide Inhalation Powder) from the USFDA in the US Market. This is the first generic version of Spiriva that would enable Lupin to garner a higher market share. It is used in the treatment of patients with chronic obstructive pulmonary disease (COPD). The estimated size of this drug is $1,246 Mn in the US Market and we expect Lupin to generate sales of $80 MN and $114 Mn in FY24E and FY25E respectively. Based on NPV value, we have assigned a value of Rs 40 for gSpiriva.
- **Niche Drugs in pipeline:** LUPIN has two strong niche products in the pipeline that are expected to be launched in 2HFY24. These are gXyrem (180 days exclusivity) and gTolvaptan having a market size of $986 MN and $283 Mn respectively. Furthermore, LUPIN' has received approval for Canagliflozin, Bromfec (180 days exclusivity), Pitavastatin and Dapagliflozin in H2FY24, which could be realised into generic US sales of $1,050 Mn in FY26E. Against this backdrop, we are increasing our EPS by 9.4% for FY26E.
- **Outlook & Valuation:** Lupin has a strong pipeline of niche products for the US markets with limited competition. In a few of these products, LUPIN has a first-mover advantage. We believe these products would increase the company's gross margins by 150bps in the next two years. Moreover, further developments in the business could add value in its business such as 1) New launches such as Xyrem, gTolvaptan, Cynocobalamin, Diazepem Gel, Vereniciline, Bromfenac, etc. in the US market 2) Double-digit growth in the India business as the company has already increased MR numbers to 1,000, and 3) An uptick in the API business with the API industry witnessing demand comeback. Lupin's margins at 13% are still below the industry levels of 22%. We, therefore, foresee a significant scope for margin improvement in the upcoming quarters. We expect the macro environment to be in favour of the industry, led by a fall in raw material prices along with low logistics and fuel costs.
- **Valuation:** At the CMP, the stock trades at 24.0x and 20.4x its FY25E and FY26E earnings.

Key Financials (Consolidated)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (%)	ROE (%)
FY24E	19,367	3,486	1,980	43.5	29.9	17.7	13.9
FY25E	21,360	4,058	2,460	54.1	24.0	14.8	15.0
FY26E	23,169	4,634	2,900	63.7	20.4	12.4	15.2

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY24E	FY25E	FY26E
Total Net Sales	**19,367**	**21,360**	**23,169**
% Change	16.4%	10.3%	8.5%
Raw material Consumption	7,166	7,689	8,225
Staff costs	3,486	3,845	4,171
Other Expenditure	5,229	5,767	6,140
Total Expenditure	15,881	17,301	18,536
EBITDA	**3,486**	**4,058**	**4,634**
% Change	93.9%	16.4%	14.2%
EBITDA Margin %	**18.0%**	**19.0%**	**20.0%**
Depreciation	827	881	935
EBIT	2,659	3,177	3,699
EBIT Margin %	13.7%	14.9%	16.0%
Interest	212	127	81
Other Income	92	104	100
PBT	**2,538**	**3,154**	**3,718**
Tax	558	694	818
Tax Rate %	*22.0%*	*22.0%*	*22.0%*
APAT	1,980	2,460	2,900
P/L after discontinution	0	0	0
PAT after Ass.	1,980	2,460	2,900
Adj. PAT	**1,980**	**2,460**	**2,900**
Growth %	**360.2%**	**24.3%**	**17.9%**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY24E	FY25E	FY26E
Share Capital	91	91	91
Reserves & Surplus	14,182	16,347	18,952
Shareholders Fund	14,273	16,438	19,043
Total Debt	3,541	2,541	1,541
- Trade Payables	2,918	3,219	3,491
- Other Long Term Liabilities	424	468	508
- Other Current Liabilities	2,122	2,341	2,539
TOTAL EQUITY & LIABILITIES	**24,367**	**26,094**	**28,210**
Gross Block	9,190	9,790	10,390
Depriciation	5,128	6,009	6,944
% of GB	55.8%	61.4%	66.8%
- Fixed Assets(incl. Capital Work in Progress)	9,396	9,115	8,780
- Other Non Current Assets	881	881	881
- Current Investments	440	440	440
- Inventories	5,253	5,793	6,284
- Trade Receivables	5,306	5,852	6,348
- Cash & Cash Equivalents	1,075	1,789	3,065
- Other Current Assets	2,016	2,224	2,412
TOTAL ASSETS	**24,367**	**26,094**	**28,210**

Cash Flow (Rs Cr)

Y/E Mar	FY24E	FY25E	FY26E
PBT	2,538	3,154	3,718
Add: depreciation	827	881	935
Add: Interest	212	127	81
Cash flow from operations	3,578	4,162	4,734
Change in working capital	1,176	732	664
Taxes	558	694	818
Miscellaneous expenses	0	0	0
Net cash from operations	1,844	2,737	3,252
Capital expenditure	-600	-600	-600
Change in Investments	0	0	0
Net cash from investing	-600	-600	-600
Increase/Decrease in debt	-1,000	-1,000	-1,000
Dividends	-250	-295	-295
Proceedings from equity	0	0	0
Interest	-212	-127	-81
Others	-0	0	0
Net cash from financing	-1,462	-1,422	-1,376
Net Inc./(Dec.) in Cash	-219	715	1,276
Opening cash balance	1,293	1,075	1,789
Closing cash balance	1,075	1,789	3,065

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY24E	FY25E	FY26E
Sales growth (%)	16.4	10.3	8.5
OPM	18.0	19.0	20.0
Oper. profit growth	93.9	16.4	14.2
COGS / Net sales	37.0	36.0	35.5
Overheads/Net sales	-	-	-
Depreciation / G. block	9.0	9.0	9.0
Effective interest rate	22.0	22.0	22.0
Net wkg.cap / Net sales (%)	36.8	36.8	36.8
Net sales / Gr block (x)	2.1	2.2	2.2
RoCE	14.9	16.7	18.0
Debt / equity (x)	0.2	0.2	0.1
Effective tax rate	22.0	22.0	22.0
RoE	13.9	15.0	15.2
Payout ratio (Div/NP)	274.7	324.2	324.2
EPS (Rs.)	43.5	54.1	63.7
EPS Growth	360.2	24.3	17.9
CEPS (Rs.)	61.7	73.4	84.3
DPS (Rs.)	5.5	6.5	6.5

Source: Company, Axis Research

FEDERAL BANK – GROWTH LEVERS INTACT, EYEING ROA OF 1.4% BY FY25E!

Federal Bank (FB) is a Kerala-based private sector bank with a pan-India presence. It has exposure to Insurance and NBFC business through its joint venture with IDBI and wholly-owned subsidiary FedFina. The bank continues to proactively execute its strategy of a branch-light and distribution-heavy franchise.

