
TOP PICKS

October 2023



Style and Sector Rotation is the Key

We are proud to share that our Axis Top Picks basket delivered impressive returns of 32% in the last one year, beating by a wide margin the 15% return posted by the benchmark Nifty 50 index over this period. Moreover, in Sep'23, the basket inched up further by 3.2%, marking an excellent outperformance of 1.2% over the Nifty 50 index which was up only 2% MoM. These results strengthen our confidence in our thematic approach to Top Picks selection.

The Indian market has outperformed the global and other emerging markets in the last six months by a notable margin and the structural trend for the Indian equity market continues to remain positive. The Benchmark index Nifty 50 touched a milestone of 20,192 on 15th Sep'23, which was led by (a) Positive sentiment during G-20 event, (b) Positive FII inflows in FY24 till date, (c) Robust economic prospects relative to other EM countries, (d) Strong earnings outlook, (e) Robust demand across sectors, (f) Much improved health of the banking sector, and (f) Positive expectations for the private investment cycle. Consequently, The benchmark index NIFTY 50 and the S&P 500 are up 15% and 20% respectively over the past year. On the other hand, the Emerging Market Index in the last one year grew at a relatively lower rate of 7.6%. The outperformance of the NIFTY 50 can be attributed to the country's robust economic outlook. While FIIs turned net sellers in the last one month and sold \$2.8 Bn in the Indian equity market, on an FYTD basis, they have added \$17 Bn in the Indian equity market.

In Sep'23, the broader markets of Midcap and Smallcap outperformed Largecaps by notable margins. Also, in the last one month, sector rotation was clearly visible in the market in which PSU banks, Energy, and commodity indices delivered the highest returns while the Media Index closed on a negative note. In Mar'23, 33% of the stocks were trading above the 200-day moving average, indicating that the market was in the oversold zone. However, the market has since recovered significantly, with 86% of the stocks now trading above the 200-day moving average, indicating it to be near the overbought zone. From here onwards, it is likely to see a style and sector rotation. With the strong catch-up by Midcaps and Smallcaps in the last couple of months, we believe that the margin of safety at current levels in certain pockets has reduced as compared to Largecaps. Keeping this in view, the broader market may see some *time* correction in the near term and flows will likely shift to

Largecaps. At current valuations and the prevailing scenario of higher bond yields, rising crude prices, and the stronger dollar index, Largecaps appear to provide more margin of safety than Midcaps and Smallcaps. Nonetheless, the long-term story of the broader Indian market continues to remain attractive.

Q2FY24 Preview: All Eyes on Margins and Festival Demand: Sep'23 is likely to be a mixed quarter in which the Indian economy has witnessed uneven rainfalls, which could impact domestic demand. However, the outlook for H2FY24 and the festival demand remains bright. Banks, NBFCs, Pharma, Capital goods, and Auto are likely to post strong earnings while pressure is expected in the Chemicals and Metals sectors. IT sector stands at an interesting inflexion and the management guidance remains critical. Post Q1FY24, we expect FY24/25 earnings at 928/1048 with growth expectations of 17%/13% respectively. We will review our estimates after the earnings season.

We believe that macroeconomic developments and Q2FY24 earnings will continue to drive the market direction moving forward. In the last couple of months, strong recovery was seen in the broader market after the bottom seen in Mar'23, thanks to improved sentiments at the macro level. Interestingly, most of the FY24 returns are front-loaded this year and for the remaining part of FY24, 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. 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' (Large caps) 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 one change to our Top Picks recommendations. This includes booking profit in Praj Industries and adding Bank of Baroda (PSU banking play). Our modifications reflect the changing market style and shift towards superior-quality and Largecap stocks.

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) Direction of Oil, b) The Dollar Index, c) US Bond yields, d) The RBI MPC, e) Festival demand in rural and urban areas. Currently market is building for one rate hike by the FOMC this year in the Nov'23 meeting, and that is reflected in the US bond yields in the last couple of weeks. For the near term, FII flows are likely to remain volatile and influenced by the direction of bond yields, the dollar index, and the oil prices. In the longer run, India will continue to attract FII flows as the Indian 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 likely to be the winner in the near term: 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.

Strategy for the investors: We are currently in the middle of the Bull run and the overall trend for the broader market remains attractive. Nifty is currently trading ~18.4x on 1-year forward Price to Earnings (1stdev to long-term average) and trading slightly above the mean on Price to Book. Current valuations are slightly lower to a 5-year average (18.8x), providing a good entry point for long-term investors. Interesting to note that, most of the FY24 returns are front-loaded this year and hence we believe that the style and sector rotation will play a critical role in alpha generation for the remaining part of FY24. Against this backdrop, we recommend staying invested in the market and sticking to high-quality stocks in the portfolio where the earnings visibility is high while executing a well-defined exit strategy to clean low-quality stocks from the portfolio once their targeted returns are achieved.

We Maintain Dec'23 NIFTY Target to 20,200

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. Strong earnings trajectory continues in the NIFTY 50 universe. We foresee NIFTY EPS to post growth of 17%/13% in FY24/25. Post Q1FY24, we have made marginal upgrades of 0.9%/0.8% to our FY24/25 EPS expectations. **Thus, we maintain our Dec'23 Nifty target at 20,200 by valuing it at 20x Dec'24 earnings.** 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'23 target of 22,200. 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 rate hike cycle and may expect only one rate hike in the US market before the US Federal Reserve takes a pause. 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. This, in turn, would increase the market multiple.

Bear Case: In the bear case, we value NIFTY at 18x, which translates into a Dec'23 target of 18,200. We assume the Russia-Ukraine war to prolong which would continue to pose inflationary pressure on the developed world. Currently, we are near the peak of the rate hike cycle and may expect one rate hike in the US market before the US FED takes a pause. The market has not seen such levels of interest rate hike in the recent past and hence, 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, Ashok Leyland, PNC infra, ITC, Relaxo, CIE Automotive India, Bank of Baroda, CCL Products (India), CreditAccessGrameen, JTL Industries and Kirloskar Brothers Ltd

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INVEST IN ONE CLICK

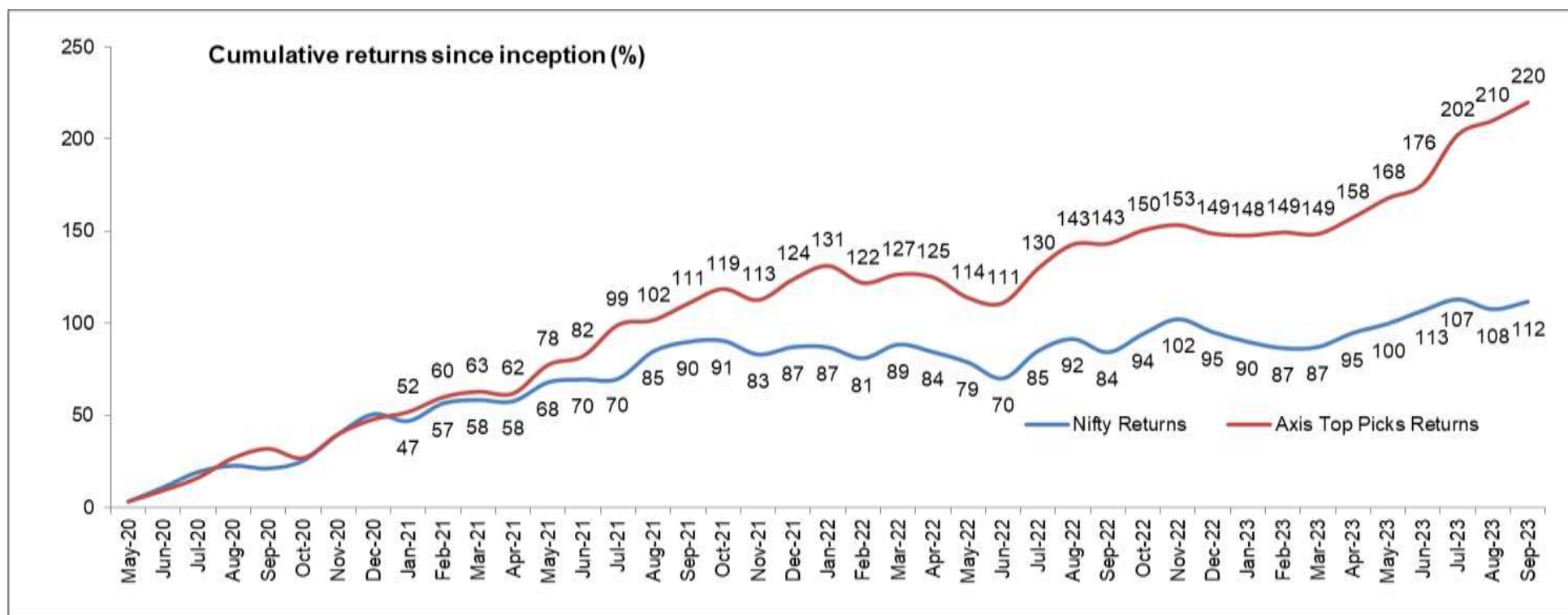
Axis Securities Top Picks

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	952	1,250	31%	18.1	2.6	0.8	-0.7	2.7	9.4	7.7
Large Cap	Maruti Suzuki India Ltd	Consumer Discretionary	10,611	11,800	11%	28.9	4.7	0.8	6.1	9.4	29.2	27.6
Large Cap	State Bank of India	Financials	599	715	19%	9.0	1.4	1.9	6.6	4.5	16.5	-0.6
Large Cap	Varun Beverages Ltd	Consumer Staples	946	1,050	11%	61.9	17.9	0.1	5.1	18.0	36.7	43.3
Large Cap	Bank of Baroda Ltd	Financials	214	255	19%	6.2	1.0	2.6	14.3	12.4	30.4	18.5
Large Cap	ITC Ltd	Consumer Staples	444	540	22%	26.1	7.7	2.9	1.1	-1.6	18.3	39.0
Mid Cap	Lupin Ltd	Health Care	1,171	1,290	10%	37.9	3.9	0.3	6.7	30.3	81.4	60.3
Mid Cap	Federal Bank Ltd	Financials	147	165	12%	9.0	1.3	0.7	2.3	17.6	12.1	6.7
Mid Cap	Ashok Leyland Ltd	Industrials	177	210	19%	24.9	5.6	1.5	-3.7	7.4	29.2	25.4
Mid Cap	Relaxo Footwears Ltd	Consumer Discretionary	901	1,050	17%	85.8	10.9	0.3	-4.7	-0.7	6.1	-0.8
Small Cap	Kirloskar Brothers Ltd	Industrials	839	975	16%	20.5	4.1	0.5	-1.2	38.3	105.8	160.5
Small Cap	JTL Industries Ltd	Materials	230	265	15%	26.9	7.1	0.0	13.0	28.7	44.1	48.8
Small Cap	CIE Automotive India Ltd	Consumer Discretionary	481	585	22%	19.9	3.1	0.5	-8.0	-6.7	37.8	40.5
Small Cap	CCL Products (India) Ltd	Consumer Staples	646	750	16%	28.4	5.0	0.9	6.6	-2.4	14.2	23.1
Small Cap	CreditAccess Grameen Ltd	Financials	1,316	1,600	22%	16.4	3.3	NA	-7.1	5.4	43.7	43.7
Small Cap	PNC Infratech Ltd	Industrials	366	425	16%	14.4	2.0	0.1	10.3	11.7	26.7	26.9

Source: Company, Axis Securities, CMP as on 29th Sep 2023

Top Picks Performance

Axis Top Picks Performance						
	1M	2M	3M	6M	1Y	Since Inception (May 20)
Axis Top Picks Returns	3.2%	5.8%	16.1%	28.7%	31.5%	220.0%
Nifty Returns	2.0%	-0.58%	2.3%	13.1%	14.9%	111.8%
Alpha	1.2%	6.4%	13.8%	15.6%	16.6%	108.2%



Note: Equal weight basket Performance as of 29th Sep 2023

Sector Outlook

Sector	Current View	Outlook
Automobiles	Over Weight	<p>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 but 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, and positive operating leverage. We maintain our positive outlook on the sector as demand drivers remain intact. Demand momentum in the CV segment is likely to sustain, driven by the pick-up in economic activities and the government's keen focus on infrastructure development. 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.</p>
Banking and Financial services	Over Weight	<p>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. While FY24 has started on a good note, sustenance of the momentum is a key monitorable. Despite the seasonal weakness generally seen in Q1, most Banks under our coverage reported healthy credit growth, driven by the Retail/SME segment. Managements have also been upbeat about the growth momentum sustaining moving ahead. Moreover, 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.</p> <p>We believe the growth momentum to remain healthy as pick-up visible in the Retail and SME lending seems sustainable. Furthermore, the asset quality pain being largely behind (barring certain segments) and the restructured book behaving fairly well, a ramp-up in credit growth and the ability to maintain margins in an increasing interest rate environment is likely to drive valuations for Banks/NBFCs moving forward. Hence we maintain an overweight stance on the sector.</p>
Capital Goods	Equal Weight	<p>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 Q4FY23/Q1FY24, the domestic revenue of capital goods companies showed impressive growth on a YoY basis led by strong execution and a healthy order book.</p> <p>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.</p>

Sector Outlook (Cont'd)

Sector	Current View	Outlook
Cement	Equal Weight	In Q1FY24, the cement volume of our coverage universe grew by 19%, which was driven by better demand from both trade and non-trade segments. We expect volume growth of 14% for our coverage universe in FY24. Cement demand remains robust on account of 1) Higher government spending on Infra, housing, and Residential, 2) Higher demand for commercial real estate, 3) Rural demand expected to recover, and 4) Lower cost of construction. Higher cost of power/fuel remained the key concern for cement companies in FY23 as they could not pass on cost inflation. However, with softening prices of pet coke and imported coal by over 40-60% in the last six months, the benefit of lower fuel prices has started to flow in from Q1FY24 though the full impact of the same would be reflected in Q3/Q4FY24. We remain positive on the sector as demand drivers are 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 Q1FY24, Most FMCG companies highlighted sustained signs of rural recovery, thus driving volume growth. Full rural recovery will take a few more months. Companies have highlighted that volume growth is likely to pick up gradually. On the gross margins front, most companies have delivered sequential recovery as key raw material prices – crude, packing, and palm remained stable. On a YoY basis, the recovery is underway and we expect further recovery in the upcoming quarters as raw material prices have now stabilized. Nonetheless, we believe the full-fledged recovery is still away and would depend on the further progress of the monsoon this year. However, good proceeds from the Rabi harvest, low base, and the government's focus on rural growth are expected to translate into rural recovery in the near term. 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 demand front as well as on the margins front 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	<p>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.</p> <p>Furthermore, we expect profitability to recover in FY24 on account of the pick-up in the volume of the 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.</p>
Oil & Gas	Equal Weight	<p>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.</p>
Pharmaceuticals	Equal Weight	<p>In Q1FY24, the Pharma Coverage universe posted robust revenue growth of 20.5%/6.1% YoY/QoQ on account of volume ramp-up, new launches (especially Revlimid), and stabilizing pricing pressure in the US base business. Furthermore, the US price erosion is stabilizing due to drug shortages which are at an all-time high. We expect low double-digit domestic growth in FY24. Moreover, we expect growth in the US market to remain robust, thanks to a) The normalization of prices in the base business, b) The continued ramp-up of gRevlimid, and c) New product launches. However, USFDA inspections remain an overhang and price erosion in the US is expected to increase once supplies normalize. 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.</p>

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, 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. We recommend an Over Weight stance on the sector.

Mid-Year Scorecard

- The broader market has emerged as the best-performing asset class on a YTD basis
- 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

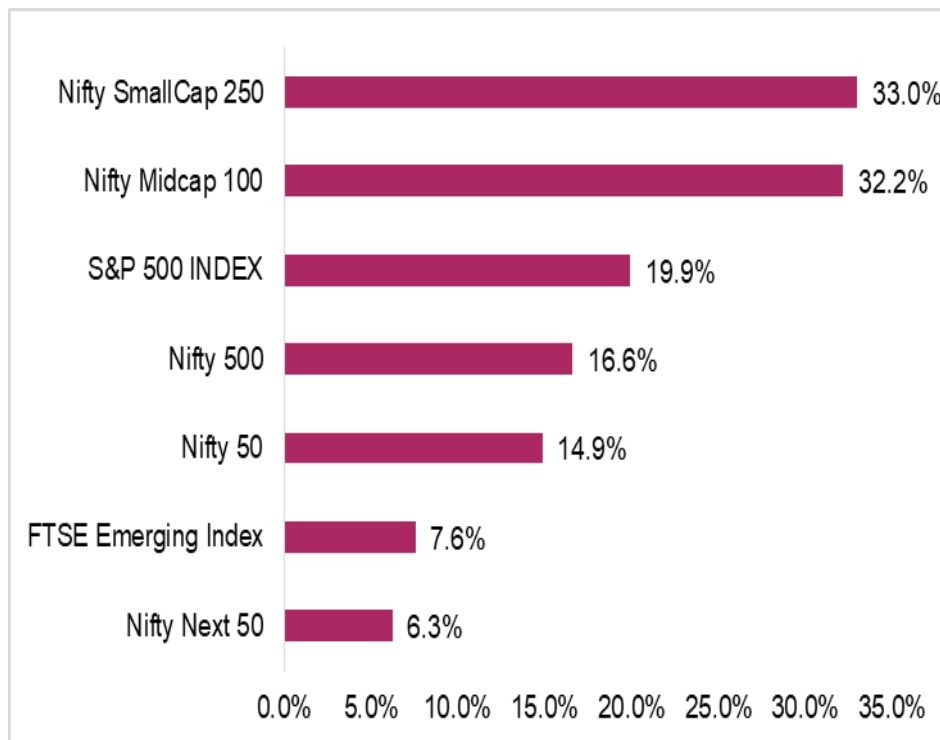
Rank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD (Jan-Aug'23)
1	MCX Gold: 32%	Mid Cap: 39%	S&P 500: 30%	Mid Cap: 56%	Crisil comp Bond: 9%	Crisil comp Bond: 13%	SmallCap : 57%	MCX Gold: 8%	S&P 500: 29%	MCX Gold: 28%	SmallCap : 59%	MCX Gold: 14.3%	SmallCap: 31.0%
2	Crisil comp Bond: 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: 28.6%
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: 12.8%
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%	Nifty 50: 8.5%
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%	Crisil comp Bond: 6.1%
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%	MCX Gold: 4.6%
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: -0.3%

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

Market Overview Over The Last One Year!

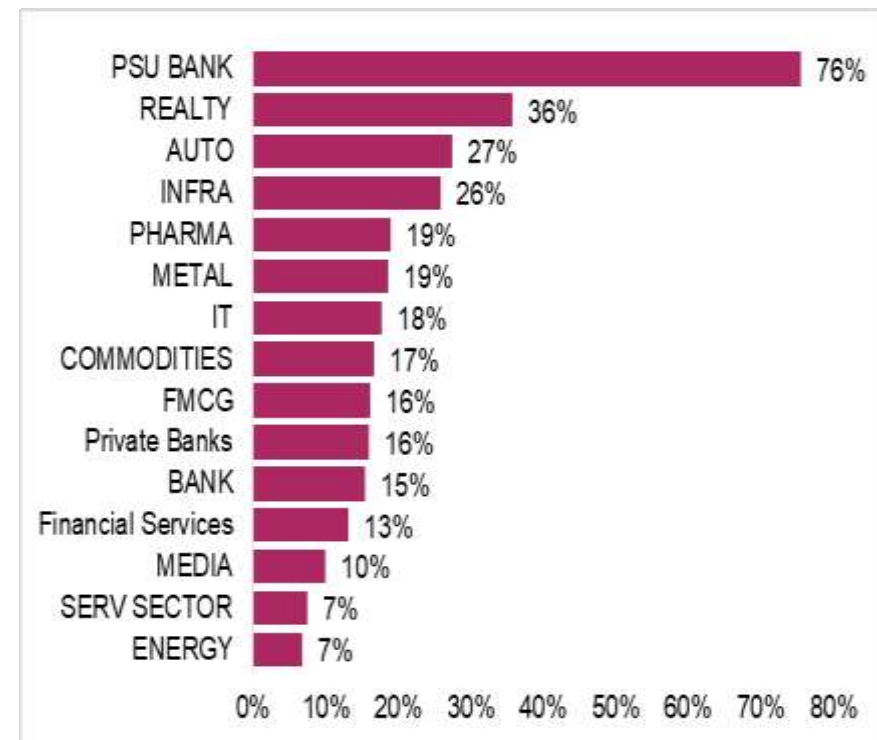
- Small and Midcaps have been the winners in the last one year with growth of 33%/32% YoY respectively
- Over the past year, the benchmark index NIFTY 50 and the S&P 500 increased by 16.8% and 18.1%, respectively. On the other hand, the Emerging Market Index marginally went up by 7.7%. This outperformance was on account of the country's robust economic outlook.
- In addition, 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, PSU Banks, Realty, Auto, Infra and Metal indices have closed positively over the past year, while Energy, services, and media indices have closed weaker over the same period.

Benchmark Returns in the Last One Year



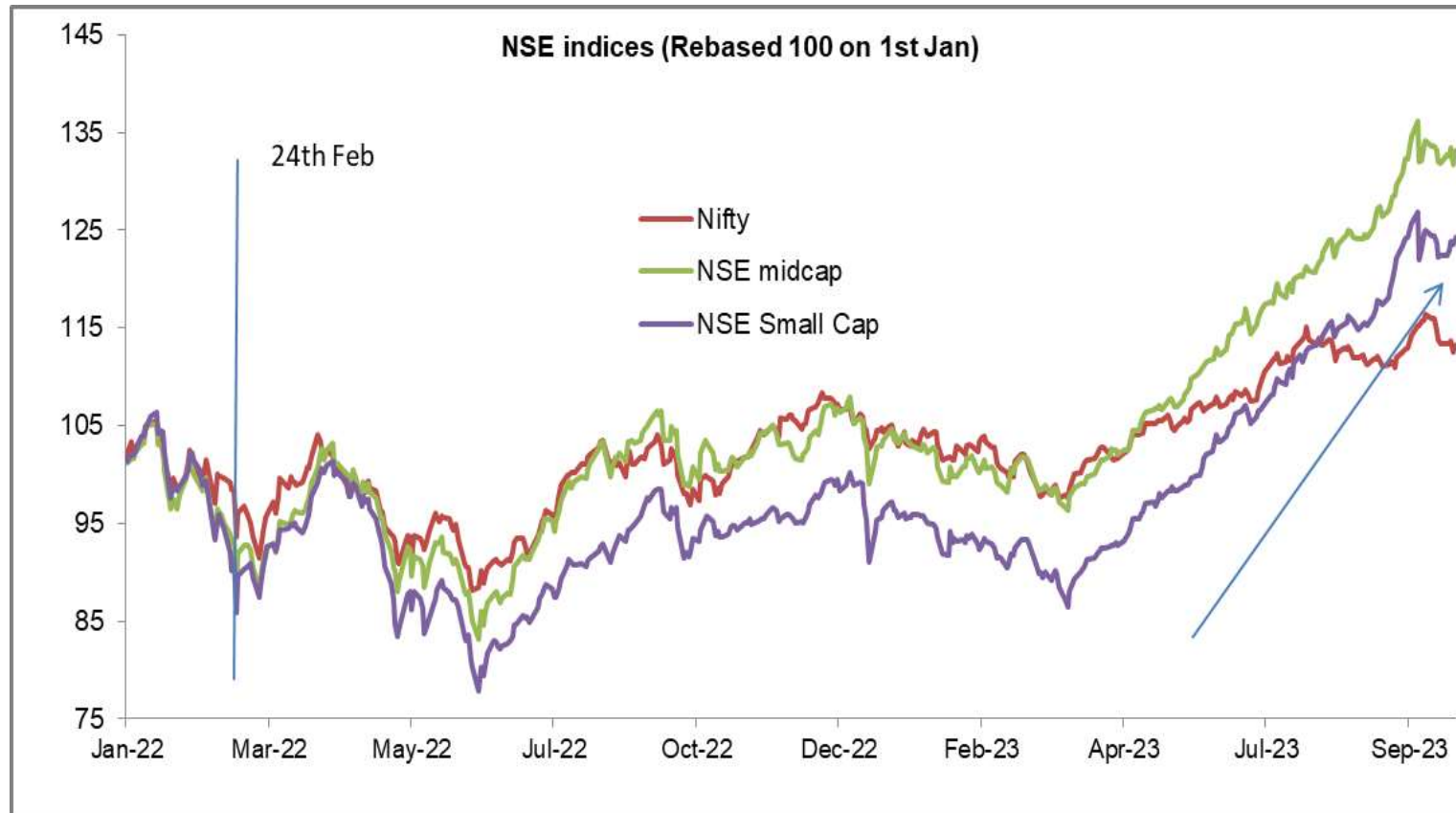
Source: Bloomberg, Axis Securities, Performance as of 29th September'23

Sector-Wise Returns in the Last One Year



All Three Indices Moving in tandem (Strong Recovery Seen in the Last 3 Months)

- 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 39% return since the Mar'23 low.



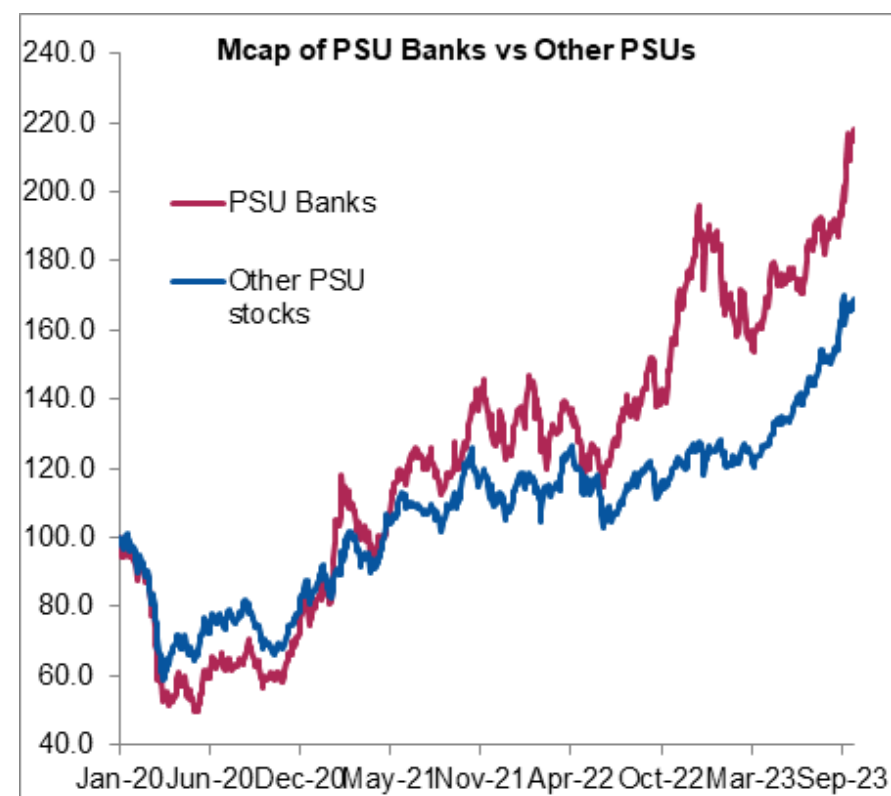
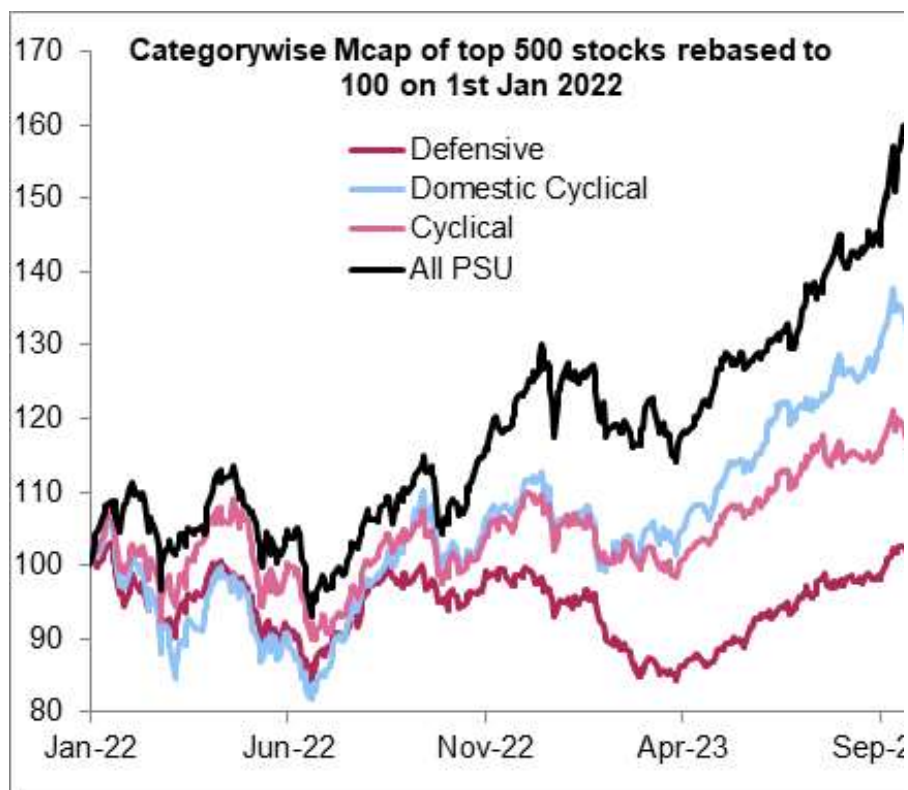
Returns since 31st Mar'23

- **Nifty 50:** 13%
- **NSE Mid Cap 100:** 35%
- **NSE Small Cap 250:** 39%

Source: Bloomberg, Axis Securities

PSUs and Domestic Cyclicals Holding the Performance

- Since Jan'22, PSU stocks have outperformed other themes (Defensive, Cyclical, and Interest-rate sensitive).
- PSU banks have recovered in the last three months after the correction in Feb/Mar'23, but are still below the Dec'22 levels
- Other PSU stocks are also contributing to the rally



Source: Bloomberg, Axis Securities

Quarterly Scorecard

Mar'22: Energy, Metals, and commodities have been the biggest winners on account of the Russia-Ukraine War, while IT has been the biggest underperformer.

Jun'22: Export-oriented themes lost momentum. IT, Metals, and Commodities were the biggest losers while domestic themes such as Automobiles, FMCG, and Banks outperformed the market.

Sep'22: Strong recovery was seen in the market, led by robust economic momentum

Dec'22: Some consolidation in the market was witnessed; PSU banks and Financials outperformed the market

Mar'23: Was hit by macroeconomic volatility, only 25% of the sectors outperformed the market. Outperformance seen in FMCG, Auto, and the IT index

Jun'23: Strong recovery in the market, 63% of the sectors outperformed the market. Strong rally in Realty, Auto, FMCG, and Infra indices

Sep'23: Strong rally in the broader market, 69% of the sectors outperformed the market. Muted performance was observed in the BFSI and the FMCG Index

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
% of sectors outperformed the market	56%	50%	75%	38%	25%	63%	69%
Nifty 50	1%	-10%	8%	6%	-4%	11%	2%
Nifty Next 50	-3%	-11%	16%	0%	-10%	16%	3%
Nifty 500	-1%	-10%	11%	4%	-6%	13%	5%
Nifty Midcap 100	-2%	-11%	16%	3%	-5%	19%	13%
Nifty SmallCap 250	-4%	-14%	14%	3%	-7%	20%	16%
AUTO	-4%	11%	9%	-1%	-3%	24%	7%
BANK	3%	-8%	16%	11%	-6%	10%	0%
COMMODITIES	7%	-16%	11%	7%	-7%	9%	8%
Financial Services	-1%	-10%	13%	8%	-5%	11%	-1%
ENERGY	14%	-3%	2%	1%	-12%	8%	11%
FMCG	-3%	4%	18%	-1%	4%	14%	-1%
IT	-6%	-23%	-3%	6%	0%	3%	8%
INFRA	1%	-8%	7%	6%	-3%	13%	9%
MEDIA	7%	-20%	9%	-3%	-15%	3%	30%
METAL	16%	-27%	24%	17%	-18%	13%	10%
PHARMA	-4%	-10%	7%	-3%	-5%	15%	12%
PSU BANK	8%	-11%	23%	44%	-14%	11%	28%
Private Banks	2%	-9%	19%	10%	-6%	11%	1%
REALTY	-4%	-17%	10%	2%	-10%	34%	11%
SERV SECTOR	-1%	-12%	10%	6%	-7%	8%	1%
BSE Utility	16%	-1%	15%	-7%	-22%	10%	20%

Source: Bloomberg, Axis Securities, Note: Outperforming sectors (vs. Nifty during the quarter) highlighted in green for the quarter

52W-High Analysis

- 107 stocks are now trading at all-time high levels.
- 323 (65%) stocks are trading between 5%-20% below their 52W highs
- The broader market looks attractive at current levels
- Only 30 stocks are trading below 30% to respective 52-week high
- Almost 18 PSU stocks are trading near their 52W high

Sector	Current Level of Number of Stocks as Compared to 52W High				
	No of Stocks	Near to 52W high	5%-20% below 52W high	20%-30% below 52W high	Below 30%
Agri & Chem	42	3	22	12	4
Auto & Anc	36	9	27	0	0
Banks	28	13	13	0	2
Build Mate	34	7	24	3	0
Discretionary	54	7	33	8	6
Healthcare	43	13	26	2	2
Industrials	40	6	31	2	0
IT	36	4	28	1	3
Metals & min	16	6	9	0	1
NBFC	50	13	35	2	0
Oil & gas	14	4	8	1	1
Others	49	7	32	6	4
Staples	26	7	16	2	1
Tele & Media	12	3	8	0	1
Transport	8	0	5	0	3
Utilities	13	5	6	0	2
Total	501	107	323	39	30
Large cap	100	31	58	4	7
Mid cap	150	45	83	11	8
Small cap	250	31	181	24	13
PSUs	55	18	28	1	0

Source: Bloomberg, Axis Securities, Performance as of 29th Sep'23

NSE200 Top Gainers & Losers (Last 1 Month)

Top Gainers	Last Price	% 1M Chg	Top Losers	Last Price	% 1M Chg
I R F C	77	54.6%	NavinFluo.Intl.	3,767	-18.6%
Vodafone Idea	12	30.9%	AdaniWilmar	337	-8.9%
Coal India	295	28.4%	Gujarat Gas	423	-7.8%
Punjab Natl.Bank	80	27.4%	Poonawalla Fin	380	-7.4%
Bank of India	109	26.7%	P I Industries	3,453	-6.8%
Union Bank (I)	106	23.2%	Adani Total Gas	613	-6.6%
NMDC	148	20.5%	Vedanta	223	-6.1%
JSW Energy	437	19.4%	Ashok Leyland	177	-5.9%
REC Ltd	287	17.6%	PidiliteInds.	2,440	-5.5%
DalmiaBharatLtd	2,404	17.0%	Godrej Propert.	1,554	-5.5%

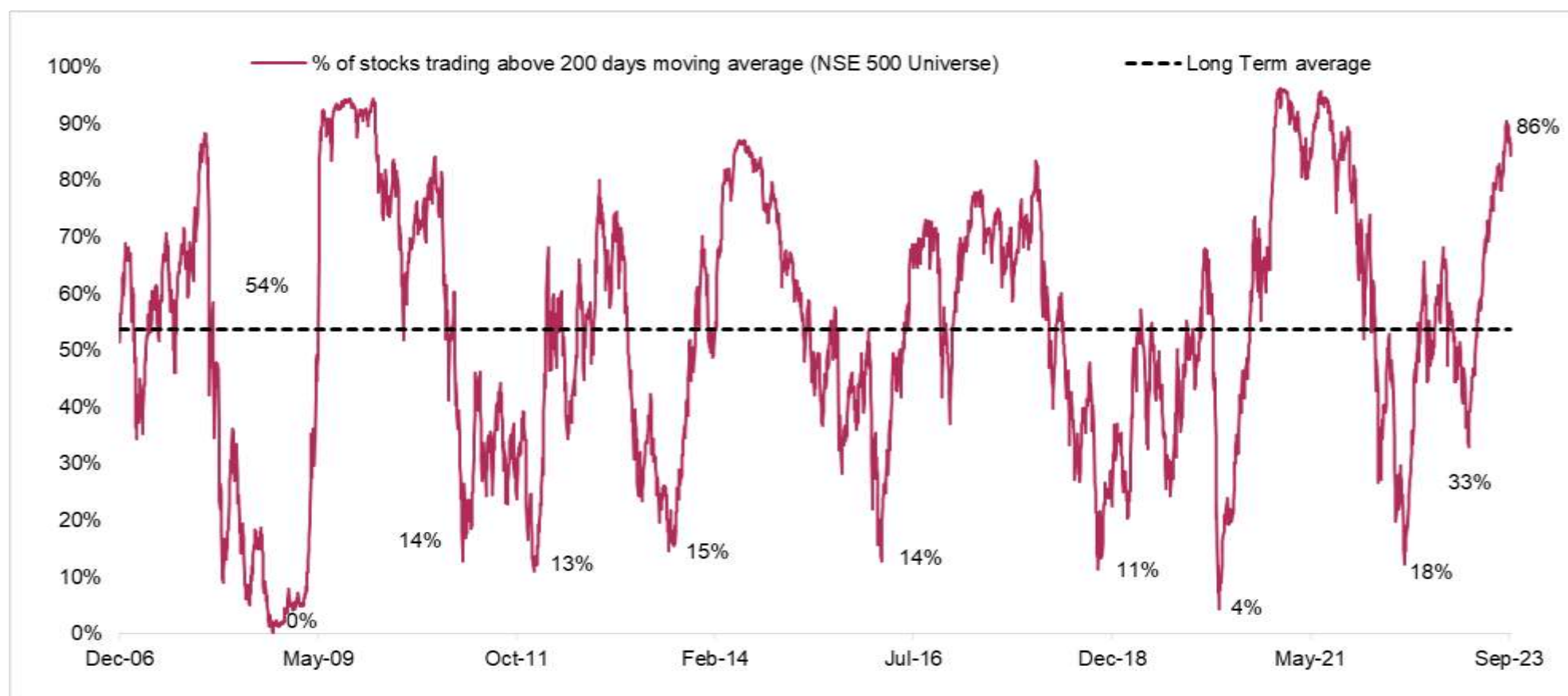
NSE200 Top Gainers & Losers (Last 3 Months)

Top Gainers	Last Price	% 3M Chg	Top Losers	Last Price	% 3M Chg
I R F C	77	134.5%	Vedanta	223	-20.5%
REC Ltd	287	72.4%	Adani Wilmar	337	-18.5%
JSW Energy	437	61.0%	NavinFluo.Intl.	3,767	-16.0%
Punjab Natl.Bank	80	59.1%	Cummins India	1,696	-11.2%
Gland Pharma	1,675	57.3%	P I Industries	3,453	-10.9%
Vodafone Idea	12	56.4%	Apollo Tyres	369	-9.9%
B H E L	131	54.0%	Gujarat Gas	423	-9.5%
Indian Bank	424	52.2%	UPL	616	-9.4%
Bank of India	109	51.6%	InterglobeAviat	2,381	-9.2%
Union Bank (I)	106	50.4%	Britannia Inds.	4,537	-9.1%

Source: Bloomberg, Axis Securities

NSE 500 Universe (200-Day Moving Average)

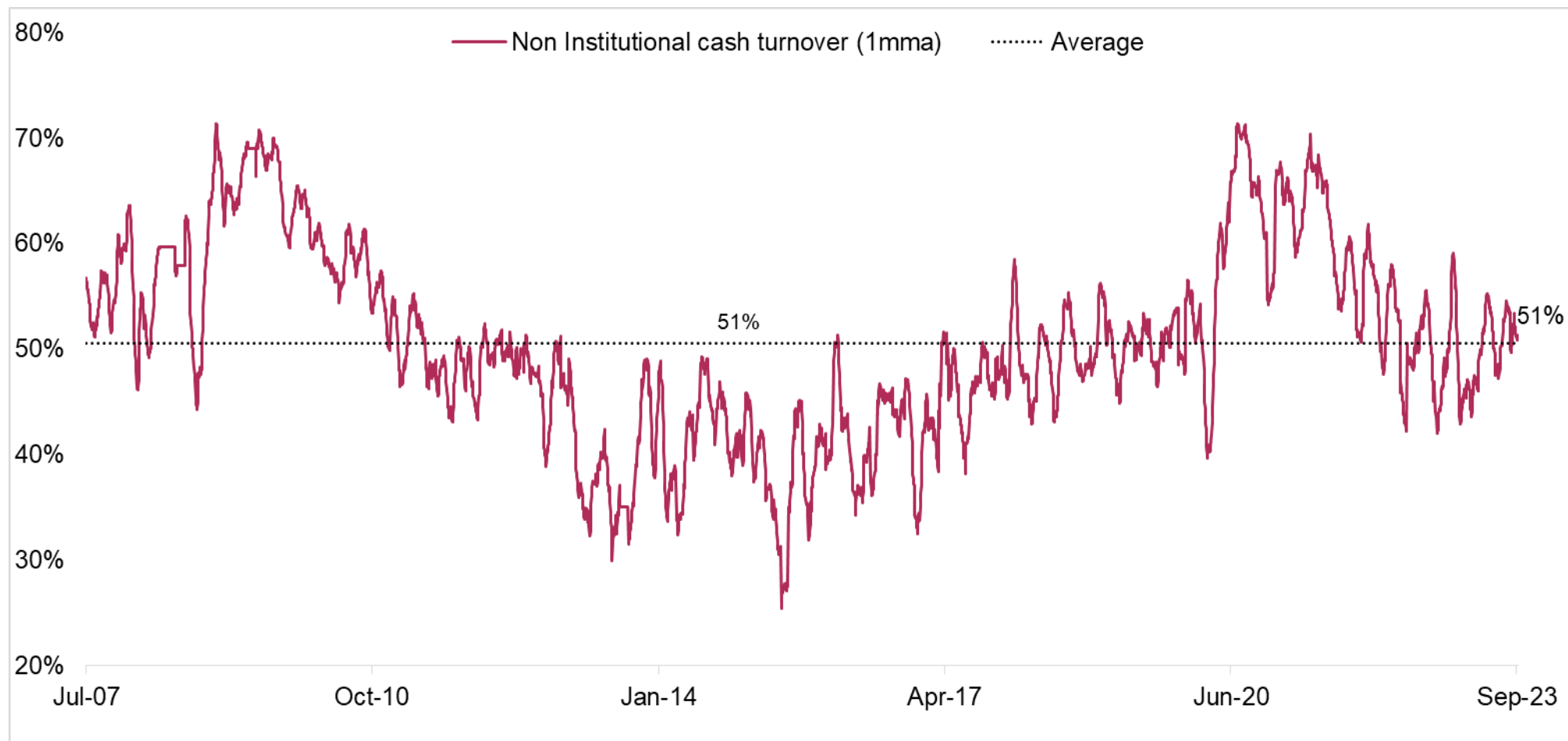
After a volatile Feb'23 and Mar'23, the market recovered in the last three to four months. This was led by improvements in macroeconomic conditions. In Mar'23, 33% of the stocks were trading above the 200-day moving average, indicating that the market was in the oversold zone. Since then, the market has witnessed a sharp recovery and currently, 86% of the stocks are trading above the 200 DMA, indicating that the market is near to the overbought zone. However, 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 is likely to be visible in the market moving forward.**



Source: Bloomberg, Axis Securities

Non-Institutional Turnover Recovered in the Last One Month

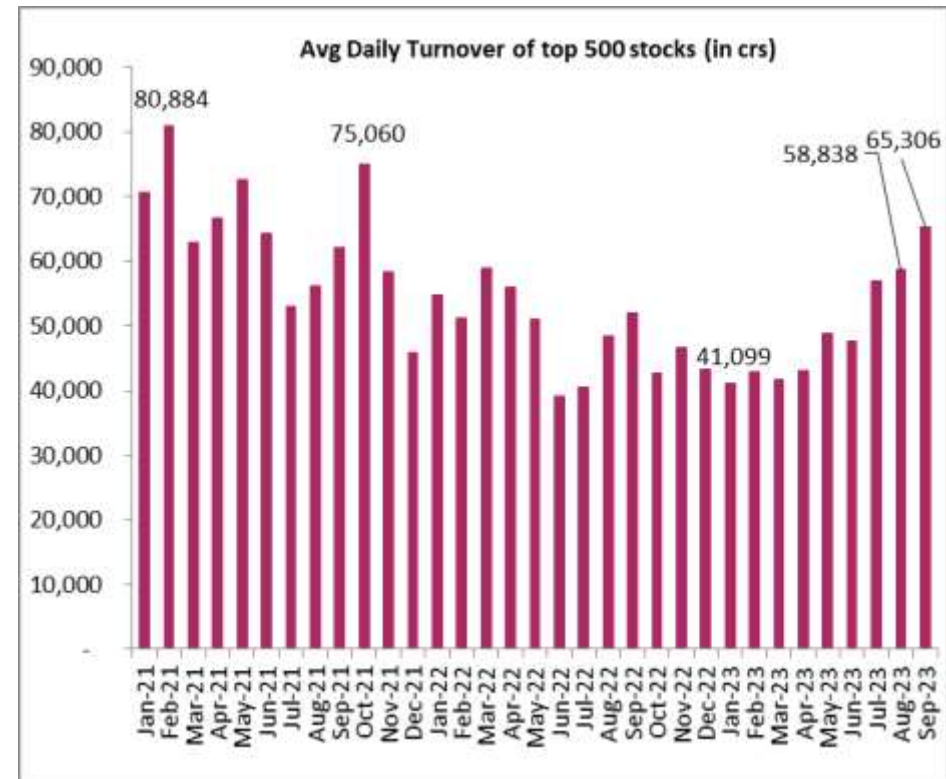
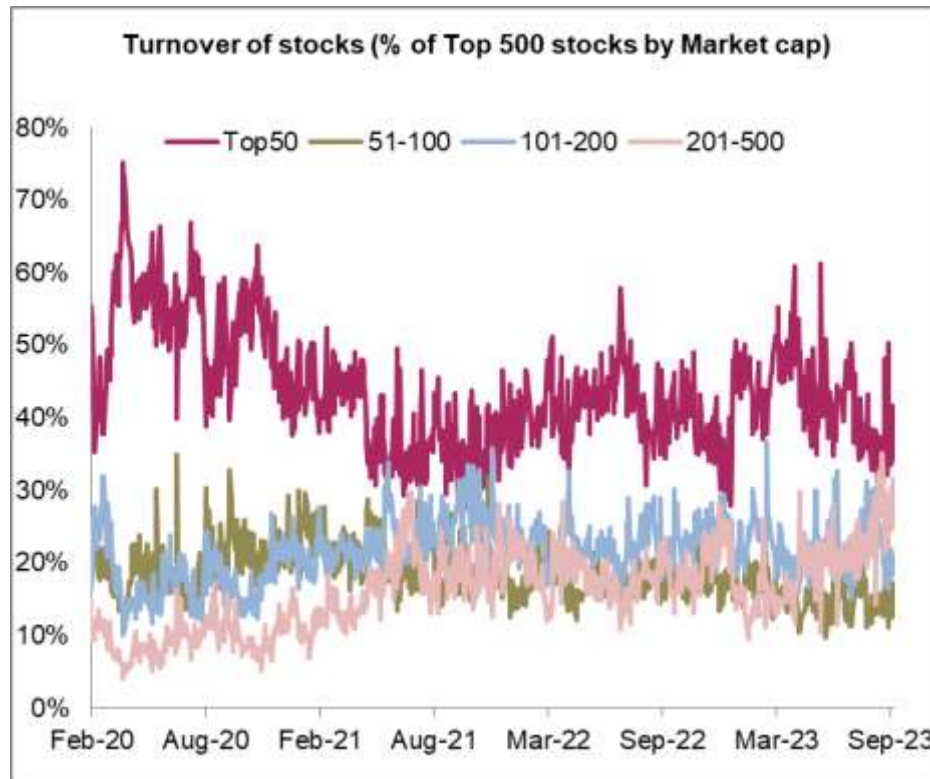
Non-Institutional (Retail) turnover is currently at 51%, which is incidentally higher than its long-term average of 51%. While it had fallen below the LTA in Feb/Mar'23 due to volatility in the domestic market, some recovery has been observed in the last two months. Retail investor participation is expected to improve further in the coming months, as equities are the only asset class that can beat the current inflationary scenario.