Industry view

Equal Weight

CMP
149

Target Price
180

Upside
21%

Key Rationale

- **Improved mix of high-yielding products:** Federal Bank (FB) reported healthy credit growth of 19/4% YoY/QoQ. FB's higher-yielding portfolio contributes ~23.7% of the total portfolio vs. 21.3% YoY. Credit growth has remained healthy across segments and the management remains confident that a similar robust performance will continue in H2FY24. With healthy growth visibility in the core products, along with strong growth in the higher-yielding products, FB remains on the track to deliver a credit growth of 18-20% in FY24E. Over the medium term, we bake in credit growth of 18% CAGR and expect the share of high-yielding products in the portfolio mix to improve.
- **Improving Liability Franchise**: FB has been amongst the few mid-tier banks that have consistently improved their deposit base. Deposits growth remained healthy in Q2FY24 at 23/5% YoY, largely driven by TDs (+33/6% YoY/QoQ). Supported by footprint expansion and fintech partnerships, FB is likely to deliver robust deposit growth. We expect FB to deliver a deposit growth of 18% CAGR over the medium term.
- **Well-managed Asset Quality:** FB has handled the asset-quality stress well and has seen significant improvement across metrics. The bank has not witnessed any corporate losses over the past few years and the granular retail book continues to behave well. Despite the sharp growth in the riskier higher-yielding businesses, the bank has not seen any severe signs of stress as it continues to monitor the portfolio regularly. Thus, with no evident signs of major challenges on the asset quality, FB expects credit costs to remain benign at ~25-30bps over the next few quarters.
- **Outlook**: While FB's margins have bottomed out, the expected increase in the CoD (though at a decelerating pace) over the next couple of quarters is likely to delay a sharper NIM expansion. However, FB's margins will find some support from the improving mix of higher-yielding products. We expect NIMs to settle at ~3.2% in FY24E vs. 3.16% currently. Some of the new businesses (partner-led) are RoA accretive but incur higher costs (the C-I Ratio of ~65-70%). Thus, driven by strong business volumes and branch expansion (100 branches in H2FY24), cost ratios are expected to remain elevated before moderating to ~50% by the end of FY25. The fee income trajectory continues to remain strong and is expected to sustain momentum, thereby supporting superior RoAs. The bank eyes an RoA of 1.4%+ by FY25E and key levers for this RoA expansion would be (a) Improving margins,(b) Expanding Fee income, and (c) Moderating cost ratios.
- **Valuation**: FB's key strengths continue to be i) Sustained credit growth, ii) Strong liability franchise, iii) Improving fee income with the bank looking to deepen the relationship with corporates to improve client wallet share, iv) Improving Cost Ratios, and v) Benign credit costs backed by robust asset quality metrics. We maintain our BUY rating on the stock with a target price of Rs 165/share (1.3x FY25E ABV).
- **Key risks**: a)Loan growth moderation, b) Asset quality challenges in the higher-yielding segment

Key Financials (Standalone)

Y/E Mar (Rs Cr)	NII (Rs Cr)	PPOP (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	ABV (x)	P/ABV (x)	ROAA (%)	NNPA (%)
FY22	5,962	3,758	1,890	9.0	82.8	1.8	0.9	1.0
FY23	7,232	4,794	3,011	14.2	95.9	1.6	1.3	0.7
FY24E	8,318	5,559	3,708	17.5	110.8	1.3	1.3	0.7
FY25E	9,829	6,617	4,352	20.6	128.3	1.2	1.3	0.7

Source: Company, Axis Securities

Profit & Loss (RsCr)

Y/E MAR	FY22	FY23	FY24E	FY25E
Net Interest Income	**5,962**	**7,232**	**8,318**	**9,829**
Other Income	2,089	2,330	3,119	3,649
Total Income	**8,051**	**9,562**	**11,437**	**13,478**
Total Operating Exp	4,293	4,768	5,879	6,861
PPOP	**3,758**	**4,794**	**5,559**	**6,617**
Provisions & Contingencies	1,222	750	581	775
PBT	**2,536**	**4,045**	**4,978**	**5,842**
Provision for Tax	646	1,034	1,269	1,490
PAT	**1,890**	**3,011**	**3,708**	**4,352**

Source: Company, Axis Research

Balance Sheet (RsCr)

Y/E MAR	FY22	FY23P	FY24E	FY25E
SOURCES OF FUNDS				
Share Capital	421	423	423	423
Reserves	18,373	21,083	24,421	28,337
Shareholder's Funds	18,794	21,506	24,844	28,761
Total Deposits	1,81,701	2,13,386	2,52,840	2,98,350
Borrowings	15,393	19,319	17,846	20,501
Other Liabilities & Provisions	5,059	6,130	8,998	10,584
Total Liabilities	**2,20,946**	**2,60,342**	**3,04,528**	**3,58,195**
APPLICATION OF FUNDS				
Cash & Bank Balance	21,010	17,689	20,711	23,842
Investments	39,179	48,983	55,512	65,504
Advances	1,44,928	1,74,447	2,06,429	2,43,118
Fixed Assets & Other Assets	15,828	19,223	21,876	25,732
Total Assets	**2,20,946**	**2,60,342**	**3,04,528**	**3,58,195**

Source: Company, Axis Research

Key Ratios (%)

Y/E MAR	FY22	FY23	FY24E	FY25E
VALUATION RATIOS				
EPS	9.0	14.2	17.5	20.6
Earnings Growth (%)	*12.8*	*58.3*	*23.2*	*17.4*
BVPS	89.4	101.6	117.4	135.9
Adj. BVPS	82.8	95.9	110.8	128.3
ROAA (%)	0.9	1.3	1.3	1.3
ROAE (%)	10.8	14.9	16.0	16.2
P/E (x)	16.6	10.5	8.5	7.2
P/ABV (x)	1.8	1.6	1.3	1.2
DPS	2.5	1.0	1.8	2.1
Dividend Yield (%)	1.7	0.7	1.2	1.4
PROFITABILITY				
NIM (%)	3.2	3.3	3.2	3.3
Cost-Income Ratio	53.3	49.9	51.4	50.9

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY22	FY23	FY24E	FY25E
Loan Growth (%)	9.9	20.4	18.3	17.8
Deposit Growth (%)	5.2	17.4	18.5	18.0
C/D Ratio (%)	79.8	81.8	81.6	81.5
CAR	15.8	14.8	14.3	13.8
CAR Tier I	14.4	13.0	12.6	12.2
ASSET QUALITY				
Gross NPLs (%)	2.9	2.4	2.3	2.3
Net NPLs (%)	1.0	0.7	0.7	0.7
Coverage Ratio (%)	66.3	71.2	71.0	71.0
ROAA Tree				
Net Interest Income	2.8	3.0	2.9	3.0
Non-Interest Income	1.0	1.0	1.1	1.1
Operating Cost	2.0	2.0	2.0	2.0
Provisions	0.6	0.3	0.3	0.3
Tax	0.3	0.4	0.4	0.4
ROAA	0.9	1.3	1.3	1.3
Leverage (x)	12.1	11.9	12.2	12.4
ROAE	10.8	14.9	16.0	16.2

Source: Company, Axis Research

RELAXO FOOTWEAR LTD - RECOVERY ON THE CARDS

Relaxo is the largest footwear manufacturer in India. It manufactures quality and affordable footwear comprising slippers, sandals, sports, and casual shoes. The company boasts several popular brands including Relaxo, Sparx, Flite, and the Bahamas which stand as leaders in their respective domains. Its product mix comprises Hawai and Bahamas which account for ~25% of total sales value (60% shoes and 40% sandals) while Flite and Sparks account for ~37% of total sales each.