Source: Bloomberg, Axis Securities

Market Turnover (% of the Top 500 Names)

- Market turnover went up to ~63,300 Cr in Sep'23, led by improved sentiments in the broader market and domestic buying
- Market turnover has slightly shifted towards a broader market over the last two months

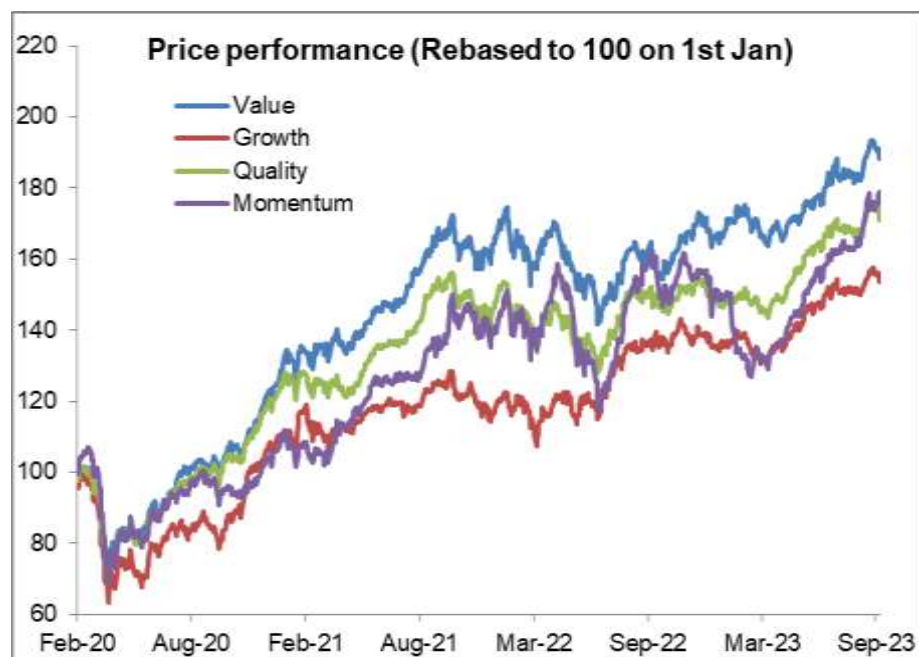


Source: Bloomberg, Axis Securities

Style Indicators

Quality & Momentum Themes Rebounded Sharply in Last Six Months

- In the last one year, the Value theme delivered the highest returns, while Quality and Momentum themes were the dominating themes over the last six months.
- 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.



Source: Bloomberg, Axis Securities

Perf	Performance (%)			
	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	3.9%	2.2%	2.4%	7.6%
3m	5.4%	2.7%	3.0%	13.1%
6m	13.0%	14.7%	17.0%	34.3%
1YR	21.6%	11.4%	16.6%	18.7%
2YR	14.5%	23.7%	13.3%	31.8%

India's Performance vis-à-vis Peers

Indian Market Bounced Back Sharply From the Mar'23 Low

On 15th Sep'23, NIFTY made an all-time closing high of 20192 as compared to the earlier high of 18758 it made on 30th Nov'22. Since 30th Nov'22, Midcap and Smallcap indices are up 27%/26% respectively.

In Feb'23, recovery was seen only in the FMCG index. In Mar'23, indices of Energy, Commodities, Metals, and Pharma were in green. However, in the last three months, all sector indices have been in green except the Financial Services index. In the last one month, PSU banks, Energy, Infra, and commodities have given the highest returns while weakness was seen in the Media index.

On a YTD basis, FMCG, Realty, Infra, and Auto were the biggest outperformers while Metals, Energy, and Services were the 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 Cyclical (Cement).

National Index						
Index Performance (%)	1m	3m	6m	30th Nov'22	YTD	1 YR
Nifty 50	2.0%	2.3%	13.1%	4.7%	8.5%	14.9%
Nifty Next 50	1.4%	2.9%	19.2%	3.1%	6.8%	6.3%
Nifty 500	2.2%	5.3%	18.8%	8.4%	11.9%	16.6%
Nifty Midcap 100	3.6%	13.4%	35.0%	26.5%	28.7%	32.2%
Nifty SmallCap 250	2.5%	16.0%	39.2%	26.7%	29.0%	33.0%
Sector Index (%)	1m	3m	6m	30th Nov'22	YTD	1 YR
NIFTY AUTO	3.3%	6.8%	32.2%	22.3%	28.3%	27.4%
NIFTY BANK	1.4%	-0.4%	9.8%	3.1%	3.7%	15.4%
NIFTY COMMODITIES	4.2%	7.5%	16.8%	6.6%	9.1%	16.6%
Nifty Financial Services	1.1%	-1.2%	9.7%	2.3%	4.4%	13.2%
NIFTY ENERGY	6.2%	10.6%	19.8%	-0.1%	5.6%	6.8%
NIFTY FMCG	1.0%	-1.1%	12.4%	13.3%	16.8%	16.2%
NIFTY IT	2.0%	7.5%	10.8%	4.6%	11.1%	17.8%
NIFTY INFRA	5.0%	8.8%	22.6%	14.6%	18.9%	25.9%
NIFTY MEDIA	-1.1%	30.1%	33.4%	7.2%	13.9%	10.0%
NIFTY METAL	2.7%	10.1%	24.4%	4.2%	1.7%	18.6%
NIFTY PHARMA	2.2%	12.0%	28.3%	17.3%	22.4%	18.9%
NIFTY PSU BANK	17.7%	27.9%	41.5%	31.4%	21.8%	75.6%
Nifty Private Banks	0.8%	0.8%	12.0%	4.9%	5.7%	15.9%
NIFTY REALTY	3.1%	10.7%	48.6%	27.9%	33.3%	35.8%
NIFTY SERV SECTOR	1.7%	1.0%	9.1%	-2.2%	1.1%	7.5%

International Index						
Index Performance (%)	1m	3m	6m	30th Nov'22	YTD	1 YR
Shanghai Comp	-0.3%	-2.9%	-5.0%	-1.3%	0.7%	2.8%
Bovespa	0.7%	-1.3%	14.4%	3.6%	6.2%	5.9%
Russia	-4.9%	2.5%	1.1%	-10.4%	3.8%	-4.6%
south africa	-4.0%	-5.9%	-5.7%	-3.0%	-0.7%	15.9%
Korea	-3.6%	-3.9%	-0.5%	-0.3%	10.2%	14.4%
Mexico	-4.4%	-5.5%	-6.3%	-1.2%	5.6%	14.3%
Indonesia	-0.2%	4.2%	2.0%	-2.0%	1.3%	-1.4%
Argentina	-13.9%	32.0%	129.0%	233.8%	178.4%	304.4%
Japan	-2.3%	-4.0%	13.6%	13.9%	22.1%	22.8%
Hongkong	-3.1%	-5.9%	-12.7%	-4.2%	-10.0%	3.4%
Philippines	2.4%	-2.3%	-2.7%	-6.8%	-3.7%	10.1%
Taiwan	-1.7%	-3.3%	3.1%	9.9%	15.7%	21.8%
Singapore	-0.5%	0.4%	-1.3%	-2.2%	-1.0%	2.8%
Thailand	-6.0%	-2.1%	-8.6%	-10.0%	-11.8%	-7.4%
Veitnam	-5.7%	3.0%	8.4%	10.1%	14.6%	1.9%
Dow	-3.5%	-2.6%	0.7%	-3.1%	1.1%	16.6%
Nasdaq	-5.8%	-4.1%	8.2%	15.3%	26.3%	25.0%
FTSE 100 INDEX	2.3%	1.0%	-0.3%	0.5%	2.1%	10.4%
DAX INDEX	-3.5%	-4.7%	-1.6%	6.9%	10.5%	27.0%
CAC 40 INDEX	-2.5%	-3.6%	-2.6%	5.9%	10.2%	23.8%
S&P 500 Index	-4.9%	-3.6%	4.3%	5.1%	11.7%	19.6%

Source: Bloomberg, Axis Securities, Performance as of 29th Sep'23

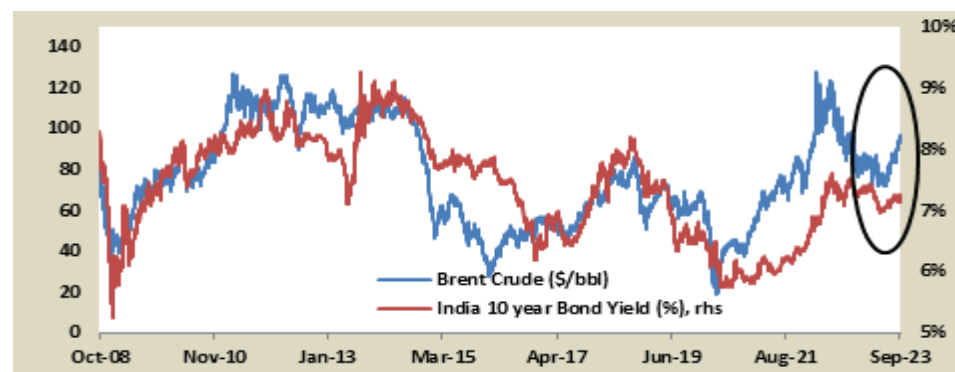
Cool-Off Seen in All Major Commodities

- **Precious Metals:** Gold prices went down by 5% in the last 6 months on account of rising yields in the US market.
- **Commodities:** Steel prices have corrected by 16% over the last 6 months. Copper prices, too, have corrected by 9% over the same period on account of expectations of a slowdown in global growth.
- **Crude:** Brent crude is now trading around \$96bbl and has been highly volatile due to the rising geopolitical risk and ongoing supply-side concerns. It's been over a year since the Russia-Ukraine conflict started and it has kept oil prices at elevated levels with a concurrent upward pressure on inflation.

Market Indicator	29-09-2023	1M ago	3M ago	Nov-22	YTD	1 YR
Brent Crude (\$/bbl)	96.0	85.5	74.3	85.4	85.9	88.0
Bond Yield (GOi 10Yr)	7.2	7.2	7.1	7.3	7.3	7.4
USD/INR	83.0	82.7	82.1	81.4	82.7	81.3
India Vix	11.5	12.2	10.9	13.8	14.9	20.0

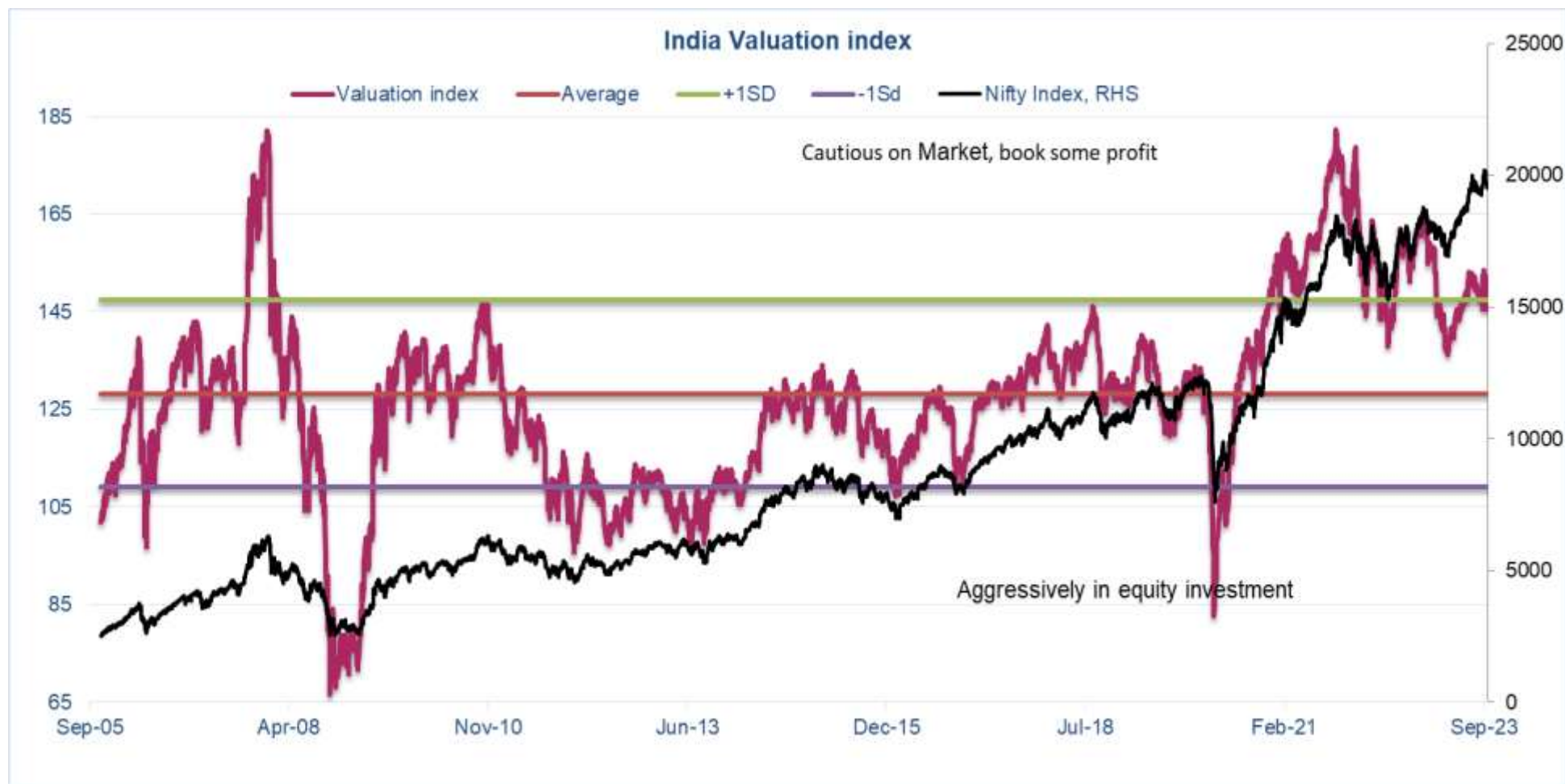


Commodity Index	1M	3M	6M	Since 01 Aug	YTD	1 YR
Gold (\$/OZ)	-3.3%	-1.9%	-4.7%	5.9%	2.7%	12.8%
Steel (\$/ton)	-0.9%	0.0%	-16.0%	2.8%	-6.0%	-2.7%
Aluminium (\$/ton)	5.5%	6.0%	-5.7%	-6.5%	-5.4%	2.4%
Copper (\$/ton)	-2.9%	-0.1%	-9.3%	-0.7%	-2.4%	6.3%
Zinc (\$/ton)	5.8%	10.0%	-15.7%	-13.9%	-15.4%	-14.3%



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

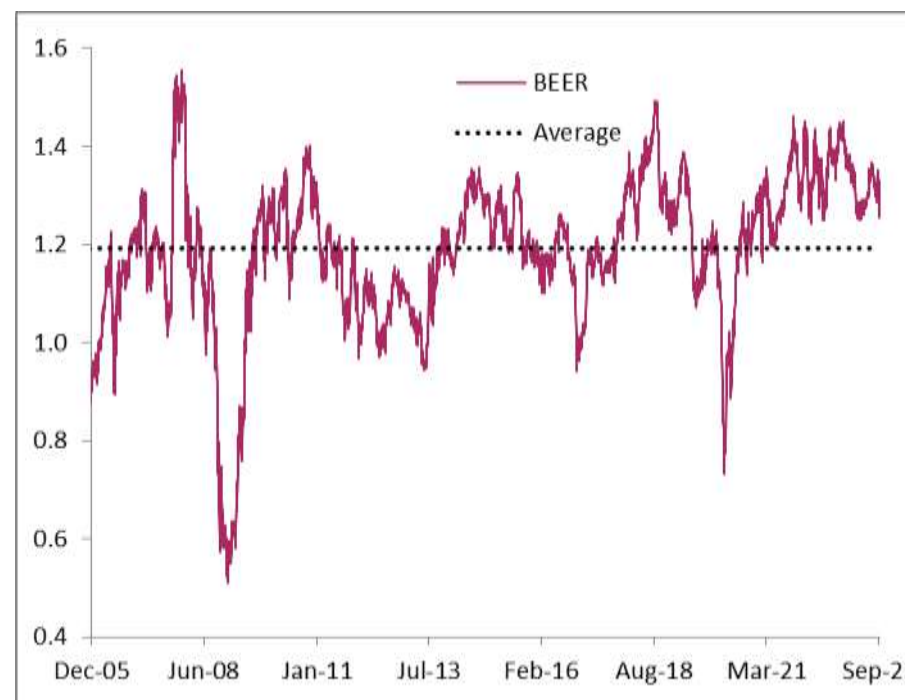
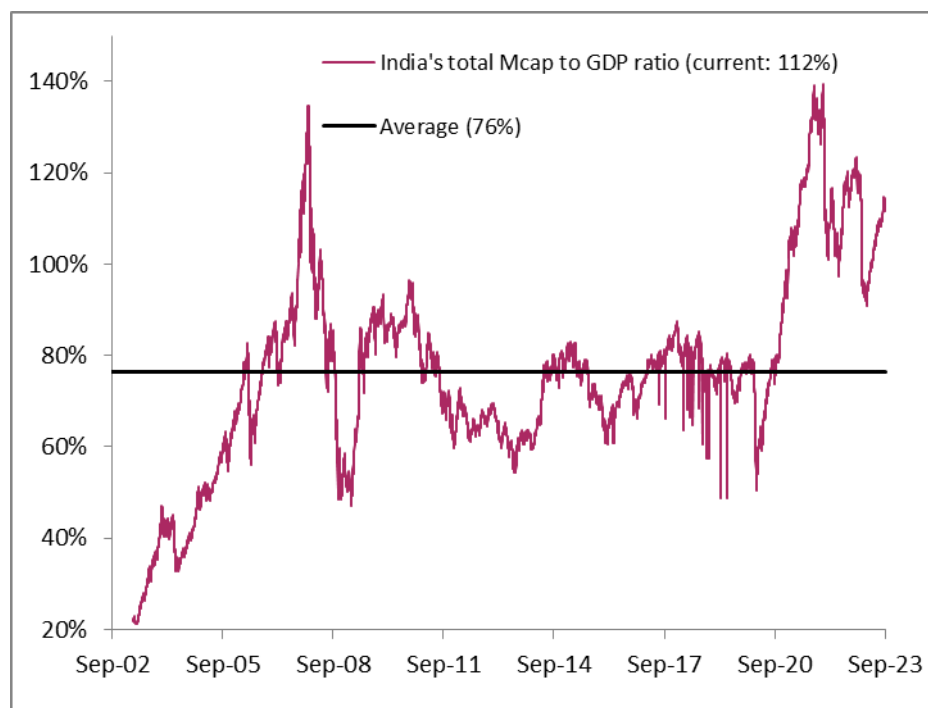
Our Market Valuation Index has retraced back to 1stdev after the recent rally. Current valuations offer a good entry point for long-term investors. At current levels, **stock selection and sector rotation are key to achieving outperformance**. The calculation of the India Valuation Index is based on 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 RBI, long-term bond yields have corrected by 10bps in the last three months. 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 112% 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 102% (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.

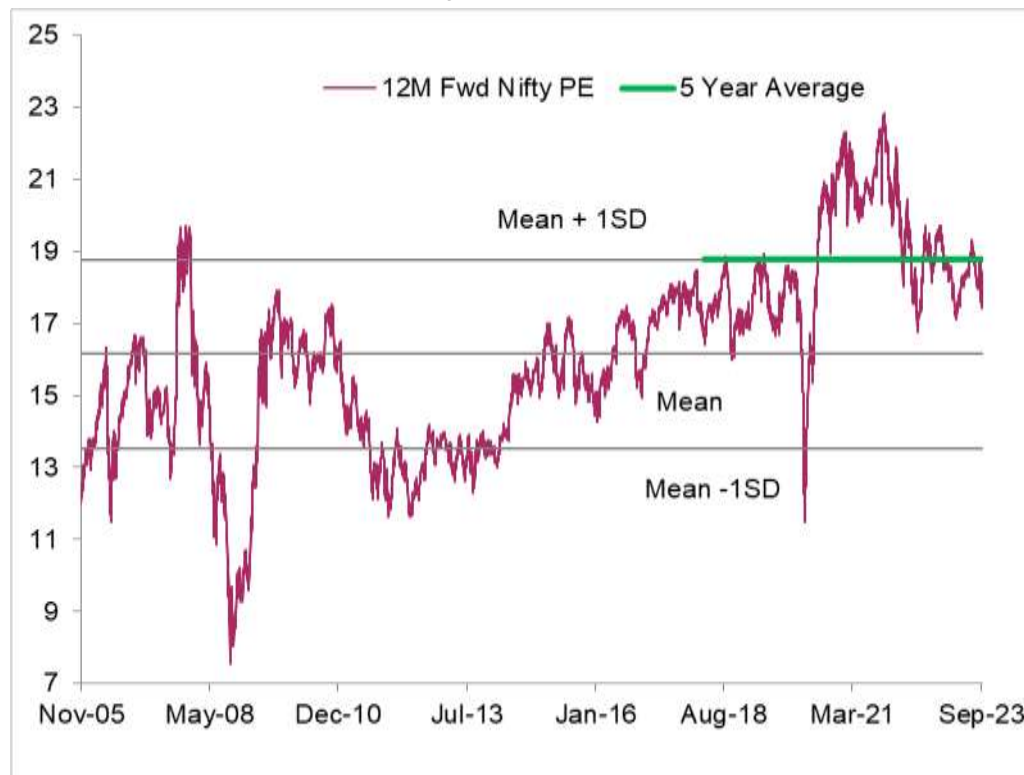


Source: Bloomberg, Axis Securities

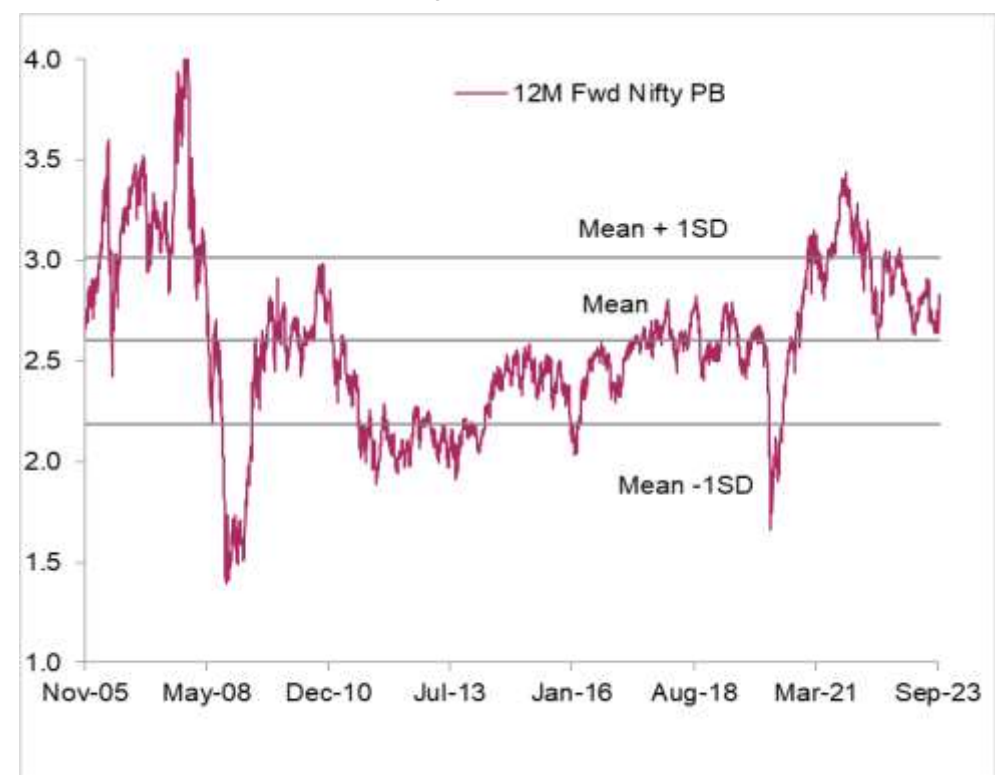
Market Valuations: 12M Fwd PE Now Trading at 18.4x

- NIFTY is currently trading at 18.4x on a 12M Fwd PE, which stands slightly below 1std to its long-term average (16x). However, it is trading slightly above the long-term average on a 12M Fwd PB.
- Current valuations are slightly below a 5-year average (18.8x), providing a good entry point for long-term investors.
- **Style rotation and sector selection are key** to generating alpha as the earning expectations from the broader market remain intact.

Nifty 12M Fwd PE



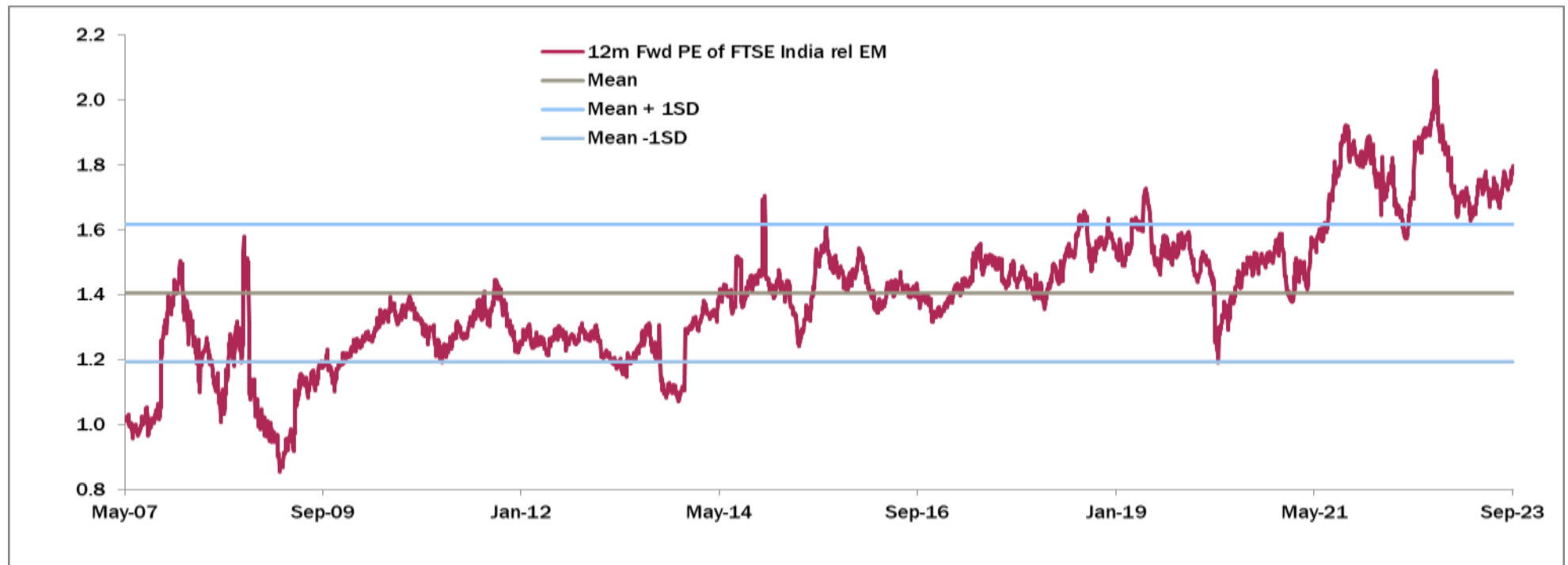
Nifty 12M Fwd PB



Source: Bloomberg, Axis Securities

Market Valuations: FTSE India rel. FTSE EM

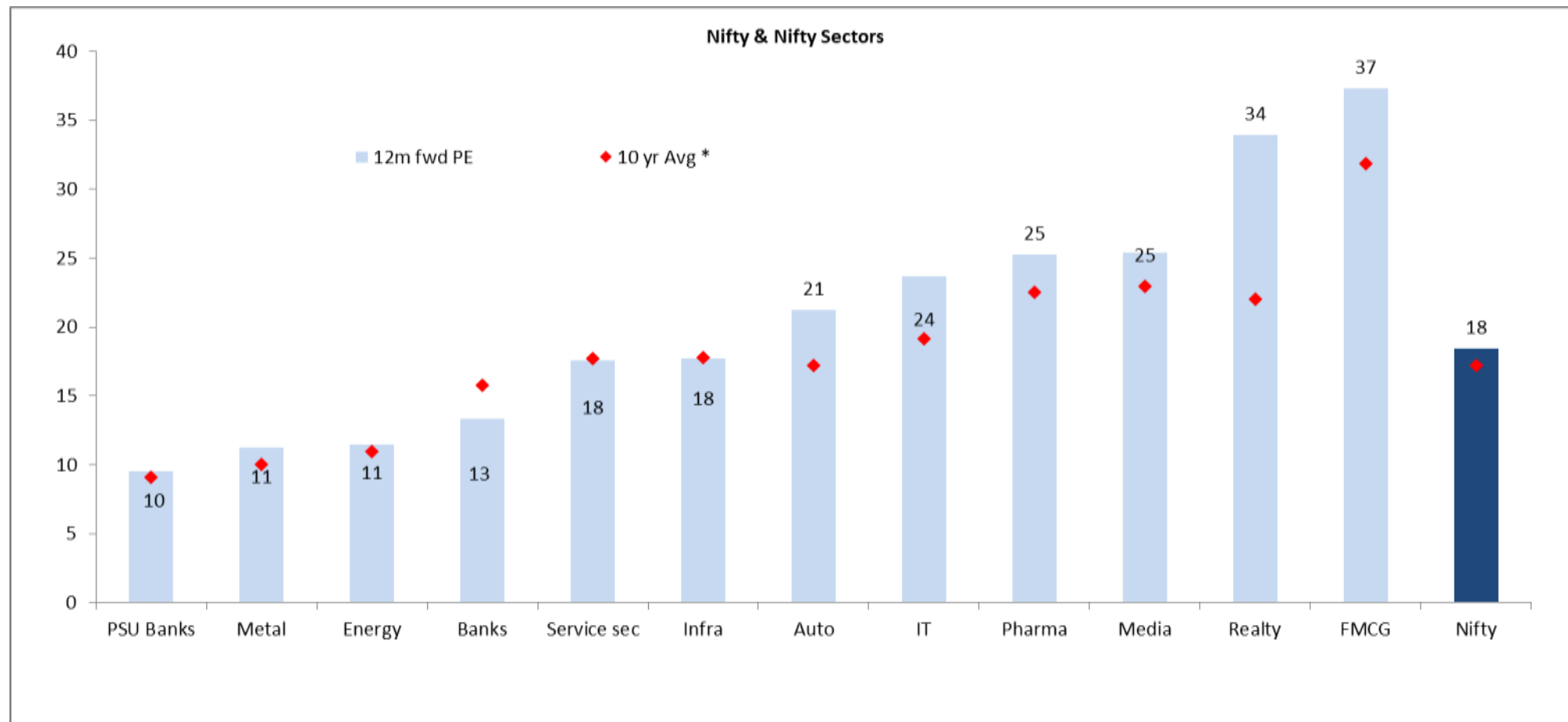
- Benchmark indices have reached all-time highs and the FTSE India is currently trading at a PE premium of 78% to the EM index (PE), vs. an average premium of 40%. Last year, during Oct/Nov'22, the Indian market reached a previous all-time high on account of the underperformance of the Chinese equity 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 is only 78% this time, 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 2023 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, and e) Private Capex cycle expectations



Source: Bloomberg, Axis Securities

Nifty and Sectors

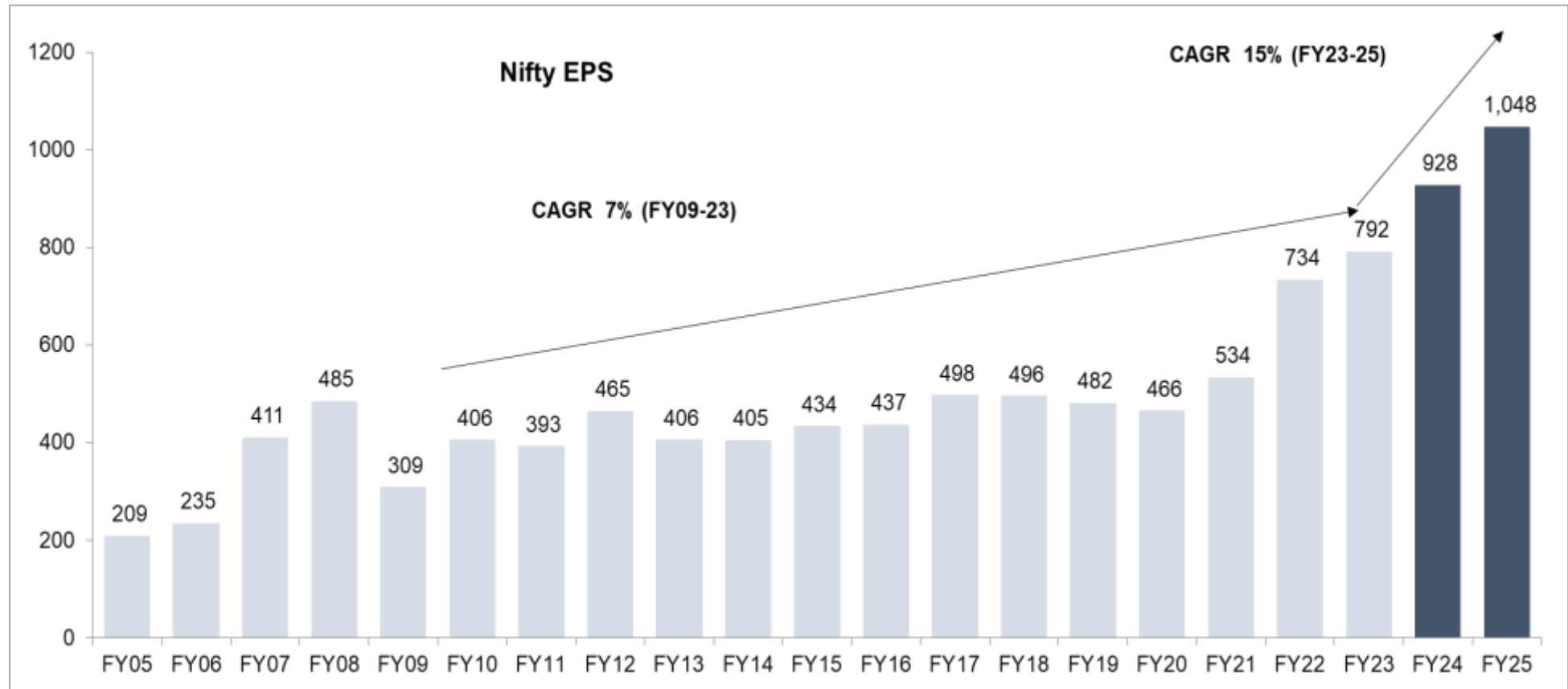
At current levels, PSU Banks, Energy, and the Metal Index are exhibiting valuation comfort. On the other hand, valuations for the IT, Pharma, and Auto sectors appear expensive. After a correction, the Banking sector looks attractive.



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 15% CAGR over FY23-FY25 vs. 7% CAGR over FY09-FY23



Source: Bloomberg, Axis Securities

Marginal Upgrade in Nifty EPS

- We foresee FY24/25 NIFTY Earnings at 928/1048 after Q1FY24. FY24/25 expectations are marginally upgraded by 0.9%/0.8% respectively. For FY24, upgrades in Financials, Auto (Tata Motor, M&M), and Oil & Gas (BPCL) are compensated by downgrades in IT and Metals.
- We had seen 5% downgrades in the IT sector (ex LTIMindtree). With the addition of LTIMindtree to the index, the overall downgrade in IT stands at 1%.
- Our estimates of FY24/25 stand conservative at 3%/6% below street expectations. Financials remain the biggest contributors for FY24/25 earnings.

Nifty EPS Sector	Post Q4FY23		Post Q1FY24		Chg post Q1FY24	
	FY24	FY25	FY24	FY25	FY24	FY25
Financial	382	434	390	443	1.9%	2.0%
IT	107	121	106	120	-1.0%	-1.1%
Oil & Gas	125	136	126	134	0.6%	-1.3%
FMCG	58	63	57	63	-1.1%	-0.9%
Power	39	39	38	39	-0.6%	-0.2%
Industrial	39	49	38	48	-1.8%	-1.4%
Pharma	32	37	31	36	-2.8%	-2.2%
Metals	60	70	59	71	-1.3%	1.3%
Automobile	56	62	62	67	9.8%	8.7%
Cement	7	8	7	8	2.8%	4.0%
Telecom	15	21	14	19	-9.1%	-6.9%
Total	920	1040	928	1048	0.9%	0.8%

Sector	Nifty EPS		FY24 EPS contribution	FY25 EPS contribution
	FY24	FY25		
Financial	390	443	42.0%	42.3%
IT	106	120	11.4%	11.4%
Oil & Gas	126	134	13.5%	12.8%
FMCG	57	63	6.2%	6.0%
Power	38	39	4.1%	3.7%
Industrial	38	48	4.1%	4.6%
Pharma	31	36	3.4%	3.4%
Metals	59	71	6.4%	6.8%
Automobile	62	67	6.7%	6.4%
Cement	7	8	0.7%	0.7%
Telecom	14	19	1.5%	1.8%
Total	928	1048		
Growth	17%	13%		

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

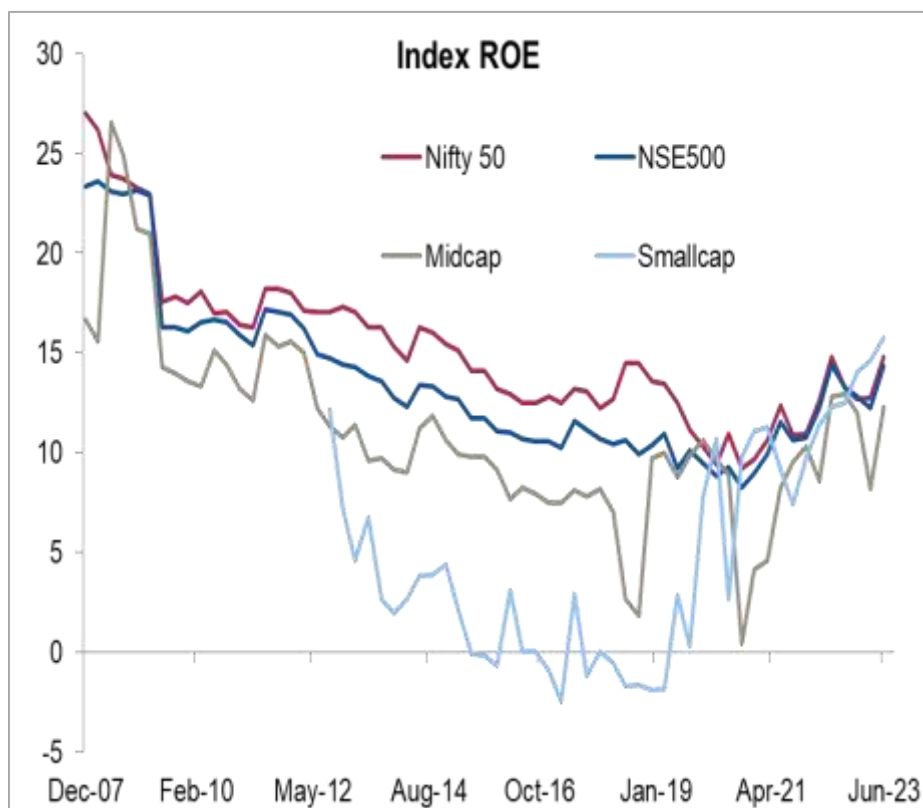
- The last 4 quarters' cumulative net profit reached an all-time high in Q1FY24 and crossed a mark of 11 Lc Cr, led by improvement in Oil marketing companies.
- Sequential improvement was seen in Oil & Gas, Automobiles, and Financials while a dip was observed in Metals, Agri, and Chemical space**
- Significant improvement was seen in the profitability of Oil & Gas, up 35% QoQ vs. the dip 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%	

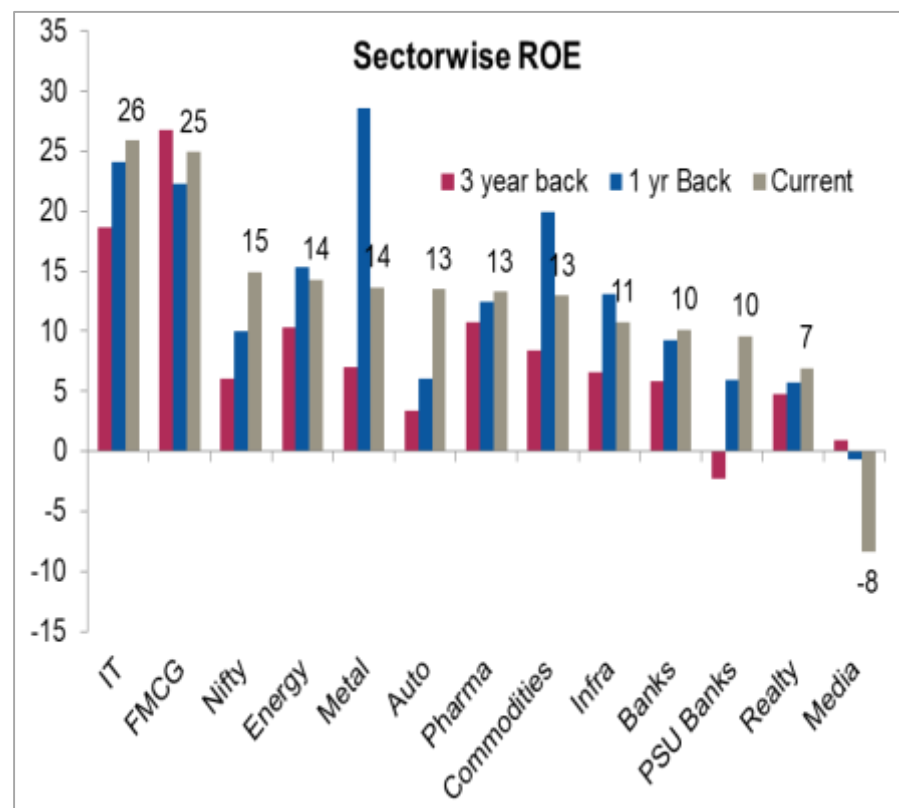
Source: Bloomberg, Axis Securities, Note: Tata Motors and Vodafone are not included in the study, Data of Q4FY23 and Q1FY24 are based on new constituents,

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 Auto, Pharma, and Infra sectors has improved in the past couple of years on account of the positive outlook

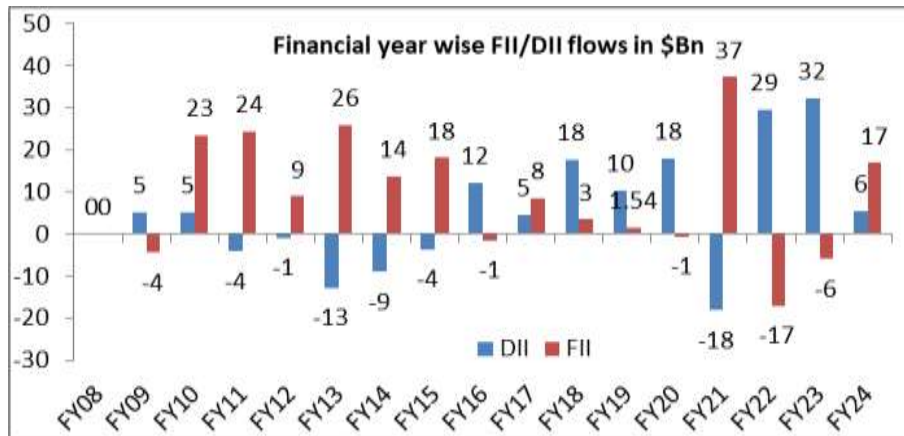
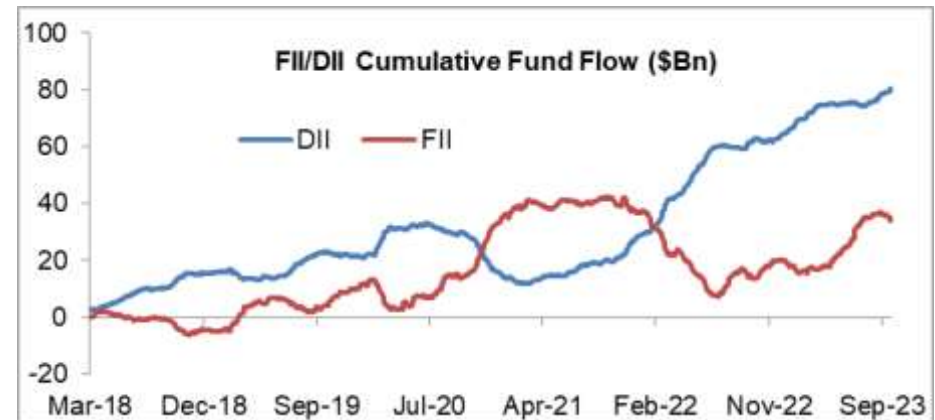
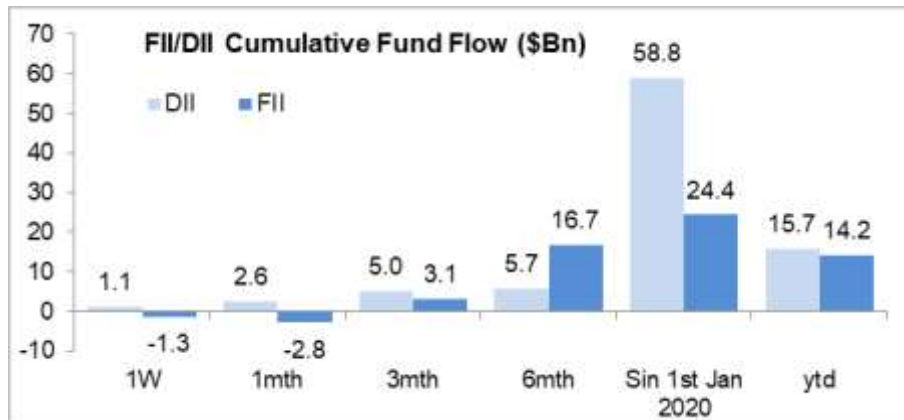


Source: Bloomberg, Axis Securities



FII's Added \$17Bn in FY24 so far

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 \$17Bn to the Indian equity market. In the last one month, FIIs pulled out \$2.8 Bn to the Indian equity market while DIIs added \$2.6 Bn over the same period.