Industry view

Over Weight

CMP
915

Target Price
1020

Upside
11%

Key Rationale

- **Strong Q2FY24 results:** The company posted a strong Q2FY24 result. While its revenue was marginally lower than our expectations, it reported a significant beat on profitability. The company's revenue grew by 7% YoY (~23% volume growth, -13% realisation growth), which was led by open footwear and market share gains. The management stated that volume growth in H2 is likely to be normalised to 15%, led by closed footwear. In Q4FY23, it highlighted that it will target 15-20% volume growth in FY24. South India (15% of sales) is seeing some pressure on account of weak monsoon. Further, The company has highlighted that it expects raw material prices to remain stable in the coming quarters which will contribute to its margin expansion.
- **Rural demand on a recovery track:** Post COVID-19, rural recovery has been slow on account of weak consumer demand due to high inflation eating in their wallet shares. We believe this has resulted in a huge pent-up demand for discretionary categories such as footwear and clothing which will benefit value players such as Relaxo and V-Mart going forward. In Q2FY24, most companies witnessed some signs of recovery in rural India which we believe is likely to continue in coming quarters as well. This will be led by factors such as – 1) Government spending on infrastructure to be on the higher side as major states' elections this year would set a base for the next year's general election, 2) Strong service PMI numbers of 60+, This showcases the continued growth momentum in the service economy activity and would also drive overall urban remittances in rural, 3) Rural wages are already on an upward trajectory which is further supported by the RBI intervention in controlling overall inflation.
- **Outlook**: The Q2FY24 result was strong and the management's FY24 outlook gives us confidence that the worst is behind the company as – a) Demand environment is likely to recover in FY24, especially in rural India, 2) Raw material prices are now stable, which will aid in gross margins expansion, 3) The company is regaining its lost market share from unorganised players, 4) It is focusing on premiumisation by increasing the share of a fast-growing sports and athleisure category, and 5) The company is doubling its capacity of Sparx from the current 50,000 pairs/day to 100,000 pairs/day at Bhiwadi (Rajasthan), which we believe is a step in the right direction from the long-term perspective.
- **Key risks**: a) Prolonged in rural recovery, 2) increase in raw material prices

Key Financials (Standalone)

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	EPS (Rs)	PER (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)
FY23	2,783	336	6.2	147.1	8.3	8.8	66.9
FY24E	3,174	475	10.5	87.1	12.9	13.3	47.2
FY25E	3,833	632	15.2	60.3	16.3	16.9	35.1
FY26E	4,548	757	18.9	48.4	17.4	18.3	28.9

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar, Rs Cr	FY23	FY24E	FY25E	FY26E
Net sales	**2,783**	**3,174**	**3,833**	**4,548**
Growth, %	4.9	14.1	20.8	18.7
Other operating income	0	0	0	0
Total income	2,783	3,174	3,833	4,548
Raw material expenses	-1,334	-1,348	-1,617	-1,908
Employee expenses	-343	-395	-474	-568
Other Operating expenses	-769	-957	-1,110	-1,314
EBITDA (Core)	**336**	**475**	**632**	**757**
Growth, %	(19.2)	41.5	33.1	19.7
Margin, %	12.1	15.0	16.5	16.6
Depreciation	-125	-140	-146	-152
EBIT	**211**	**335**	**486**	**605**
Growth, %	(30.3)	59.1	45.1	24.4
Margin, %	7.6	10.6	12.7	13.3
Other Income	19	37	43	49
Non-recurring Items	0	0	0	0
Pre-tax profit	**210**	**353**	**509**	**634**
Tax provided	-56	-92	-132	-165
Profit after tax	**154**	**261**	**377**	**470**
Growth, %	(33.6)	69.0	44.4	24.5
Net Profit (adjusted)	**154**	**261**	**377**	**470**
Unadj. shares (cr)	25	25	25	25

Source: Company, Axis Research

Balance Sheet (Rs Cr)

As at 31st Mar, Rs Cr	FY23E	FY24E	FY25E	FY26E
Cash & bank	74	106	325	630
Debtors	270	308	372	442
Inventory	564	643	777	921
Loans & advances	1	1	1	1
Other current assets	84	84	84	84
Total current assets	1,194	1,343	1,759	2,278
Investments	25	25	25	25
Gross fixed assets	1,692	1,892	1,972	2,052
Less: Depreciation	-542	-682	-827	-979
Add: Capital WIP	89	89	89	89
Net fixed assets	1,239	1,299	1,233	1,162
Non-current assets	37	37	37	37
Total assets	**2,495**	**2,704**	**3,054**	**3,502**
Current liabilities	471	506	566	631
Provisions	19	19	19	19
Total current liabilities	490	526	585	650
Non-current liabilities	150	150	150	150
Total liabilities	640	675	735	800
Paid-up capital	25	25	25	25
Reserves & surplus	1,830	2,004	2,294	2,677
Shareholders' equity	1,855	2,029	2,319	2,702
Total equity & liabilities	**2,495**	**2,704**	**3,054**	**3,502**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E	FY26E
Pre-tax profit	210	353	509	634
Depreciation	125	140	146	152
Chg in working capital	99	-82	-138	-149
Total tax paid	-54	-92	-132	-165
Cash flow from operating activities	**380**	**319**	**385**	**472**
Capital expenditure	-228	-200	-80	-80
Chg in marketable securities	-31	0	0	0
Cash flow from investing activities	**-259**	**-200**	**-80**	**-80**
Free cash flow	121	119	305	392
Equity raised/(repaid)	76	0	0	0
Dividend (incl. tax)	-62	-87	-87	-87
Cash flow from financing activities	**14**	**-87**	**-87**	**-87**
Net chg in cash	135	32	218	305
Opening cash balance	13	74	106	325
Closing cash balance	74	106	325	630

Source: Company, Axis Research

Ratio Analysis (%)

Y/E Mar	FY23E	FY24E	FY25E	FY26E
EPS (INR)	6.2	10.5	15.2	18.9
Growth, %	(33.6)	69.0	44.4	24.5
Book NAV/share (INR)	74.7	81.7	93.4	108.8
FDEPS (INR)	6.2	10.5	15.2	18.9
CEPS (INR)	11.3	16.1	21.0	25.0
CFPS (INR)	15.5	11.4	13.8	17.0
DPS (INR)	2.5	3.5	3.5	3.5
Return ratios				
Return on assets (%)	7.1	10.8	13.8	14.9
Return on equity (%)	8.3	12.9	16.3	17.4
Return on capital employed (%)	8.8	13.3	16.9	18.3
Turnover ratios				
Asset turnover (x)	1.8	1.9	2.2	2.5
Sales/Total assets (x)	1.1	1.2	1.3	1.4
Sales/Net FA (x)	2.3	2.5	3.0	3.8
Working capital/Sales (x)	0.2	0.2	0.2	0.2
Receivable days	35.5	35.5	35.5	35.5
Inventory days	73.9	73.9	73.9	73.9
Payable days	37.7	39.0	39.7	39.8
Working capital days	58.8	61.0	63.6	65.6
Liquidity ratios				
Current ratio (x)	2.5	2.7	3.1	3.6
Quick ratio (x)	1.3	1.4	1.7	2.2
Interest cover (x)	11.0	17.2	24.8	30.5
Dividend cover (x)				
Total debt/Equity (%)	-	-	-	-
Net debt/Equity (%)	(4.0)	(5.2)	(14.0)	(23.3)
Valuation				
PER (x)	147.1	87.1	60.3	48.4
PEG (x) - y-o-y growth	(4.4)	1.3	1.4	2.0
Price/Book (x)	12.3	11.2	9.8	8.4
EV/Net sales (x)	8.1	7.1	5.8	4.8
EV/EBITDA (x)	66.9	47.2	35.1	28.9
EV/EBIT (x)	106.6	66.9	45.7	36.2

Source: Company, Axis Research

JTL INDUSTRIES – A STRUCTURAL GROWTH STORY

JTL Industries Ltd (JTL) (formerly known as JTL Infra Limited) – incorporated in 1991 as Jagan Tubes Pvt Ltd (a flagship company of Jagan Group), is a leading ERW steel tube pipes manufacturer. Promoted by the Chandigarh-based Singla family, JTL manufactures ERW black pipes and has also ventured into value-added products such as Galvanized Steel pipes, solar module mounting structures, and large-diameter steel tubes & pipes – produced in its 4 state-of-the-art facilities having a total manufacturing capacity of 5,86,000 TPA