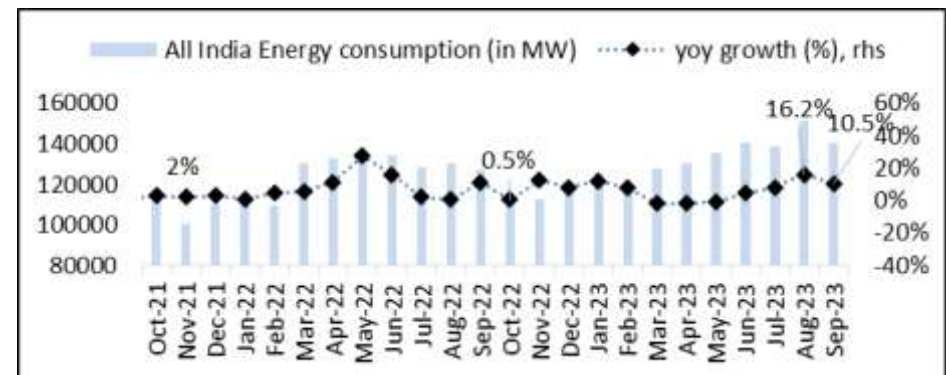
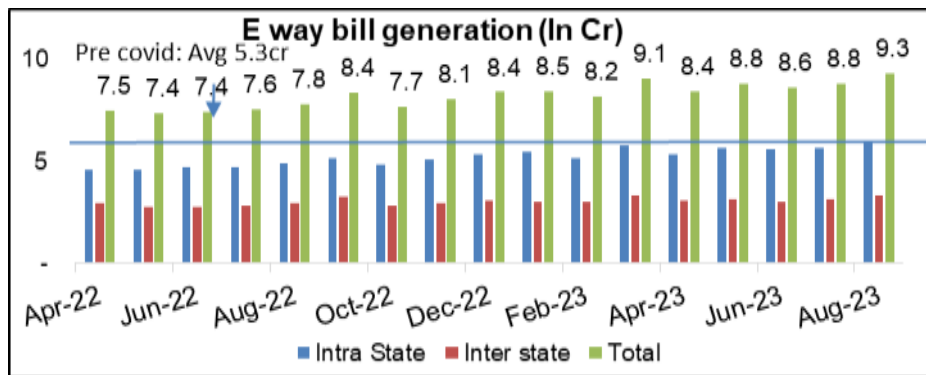
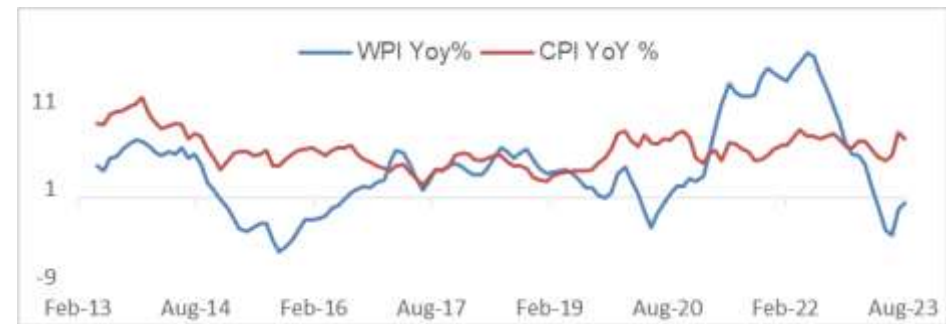
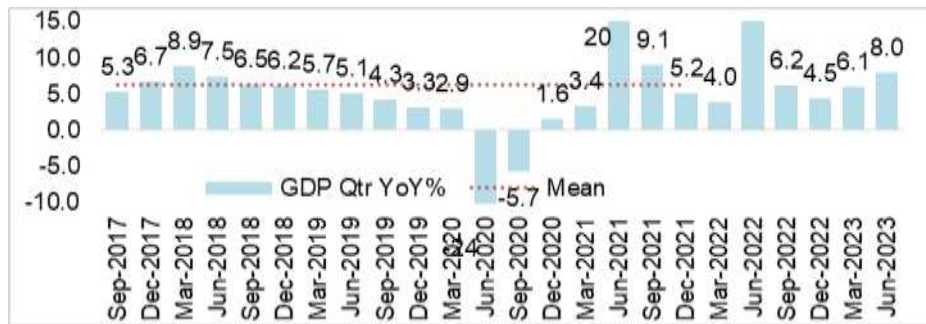


Source: Bloomberg, Axis Securities

Macro Indicators

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

- **GDP:** The country's GDP in Jun'23 was at 7.8% vs. 6.1% in the previous quarter. The moderation in raw material prices along with overall improvement in the export and domestic demand contributed to value-added demand, especially in manufacturing and construction.
- **Electricity generation & E-way bills:** The country witnessed a surge in electricity demand. It went up by 11% YOY, led by the pick-up in economic and irrigation activities. Healthy pick-up in the economic activities continued in Aug'23 with 9.3 Cr E-way bills reported in Aug'23.
- **CPI:** As per consensus expectations, Jul'23 CPI eases below 7% slightly to 6.8%. The increase was mostly driven by the rise in vegetable and cereals prices due to heavy rainfall in Jul'23. 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.



Source: Bloomberg, Axis Securities

ICICI BANK – CONSISTENT OUTPERFORMER

ICICI Bank (ICICIB) 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.

Key Rationale

- Strong credit growth:** The bank continued its growth momentum in Q1FY24 across segments, clocking a healthy advances growth of 18/4% YoY/QoQ. The Retail, Business Banking, and SME segments grew by 22/30/29% YoY respectively. Retail Portfolio growth was driven by Vehicle Loans (+18% YoY), Personal Loans (+39% YoY) and Credit Cards (+45% YoY). The growth in the bank's unsecured portfolio (~22% mix in the retail portfolio) has been impressive. The management has indicated that the demand in the retail and SME segments continues to remain encouraging. Similarly, despite intense competition, the bank has been witnessing encouraging opportunities in the corporate segment and will continue to pursue growth in this segment by adopting a larger ecosystem approach to achieve risk-adjusted returns. The bank is also comfortable growing its unsecured portfolio. Keeping this in view, we expect ICICIB's growth momentum to sustain and expect it to deliver a healthy advances growth of ~17%-18% CAGR over FY23-25E.
- Well-placed to deliver 2+% RoA over the medium term:** Post the bank's stellar show on NIMs in FY23, margin pressures are expected to surface going into FY24. A sharper increase in CoF and no benefit flowing in from lending yield improvement should result in margin contraction. Despite the moderation, NIMs are expected to remain healthy at 4.5% in FY24 (at FY23 level). Given the growth opportunities, the bank will continue to invest in the franchise and beef up its teams to drive business growth, thereby keeping Opex growth slightly higher. However, its C-I Ratio is likely to remain range-bound between 40-41%. Strong asset quality metrics should keep credit costs benign and enable ICICIB to deliver a consistent RoA/RoE of 2-2.2%/17-18% over FY24-25E.
- Outlook & Valuation:** The bank has been outperforming its peers and has been firing on all cylinders. ICICIB has ticked most boxes on growth, margins, and asset quality. 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 a BUY rating on the stock with a target price of Rs 1,250/share (SOTP basis core book at 3x FY25E and Rs 165 Subsidiary value).
- Key risks:** a) Slowdown in credit growth momentum.
- Comfort on asset quality:** In FY23, ICICIB's asset quality improved meaningfully, aided by strong recoveries. With fresh stress formation visibility being low, we expect a similar improvement trend in the asset quality to continue, aided by better recoveries and moderate slippages. The bank continues to build provision buffers to strengthen its balance sheet. Stable asset quality should keep credit costs benign over FY24-25E, supporting earnings growth.

Industry view



Equal Weight

CMP
952

Target Price
1,250

Upside
31%

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	722	564	377	54.0	312.7	3.0	2.2	0.5
FY25E	821	656	436	62.5	361.3	2.6	2.2	0.5

Source: Company, Axis Securities

Income Statement		(Rs Bn)			
Y/E March	FY22	FY23	FY24E	FY25E	
Net Interest Income	475	621	722	821	
Other Income	185	198	230	276	
Total Income	660	820	952	1,097	
Total Operating Exp	267	329	388	441	
PPOP	393	491	564	656	
Provisions & Contingencies	86	67	59	73	
PBT	306	424	505	583	
Provision for Tax	73	105	127	147	
PAT	233	319	377	436	

Source: Company, Axis Research

Balance Sheet		(Rs Bn)			
Y/E March	FY22	FY23	FY24E	FY25E	
SOURCES OF FUNDS					
Share Capital	14	14	14	14	
Reserves	1,691	1,993	2,296	2,646	
Shareholder's Funds	1,705	2,007	2,310	2,660	
Total Deposits	10,646	11,808	13,703	16,005	
Borrowings	11,718	13,002	15,158	17,836	
Other Liabilities & Provisions	690	833	960	1,126	
Total Liabilities	14,113	15,842	18,429	21,623	
APPLICATION OF FUNDS					
Cash & Bank Balance	1,678	1,194	1,304	1,523	
Investments	3,102	3,623	4,177	4,879	
Advances	8,590	10,196	12,022	14,134	
Fixed & Other Assets	742	828	926	1,087	
Total Assets	14,113	15,842	18,429	21,623	

Source: Company, Axis Research

Valuation ratios				(%)
Y/E March	FY22	FY23	FY24E	FY25E
EPS	33.6	45.7	54.0	62.5
Earnings growth (%)	43.7	36.0	18.3	15.6
Adj. BVPS	225.7	270.0	312.7	361.3
ROAA (%)	1.7	2.1	2.2	2.2
ROAE (%)	14.7	17.2	17.5	17.4
P/ABV (x)	4.2	3.5	3.0	2.6
Dividend Yield (%)	0.5	0.8	1.1	1.3
PROFITABILITY				
Yield on Advances (%)	8.3	8.9	9.7	9.5
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	40.2

Source: Company, Axis Research

Balance Sheet Structure Ratios				(%)
Y/E March	FY22	FY23	FY24E	FY25E
Loan Growth (%)	17.1	18.7	17.9	17.6
Deposit Growth (%)	14.2	10.9	16.0	16.8
C/D Ratio (%)	80.7	86.3	87.7	88.3
Equity/Assets (%)	12.1	12.7	12.5	12.3
Equity/Advances (%)	19.8	19.7	19.2	18.8
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	15.8
ASSET QUALITY				
Gross NPLs	339	312	329	374
Net NPLs	70	52	57	67
Gross NPLs (%)	3.9	3.1	2.7	2.6
Net NPLs (%)	0.8	0.5	0.5	0.5
Coverage Ratio (%)	79.5	83.5	82.8	82.1
Provision/Avg. Loans (%)	1.1	0.7	0.5	0.6
ROAA TREE				
Net Interest Income	3.6	4.1	4.2	4.1
Non-Interest Income	1.4	1.3	1.3	1.3
Operating Cost	2.0	2.2	2.3	2.2
Provisions	0.7	0.4	0.3	0.4
Tax	0.6	0.7	0.7	0.7
ROAA	1.7	2.1	2.2	2.2
Leverage (x)	8.3	8.1	7.9	8.1
ROAE	14.7	17.2	17.5	17.4

Source: Company, Axis Research

MARUTI SUZUKI INDIA LTD – GAINING SUV MARKET SHARE IN FY24

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
10,611

Target Price
11,800

Upside
11%

Key Rationale

- Richer Product Mix:** Higher share of SUVs in the sales mix with demand for the newer models and improved export sales to keep the ASPs strong. At the end of Q1FY24 UV forms ~25% of the total mix (against 17% in Q1FY23 and ~17% in Q4FY23). Maruti's domestic market share in SUVs is ~23% in Q1FY24 against ~17% in Q1FY23 and ~20% in Q4FY23. In Q1FY24 total orderbook stood at ~3.55 Lc (~4.12 Lc in Q4FY23) vehicles out of which Brezza is ~48k, Grand Vitara is 27k, Jimny is 23k, Invicto is 8k, Ertiga is 93k units..
- Improved EBITDA Margins:** Softening commodities (metals), new launches in the SUV space, and upgradation of the existing portfolio will drive higher margins going forward. The management informed that Q1FY24 witnessed a non-repetitive employee retention and retirement cost which had a 80 bps impact.
- SMG Acquisition:** The BoD has decided to bring all powertrain technologies like EVs, Hybrids, CNG, Ethanol, ICE etc. under MSIL and to terminate the contract manufacturing agreement; thereby exercising the option to acquire the shares of Suzuki Motor Gujarat Pvt Ltd (SMG) from Suzuki Motor Corporation (SMC). This shall lead to efficiency in production and supply chain. The book value of SMG as on Mar'23 is Rs 12,400 Cr.
- Capacity expansion:** The company has earmarked a capex of ~Rs 8,000 Cr for FY24, majority of which will be spent towards the capacity expansion at Kharkhoda plant (250k units), new models and annual maintenance. The company is also looking to add 1Lc units capacity at Manesar by FY25. To meet the market demand MSIL board has approved adding 1mn units capacity in addition to the existing capacity 2.25 mn in the long term.
- Valuation:** MSIL's has completely refreshed its portfolio with the recent addition of Invicto (only vehicle with Rs 20 Lc plus price point) to Jimny and Fronx launched earlier in Q4FY23. The 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%/16%/16% from FY23-26E. We maintain our BUY rating on the stock and value it at 28xP/E of its Sep'25E EPS (roll forward from Jun'25 EPS).
- Key Risks:** (1) Multiple launches from competitors will make the UV space more cluttered and competitive in future. (2) Chip shortage and inability to convert the order book into sales. 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	13.7%	13.7%	31.08	21.76
FY24E	1,39,288	13,981	10,785	357.0	16.4%	16.3%	29.61	17.07
FY25E	1,56,111	15,836	11,794	390.4	15.9%	15.9%	27.07	14.96
FY26E	1,72,876	17,443	12,932	428.1	15.5%	15.4%	24.69	13.43

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E	FY26E
Net revenues	1,17,523	1,39,288	1,56,111	1,72,876
Operating expenses	1,06,504	1,25,307	1,40,275	1,55,433
EBIDTA	11,019	13,981	15,836	17,443
EBIDTA margin (%)	9.38%	10.04%	10.14%	10.09%
Other income	2,161	3,182	3,140	3,478
Interest	187	189	200	225
Depreciation	2,823	3,279	3,846	4,328
Profit Before Tax	10,159	13,696	14,930	16,369
Tax	2,248	2,911	3,135	3,437
Reported Net Profit	7,912	10,785	11,794	12,932
Net Margin (%)	6.73%	7.74%	7.56%	7.48%
Adjusted Net Profit	8,058	10,785	11,794	12,932

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E	FY26E
Equity capital	151	151	151	151
Reserves & surplus	60,231	68,108	76,995	87,019
Shareholders' funds	60,382	68,259	77,146	87,170
Total Loans	1,247	1,247	1,247	1,247
Deferred tax liability	-	-	-	-
Total Liabilities and Equity	61,629	69,506	78,393	88,417
Gross block	38,496	47,302	52,605	59,798
Depreciation	20,691	23,332	27,179	31,506
Net block	17,805	23,970	25,427	28,292
Capital WIP	2,897	1,454	3,150	3,308
Investments	47,756	47,856	47,906	47,956
Inventory	4,284	5,150	6,918	7,665
Debtors	3,296	3,434	5,132	5,684
Cash & Bank Bal	38	1,249	2,887	5,607
Loans & Advances	7,103	10,085	10,926	15,222
Current Assets	14,720	19,918	25,863	34,177
Sundry Creditors	11,780	12,468	12,730	14,093
Other Current Liability	9,769	11,223	11,223	11,223
Current Liability & Provisions	21,549	23,691	23,953	25,316
Net current assets	(6,829)	(3,773)	1,910	8,861
Total Assets	61,629	69,506	78,393	88,417

Source: Company, Axis Research

Cash Flow

(Rs Cr)

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E	FY26E
EBIT	8,041	10,702	11,990	13,116
Other Income	2,305	3,182	3,140	3,478
Depreciation & Amortization	2,823	3,279	3,846	4,328
Interest Paid (-)	(187)	(189)	(200)	(225)
Tax paid (-)	(2,110)	(2,911)	(3,135)	(3,437)
Extra Ord Income	-	-	-	-
Operating Cash Flow	10,873	14,063	15,641	17,259
Change in Working Capital	925	(1,845)	(4,045)	(4,231)
Cash Flow from Operations	11,798	12,219	11,596	13,028
Capex	(6,879)	(8,000)	(7,000)	(7,350)
Strategic investments	-	-	-	-
Non-Strategic Investments	(6,993)	(100)	(50)	(50)
Cash Flow from Investing	(13,872)	(8,100)	(7,050)	(7,400)
Change in borrowing	828	-	-	-
Others	1,457	-	-	-
Dividends paid (-)	(3,210)	(2,908)	(2,908)	(2,908)
Cash Flow from Financial Activities	(925)	(2,908)	(2,908)	(2,908)
Change in Cash	(2,999)	1,211	1,638	2,720
Opening Cash	3,036	38	1,249	2,887
Closing Cash	38	1,249	2,887	5,607

Source: Company, Axis Research

Ratio Analysis (%)

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E	FY26E
Revenue Growth	33.1	18.5	12.1	10.7
EBITDA Margin	9.2	10.0	10.1	10.1
Net Profit Margin	6.8	7.7	7.6	7.5
ROCE (%)	13.7	16.3	15.9	15.4
ROE (%)	13.7	16.4	15.9	15.5
EPS (Rs)	266.5	357.0	390.4	428.1
P/E (x)	31.1	29.6	27.1	24.7
P / BV (x)	4.1	4.7	4.1	3.7
EV / EBITDA (x)	23.2	22.8	20.1	18.1
Fixed Asset TR (x)	5.7	5.5	5.5	5.5
Debt Equity (x)	0.0	0.0	0.0	0.0
EV / Sales	2.1	2.3	2.0	1.8

Source: Company, Axis Research

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

State Bank of India (SBI) 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.

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 book at 1.3x Sep'24E and subsidiaries at Rs 164/share)
- Key risks:** a) Significant slowdown in credit growth

Industry view



Equalweight

CMP
599

Target Price
715

Upside
19%

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	2.1	0.7	1.0
FY23E	1,448	837	502	56.3	343.0	1.7	1.0	0.7
FY24E	1,554	948	599	67.2	397.7	1.5	1.0	0.6
FY25E	1,727	1,048	639	71.6	453.9	1.3	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)	16.2	10.2	8.5	8.0
P/ABV (x)	2.1	1.7	1.5	1.3
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.