Industry view

Equal Weight

CMP
217

Target Price
265

Upside
22%

Key Rationale

- **Capacity expansion and value growth plans:** JTL is planning to expand its capacity from the current 0.586MT to 1MT by FY25 and it will be enhancing its VAP share from the current 31% in FY23 to 50% by FY25. JTL will add an additional 0.2MT capacity each at Mangaon and Raipur by the end of FY25 and 14kt at Mandi (by Q1FY24) which will take its total capacity to 1MT by FY25. Out of the incremental 0.4MT capacity in the next two years, ~50% of the capacity will be equipped with DFT (Direct Forming Technology) which will facilitate the company to produce various sizes of hollow sections without roll change, increasing efficiency and capacity utilization. This will also add additional SKUs to the company's portfolio. In the long term, JTL plans to add another 1MT capacity post FY25 which will bring its total capacity to 2MT by FY28.
- **Wide distribution reach through strategically located plants:** JTL has four state-of-the-art manufacturing facilities dispersed geographically across India. This allows the company to source raw materials at competitive prices as well as enable it to expand its sales and footprint in domestic and international markets. It has two plants in Punjab i) Gholu Mazra (Near Chandigarh), with a capacity of 0.1MTPA, ii) Mandi Gobindgarh (Punjab), with a capacity of ~0.2MTPA. One plant in Mangaon (Maharashtra) with a capacity of 0.2MTPA, which gives it access to the port for exports. It also has one plant in Raipur which it recently got through amalgamation with its promoter-held Chetan industries. The Raipur plant has a capacity of 0.1 MTPA and it gives the company access to the East Indian market.
- **Stable operating profits and returns during the expansion phase:** JTL's Revenue/EBITDA/PAT grew by 14%/45%/48% YoY in FY23 on the back of capacity expansion. While its ROE/ROCE moderated to 29.6%/22.1% in FY23 from 40.7%/31% in FY22, they were still at a healthy level given its expansion phase. The EBITDA/t improved by 30% to Rs 5,383/t in FY23. The company is funding the growth Capex by raising share warrants and targets a debt-free status by FY25
- **Sales Volume growth continues:** JTL reported good growth in sales volume in Q2FY24 at 81.7kt (up 57%/6% YoY/QoQ), and management expects to achieve sales volume of 3.3 Lc tonnes for the full year FY24 (37% growth YoY).
- **Outlook & Valuation:** With the phase-wise volume expansion in progress, we model Revenue/EBITDA/PAT CAGR of 46%/45%/51% over FY23/25E. We maintain our BUY rating on the stock and value JTL at 23x it's FY25 EPS to arrive at our 1-year forward target price of Rs 265/share, implying an upside potential of 22% from the CMP.
- **Key risks:** a) Delay in execution of expansion projects, b) Volatility in steel raw material prices.

Key Financials (Standalone)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	ROE (%)	P/E Ratio (x)	P/BV (x)	EV/ EBITDA (X)
FY23	1,550	129	90	11	30%	30	7.6	20.7
FY24E	2,101	161	118	7	21%	31	6.9	22.4
FY25E	3,315	271	205	12	20%	18	3.9	13.0
FY26E	4,094	339	260	15	20%	14	3.1	10.1

Source: Company, Axis Securities

Income Statement (Rs Bn)

Y/E March	FY 23A	FY 24E	FY 25E	FY 26E
Revenue From Operations	1,550	2,101	3,315	4,094
Other Income	5	10	7	8
Total Income	**1,555**	**2,111**	**3,322**	**4,102**
Cost of materials consumed	1,365	1,840	2,929	3,617
Purchases of stock-in-trade	-	-	-	-
Changes in inventories of finished goods, stock-in-trade.	(6)	17	-	-
Employee benefits expense	20	25	40	49
Other expenses	41	58	75	88
Total Expenditure	**1,421**	**1,940**	**3,044**	**3,754**
EBITDA	**129**	**161**	**271**	**339**
EBITDA per tonne (Rs/T)	5,383	4,879	5,320	5,430
Depreciation and amortization expense	4	8	17	19
EBIT	**125**	**153**	**254**	**321**
Finance costs	6	5	2	0
Profit Before Exceptional Items And Tax	**124**	**158**	**259**	**329**
Exceptional Items	(1)	-	-	-
Profit Before Tax	**123**	**158**	**259**	**329**
Total Tax Expenses	32	40	54	69
Profit For The Year / Period Attributable To Owners Of The Parent	**90**	**118**	**205**	**260**
Non-Controlling Interests	-	-	-	-
Wt Avg No of shares outstanding (Cr) Basic (FV Rs 2/sh)	8.43	16.92	16.92	16.92
Wt Avg No of shares outstanding (Cr) Diluted	9.71	18.20	18.20	18.20
Earnings Per Share (Not Annualised)				
Basic (Rs.)	10.69	6.99	12.10	15.35
Diluted (Rs.)	**9.28**	**6.50**	**11.25**	**14.27**
DPS (Rs/sh)	0.20	0.20	0.20	0.20
Payout Ratio	2.2%	3.1%	1.8%	1.4%

Source: Company, Axis Research

Balance Sheet (Rs Bn)

Y/E March	FY 23A	FY 24E	FY 25E	FY 26E
Net Block	65	158	416	497
CWIP	4	4	4	4
Intangible assets				
Investments	16	16	16	16
Inventories	168	151	241	297
Trade Receivables	141	144	182	191
Cash / Bank balance	53	134	182	282
Misc. Assets	115	115	115	115
Total assets	**563**	**723**	**1,156**	**1,404**
Equity capital	17	17	19	19
Reserves	390	556	993	1,249
Borrowings	53	40	20	0
Def tax Liabilities	4	4	4	4
Other Liabilities	68	68	68	68
Provisions	3	3	3	3
Trade Payables	29	35	48	59
Capital employed	**563**	**723**	**1,156**	**1,404**

Source: Company, Axis Research

Cash Flow (%

Y/E March	FY 23A	FY 24E	FY 25E	FY 26E
Profit before tax	123	158	259	329
Depreciation	4	8	17	19
Interest Expenses	6	5	2	0
Non-operating / EO item	(0)	-	-	-
Change in W/C	(102)	21	(114)	(54)
Tax paid	(26)	(40)	(54)	(69)
Operating Cash Flow	**5**	**151**	**109**	**224**
Capital Expenditure	(19)	(101)	(275)	(100)
Free cash Flow	**(14)**	**51**	**(166)**	**124**
Other Investments	(2)	-	-	-
Investing Cash Flow	**(21)**	**(101)**	**(275)**	**(100)**
Proceeds / (Repayment) of Borrowings	(41)	(13)	(19)	(20)
Equity Share Capital raised	1	-	3	-
Securities premium received	22	-	-	-
Money received against share warrant	90	50	236	-
Finance cost paid	(6)	(5)	(2)	(0)
Dividend paid	-	(2)	(4)	(4)
Other financing activities	0	-	-	-
Financing Cash Flow	**66**	**30**	**214**	**(24)**
Change in Cash	**49.8**	**80.9**	**48.0**	**100.4**
Opening Cash	0.3	50.1	131.0	179.0
Closing Cash	**50.1**	**131.0**	**179.0**	**279.4**

Source: Company, Axis Research

Raito Analysis (%)

Y/E March	FY 23A	FY 24E	FY 25E	FY 26E
Operational Ratios				
Sales growth (% YoY)	14.4%	35.6%	57.8%	23.5%
EBITDA growth (% YoY)	44.7%	24.5%	68.5%	25.1%
Op. profit growth (% YoY)	45.0%	22.5%	65.7%	26.3%
Net Profit growth (% YoY)	47.6%	31.1%	73.1%	26.9%
EBITDA Margin %	8.3%	7.7%	8.2%	8.3%
Net profit Margin %	5.8%	5.6%	6.2%	6.3%
Tax Rate %	26.5%	25.3%	21.0%	21.0%
Efficiency Ratios				
Total Asset turnover (x)	3.43	3.27	3.53	3.20
Sales/Gross block (x)	19.99	11.79	7.32	7.40
Sales/Net block(x)	23.71	13.28	7.97	8.23
Working capital/Sales (x)	0.18	0.12	0.11	0.10
Valuation Ratios				
PER (x)	29.71	31.26	18.06	14.23
P/BV (x)	7.58	6.93	3.93	3.13
EV/Ebitda (x)	20.70	22.37	13.02	10.06
EV/Sales (x)	1.73	1.71	1.07	0.83
Dividend Yield (%)	0.00	0.00	0.00	0.00
Return Ratios				
ROE	0.30	0.21	0.20	0.20
ROCE	0.28	0.26	0.25	0.26
Leverage Ratios				
Debt / equity (x)	0.13	0.07	0.02	0.00
Net debt/ Equity (x)	(0.00)	(0.16)	(0.16)	(0.22)
Net debt/Ebitda (x)	(0.00)	(0.59)	(0.60)	(0.83)

Source: Company, Axis Research

CIE Automotive India Ltd- Buoyant Indian Operations & RECOVERY In EU Expected

Mahindra CIE Automotive(MCIE) – a multi-technology, multi-product automotive component supplier with a strong focus on innovation, quality, and sustainability. The company is headquartered in Mumbai (India) and has operations in over 20 countries, including Spain, Germany, Brazil, Mexico, China, and the USA. MCIE offers a wide range of products and services, including forging, casting, magnetic, aluminum, gears, composites, machining and assembly of components for engines, transmission, chassis, and other applications.

Industry view

Over Weight

CMP
485

Target Price
585

Upside
21%

Key Rationale

- **Indian operations likely to outperform underlying industry growth:** In CY24, we expect outperformance in Indian operations going ahead, which will be led by overall industry growth, demand-backed Capex (~Rs 250 Cr in CY24) and ramp-up of existing order commitments from OEMs. The management indicated improvement in CY24 across segments and across customers; along with the addition of EV business (which forms 10% of the order book). We expect 9% CAGR revenue growth over CY22-25E in Indian operations.
- **Europe Business – Structurally Positive with tailwinds likely to emerge in the medium term:** The management expects flat industry growth in CY24 on a YoY basis. However, CIEAUTO reports similar to slightly more growth than the industry. In Q3CY23, the management reiterated its confidence in maintaining EBITDA margins on account of lower energy prices, internal efficiencies, and higher volumes from the ramp-up of the EV business. We estimate 9% CAGR revenue growth over CY22-25E in EU operations.
- **EV Momentum to pick up from CY24 in EU:** The management informed that new orders in EVs (74% in PVs and 50% in Metalcastello) are to ramp up in CY24E onwards. The key orders include (1) ~Rs 250-300 Cr order for light truck in Metalcastello, (2) Orders for steel and aluminium forging parts (for supplying chassis and other high-value components to BMW and JLR).
- **Valuation & Outlook:** We continue to like the company's growth story driven by (a) Operational Performance and Focus on building an EV product portfolio, (b) Healthy order book position and steady growth in Indian operations, (c) Strong FCF generations and negligible debt on the balance sheet, (d) Capacity building to meet demand from India OEM's. The growth trajectory in EU operations is expected to gradually recover in H2CY24 by the management. Keeping these factors in view, we forecast the company to post a Revenue/EBITDA/PAT CAGR of 9%/17%/19% over CY22-25E. We like CIEAUTO and reiterate our BUY rating on the company at a 1-year Forward PE multiple of 24x (unchanged) on Indian operations (aided by overall industry growth and demand-backed capacity expansions) and 10x (unchanged) on moderate European operational earnings for CY25 EPS (roll forward from Jun'25 EPS). Based on this, we arrive at our SOTP-based TP of Rs 585/share, implying an upside of 20% from the CMP.
- **Key risks:** a) Higher Interest rate, b) Slower-than-expected 2W Demand Recovery, and c) Business skewed towards ICE vehicles

Key Financials (Standalone)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	ROCE (%)	ROE (%)	EV/EBIDTA (x)
CY22A	8,753	1,172	711	18.8	18.3	18.1%	14.0%	7.3
CY23E	9,469	1,479	851	22.5	21.5	19.1%	14.5%	9.2
CY24E	10,353	1,631	972	25.6	18.9	19.1%	14.4%	7.8
CY25E	11,278	1,861	1,153	30.4	15.9	19.6%	14.8%	6.3

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	CY22A	CY23E	CY24E	CY25E
Net sales	**8,753**	**9,469**	**10,353**	**11,278**
Raw materials	(4,776)	(5,048)	(5,409)	(5,808)
Staff costs	(902)	(1,012)	(1,139)	(1,241)
Other expenses	(1,903)	(1,930)	(2,174)	(2,368)
Total expenses	**(7,581)**	**(7,990)**	**(8,722)**	**(9,417)**
EBITDA	**1,172**	**1,479**	**1,631**	**1,861**
Depreciation	(296)	(329)	(338)	(353)
EBIT	**876**	**1,150**	**1,292**	**1,508**
Other income	58	70	66	62
Interest expense	(23)	(79)	(56)	(26)
Share of Profit/loss from associates	2	(0)	(0)	(0)
Exceptional (expenses)/income	38	-	-	-
Profit before tax	**951**	**1,141**	**1,302**	**1,544**
Tax expense	(240)	(289)	(330)	(391)
Adjusted PAT	683	851	972	1,153
Reported PAT	**711**	**851**	**972**	**1,153**
No. of shares	37.9	37.9	37.9	37.9
Reported EPS (Rs/share)	18.8	22.5	25.6	30.4

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	CY22A	CY23E	CY24E	CY25E
Equity Share Capital	379	379	379	379
Reserves and Surplus	4,719	5,476	6,353	7,411
Total Shareholders Funds	**5,098**	**5,855**	**6,732**	**7,790**
NON-CURRENT LIABILITIES				
Long Term Borrowings	119	89	59	29
Other LT liabilities	593	593	593	593
Total Non-Current Liabilities	712	682	652	622
Total Current Liabilities	4,118	4,096	3,906	3,740
Total Capital And Liabilities	9,928	10,633	11,290	12,153
NON-CURRENT ASSETS				
Net Tangible Assets	2,600	2,797	2,698	2,585
Capital Work-In-Progress	119	194	254	314
Intangible Assets	2,946	2,946	2,946	2,946
Other Non-Current Assets	340	340	340	340
Total Non-Current Assets	6,006	6,277	6,239	6,186
CURRENT ASSETS				
Inventories	1,211	1,427	1,418	1,545
Current Investments	544	544	544	544
Trade Receivables	861	960	993	1,081
Cash And Cash Equivalents	86	204	875	1,576
Other Current Assets	1221	1221	1221	1221
Total Current Assets	3,922	4,356	5,051	5,967
Total Assets	9,928	10,633	11,290	12,153

Cash Flow (Rs Cr)

Y/E Mar	CY22A	CY23E	CY24E	CY25E
Cash flows from operating activities				
Profit before tax for the year	**951**	**1,141**	**1,302**	**1,544**
Finance costs	45	79	56	26
Depreciation and amortization	354	329	338	353
Cash Flow From operation before changes in WC	1,326	1,549	1,696	1,923
Change in operating assets and liabilities:	**(208)**	**(526)**	**(344)**	**(523)**
Net cash generated by operating activities	**1,118**	**1,022**	**1,352**	**1,401**
Cash flows from investing activities				
Payments for PPE & IA	(501)	(600)	(300)	(300)
Net cash (used in)/generated by investing activities	(640)	(600)	(300)	(300)
Cash flows from financing activities				
Dividends Paid	(95)	(95)	(95)	(95)
Net Proceeds/(Repayment) of LT borrowings	(394)	(30)	(30)	(30)
Net Proceeds/(Repayment) of ST borrowings	88	(100)	(200)	(250)
Interest paid	(38)	(79)	(56)	(26)
Net cash used in financing activities	(488)	(304)	(381)	(400)
Net increase/(decrease) in CCE	(9)	118	671	700
Opening Cash and cash equivalents	165	71	189	861
Effects of exchange rate changes	3	-	-	-
Closing Cash and cash equivalents	158	189	861	1,561