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,

Industry view



Equal Weight

CMP
946

Target Price
1050

Upside
11%

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	37.7	22.2	30.4	24.4
CY23E	16,044	3,586	1,964	15.1	59.5	33.6	29.1	25.7
CY24E	18,796	4,303	2,454	18.9	47.6	27.6	27.7	25.9
CY25E	22,019	5,181	3,068	23.6	38.1	22.5	26.4	25.8

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

Profit & Loss					(Rs Cr)				
Y/E DEC	CY22	CY23E	CY24E	CY25E	Y/E DEC	CY22	CY23E	CY24E	CY25E
Net sales	12,921	16,044	18,796	22,019	Cash & bank	285	(47)	1,679	4,033
Growth, %	49.5	24.2	17.2	17.2	Debtors	299	440	515	603
Other operating income	252	277	305	336	Inventory	1,994	2,476	2,900	3,398
Total income	13,173	16,321	19,101	22,355	Loans & advances	436	436	436	436
Raw material expenses	(6,261)	(7,639)	(8,861)	(10,279)	Other current assets	389	389	389	389
Employee expenses	(1,217)	(1,521)	(1,749)	(2,046)	Total current assets	3,404	3,694	5,920	8,860
Other Operating expenses	(2,907)	(3,576)	(4,188)	(4,849)	Investments	0	0	0	0
EBITDA (Core)	2,788	3,586	4,303	5,181	Gross fixed assets	10,337	12,737	13,737	14,737
Growth, %	68.5	28.6	20.0	20.4	Less: Depreciation	(3,405)	(4,256)	(5,178)	(6,169)
Margin, %	21.6	22.4	22.9	23.5	Add: Capital WIP	607	607	607	607
Depreciation	(617)	(851)	(921)	(991)	Net fixed assets	7,539	9,088	9,166	9,175
EBIT	2,171	2,735	3,382	4,189	Non-current assets	627	627	627	627
Growth, %	93.2	26.0	23.7	23.9	Total assets	11,618	13,456	15,762	18,710
Margin, %	16.8	17.0	18.0	19.0	Current liabilities	3,969	4,168	4,344	4,549
Other Income	39	43	47	52	Provisions	204	204	204	204
Non-recurring Items	-	-	-	-	Total current liabilities	4,173	4,372	4,548	4,753
Pre-tax profit	2,024	2,564	3,204	4,005	Non-current liabilities	2,230	2,230	2,230	2,230
Tax provided	(474)	(600)	(750)	(937)	Total liabilities	6,403	6,602	6,778	6,983
Net Profit	1,550	1,964	2,454	3,068	Paid-up capital	650	650	650	650
Unadj. shares (Cr)	65	130	130	130	Reserves & surplus	4,453	6,092	8,221	10,964
					Shareholders' equity	5,215	6,854	8,984	11,727
					Total equity & liabilities	11,618	13,456	15,762	18,710

Source: Company, Axis Research

Balance Sheet					(Rs Cr)				
Y/E DEC	CY22	CY23E	CY24E	CY25E	Y/E DEC	CY22	CY23E	CY24E	CY25E
Cash & bank	285	(47)	1,679	4,033	Cash & bank	285	(47)	1,679	4,033
Debtors	299	440	515	603	Debtors	299	440	515	603
Inventory	1,994	2,476	2,900	3,398	Inventory	1,994	2,476	2,900	3,398
Loans & advances	436	436	436	436	Loans & advances	436	436	436	436
Other current assets	389	389	389	389	Other current assets	389	389	389	389
Total current assets	3,404	3,694	5,920	8,860	Total current assets	3,404	3,694	5,920	8,860
Investments	0	0	0	0	Investments	0	0	0	0
Gross fixed assets	10,337	12,737	13,737	14,737	Gross fixed assets	10,337	12,737	13,737	14,737
Less: Depreciation	(3,405)	(4,256)	(5,178)	(6,169)	Less: Depreciation	(3,405)	(4,256)	(5,178)	(6,169)
Add: Capital WIP	607	607	607	607	Add: Capital WIP	607	607	607	607
Net fixed assets	7,539	9,088	9,166	9,175	Net fixed assets	7,539	9,088	9,166	9,175
Non-current assets	627	627	627	627	Non-current assets	627	627	627	627
Total assets	11,618	13,456	15,762	18,710	Total assets	11,618	13,456	15,762	18,710
Current liabilities	3,969	4,168	4,344	4,549	Current liabilities	3,969	4,168	4,344	4,549
Provisions	204	204	204	204	Provisions	204	204	204	204
Total current liabilities	4,173	4,372	4,548	4,753	Total current liabilities	4,173	4,372	4,548	4,753
Non-current liabilities	2,230	2,230	2,230	2,230	Non-current liabilities	2,230	2,230	2,230	2,230
Total liabilities	6,403	6,602	6,778	6,983	Total liabilities	6,403	6,602	6,778	6,983
Paid-up capital	650	650	650	650	Paid-up capital	650	650	650	650
Reserves & surplus	4,453	6,092	8,221	10,964	Reserves & surplus	4,453	6,092	8,221	10,964
Shareholders' equity	5,215	6,854	8,984	11,727	Shareholders' equity	5,215	6,854	8,984	11,727
Total equity & liabilities	11,618	13,456	15,762	18,710	Total equity & liabilities	11,618	13,456	15,762	18,710

Source: Company, Axis Research

Cash Flow		(Rs Cr)			
Cash Flow	CY22	CY23E	CY24E	CY25E	
Pre-tax profit	2,024	2,564	3,204	4,005	
Depreciation	617	851	921	991	
Chg in working capital	(280)	(423)	(324)	(380)	
Total tax paid	(445)	(600)	(750)	(937)	
Cash flow from operating activities	1,915	2,392	3,051	3,679	
Capital expenditure	(1,349)	(2,400)	(1,000)	(1,000)	
Chg in marketable securities	221	-	-	-	
Cash flow from investing activities	(1,127)	(2,400)	(1,000)	(1,000)	
Free cash flow	788	(8)	2,051	2,679	
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	(333)	1,726	2,354	
Opening cash balance	337	285	(47)	1,679	
Closing cash balance	285	(47)	1,679	4,033	

Source: Company, Axis Research

Ratio Analysis		(%)			
Key Ratios	CY22	CY23E	CY24E	CY25E	
Per Share data					
EPS (INR)	23.1	15.1	18.9	23.6	
Growth, %	38.5	(36.7)	25.0	25.0	
Book NAV/share (INR)	78.6	51.9	68.3	89.4	
FDEPS (INR)	23.9	15.1	18.9	23.6	
CEPS (INR)	33.4	21.7	26.0	31.2	
CFPS (INR)	14.7	18.1	23.1	27.9	
DPS (INR)	2.5	2.5	2.5	2.5	
Return ratios					
Return on assets (%)	16.4	17.4	18.3	19.2	
Return on equity (%)	30.4	29.1	27.7	26.4	
Return on capital employed (%)	24.4	25.7	25.9	25.8	
Turnover ratios					
Asset turnover (x)	1.7	1.7	1.8	2.0	
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	29.6	29.9	
Working capital days	(24.0)	(9.7)	(2.0)	4.6	
Liquidity ratios					
Current ratio (x)	0.9	0.9	1.4	1.9	
Quick ratio (x)	0.4	0.3	0.7	1.2	
Interest cover (x)	11.7	12.8	15.0	17.8	
Total debt/Equity (%)	0.7	0.5	0.4	0.3	
Net debt/Equity (%)	0.3	0.2	(0.1)	(0.3)	
Valuation					
PER (x)	37.7	59.5	47.6	38.1	
PEG (x) - y-o-y growth	1.0	(1.6)	1.9	1.5	
Price/Book (x)	11.4	17.3	13.2	10.1	
EV/Net sales (x)	4.8	7.5	6.3	5.3	
EV/EBITDA (x)	22.2	33.6	27.6	22.5	

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. BoB has a strong domestic presence of 8,200 branches and 11,401 ATMs and cash recyclers supported by self-service channels. It also has a significant international presence with a network of 93 overseas branches in 17 countries.

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 a key 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

Industry view



Equal weight

CMP
214

Target Price
255

Upside
19%

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	1.2	1.0	0.9
FY24E	45,432	31,388	16,905	32.7	200	1.1	1.1	0.7
FY25E	50,478	33,755	17,817	34.4	225	1.0	1.0	0.7
FY26E	55,918	36,447	18,580	35.9	249	0.9	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)	7.9	6.6	6.2	6.0
P/ABV (x)	1.2	1.1	1.0	0.9
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.

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 identify 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) Steady 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 cigarette taxation, b) increase competition and c) economy slowdown.

Industry view



Over Weight

CMP
444

Target Price
540

Upside
22%

Key Financials (Standalone)

Y/E	Sales	EBITDA	PAT	EPS	P/E	ROE	ROCE	EV/EBITDA
March	(Rs Cr)	(Rs Cr)	(Rs Cr)	(Rs)	(X)	(%)	(%)	(X)
FY23	65,273	23,944	18,680	15.0	29.2	27.6	28.2	21.9
FY24E	72,161	27,413	21,488	17.3	25.4	29.7	29.8	19.1
FY25E	79,127	30,475	23,919	19.2	22.8	30.3	30.8	17.1
FY26E	86,860	33,452	26,304	21.2	20.7	30.0	30.8	15.3

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, %	26.5	14.5	11.2	9.8
Margin, %	36.7	38.0	38.5	38.5
Depreciation	-1,663	-1,788	-1,918	-2,051
EBIT	22,282	25,626	28,557	31,400
Growth, %	28.9	15.0	11.4	10.0
Margin, %	34.1	35.5	36.1	36.2
Interest paid	-42	-42	-43	-43
Other Income	2,438	2,803	3,084	3,392
Non-recurring Items	73	0	0	0
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)	0	0	0	0
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	0	0	0	0	
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	0	0	0	
Chg in marketable securities	-4,732	0	0	0	
Other investing activities	0	0	0	0	
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	0	
Debt raised/(repaid)	-1	0	0	0	
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)	29.2	25.4	22.8	20.7	
PEG (x) - y-o-y growth	1.3	1.7	2.0	2.1	
Price/Book (x)	8.1	7.5	6.9	6.2	
EV/Net sales (x)	8.0	7.3	6.6	5.9	
EV/EBITDA (x)	21.9	19.1	17.1	15.3	
EV/EBIT (x)	23.6	20.5	18.2	16.3	

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.

Key Rationale

- gSpiriva Approval:** 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.
- gDarunavir:** Lupin also launched gDarunavir in Q1FY24 in the US market. This drug has a market size of \$343 Mn whereas Lupin has an exclusivity of 180 days. We expect \$45-50Mn sales from gDarunavir in FY24E. Further, Lupin gets approval for Dolutegravir Lamivudine that could add ~ USD\$ 20 Mn sales for the company per year.
- Outlook & Valuation:** We get more confidence in Lupin's business due to the launch of these 2 new products where it has a first-mover advantage. We believe both these products would increase the company's gross margins by 100bps in the next two years. Moreover, further developments in the business could add value in the business such as 1) New launches such as Darunavir, Cynocobalamin, Diazepam Gel, Verenicline, Bromfenac, etc. in the US market (excl. gSpiriva), 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 CMP, stock trades at 28.0x and 22.8x for FY24E and FY25E earnings.

Industry view



Over Weight

CMP
1171

Target Price
1,290

Upside
10%

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 (%)
FY23	16,642	1,798	430	9.5	104.0	26.7	3.4
FY24E	17,690	3,096	1,600	35.2	28.0	15.2	11.5
FY25E	19,086	3,531	1,960	43.1	22.8	12.9	12.6

Source: Company, Axis Securities

Profit & Loss		(Rs Cr)		
Y/E Mar	FY23	FY24E	FY25E	
Total Net Sales	16,642	17,690	19,086	
% Change	1.4%	6.3%	7.9%	
Raw material Consumption	6,780	6,545	6,871	
Staff costs	3,087	3,184	3,435	
Other Expenditure	4,977	4,865	5,249	
Total Expenditure	14,843	14,594	15,555	
EBITDA	1,798	3,096	3,531	
% Change	-17.0%	72.2%	14.1%	
EBITDA Margin %	10.8%	17.5%	18.5%	
Depreciation	881	827	881	
EBIT	918	2,269	2,650	
EBIT Margin %	5.5%	12.8%	13.9%	
Interest	274	212	127	
Other Income	73	91	105	
PBT	717	2,147	2,628	
Tax	269	548	667	
<i>Tax Rate %</i>	<i>37.5%</i>	<i>25.5%</i>	<i>25.4%</i>	
APAT	448	1,600	1,960	
P/L after discontinuation	-18	0	0	
PAT after Ass.	430	1,600	1,960	
Adj. PAT	430	1,600	1,960	
Growth %	22.7%	271.8%	22.5%	

Source: Company, Axis Research

Balance Sheet		(Rs Cr)		
Y/E Mar	CY23E	CY24E	CY25E	
Share Capital	91	91	91	
Reserves & Surplus	12,452	13,801	15,467	
Shareholders Fund	12,543	13,892	15,558	
Total Debt	4,541	3,541	2,541	
- Trade Payables	2,532	2,666	2,876	
- Other Long Term Liabilities	361	388	418	
- Other Current Liabilities	1,891	1,939	2,092	
TOTAL EQUITY & LIABILITIES	22,956	23,513	24,572	
Gross Block	8,590	9,190	9,790	
Depriciation	4,301	5,128	6,009	
% of GB	50.1%	55.8%	61.4%	
- Fixed Assets(incl. Capital Work in Progress)	9,623	9,396	9,115	
- Other Non Current Assets	881	881	881	
- Current Investments	440	440	440	
- Inventories	4,492	4,798	5,177	
- Trade Receivables	4,481	4,847	5,229	
- Cash & Cash Equivalent	1,293	1,310	1,744	
- Other Current Assets	1,746	1,842	1,987	
TOTAL ASSETS	22,955	23,513	24,572	

Cash Flow	(Rs Cr)			
	Y/E Mar	FY23	FY24E	FY25E
PBT		717	2,147	2,628
Add: depreciation		881	827	881
Add: Interest		274	212	127
Cash flow from operations		1,872	3,187	3,636
Change in working capital		-109	560	512
Taxes		269	548	667
Miscellaneous expenses		18	0	0
Net cash from operations		1,694	2,079	2,456
Capital expenditure		-1,869	-600	-600
Change in Investments		383	0	0
Net cash from investing		-1,487	-600	-600
Increase/Decrease in debt		383	-1,000	-1,000
Dividends		-183	-250	-295
Proceedings from equity		0	0	0
Interest		-274	-212	-127
Others		62	0	0
Net cash from financing		-12	-1,462	-1,422
Net Inc./(Dec.) in Cash		195	17	434
Opening cash balance		1,098	1,293	1,310
Closing cash balance		1,293	1,310	1,744

Source: Company, Axis Research

Ratio Analysis	(%)			
	Key Ratios	FY23	FY24E	FY25E
Sales growth		1.4	6.3	7.9
OPM		10.8	17.5	18.5
Oper. profit growth		(17.0)	72.2	14.1
COGS / Net sales		40.7	37.0	36.0
Overheads/Net sales		-	-	-
Depreciation / G. block		10.3	9.0	9.0
Effective interest rate		37.5	25.5	25.4
Net wkg.cap / Net sales (%)		35.8	36.8	36.8
Net sales / Gr block (x)		1.9	1.9	1.9
RoCE		5.4	13.0	14.6
Debt / equity (x)		0.4	0.3	0.2
Effective tax rate		37.5	25.5	25.4
RoE		3.4	11.5	12.6
Payout ratio (Div/NP)		200.5	274.7	324.2
EPS (Rs.)		9.5	35.2	43.1
EPS Growth		22.7	271.8	22.5
CEPS (Rs.)		28.8	53.3	62.4
DPS (Rs.)		4.0	5.5	6.5

Source: Company, Axis Research

FEDERAL BANK – GROWTH LEVERS INTACT!

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.

Key Rationale

- Improved mix of high-yielding products:** FB reported credit growth of 21%/5% YoY/QoQ. The management stated that growth has been broad-based not only geographically and across segments but also product-wise. In Q1FY24, the contribution of a higher-yielding portfolio improved to ~34% of the total portfolio vs. ~33% YoY. The management has stated that credit demand and credit off-take across segments continue to remain buoyant and ample growth opportunities are visible. Thus, FB expects to maintain its growth momentum and clock a healthy credit growth in the range of ~18-20% in FY24. 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 Q1FY24 at 21/4% YoY, largely driven by TDs (+31/6% YoY/QoQ). We expect its Fintech partners to continue supporting its deposit growth moving ahead. We expect FB to deliver a healthy 17% CAGR over the medium term.
- Well-managed Asset Quality:** FB has prioritized sourcing better-quality customers in its trade-off between increasing business volumes and maintaining asset quality. This is getting reflected in the healthy asset quality that the bank has been able to maintain. The unsecured book, though unseasoned, has so far not shown any sign of stress. Thus, with no major asset quality challenges in sight, FB's management expects to contain credit costs at ~40bps in FY24.
- Outlook:** FB is cautiously building a loan mix toward high-rated corporate and retail loans. The management believes that margins have bottomed out with the impact of deposit repricing already reflected in the CoF. Faster yield expansion supported by a favourable loan mix and robust business growth should drive spread/margin expansion (+7-8bps QoQ) in Q2FY24E and onwards. Thus, the management is confident of delivering on its earlier NIM guidance of 3.3% in FY24E. We build in margins a shade lower than the guidance in FY24E and expect a gradual improvement in FY25E. FB is well-placed to deliver healthy business growth over the medium term. We expect FB to deliver an RoA/RoE of 1.3%/15-16% over FY24-25E, driven by a) Easing margin pressures and NIMs likely resuming their upward trajectory, b) Focus on improving core fee income profile, and c) Healthy asset quality enabling benign credit costs.
- 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

Industry view



Equal Weight

CMP
147

Target Price
165

Upside
12%

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	1.5	1.3	0.7
FY24E	8,271	5,631	3,643	17.2	110.5	1.3	1.3	0.7
FY25E	9,724	6,737	4,369	20.6	128.1	1.1	1.3	0.7

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E MAR	FY22	FY23P	FY24E	FY25E
Net Interest Income	5,962	7,232	8,271	9,724
Other Income	2,089	2,330	2,970	3,460
Total Income	8,051	9,562	11,240	13,184
Total Operating Exp	4,293	4,768	5,610	6,447
PPOP	3,758	4,794	5,631	6,737
Provisions & Contingencies	1,222	750	760	895
PBT	2,536	4,044	4,871	5,841
Provision for Tax	646	1,034	1,228	1,473
PAT	1,890	3,011	3,643	4,369

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E MAR	FY22	FY23P	FY24E	FY25E
SOURCES OF FUNDS				
Share Capital	421	423	423	423
Reserves	18,373	21,083	24,362	28,293
Shareholder's Funds	18,794	21,506	24,785	28,717
Total Deposits	1,81,701	2,13,386	2,49,446	2,91,097
Borrowings	15,393	19,319	18,976	24,316
Other Liabilities & Provisions	5,059	6,130	8,306	10,113
Total Liabilities	2,20,946	2,60,342	3,01,512	3,54,243
APPLICATION OF FUNDS				
Cash & Bank Balance	21,010	17,689	18,686	21,807
Investments	39,179	48,983	54,766	63,911
Advances	1,44,928	1,74,447	2,05,797	2,42,369
Fixed Assets & Other Assets	15,828	19,223	22,263	26,156
Total Assets	2,20,946	2,60,342	3,01,512	3,54,243

Source: Company, Axis Research

Key Ratios	FY (%)				
	Y/E MAR	FY22	FY23	FY24E	FY25E
VALUATION RATIOS					
EPS		9.0	14.2	17.2	20.6
Earnings Growth (%)		12.8	58.3	21.0	19.9
BVPS		89.4	101.6	117.1	135.7
Adj. BVPS		82.8	95.9	110.5	128.1
ROAA (%)		0.9	1.3	1.3	1.3
ROAE (%)		10.8	14.9	15.7	16.3
P/E (x)		16.4	10.3	8.5	7.1
P/ABV (x)		1.8	1.5	1.3	1.1
DPS		2.5	1.0	1.7	2.1
Dividend Yield (%)		2.0	0.7	1.3	1.5
PROFITABILITY					
NIM (%)		3.2	3.3	3.2	3.3
Cost-Income Ratio		53.3	49.9	49.9	48.9

Source: Company, Axis Research

Balance Sheet Structure Ratios	FY (%)				
	Y/E MAR	FY22	FY23	FY24E	FY25E
Loan Growth (%)		9.9	20.4	18.0	17.8
Deposit Growth (%)		5.2	17.4	16.9	16.7
C/D Ratio (%)		79.8	81.8	82.5	83.3
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	12.1	12.3
ROAE		10.8	14.9	15.7	16.3

Source: Company, Axis Research

ASHOK LEYLAND –SUSTAINABLE GROWTH ON THE BACK OF IMPROVED MARGINS

Ashok Leyland (AL) – a flagship company of Hinduja Group, is the third-largest commercial vehicle manufacturer in India. AL's key products comprise buses, trucks, engines, defence, and special vehicles. The company has 6 manufacturing plants across 4 locations in India — Ennore (Tamil Nadu), Hosur (Tamil Nadu), Alwar (Rajasthan), Bhandara (Maharashtra,) and Pantnagar (Uttaranchal) with a capacity of 164k units for Medium & Heavy Commercial Vehicles (M&HCV) and 72k units for Light Commercial Vehicles (LCVs). It focuses on the M&HCV segment and has a significant presence in the bus segment. A separate EV mobility business with headquarters in UK has been established under name "Switch Mobility".

Key Rationale

- **CV Industry Outlook:**AL reiterated its earlier guidance of industry growth at 8%-10% YoY for MHCV and 5%-6% YoY growth for LCV in FY24E (over the high base of FY23). The management expects similar growth momentum in FY25, led by a favourable macroeconomic environment, strong replacement demand and robust Government Capex outlay.
- **Target of Mid-teens EBITDA Margins:**AL reported 10% EBITDA margins in Q1FY24 and has set a mid-teen EBITDA margins target over the medium term. We expect EBITDA margins to improve moving forward due to (1) Slightly higher ASP and lower discounts leading to higher net realizations; (2) Higher GMs on softening commodity costs and value engineering (3) Favourable product mix skewed towards higher tonnage vehicles; (4) Operating leverage driven by absolute volume growth; (5) Growth in International business, Defence, Power Solutions, and Aftermarket which are higher-margin contributing businesses.
- **EV Business:**AL has given a short-term loan of Rs 220 Cr to SWITCH Mobility in Q1FY24 and reiterated its investment plans to infuse Rs 1,200 Cr in it over the next 12 months. The investment is predominantly towards meeting Capex requirements in developing new products – two new LCVs: Electric Dost and Bada Dost; low floor 12/9 meter buses for the EU/Indian market respectively. Switch Mobility to launch an e-LCV in H2FY24.
- **Focus on Electrification:** Currently the EV business is at a nascent stage and business models like E-Mobility as a service is evolving in India

The management remains very positive and optimistic about the future of the electric vehicle and believes AL to be well positioned compared to many of its global competitors. AL has advanced a short-term loan of Rs 220 Cr in Q1FY24 and reiterated its investment plans to infuse a total of Rs 1,200 Cr over the next 12 months in SWITCH. Switch Mobility to launch an e-LCV in H2FY24.

- **Valuation & Outlook:**AL remains well-positioned to benefit from a longish CV upcycle. We remain positive on the long-term growth trajectory of the company with better margins led by operational efficiencies, material cost reduction program, softening of commodity costs, and pricing discipline, and expect 8% CAGR volume growth over FY23-26E; We forecast the company to post Revenue/ EBITDA/PAT growth of 11%/22%/34% CAGR over FY23-26E. We maintain our BUY rating on the stock with the TP at Rs 210/share, valuing the stock at 19x Jun'25E EPS (unchanged), implying an upside of 19% from the CMP.
- **Key risks:**a) Higher Interest rate, b) Macro Economic risks, and c) Higher fuel prices.