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY22A	CY23E	CY24E	CY25E
Sales growth (% YoY)	29.4%	8.2%	9.3%	8.9%
EBITDA Margin %	13.4%	15.6%	15.8%	16.5%
Net profit Margin %	8.1%	9.0%	9.4%	10.2%
Sales/Net block(x)	3.3	3.5	3.8	4.3
PER (x)	18	22	19	16
P/BV (x)	3	3	3	2
EV/Ebitda (x)	7.3	9.2	7.8	6.3
ROE	14.0%	14.5%	14.4%	14.8%
ROCE	18.1%	19.1%	19.1%	19.6%
ROIC	15.46%	19.29%	18.98%	19.28%
Debt / equity (x)	0.24	0.18	0.13	0.07
Net debt/ Equity (x)	0.18	0.11	0.00	0.00
Net debt/Ebitda (x)	0.77	0.44	0.00	0.00
Interest Coverage ratio (x)	38.56	14.50	22.94	59.12

Source: Company, Axis Research

WESTLIFE FOODWORLD LTD – WELL-PLACED TO GROW

Westlife Foodworld Ltd (WFL), through its 100% subsidiary - Hardcastle Restaurants Pvt Ltd (HRPL) owns and operates McDonald's restaurants in West and South India. McDonald's operates in various formats that include standalone restaurants, delivery, drive-thru's, and On the Go. It also has four brand extensions – McCafe, McBreakfast, McDelivery, and Dessert Kiosks. As on Sep-23, WFL operates 370 McDonald's restaurants across west and south India.

Industry view

Overweight

CMP
894

Target Price
1,000

Upside
12%

Key Rationale

- **Q2FY24 results, market share gain:** Westlife Foodworld's print was lower than our estimates. Revenue grew 7% YoY, while SSSG stood at 1%, which grew on a high base of 40% SSSG growth. The management shared that despite weak SSSG, the company managed to increase its market share in the West and South regions. It also expects demand recovery in Q3FY24, led by the festive season.
- **Multi-year growth tailwinds in the QSR space –** QSR (Quick Service Restaurant) segment comprises 22% of the organised foodservice market and is expected to grow at 23% CAGR over FY20-25E, outpacing all other chain food segments on account of 1) Younger demographics of the country, 2) Increasing participation of women workforce, and 3) Shutdown of over 25% of the restaurants after the pandemic, which in turn, will lead to faster market share gains, and 4) New players entering in the QSR turf which would further expand the market opportunity.
- **WLDL well-placed to capture QSR opportunity:** The company is well-placed to capitalize on the growing QSR opportunity on account of a) Driving consistent growth in the SSSG and keeping the innovation funnel on, b) Launching new products that suit the Indian taste palate, c) Entering and quickly scaling up the growing QSR categories – Fried chicken and coffee, d) Pushing affordability through combo meals, and, e) Driving premiumisation through launching premium products to increase overall ticket size (from current Rs 200-250). Moreover, the company continues its sharp focus on driving convenience format – delivery, drive thru's and On The Go format to mitigate the future risk of dine-in while simultaneously providing customers with more touch points that will improve the overall consumer experience.
- **Large headroom for expansion**: WFL has 370 stores currently and plans to reach 580-630 stores by 2027, implying an addition of 40-45 stores annually. Its 70-80% of stores are present in metros and tier 1 cities, implying significant headroom for further expansion into smaller cities/towns.
- **Outlook:** We maintain our positive outlook on WLDL. Our confidence in the company's bright future prospects is supported by its strong execution track record of Revenue/EBITDA growth of 17%/51% over FY16-20, which was driven by new product launches and cost rationalization programs (100-200bps cost reduction every year). We expect the company to deliver healthy Revenue/EBITDA growth of 28%/43% CAGR over FY22-25E (Post Ind. AS) led by above growth tailwinds.

Key Financials (Consolidated)

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (X)	ROE (%)	ROCE (%)	EV/EBITDA (X)
FY23	2,259	374	112	7.2	NA	19.7	28.4	37.3
FY24E	2,598	438	137	8.8	101.7	21.1	29.3	31.8
FY25E	3,061	523	175	11.3	79.4	22.5	31.2	26.4
FY26E	3,598	617	220	14.2	63.1	23.3	32.1	22.1

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar, Rs Cr	FY23	FY24E	FY25E	FY26E
Net sales	**2,259**	**2,598**	**3,061**	**3,598**
Growth, %	45	15	18	18
Raw material expenses	(686)	(768)	(899)	(1,056)
Employee expenses	(311)	(357)	(421)	(502)
Rent	-	-	-	-
Other Operating expenses	(908)	(1,054)	(1,240)	(1,447)
EBITDA (Core)	**374**	**438**	**523**	**617**
Growth, %	98	17	19	18
Margin, %	17	17	17	17
Depreciation	(152)	(175)	(200)	(224)
EBIT	**222**	**263**	**323**	**393**
Growth, %	320	18	23	22
Margin, %	10	10	11	11
Other Non-Operating Income	20	22	23	24
Pre-tax profit	**149**	**182**	**233**	**294**
Tax provided	(38)	(46)	(58)	(73)
Net Profit	**112**	**137**	**175**	**220**
Growth, %	(6,800)	23	28	26
Unadj. shares (Cr)	16	16	16	16

Source: Company, Axis Research

Balance Sheet (Rs Cr)

As at 31st Mar, Rs Cr	FY23	FY24E	FY25E	FY26E
Cash & bank	158	203	322	502
Debtors	11	12	14	17
Inventory	71	82	97	114
Loans & advances	99	99	99	99
Other current assets	6	6	6	6
Total current assets	345	401	537	737
Investments	-	-	-	-
Gross fixed assets	1,945	2,350	2,681	3,011
Less: Depreciation	(322)	(577)	(777)	(1,001)
Add: Capital WIP	57	57	57	57
Net fixed assets	1,680	1,830	1,961	2,067
Total assets	**2,099**	**2,306**	**2,572**	**2,879**
Current liabilities	13,260	14,507	15,858	17,269
Provisions	-	-	-	-
Total current liabilities	13,260	14,507	15,858	17,269
Total liabilities	1,533	1,658	1,793	1,934
Paid-up capital	31	31	31	31
Reserves & surplus	535	617	748	913
Shareholders' equity	566	648	779	945
Total equity & liabilities	**2,099**	**2,306**	**2,572**	**2,879**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E	FY26E
Pre-tax profit	149	182	233	294
Depreciation	152	175	200	224
Chg in working capital	165	112	118	122
Total tax paid	(46)	(46)	(58)	(73)
Cash flow from operating activities	**420**	**424**	**493**	**566**
Capital expenditure	(434)	(325)	(330)	(330)
Chg in investments	-	-	-	-
Cash flow from investing activities	**(434)**	**(325)**	**(330)**	**(330)**
Free cash flow	(14)	99	163	236
Dividend (incl. tax)	-	-	-	-
Cash flow from financing activities	**(3)**	**-**	**-**	**-**
Net chg in cash	(16)	99	163	236
Opening cash balance	174	158	203	322
Closing cash balance	158	203	322	502

Source: Company, Axis Research

Ratio Analysis (%)