Industry view



Over Weight

CMP
177

Target Price
210

Upside
19%

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	36,144	2,931	1,380	4.5	33	13	17	16
FY24E	41,193	4,420	2,755	9.4	19	22	28	12
FY25E	47,151	5,164	3,172	10.8	17	21	25	10
FY26E	49,902	5,336	3,314	11.3	16	18	21	9

Source: Company, Axis Securities

Profit & Loss					(Rs Cr)
Y/E Mar	FY23A	FY24E	FY25E	FY26E	
Net revenues	36,144	41,193	47,151	49,902	
Operating expenses	33,213	36,773	41,987	44,566	
EBIDTA	2,931	4,420	5,164	5,336	
EBIDTA margin (%)	8.1	10.7	11.0	10.7	
Other income	116	163	153	158	
Interest	289	286	258	182	
Depreciation	732	769	830	892	
Profit Before Tax	2,110	3,527	4,229	4,419	
Tax	730	772	1,057	1,105	
Reported Net Profit	1,380	2,755	3,172	3,314	
Net Margin (%)	3.8	6.7	6.7	6.6	
Adjusted Net Profit	1,325	2,756	3,172	3,314	

Source: Company, Axis Research

Balance Sheet					(Rs Cr)
Y/E Mar	FY23A	FY24E	FY25E	FY26E	
Equity capital	294	294	294	294	
Reserves & surplus	8,132	10,594	13,472	16,493	
Shareholders' funds	8,426	10,888	13,766	16,786	
Total Loans	3,180	2,880	2,580	2,280	
Deferred tax liability	504	504	504	504	
Total Liabilities and Equity	12,109	14,271	16,849	19,570	
Gross block	10,919	11,401	12,126	12,876	
Depreciation	3,984	4,753	5,583	6,476	
Net block	6,935	6,648	6,543	6,400	
Capital WIP	133	350	375	375	
Investments	6,664	6,864	7,064	7,264	
Inventory	2,774	3,157	3,617	3,418	
Debtors	4,063	4,289	4,909	4,785	
Cash & Bank Bal	501	2,605	4,972	7,719	
Loans & Advances	1,522	2,478	2,916	3,379	
Current Assets	8,861	12,529	16,414	19,301	
Sundry Creditors	7,175	7,944	9,070	9,157	
Other Current Liability	3,307	4,175	4,475	4,612	
Current Liability & Provisions	10,482	12,119	13,545	13,770	
Net current assets	(1,621)	410	2,868	5,531	
Total Assets	12,109	14,271	16,849	19,570	

Source: Company, Axis Research

Cash Flow

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
EBIT	2,199	3,651	4,334	4,444
Other Income	116	163	153	158
Depreciation & Amortisation	732	769	830	892
Interest paid(-)	(289)	(286)	(258)	(182)
Tax paid(-)	(730)	(772)	(1,057)	(1,105)
Extra Ord Income	85	(1)	-	-
Operating Cash Flow	2,112	3,525	4,002	4,206
Change in Working Capital	(110)	73	(92)	85
Cash flow from Operations	2,002	3,598	3,910	4,291
Capex	(445)	(700)	(750)	(750)
Investment	(1,844)	(200)	(200)	(200)
Cash flow from Investing	(2,289)	(900)	(950)	(950)
Change in borrowing	(327)	(300)	(300)	(300)
Others	361	-	-	-
Dividends paid (-)	(294)	(294)	(294)	(294)
Cash flow from Financial Activities	(259)	(594)	(594)	(594)
Change in Cash	(546)	2,104	2,366	2,748
Opening cash	1,047	501	2,605	4,972
Closing cash	501	2,605	4,972	7,719

Source: Company, Axis Research

Ratio Analysis

(%)

Key Ratios	FY23	FY24E	FY25E	FY26E
Revenue Growth	66.7	14.0	14.5	5.8
EBITDA Margin	8.1	10.7	11.0	10.7
Net Profit Margin	3.7	6.7	6.7	6.6
ROCE (%)	12.6	21.8	21.0	18.5
ROE (%)	16.5	28.1	25.4	21.5
EPS	4.5	9.4	10.8	11.3
P/E (x)	33.3	18.9	16.4	15.7
P/ BV (x)	5.2	4.8	3.8	3.1
EV/ EBITDA (x)	15.9	11.8	9.6	8.7
Fixed Assets Turnover Ratio (x)	7.0	8.0	9.4	10.2
Debt / Equity (x)	0.4	0.3	0.2	0.1
EV/ Sales (x)	1.3	1.3	1.1	0.9

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 Hawaii 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
901

Target Price
1050

Upside
17%

Key Rationale

- 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 Q4FY23, 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 Apr'23 service PMI numbers of 62 were the highest in nearly 13 years. 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.
- Stable raw material prices to drive margins** – The inflation in raw material prices played a spoilsport for the company in FY23 in terms of profitability and market share loss as it had to undertake price hikes in the face of intense competition. However, we believe RM prices are likely to remain stable moving ahead and margins are likely to recover as well. The management in the Q4FY23 concall highlighted that the post-correction of the prices in Q3FY23, the high-cost inventory at the distributor and retail has been stabilised and the prices are now competitive. We believe this will lead to further market share gains.
- Outlook:** The Q1FY24 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	Sales	EBITDA	EPS	PER	RoE	RoCE	EV/EBIDTA
March	(Rs Cr)	(Rs Cr)	(Rs)	(x)	(%)	(%)	(x)
FY23	2,783	336	6.2	144.7	8.3	8.8	65.8
FY24E	3,338	528	12.1	74.5	14.5	15.0	41.5
FY25E	3,983	682	16.7	53.9	17.3	18.1	31.7
FY26E	4,591	794	20.1	44.9	17.7	18.7	26.8

Source: Company, Axis Securities

Profit & Loss		(Rs Cr)			
Y/E Mar, Rs Cr	FY23	FY24E	FY25E	FY26E	
Net sales	2,783	3,342	3,988	4,597	
Growth, %	4.9	20.1	19.3	15.3	
Other operating income	0	0	0	0	
Total income	2,783	3,342	3,988	4,597	
Raw material expenses	-1,334	-1,488	-1,741	-2,002	
Employee expenses	-343	-412	-474	-545	
Other Operating expenses	-769	-923	-1,104	-1,269	
EBITDA (Core)	336	519	670	781	
Growth, %	(19.2)	54.5	29.2	16.5	
Margin, %	12.1	15.5	16.8	17.0	
Depreciation	-125	-129	-133	-137	
EBIT	211	390	537	644	
Growth, %	(30.3)	85.1	37.8	19.8	
Margin, %	7.6	11.7	13.5	14.0	
Other Income	19	21	25	28	
Non-recurring Items	0	0	0	0	
Pre-tax profit	210	392	542	652	
Tax provided	-56	-99	-137	-164	
Profit after tax	154	293	406	488	
Growth, %	(33.6)	89.8	38.4	20.3	
Net Profit (adjusted)	154	293	406	488	
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	56	193	423	750	
Debtors	263	316	377	434	
Inventory	706	848	1,012	1,166	
Loans & advances	0	0	0	0	
Other current assets	81	81	81	81	
Total current assets	1,275	1,607	2,062	2,601	
Investments	25	25	25	25	
Gross fixed assets	1,567	1,617	1,667	1,717	
Less: Depreciation	-564	-693	-826	-962	
Add: Capital WIP	149	149	149	149	
Net fixed assets	1,151	1,072	990	903	
Non-current assets	34	34	34	34	
Total assets	2,486	2,739	3,111	3,563	
Current liabilities	472	519	573	623	
Provisions	19	19	19	19	
Total current liabilities	491	537	591	642	
Non-current liabilities	143	143	143	143	
Total liabilities	633	680	734	785	
Paid-up capital	25	25	25	25	
Reserves & surplus	1,828	2,034	2,353	2,754	
Shareholders' equity	1,852	2,059	2,377	2,779	
Total equity & liabilities	2,486	2,739	3,111	3,563	

Source: Company, Axis Research

Cash Flow

(Rs Cr)

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E	FY26E
Pre-tax profit	210	392	542	652
Depreciation	125	129	133	137
Chg in working capital	-34	-148	-171	-161
Total tax paid	-56	-99	-137	-164
Cash flow from operating activities	245	274	367	464
Capital expenditure	-140	-50	-50	-50
Chg in marketable securities	0	0	0	0
Cash flow from investing activities	-140	-50	-50	-50
Free cash flow	105	224	317	414
Equity raised/(repaid)	0	0	0	0
Dividend (incl. tax)	-62	-87	-87	-87
Cash flow from financing activities	-62	-87	-87	-87
Net chg in cash	43	137	230	327
Opening cash balance	13	56	193	423
Closing cash balance	56	193	423	750

Source: Company, Axis Research

Ratio Analysis

(%)

Y/E Mar	FY23E	FY24E	FY25E	FY26E
EPS (INR)	6.2	12.1	16.7	20.1
Growth, %	(33.6)	94.4	38.0	20.2
Book NAV/share (INR)	74.7	83.3	96.5	113.0
FDEPS (INR)	6.2	12.1	16.7	20.1
CEPS (INR)	11.3	17.3	22.0	25.5
CFPS (INR)	15.5	11.7	15.6	19.3
DPS (INR)	2.5	3.5	3.5	3.5
Return ratios				
Return on assets (%)	7.1	12.2	14.7	15.3
Return on equity (%)	8.3	14.5	17.3	17.7
Return on capital employed (%)	8.8	15.0	18.1	18.7
Turnover ratios				
Asset turnover (x)	1.8	2.1	2.5	2.8
Sales/Total assets (x)	1.1	1.3	1.3	1.4
Sales/Net FA (x)	2.3	2.8	3.6	4.4
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	39.4	40.0	40.1
Working capital days	58.8	61.7	64.1	65.7
Liquidity ratios				
Current ratio (x)	2.5	2.9	3.5	4.0
Quick ratio (x)	1.3	1.7	2.1	2.6
Interest cover (x)	11.0	20.6	28.0	33.2
Dividend cover (x)				
Total debt/Equity (%)	-	-	-	-
Net debt/Equity (%)	(4.0)	(12.1)	(21.9)	(31.9)
Valuation				
PER (x)	144.7	74.5	53.9	44.9
PEG (x) - y-o-y growth	(4.3)	0.8	1.4	2.2
Price/Book (x)	12.1	10.8	9.3	8.0
EV/Net sales (x)	7.9	6.6	5.4	4.6
EV/EBITDA (x)	65.8	41.5	31.7	26.8
EV/EBIT (x)	104.8	54.8	39.4	32.3

Source: Company, Axis Research

KIRLOSKAR BROTHERS LTD. – STRUCTURAL CHANGES PUMPING PROFITABILITY

KBL– India's one of the oldest pump manufacturing company with an extensive experience of around 100 years in manufacturing centrifugal pumps. The company's products are sold across 6 continents and over 100 countries through its 6 domestic and 5 international state-of-the-art manufacturing plants. KBL holds the market leadership position in the industrial pump segment and is one of the top 3 players in residential pumps. The company has 16,250 plus channel partners with 650+ authorised service centres in India and 250 channel partners overseas.

Key Rationale

- Diminishing EPC business & increasing focus on services and value added products:** KBL has strategically reduced its exposure to the EPC business in light of its low-margin yield and high working capital requirements. Resultantly, the contribution of EPC orders to the company's total revenue has gradually declined to 5% in FY23 from 75% in FY10. Moreover, the company has increased its focus on revenue contribution from margin-accretive services and value-added products. This structural change has aided the company in achieving consistent revenue growth as well as significantly improving its profitability. As a result, KBL's consolidated operating profit margins have increased by 710bps over the last 6 years to a healthy 10.7%. With increasing exposure from the ONM segment and an increase in value-added products, we believe KBL is well-placed to achieve further margin improvement to the tune of 190bps and post operating margins of 12.6% by FY25E.
- Improving order book:** KBL's order book in Q1FY24 stood robust at Rs 3,020cr improved by 16% YoY. This impressive growth was led by factors such as a) technological advancements achieved by the company during the year, b) Improving product mix, c) Its focus on establishing and maintaining a strong brand name and d) introduction of new products in the US market and increase in revenue contribution from service segment for its UK entity. For this order book, the major inflow has come from the Irrigation & Water Management sector (Rs 679Cr) and the Power sector (Rs 503 Cr). We expect the company's order book to improve further on account of the current uptick in the real estate industry, increasing government initiatives and infrastructure developments, increasing demand for water supply and irrigation, and steady Capex activities across the country.
- Increase in government spending:** In the last few years, the Government of India (GOI) has been aggressively focussing on improvement in the infrastructure of the country which has directly increased the demand for pumps. KBL has strategically positioned itself among the top 3 players in the residential pump segment. Moreover, with the strong brand presence of the company, KBL will further penetrate the market with its high-value-added products
- Increasing revenue contribution from international subsidiaries:** KBL's international subsidiary – KBIBV contributed 31% to the company's consolidated revenue (Rs 1,177 Cr) in FY23. The company's products have been well accepted in the international market despite being sold at a 20-30% premium. Moreover, it has been strategically expanding its footprint in foreign territories. SPP Pumps is the largest pump manufacturing company in the UK. Similarly, KBL has not only been improving organically but also operationally. It has implemented notable technological advancements with the help of 3D printers which has resulted in reduced lead time for companies to replace accessories, which has resulted in notable volume growth for the company on a YoY basis
- Outlook:** We believe our recommendation is supported by a) Robust improvement in the company's order book, b) Increasing revenue contribution from the Services segment, c) Restructuring of business activities resulting in improving ROE and ROCE (to 21% and 26.4% respectively) and operating margins (by 190 bps to 12.6% by FY25). At the current CMP, the stock looks attractive at 17x 1 Yr-Fwd consensus PE. In view of the above-mentioned growth drivers, we value the company at a revised 19x on FY25 earnings to arrive at an upgraded Target Price of Rs 975/share, implying an upside of 15% from the current levels backed by consistent business performance in the last couple of quarters.

Industry view



Over Weight

CMP
839

Target Price
975

Upside
16%

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	EBITDA Margin (%)	NetProfit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBITDA (x)	ROE (%)	ROCE (%)
FY22	3,058	206	6.7	94	11.9	82.3	32.5	7.1	11.2
FY23	3,730	399	10.7	235	29.6	29.8	16.4	17.4	21.9
FY24E	4,320	520	12.0	331	41.6	20.9	12.1	20.6	25.7
FY25E	4,990	630	12.6	408	51.3	16.9	9.5	21.0	26.4

Source: Company, Axis Securities;

Profit & Loss		(Rs Cr)			
Y/E March	FY22	FY23	FY24E	FY25E	
Net Sales	3,058	3,730	4,320	4,990	
Growth (%)	12.6	22.0	15.8	15.5	
Other Operating Income	0	0	0	0	
Total Income	3,058	3,730	4,320	4,990	
Raw Material Expense	1,680	1,955	2,221	2,535	
Employee Expense	502	565	672	786	
Power & Fuel Expense	48	58	52	60	
Other Operating Expense	622	753	856	979	
Operating Profit	206	399	520	630	
Growth (%)	-14	94	30	21	
Operating Margin (%)	6.7	10.7	12.0	12.6	
Other Income	32	27	27	27	
EBITDA	238	426	547	657	
Growth (%)	-19.0	78.8	28.3	20.1	
EBITDA Margin (%)	7.8	11.4	12.7	13.2	
Depreciation	70	69	74	79	
EBIT	169	358	473	578	
Interest Cost	33	35	34	37	
Profit Before Tax	135	322	439	540	
Tax	54	93	119	142	
Profit After Tax	82	229	321	398	
Growth (%)	-47.0	181.2	39.9	24.2	
Share of Profit of an associate/OCI	13	10	10	10	
Net Profit (Adjusted)	94	239	331	408	
EPS	12	30	42	51	

Source: Company, Axis Research

Balance Sheet		(Rs Cr)			
Y/E March	CY22	CY23E	CY24E	CY25E	
SOURCES OF FUNDS					
Equity Share Capital	16	16	16	16	
Reserves & Surplus	1164	1392	1694	2073	
Net Worth	1180	1407	1709	2089	
Borrowings	396	286	275	300	
Other Liabilities	1286	1323	1494	1693	
Total Liabilities	1683	1608	1770	1993	
Total Equity & Liability	2863	3016	3479	4082	
APPLICATION OF FUNDS					
Cash & Bank Balance	164	253	462	771	
Investments	333	317	337	357	
Advances	267	237	237	237	
Fixed & Other Assets	2098	2209	2443	2717	
Total Assets	2863	3016	3479	4082	

Source: Company, Axis Research

Cash Flow		(Rs Cr)			
Y/E March	FY22	FY23	FY24E	FY25E	
PBT	135	318	439	540	
Depreciation & amortisation	70	69	74	79	
Interest expense	22	23	34	37	
Interest / Dividend Recd	-5	-16	-17	-17	
Other Adjustments	23	46	-20	-20	
(Inc)/Dec in working capital	-88	-44	-39	-32	
Tax paid	-41	-67	-119	-142	
CF from operating activities	114	329	352	446	
Capital expenditure	-82	-133	-106	-106	
(Purchase) / Sale of Investments	18	13	0	0	
Income from investments and others	-118	44	36	11	
CF from investing activities	-182	-76	-70	-95	
Inc/(Dec) in share capital	0	0	0	0	
Inc/(Dec) in debt	75	-123	-10	24	
Dividends & Interest paid	-45	-47	-62	-66	
Other Financial Activities	0	0	0	0	
CF from financing activities	30	-169	-73	-42	
Net cash flow	-38	84	209	309	
Opening balance	174	134	253	462	
Other Bank Balance	-2	3	0	0	
Closing balance	134	221	462	771	

Source: Company, Axis Research

Ratio Analysis		(%)			
Key Ratios	FY22	FY23	FY24E	FY25E	
Per share data					
No. of shares (Cr)	7.9	8.0	8.0	8.0	
BVPS (INR)	148.6	177.0	215.0	262.8	
CEPS (INR)	19.0	36.9	49.7	60.1	
DPS (INR)	3.0	3.0	3.0	3.0	
Financial Ratios					
RoE (%)	7.1	17.4	20.6	21.0	
RoCE (%)	11.2	21.9	25.7	26.4	
Debt/Equity (x)	0.3	0.2	0.2	0.1	
EBIT/Interest (x)	5.0	10.1	14.0	15.5	
Turnover Ratios					
Asset turnover (x)	1.9	2.2	2.2	2.1	
Sales/Net FA (x)	5.5	6.1	6.7	7.4	
Working capital/Sales (x)	0.2	0.1	0.1	0.1	
Receivable days	65.3	52.7	53.7	54.7	
Inventory days	81.2	77.2	80.2	81.2	
Payable days	149.8	130.9	132.9	133.9	
Working capital days	-3.3	-1.0	1.0	2.0	
Liquidity Ratios					
Current ratio (x)	1.5	1.6	1.7	1.8	
Quick ratio (x)	1.0	1.0	1.1	1.2	
Interest cover (x)	5.5	9.3	12.7	13.8	
Net debt/Equity (x)	0.2	0.0	-0.1	-0.2	
Valuation (x)					
PE	82.3	29.8	20.9	16.9	
PEG (x) YoY growth	-1.8	0.2	0.5	0.7	
P/BV	5.7	4.8	3.9	3.2	
EV/EBITDA	32.5	16.4	12.1	9.5	
EV/Sales	2.2	1.7	1.5	1.2	
EV/EBIT	39.6	18.2	13.3	10.4	

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

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. It raised Rs 384 Cr in Mar'23 via allotment of up to 1.28 Cr fully convertible warrants of FV of Rs 2 each, meant for the purpose of expansion of the current manufacturing capacity.
- Outlook & Valuation:** With the phase-wise volume expansion progress, we model Revenue/EBITDA/PAT CAGR of 46%/45%/51% over FY23/25E. The company issued 8.48 Cr bonus shares (FV Rs 2 each) on 25th Sep'23. We now increase our P/E ratio from 22x to 23x as the government capex and infrastructure growth story continues. We arrive at our new TP of Rs 265 (Earlier target of Rs 470 i.e. Rs 235 post bonus issue is achieved), implying an upside potential of 15% 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	2,314	181	128	8	22%	30	7.2	21.1
FY25E	3,315	271	205	12	20%	19	4.1	13.7
FY26E	4,094	339	260	15	20%	15	3.3	10.6

Source: Company, Axis Securities

Industry view



Equal Weight

CMP
230

Target Price
265

Upside
15%

Income Statement

(Rs Bn)

Y/E March	FY 23A	FY 24E	FY 25E	FY 26E
Revenue From Operations	1,550	2,314	3,315	4,094
Other Income	5	3	7	8
Total Income	1,555	2,317	3,322	4,102
Cost of materials consumed	1,365	2,001	2,902	3,584
Purchases of stock-in-trade	-	-	-	-
Changes in inventories of finished goods, stock-in-trade.	(6)	25	-	-
Employee benefits expense	20	27	39	49
Other expenses	41	80	102	122
Total Expenditure	1,421	2,133	3,044	3,754
EBITDA	129	181	271	339
EBITDA per tonne (Rs/T)	5,383	5,021	5,320	5,430
Depreciation and amortization expense	4	8	17	19
EBIT	125	173	254	321
Finance costs	6	5	2	0
Profit Before Exceptional Items And Tax	124	171	259	329
Exceptional Items	(1)	-	-	-
Profit Before Tax	123	171	259	329
Total Tax Expenses	32	43	54	69
Profit For The Year / Period Attributable To Owners Of The Parent	90	128	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	7.57	12.10	15.35
Diluted (Rs.)	9.28	7.04	11.25	14.27
DPS (Rs/sh)	0.20	0.20	0.20	0.20
Payout Ratio	2.2%	2.8%	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	415	497
CWIP	4	4	4	4
Intangible assets				
Investments	16	16	16	16
Inventories	168	164	239	295
Trade Receivables	141	158	182	191
Cash / Bank balance	53	120	194	295
Misc. Assets	115	115	115	115
Total assets	563	736	1,166	1,413
Equity capital	17	17	19	19
Reserves	390	566	1,003	1,259
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	38	48	59
Capital employed	563	736	1,166	1,413

Source: Company, Axis Research

Cash Flow	(%)			
Y/E March	FY 23A	FY 24E	FY 25E	FY 26E
Profit before tax	123	171	259	329
Depreciation	4	8	17	19
Interest Expenses	6	5	2	0
Non-operating / EO item	(0)	-	-	-
Change in W/C	(102)	(4)	(88)	(54)
Tax paid	(26)	(43)	(54)	(69)
Operating Cash Flow	5	137	136	224
Capital Expenditure	(19)	(101)	(275)	(100)
Free cash Flow	(14)	36	(139)	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	66.5	74.6	100.8
Opening Cash	0.3	50.1	116.6	191.2
Closing Cash	50.1	116.6	191.2	292.0

Source: Company, Axis Research

Raito Analysis	(%)			
Y/E March	FY 23A	FY 24E	FY 25E	FY 26E
Operational Ratios				
Sales growth (% YoY)	14.4%	49.3%	43.3%	23.5%
EBITDA growth (% YoY)	44.7%	39.7%	50.1%	25.1%
Op. profit growth (% YoY)	45.0%	38.0%	47.1%	26.3%
Net Profit growth (% YoY)	47.6%	42.1%	59.8%	26.9%
EBITDA Margin %	8.3%	7.8%	8.2%	8.3%
Net profit Margin %	5.8%	5.5%	6.2%	6.3%
Tax Rate %	26.5%	25.0%	21.0%	21.0%
Efficiency Ratios				
Total Asset turnover (x)	3.43	3.56	3.49	3.17
Sales/Gross block (x)	19.99	12.99	7.32	7.40
Sales/Net block(x)	23.71	14.66	7.98	8.24
Working capital/Sales (x)	0.18	0.12	0.11	0.10
Valuation Ratios				
PER (x)	29.71	30.37	19.01	14.98
P/BV (x)	7.58	7.18	4.09	3.27
EV/Ebitda (x)	20.70	21.08	13.70	10.60
EV/Sales (x)	1.73	1.65	1.12	0.88
Dividend Yield (%)	0.00	0.00	0.00	0.00
Return Ratios				
ROE	0.30	0.22	0.20	0.20
ROCE	0.28	0.28	0.25	0.25
Leverage Ratios				
Debt / equity (x)	0.13	0.07	0.02	0.00
Net debt/ Equity (x)	(0.00)	(0.14)	(0.17)	(0.23)
Net debt/Ebitda (x)	(0.00)	(0.44)	(0.64)	(0.87)

Source: Company, Axis Research

CIE AUTOMOTIVE INDIA LTD- OUTPERFORMANCE IN INDIA AND EU OPERATIONS

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.

Key Rationale

- **Indian operations likely to outperform underlying industry growth:** As per management revenue in Q2 was impacted by differential performance across segments and across customers; along with certain impact due to product mix. In the medium term, the management is confident of outperformance in India operations led by overall industry growth, demand-backed capex and existing order commitments from OEMs. The management is focused on operational efficiencies to meet CIE parents' EBITDA standards (18-19%).
- **Europe Business – Sluggish short-term but tailwinds likely to emerge in the mid-term:**The management informed that revenue from EU operations in Q2CY23 was impacted on account of weaker performance in the PV forgings division, the decline in the Metalcastello plant due to subdued US demand and reduction in scrappage surcharge from Euro 120/ton in Q2CY22 to Euro 100/ton in Q2CY23. It expects a flat industry growth in CY24 on a YoY basis and CIE to report similar to slightly positive growth than the industry (recovery post that may be expected with tailwinds such as interest rates peaking, stability in RM costs, and preparedness towards EV transition). Post the hive-off of the German trucking business, the EBITDA margins continue to have been positively impacted led by lower energy prices, input cost pass-through and internal efficiencies.
- **EV Portfolio:**Electrification of powertrain has seen rapid adoption in Europe with a market share of greater than 10%; and gradual pick up in India especially in the 2w and 3w segments.