Y/E Mar	FY23	FY24E	FY25E	FY26E
EPS (INR)	7.2	8.8	11.3	14.2
Growth, %		22.5	28.1	25.8
Book NAV/share (INR)	36.4	41.7	50.1	60.7
FDEPS (INR)	7.2	8.8	11.3	14.2
CEPS (INR)	17.0	20.1	24.1	28.6
CFPS (INR)	25.7	25.9	30.2	34.9
DPS (INR)	-	-	-	-
Return ratios				
Return on assets (%)	10.5	10.8	11.8	12.6
Return on equity (%)	19.7	21.1	22.5	23.3
Return on capital employed (%)	28.4	29.3	31.2	32.1
Turnover ratios				
Asset turnover (x)	4.7	4.6	5.2	6.2
Sales/Total assets (x)	1.2	1.2	1.3	1.3
Sales/Net FA (x)	1.5	1.5	1.6	1.8
Working capital/Sales (x)	(0.5)	(0.5)	(0.4)	(0.4)
Receivable days	1.7	1.7	1.7	1.7
Inventory days	11.5	11.5	11.5	11.5
Payable days	36.0	36.1	36.2	36.2
Liquidity ratios				
Current ratio (x)	0.3	0.3	0.3	0.4
Quick ratio (x)	0.2	0.2	0.3	0.4
Valuation				
PER (x)	125	102	79	63
PEG (x) - y-o-y growth	(0.0)	4.5	2.8	2.4
Price/Book (x)	24.6	21.5	17.8	14.7
EV/Net sales (x)	6.2	5.4	4.5	3.8
EV/EBITDA (x)	37.3	31.8	26.4	22.1
EV/EBIT (x)	62.9	52.9	42.7	34.6

Source: Company, Axis Research

CREDITACCESS GRAMEEN – STRONG GROWTH RUNWAY, PREMIUM VALUATIONS JUSTIFIED!

CreditAccess Grameen (CAGrameen) is a rural-focused Microfinancier that caters mainly to women borrowers who lack access to the formal banking sector. The company is predominantly present in Karnataka, Maharashtra, and Tamil Nadu which cumulatively contribute ~75% of the company's Gross Loan Portfolio (GLP) and ~68% of its total borrower base.

Industry view

Equal weight

CMP
1,698

Target Price
1,935

Upside
14%

Key Rationale

- **GLP growth to be led by core MFI segment and scale-up of retail portfolio**: CAGrameen is eyeing GLP growth of 24%-25% in FY24, which it expects to be led by continuing strong momentum in customer addition and newer geographies that would contribute healthily to overall growth. CAGrameen has spent the last year building capacities and running a pilot for the non-MFI retail finance book. It eyes to scale up the business in FY24. The non-MFI portfolio currently forms ~1.5% of the portfolio and the company expects to clock an AUM of Rs 6,000-7,000 Cr and improve its share to 12-15% over the next 5 years.
- **NIMs to remain strong, though slight moderation is possible in H2FY24**: ~90% of the portfolio has already been repriced and hence, improvement in lending yields would be limited. A higher requirement of external borrowings to support superior growth is likely to keep CoF elevated in H2FY24. The management expects the CoF to peak out at 9.8-9.9%. While margins are expected to remain healthy, they are likely to moderate in H2FY24. The management has guided for NIMs to settle at 12.7-12.8% in FY24. We expect CAGrameen to report strong NIMs of 12.8-13% over FY24-26E.
- **Best-in-Class Asset Quality:** CAGrameen's asset quality improvement has been remarkable, though it has been mainly led by write-offs. GNPA/NNPA improved to 0.8/0.2% in Q2FY24 vs. 0.9/0.3% in Q1FY24. With well-managed asset quality stress and low visibility on incremental stress formation, we believe the company's credit costs to taper to ~1.7-1.8% over FY24-26E in-line with management guidance of credit costs ranging between1.6-1.8%.
- **Geographic diversification efforts progressing well**: CAGrameen remains focused on diversifying its geographical footprint and will look to gain substantial market share in states other than the Top-3 ones. It expects growth in the core states of Maharashtra, Karnataka, Tamil Nadu, and Madhya Pradesh to remain in the high single-digit to low double-digit, while the new geographies – Bihar, Jharkhand, Rajasthan, and Gujarat are expected to remain buoyant, albeit on a smaller base. The company will remain watchful in terms of scaling up business in Andhra Pradesh and Telangana, wherein it will add a few branches before taking a cautious call of scaling the book.
- **Outlook & Valuation**: We prefer CAGrameen amongst the microfinanciers, despite its premium valuations. We believe the company remains well-poised to deliver superior performance over the medium to long term. This will be supported by (a) Strong rural presence and strong rural focus, (b) Customer-centric approach, (c) Robust technology infrastructure, (d) Strong Risk Management Framework and (e) Adequate capitalization. Post a strong show in H1FY24, the management has revised its guidance upwards on a few operational parameters. We expect CAGrameen to continue delivering strong RoA/RoE of 5.5+/23-25% over the medium term. We maintain our BUY recommendation with a revised target price of Rs 1,935/share and value CAGrameen at 3.3x Sep'25E BV.
- **Key risks**: a) Moderation in GLP growth momentum, b) Inability to scale up new products and business in new geographies

Key Financials (Consolidated)

Y/E Mar	NII (Rs Cr)	PPOP (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	BV (Rs)	P/BV (x)	ROAA (%)	NNPA (%)
FY23	2,114	1,506	826	52.0	321.4	5.4	4.2	0.4
FY24E	3,034	2,251	1,412	88.9	410.3	4.2	5.7	0.4
FY25E	3,789	2,801	1,754	110.4	520.6	3.3	5.5	0.4
FY26E	4,682	3,412	2,089	131.5	652.1	2.6	5.3	0.4

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E MAR	FY23	FY24E	FY25E	FY26E
Net Interest Income	**2,114**	**3,034**	**3,789**	**4,682**
Other Income	224	267	299	330
Total Income	**2,338**	**3,300**	**4,087**	**5,012**
Total Operating Exp.	831	1,050	1,286	1,600
PPOP	**1,506**	**2,251**	**2,801**	**3,412**
Provisions & Contingencies	401	362	456	619
PBT	**1,105**	**1,888**	**2,345**	**2,793**
Provision for Tax	279	476	591	704
PAT	**826**	**1,412**	**1,754**	**2,089**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E MAR	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS				
Share capital	159	159	159	159
Reserves and Surplus	4,948	6,360	8,114	10,203
Shareholders' funds	**5,107**	**6,519**	**8,273**	**10,362**
Borrowings	16,312	21,040	26,228	32,412
Other Liabilities, provisions	439	507	635	788
Total liabilities	**21,858**	**28,066**	**35,136**	**43,562**
APPLICATION OF FUNDS				
Cash & Bank Balance	1,436	1,676	2,098	2,601
Investments	455	934	1,240	1,537
Goodwill	376	376	376	376
Advances	19,043	24,270	30,313	37,582
Fixed Assets & Other Assets	548	811	1,109	1,465
Total assets	**21,858**	**28,066**	**35,136**	**43,562**

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY23	FY24E	FY25E	FY26E
VALUATION RATIOS				
EPS	52.0	88.9	110.4	131.5
Earnings Growth (%)	*129.5*	*71.0*	*24.2*	*19.1*
BVPS	321.4	410.3	520.6	652.1
Adj. BVPS	315.8	403.4	512.2	642.1
ROAA (%)	4.2	5.7	5.5	5.3
ROAE (%)	18.2	24.3	23.7	22.4
P/E (x)	33.1	19.4	15.6	13.1
P/ABV (x)	5.4	4.2	3.3	2.6
PROFITABILITY				
NIM (%)	11.6	13.0	12.9	12.8
Cost-Assets Ratio	4.2	4.2	4.1	4.1
Cost-Income Ratio	35.6	31.8	31.5	31.9

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY23	FY24E	FY25E	FY26E
Loan Growth (%)	29.0	27.4	24.9	24.0
Borrowings Growth (%)	26.2	29.0	24.7	23.6
CRAR	23.6	21.9	21.0	20.6
Tier I	22.7	21.0	20.2	19.7
ASSET QUALITY				
Gross NPLs (%)	1.2	0.9	1.1	1.2
Net NPLs (%)	0.4	0.4	0.4	0.4
PCR	62.7	50.6	60.1	60.5
Credit costs	2.4	1.7	1.7	1.8

Source: Company, Axis Research

PNC INFRATECH LIMITED– ROBUST ORDER BOOK & DIVERSIFICATION TO DRIVE GROWTH

PNC Infratech Limited was incorporated on August 09, 1999, as PNC Construction Company Private Limited. It has played a crucial role in India's infrastructural growth, particularly in the Highway and Airport sectors. The company was converted into a limited company in 2001 and was renamed PNC Infratech limited in 2007. Over the past 20 years, PNC Infratech has emerged as one of the most efficient players across several infra-segments such as roads and highways, bridges, and airport runways. Today, it is one of the leading highway development, construction and management companies in the country.

Industry view

CMP
334

Target Price
415

Upside
24%

Key Rationale

- **Robust & Diversified Order Book:** As of Sept'23-end, PNCIL's order stands robust at Rs.17,800 Cr (2.5x of FY23 revenue) and comprises of road projects both EPC and HAM and also Water projects. The company's order book is comprised of road projects commanding 62% share and the balance 38% is contributed by water and other projects The order book gives revenue visibility for the next 2-3 years. We expect the company to deliver healthy revenue growth of 12% CAGR over FY23-25E. Further HAM asset monetization will release capital for future growth.
- **Established track record:** PNCIL is one of the leading EPC contractors in India having a demonstrated project execution experience of more than three decades. Leveraging this, it has efficiently and timely delivered complex and prestigious projects including highways, bridges, flyovers, power transmission lines, airport runways, and development of industrial areas, amongst other. Factoring in better order inflows, we expect the company to maintain its margin profile between 13%-14% over FY23-25E
- **Favourable Industry tailwind:** In the 2023-24 Union Budget, capital capex has been increased by 33% in the Road sector and by 27% in the JJM, thereby providing greater opportunities for companies like PNCIL. With a strong bid pipeline of over Rs 1,00,000 Cr, the management expects an order inflow of Rs8,000- Rs10,000 Cr in FY24. The company has already bid for projects worth Rs 11,000 Cr, including HAM & EPC.

Key Rationale

- **Outlook:** The Road sector is witnessing encouraging development owing to increased government thrust on infrastructure investment. Furthermore, diversification into Railways augurs well for the company implying lower dependence on road projects. The company reported good operating performance in Q2FY24 with Revenue/EBITDA/PAT growth of 8%/10%/7% which were broadly in line with estimates. Considering strong and diversified order book position, healthy bidding pipeline, new order inflows, emerging opportunities in the construction space, the company's efficient and timely execution and strong financial credence, we expect PNCIL to report Revenue/EBITDA/APAT CAGR of 12%/11%/12% respectively over FY23-FY25E...
- **Valuation:** Stock is currently trading at 12x and 11 x FY24E/FY25E EPS which is attractive. We recommend a BUY rating on the company and value the stock at 11x FY25 EPS and HAM portfolio at 1x book value to arrive at a target price of Rs 415/share, implying an upside potential of % from CMP.
- **Key risks:** a) Delay in getting Appointed date for new HAM projects; b) Lower Order inflow than expected c) Delay in HAM asset monetization.

Key Financials

Y/E Mar (Rs Cr)	NetSales (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change PER(x)	P/E (x)	ROE (%)	ROCE (%)	EV/EBIDTA (x)	DPS (Rs)
2022	6,306	448	17.5	18.0	19.0	14%	18%	10.6	0.0
2023	7,061	611	24.0	19.0	14.0	17%	20%	8.7	0.5
2024E	7.927	684	27.0	14.0	12.0	16%	20%	7.8	0.0
2025E	8.879	762	30.0	12.0	11.0	15%	19%	7.0	0.0

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY22	FY23	FY24E	FY25E
Net sales	**6,306**	**7,061**	**7,927**	**8,879**
Other operating inc.	0	0	0	0
Total income	6,306	7,061	7,927	8,879
Cost of goods sold	3,193	5,262	5,895	6,304
Contribution (%)	*49.4%*	*25.5%*	*25.6%*	*29.0%*
Operating Profit	2,325	845	974	1,394
Depreciation	**787**	**954**	**1,058**	**1,181**
Interest & Fin Chg.	54	38	36	44
E/o income / (Expense)	**841**	**992**	**1,095**	**1,225**
Pre-tax profit	130	110	103	130
Tax provision	80	64	74	80
(-) Minority Interests	**631**	**818**	**918**	**1,016**
Associates	184	207	233	254
Adjusted PAT	448	611	684	762

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY22	FY23	FY24E	FY25E
Total assets	**5,302**	**6,070**	**6,784**	**7,677**
Net Block	576	525	547	518
CWIP	14	9	9	9
Investments	0	0	0	0
Wkg. cap. (excl cash)	871	1035	1585	2035
Cash / Bank balance	1246	1991	1832	2051
Misc. Assets	528	373	323	361
	2068	2137	2487	2702
Capital employed				
Equity capital	**5,302**	**6,070**	**6,784**	**7,677**
Reserves	51	51	51	51
Pref. Share Capital	3289	3890	4575	5336
Minority Interests	0	0	0	0
Borrowings	216	450	450	450
Def tax Liabilities	1746	1679	1708	1839

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY22	FY23	FY24E	FY25E
PBT	631	818	918	1016
Depreciation	130	110	103	130
Interest Expense	42	64	74	80
Changes in Working Capital	-658	-935	169	-225
Others	117	6	-36	-44
Tax Paid	-175	-217	-233	-254
Net Cash from Operations	**88**	**(153)**	**994**	**702**
Capex	-75	-62	-125	-100
Investment	-154	-163	-750	-450
Others	103	112	36	44
Net Cash from Investing	**(126)**	**(114)**	**(839)**	**(506)**
Borrowings	48	-83	0	0
Interest Expense	-42	-64	-74	-80
Dividend paid	-13	-13	0	0
Others	-235	312	-131	-79
Net Cash from Financing	**(243)**	**153**	**(205)**	**(159)**
Net Change in Cash	**(281)**	**(114)**	**(50)**	**38**
Opening cash	688	407	293	243
Closing cash	**407**	**293**	**243**	**280**

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY22	FY23	FY24E	FY25E
Sales Growth	28%	12%	12%	12%
Ebitda Growth	17%	21%	11%	12%
PAT Growth	24%	37%	12%	11%
PROFITABILITY RATIOS				
EBITDA Margin	12.5%	13.5%	13.3%	13.3%
Adjusted net margin	7.1%	8.7%	8.6%	8.6%
EFFICIENCY RATIOS (x)				
Capital Turnover	1.89	1.79	1.71	1.65
Total Asset Turnover	1.49	1.52	1.48	1.44
Fixed Asset Turnover	11.0	13.4	14.5	17.2
Debtor days	74	99	80	80
Inventory days	32	46	40	40
Payable days	34	41	35	35
Cash Conversion Cycle (days)	72	104	85	85
Leverage ratios				
Debt to equity	0.13	0.06	0.05	0.04
Net debt to equity	-0.09	0.02	0.04	0.03
Interest coverage	10	15	14	15
PER SHARE DATA				
Diluted EPS (Rs)	17.5	23.8	26.7	29.7
Book value per share (Rs)	130	154	180	210
DPS (Rs)	0.5	0.5	0.0	0.0

Source: Company, Axis Research

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