The company's Spanish plant has orders for steel forgings used in battery packs and aluminium forging parts for chassis. The Italian plant has orders from US OEMs for EV transmission parts (commercial production to start in CY24). The management reiterated that these orders (forming >30% of total new order wins) should compensate for any potential drop in future revenues due to EV penetration.

- **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 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 remain flat (decline in demand led by high-interest rates by Central Banks in EU and USA) in CY24 and recovery is expected by management post that. **Based on strong fundamentals and ability to generate FCFs** we value the company at a 1-year Forward PE multiple of 24x in Indian operations (aided by overall industry growth and demand backed capacity expansions) and 10x on moderate European operational earnings-Jun'25 EPS, thereby arriving at our SOTP-based TP of Rs 585/share, implying an upside of 21% from the CMP.
- **Key risks:**a) Higher Interest rate, b) Slower-than-expected 2W Demand Recovery, and c) Business skewed towards ICE vehicles

Industry view



Over Weight

CMP
481

Target Price
585

Upside
22%

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	19	18	18.1%	14.0%	7.3
CY23E	9,653	1,527	891	24	20	19.7%	15.3%	8.8
CY24E	10,798	1,728	1,044	29	17	20.0%	15.6%	7.3
CY25E	12,036	1,986	1,250	36	15	20.6%	15.6%	5.9

Source: Company, Axis Securities

Profit & Loss		(Rs Cr)			
Y/E Mar	CY22A	CY23E	CY24E	CY25E	
Net sales	8,753	9,653	10,798	12,036	
Raw materials	(4,776)	(5,068)	(5,615)	(6,139)	
Staff costs	(902)	(1,046)	(1,188)	(1,324)	
Other expenses	(1,903)	(2,013)	(2,268)	(2,588)	
Total expenses	(7,581)	(8,126)	(9,070)	(10,050)	
EBITDA	1,172	1,527	1,728	1,986	
Depreciation	(296)	(339)	(348)	(361)	
EBIT	876	1,188	1,379	1,625	
Other income	58	68	59	59	
Interest expense	(23)	(71)	(51)	(23)	
Share of Profit/loss from associates	2	1	1	1	
Exceptional (expenses)/income	38	-	-	-	
Profit before tax	951	1,185	1,389	1,662	
Tax expense	(240)	(294)	(344)	(412)	
Adjusted PAT	683	891	1,044	1,250	
Reported PAT	711	891	1,044	1,250	
No. of shares	37.9	37.9	37.9	37.9	
Reported EPS (Rs/share)	18.8	23.5	27.5	33.0	

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	5,516	6,465	7,620	
Total Shareholders Funds	5,098	5,895	6,844	8,000	
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	4,104	3,990	3,871	
Total Capital And Liabilities	9,928	10,681	11,487	12,493	
NON-CURRENT ASSETS					
Net Tangible Assets	2,600	2,786	2,838	2,877	
Capital Work-In-Progress	119	194	294	394	
Intangible Assets	2,946	2,946	2,946	2,946	
Other Non-Current Assets	340	340	340	340	
Total Non-Current Assets	6,006	6,267	6,419	6,558	
CURRENT ASSETS					
Inventories	1,211	1,455	1,479	1,649	
Current Investments	544	544	544	544	
Trade Receivables	861	979	1,035	1,154	
Cash And Cash Equivalents	86	217	789	1,368	
Other Current Assets	3,922	4,414	5,068	5,935	
Total Current Assets	9,928	10,681	11,487	12,493	
Total Assets	9,928	10,774	11,621	12,824	

Cash Flow	(Rs Cr)			
	Y/E Mar	CY22A	CY23E	CY24E
Cash flows from operating activities				
Profit before tax for the year	951	1,185	1,389	1,662
Finance costs	45	71	51	23
Depreciation and amortization	354	339	348	361
Cash Flow From operation before changes in WC	1,326	1,596	1,788	2,046
(Increase)/decrease in trade receivables	(298)	(118)	(57)	(119)
(Increase)/decrease in inventories	(180)	(244)	(25)	(170)
(Decrease)/Increase in trade payables	468	87	86	131
Income taxes paid	(198)	(294)	(344)	(412)
Net income generated by OCF	1,118	1,027	1,448	1,476
Cash flows from investing activities				
Payments for PPE & IA	(501)	(600)	(500)	(500)
Net cash (used in)/generated by investing activities	(640)	(600)	(500)	(500)
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)	(71)	(51)	(23)
Net cash used in financing activities	(488)	(296)	(375)	(397)
Net increase/(decrease) in CCE	(9)	131	572	579
Opening Cash and cash equivalents	165	71	202	774
Effects of exchange rate changes	3	-	-	-
Closing Cash and cash equivalents	158	202	774	1,353

Source: Company, Axis Research

Ratio Analysis	(%)			
	Key Ratios	CY22A	CY23E	CY24E
Sales growth (% YoY)	29.4%	10.3%	11.9%	11.5%
EBITDA Margin %	24.5%	30.3%	13.1%	15.0%
Net profit Margin %	79.7%	25.3%	17.2%	19.7%
Sales/Net block(x)	3.3	3.6	3.8	4.2
PER (x)	18	20	17	15
P/BV (x)	3	3	3	2
EV/Ebitda (x)	7.3	8.8	7.3	5.9
ROE	14.0%	15.1%	15.3%	15.6%
ROCE	18.1%	19.7%	20.0%	20.6%
ROIC	15.46%	19.93%	20.10%	20.41%
Debt / equity (x)	0.24	0.18	0.12	0.07
Net debt/ Equity (x)	0.18	0.11	0.00	0.00
Net debt/Ebitda (x)	0.77	0.42	0.00	0.00
Interest Coverage ratio (x)	38.56	16.64	27.21	71.69

Source: Company, Axis Research

CCL PRODUCTS LTD – WELL-PLACED TO GROW

CCL Products (CCLP) was incorporated in 1994 as an Export Oriented company engaged in the manufacture of Instant Coffee globally. It can import green coffee into India from any part of the world, and export the same to any part of the world, free of all duties. CCL Products manufactures Soluble Instant Spray Dried Coffee Powder, Spray Dried Agglomerated / Granulated Coffee, Freeze Dried Coffee, as well as Freeze Concentrated Liquid Coffee. Today, the company is India's largest manufacturer and exporter (36% market share) of instant coffee and the largest player in the private label market (with a 10% market share).

Industry view



Overweight

CMP
646

Target Price
750

Upside
16%

Key Rationale

- Strong guidance for FY24:** The company posted volume growth of 20%, which was led by a strong order book as well as the continued ramp-up of the new Vietnam plant which got commissioned in Q4FY23. The company has maintained its volume growth guidance of 20% in FY24 and has further guided for 18-20% CAGR volume growth for the next three years. It targets a 15% global market share in the next few years from the current market share of 8%.
- Domestic business on a strong footing:** In FY23, CCL's domestic business revenue stood at Rs 280 Cr, up 40% YoY, out of which Rs 150-160 Cr was branded business (Continental Coffee, Non-coffee products) while the rest contributed private labels and bulk business. The management is targeting revenue growth of 30-40% in FY24 for India's branded business, which will be led by increasing the company's distribution reach from the current 70-80,000 outlets to 100,000 (adding ~20,000) outlets in FY24.
- New capacity expansion: Vietnam:** The 13,500 MT capacity in Vietnam got commercialised in Q4FY23 and the capacity utilisation will be increased gradually to 50% in FY24. Currently, the total Vietnam capacity stands at 30,000 MT (ex-FDC). Moreover, the 5,500-6,000 MT FDC plant announced in Q3FY23 will commence operations in H2FY25. **India:** The new 16,500 MT SD facility in Tirupati (AP) is expected to be commercialised by the end of FY24. Post commercialisation of India and Vietnam facilities, CCL will have a total capacity of ~77,000 MT by FY25 across Vietnam and India.
- Outlook:** We remain positive on CCL Products given: 1) Strong footing in the International markets as it continues to gain market share and access new business, 2) Cost-efficient business model; 3) Doubling the capacity from 38,500 MT in FY22 to ~77,000 MT by FY25 across Vietnam and India; 4) Capacity addition in the value-added products (FDC and small packs) in Vietnam, and 5) Foray into high-margin branded retail business (Continental Coffee, Plant-based meat protein).

Key Financials (Consolidated)

Y/E Mar	Net sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBITDA (x)	ROE (%)	ROCE (%)
FY23	1,462	331	204	15.4	42.0	27.4	16.3	16.0
FY24E	2,071	400	269	20.2	31.9	23.5	18.1	19.0
FY25E	2,610	500	316	23.8	27.1	19.4	18.3	19.2
FY26E	3,257	626	375	28.2	22.9	15.9	18.4	20.7

Source: Company, Axis Securities

Profit & Loss		(Rs Cr)			
Y/E Mar, Rs Cr	FY23	FY24E	FY25E	FY26E	
Net sales	2,071	2,610	3,257	4,035	
Growth, %	41.7	26.0	24.8	23.9	
Total income	2,071	2,610	3,257	4,035	
Raw material expenses	(1,130)	(1,412)	(1,730)	(2,127)	
Employee expenses	(113)	(143)	(179)	(223)	
Other Operating expenses	(428)	(555)	(722)	(904)	
EBITDA (Core)	400	500	626	780	
Growth, %	20.8	25.0	25.2	24.7	
Margin, %	19.3	19.2	19.2	19.3	
Depreciation	(64)	(110)	(132)	(143)	
EBIT	336	390	494	637	
Growth, %	22.9	16.0	26.7	29.0	
Margin, %	16.2	14.9	15.2	15.8	
Interest paid	(34)	(46)	(71)	(72)	
Other Income	3	4	4	4	
Non-recurring Items	-	-	-	-	
Pre-tax profit	305	347	427	570	
Tax provided	(36)	(31)	(51)	(80)	
Profit after tax	269	316	375	490	
Growth, %	31.6	17.6	18.7	30.5	
Net Profit (adjusted)	269	316	375	490	
Unadj. shares (Crs)	13.3	13.3	13.3	13.3	

Source: Company, Axis Research

Balance Sheet		(Rs Cr)			
As at 31st Mar, Rs Cr	FY23	FY24E	FY25E	FY26E	
Marketable securities at cost	-	-	-	-	
Debtors	441	556	694	860	
Inventory	578	729	909	1,127	
Other current assets	144	144	144	144	
Total current assets	1,247	1,226	1,290	1,684	
Investments	0	0	0	0	
Gross fixed assets	1,600	2,000	2,400	2,600	
Less: Depreciation	(343)	(453)	(585)	(728)	
Add: Capital WIP	54	54	54	54	
Net fixed assets	1,312	1,602	1,870	1,927	
Non-current assets	39	39	39	39	
Total assets	2,598	2,867	3,199	3,650	
Current liabilities	839	858	881	909	
Provisions	3	3	3	3	
Total current liabilities	841	860	883	911	
Non-current liabilities	274	274	274	274	
Total liabilities	1,115	1,134	1,157	1,185	
Paid-up capital	27	27	27	27	
Reserves & surplus	1,456	1,705	2,014	2,438	
Shareholders' equity	1,482	1,732	2,041	2,464	
Total equity & liabilities	2,598	2,867	3,199	3,650	

Source: Company, Axis Research

Cash Flow	(Rs Cr)			
	Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Pre-tax profit	305	347	427	570
Depreciation	64	110	132	143
Chg in working capital	(25)	(246)	(296)	(355)
Total tax paid	(36)	(31)	(51)	(80)
Other operating activities	(10)	(10)	(10)	(10)
Cash flow from operating activities	298	170	202	267
Capital expenditure	(333)	(400)	(400)	(200)
Other investing activities	0	-	-	-
Cash flow from investing activities	(333)	(400)	(400)	(200)
Free cash flow	(36)	(230)	(198)	67
Other financing activities	(40)	(59)	(59)	(59)
Cash flow from financing activities	49	(59)	(59)	(59)
Net chg in cash	13	(288)	(257)	9
Opening cash balance	56	83	(203)	(457)
Closing cash balance	83	(203)	(457)	(446)

Source: Company, Axis Research

Ratio Analysis	(%)			
	Y/E Mar	FY23	FY24E	FY25E
EPS (INR)	20.2	23.8	28.2	36.8
Growth, %	31.6	17.6	18.7	30.5
Book NAV/share (INR)	111.4	130.2	153.4	185.2
FDEPS (INR)	20.2	23.8	28.2	36.8
CEPS (INR)	25.0	32.0	38.1	47.6
CFPS (INR)	2.8	13.3	15.6	20.5
Return ratios				
Return on assets (%)	13.0	13.3	14.7	16.4
Return on equity (%)	18.1	18.3	18.4	19.9
Return on capital employed (%)	19.0	19.2	20.7	22.2
Turnover ratios				
Asset turnover (x)	1.0	1.0	1.0	1.1
Sales/Total assets (x)	0.9	1.0	1.1	1.2
Sales/Net FA (x)	1.8	1.8	1.9	2.1
Working capital/Sales (x)	0.2	0.2	0.3	0.3
Receivable days	77.8	77.8	77.8	77.8
Inventory days	101.9	101.9	101.9	101.9
Payable days	16.1	16.1	16.1	16.1
Working capital days	57.3	79.9	97.1	110.5
Liquidity ratios				
Current ratio (x)	1.5	1.4	1.5	1.9
Quick ratio (x)	0.8	0.6	0.4	0.6
Interest cover (x)	9.8	8.5	6.9	8.8
Total debt/Equity (%)	0.6	0.5	0.5	0.4
Valuation				
PER (x)	31.9	27.1	22.9	17.5
PEG (x) - y-o-y growth	1.0	1.5	1.2	0.6
Price/Book (x)	5.8	5.0	4.2	3.5
EV/Net sales (x)	4.5	3.7	3.1	2.5
EV/EBITDA (x)	23.5	19.4	15.9	12.7
EV/EBIT (x)	28.0	24.9	20.2	15.6

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.

Key Rationale

- **Penetration in rural markets remains low** at ~10% of total credit extended. MFI industry penetration is also quite low at 35-38%, with rural penetration even lower at ~32% compared to 48% in urban markets, providing a large growth opportunity for rural-focused microfinanciers. Lower penetration in core markets and a level playing field for NBFC MFIs due to a conducive regulatory environment are important growth enablers for microfinanciers like CAGrameen.
- **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. It plans to gradually scale up its non-MFI (retail finance) book as well. Currently, the company is scaling up its individual unsecured book, 2-wheelers and LAP portfolio and will also continue its pilot on Gold Loans and Affordable Housing segments during the year. In the near term, CAGrameen looks at clocking GLP of Rs 25,000 Cr and doubling its book over the next 4-5 years. We expect the company to deliver a healthy ~24% CAGR growth over FY23-25E.
- **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 0.9/0.3% in Q1FY24 vs. 1.2/0.4% in Q4FY23. 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% over FY24-25E.
- **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. CAGrameen 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 focus, (b) Customer-centric approach, (c) Robust technology infrastructure, (d) Strong Risk Management Framework and (e) Adequate capitalization. Despite a strong show in Q1FY24, the management has retained its earlier guidance. However, we expect some upwards revision in the management's guidance across most parameters (GLP growth, NIMs and RoA/RoE). We maintain our BUY recommendation with a revised target price of Rs 1,600/share. We value CAGrameen at 3.2x FY25E BV.
- **Key risks:** a) Moderation in GLP growth momentum, b) Inability to scale up new products and business in new geographies

Industry view



Equal weight

CMP
1,316

Target Price
1,600

Upside
22%

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 (%)
FY22	1,583	1,078	353	22.7	255.2	5.5	2.2	0.9
FY23	2,114	1,506	826	52.0	321.4	4.2	4.2	0.4
FY24E	2,887	2,072	1,272	80.0	401.4	3.3	5.2	0.4
FY25E	3,569	2,550	1,561	98.2	499.6	2.7	5.1	0.4

Source: Company, Axis Securities.

Profit & Loss		(Rs Cr)			
Y/E MAR	FY22	FY23P	FY24E	FY25E	
Net Interest Income	1,583	2,114	2,887	3,569	
Other Income	183	224	244	270	
Total Income	1,766	2,338	3,131	3,838	
Total Operating Exp.	688	831	1,059	1,288	
PPOP	1,078	1,506	2,072	2,550	
Provisions & Contingencies	597	401	370	461	
PBT	481	1,105	1,702	2,089	
Provision for Tax	128	279	430	528	
PAT	353	826	1,272	1,561	

Source: Company, Axis Research

Balance Sheet		(Rs Cr)			
Y/E MAR	FY22	FY23P	FY24E	FY25E	
SOURCES OF FUNDS					
Share capital	156	159	159	159	
Reserves and Surplus	3,822	4,948	6,220	7,781	
Shareholders' funds	3,978	5,107	6,379	7,940	
Borrowings	12,921	16,312	20,194	24,971	
Other Liabilities, provisions	496	439	544	674	
Total liabilities	17,395	21,858	27,117	33,585	
APPLICATION OF FUNDS					
Cash & Bank Balance	1,761	1,436	1,619	2,006	
Investments	1	455	537	749	
Goodwill	318	376	376	376	
Advances	14,765	19,043	23,906	29,638	
Fixed Assets & Other Assets	550	548	680	818	
Total assets	17,395	21,858	27,117	33,585	

Source: Company, Axis Research

KEY RATIOS

Y/E MAR	FY22	FY23P	FY24E	FY25E
VALUATION RATIOS				
EPS	22.7	52.0	80.0	98.2
Earnings Growth (%)	162.9	129.5	54.0	22.7
BVPS	255.2	321.4	401.4	499.6
Adj. BVPS	237.3	315.8	394.6	491.2
ROAA (%)	2.2	4.2	5.2	5.1
ROAE (%)	9.2	18.2	22.2	21.8
P/E (x)	58.1	25.3	16.5	13.4
P/ABV (x)	5.5	4.2	3.3	2.7
PROFITABILITY				
NIM (%)	10.9	11.6	12.6	12.5
Cost-Assets Ratio	4.2	4.2	4.3	4.2
Cost-Income Ratio	39.0	35.6	33.8	33.6

Source: Company, Axis Research

(%)

Balance Sheet Structure Ratios

Y/E MAR	FY22	FY23P	FY24E	FY25E
ASSET QUALITY				
Loan Growth (%)	26.0	29.0	25.5	24.0
Borrowings Growth (%)	18.1	26.2	23.8	23.7
CRAR	26.5	23.6	21.8	20.8
Tier I	25.9	22.7	20.9	19.9
ASSET QUALITY				
Gross NPLs (%)	3.6	1.2	1.2	1.3
Net NPLs (%)	0.9	0.4	0.4	0.4
PCR	50.3	62.7	64.7	66.2
Credit costs	4.5	2.4	1.7	1.7

Source: Company, Axis Research

PNC INFRA TECH 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



Key Rationale

- **Robust & Diversified Order Book:** As of June'23-end, PNCIL's order book plus L1 position stands robust at Rs.18,900 Cr (2.7x 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 53% share and the balance 47% 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. Management has also indicated that the intensity of competition for high-value projects has decreased and that most awards are expected to be completed by the NHA1 by Q3FY24 before the onset of the General election in FY24. 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%/13% 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 425/share, implying an upside potential of 16% 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.

CMP
366

Target Price
425

Upside
16%

Key Financials

Y/E Mar (Rs Cr)	NetSales (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change PER(x)	P/E (x)	ROE (%)	ROCE (%)	EV/EBITDA (x)	DPS (Rs)
2021	4925	(887)	14.1	18.0	17.6	13%	18%	9.1	0%
2022	6,306	(811)	17.5	19.0	19.0	14%	18%	10.4	50%
2023	7,061	611	23.8	16.0	14.5	17%	20%	10.1	0%
2024E	7,951	698	27.2	14.0	13.6	16%	21%	8.8	0%

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY22	FY23	FY24E	FY25E
Net sales	6,306	7,061	7,951	8,906
Other operating inc.	0	0	0	0
Total income	6,306	7,061	7,951	8,906
Cost of goods sold	4,452	5,262	5,690	6,323
Contribution (%)	29.4%	25.5%	28.4%	29.0%
Operating Profit	2,325	845	1,186	1,398
Depreciation	-471	954	1,076	1,184
Interest & Fin Chg.	54	38	53	62
E/o income / (Expense)	-417	992	1,129	1,247
Pre-tax profit	130	110	123	130
Tax provision	80	64	72	80
(-) Minority Interests	-627	818	934	1,037
Associates	184	207	235	259
Adjusted PAT	-811	611	698	778

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY22	FY23	FY24E	FY25E
Total assets	5,302	6,070	6,798	7,709
Net Block	576	525	527	497
CWIP	14	9	9	9
Investments	0	0	0	0
Wkg. cap. (excl cash)	871	1035	1585	2035
Cash / Bank balance	1246	1991	1837	2058
Misc. Assets	528	373	352	405
	2068	2137	2488	2705
Capital employed				
Equity capital	5,302	6,070	6,798	7,709
Reserves	51	51	51	51
Pref. Share Capital	3289	3890	4588	5366
Minority Interests	0	0	0	0
Borrowings	216	450	450	450
Def tax Liabilities	1746	1679	1709	1841

Source: Company, Axis Research

Cash Flow

(Rs Cr)

Y/E Mar	FY22	FY23	FY24E	FY25E
PBT	631	818	934	1037
Depreciation	130	110	123	130
Interest Expense	42	64	72	80
Changes in Working Capital	-658	-935	164	-226
Others	117	6	-53	-62
Tax Paid	-175	-217	-235	-259
Net Cash from Operations	88	(153)	1004	699
Capex	-75	-62	-125	-100
Investment	-154	-163	-750	-450
Others	103	112	53	62
Net Cash from Investing	(126)	(114)	(822)	(488)
Borrowings	48	-83	0	0
Interest Expense	-42	-64	-72	-80
Dividend paid	-13	-13	0	0
Others	-235	312	-131	-79
Net Cash from Financing	(243)	153	(204)	(159)
Net Change in Cash	(281)	(114)	(21)	53
Opening cash	688	407	293	272
Closing cash	407	293	272	324

Source: Company, Axis Research

Ratio Analysis

(%)

Key Ratios	FY22	FY23	FY24E	FY25E
Sales Growth	28%	12%	13%	12%
Ebitda Growth	17%	21%	13%	10%
PAT Growth	24%	37%	14%	11%
PROFITABILITY RATIOS				
EBITDA Margin	12.5%	13.5%	13.5%	13.3%
Adjusted net margin	7.1%	8.7%	8.8%	8.7%
EFFICIENCY RATIOS (x)				
Capital Turnover	1.89	1.79	1.71	1.64
Total Asset Turnover	1.49	1.52	1.48	1.44
Fixed Asset Turnover	11.0	13.4	15.1	17.9
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	0.03	0.02
Interest coverage	10	15	15	15
PER SHARE DATA				
Diluted EPS (Rs)	17.5	23.8	27.2	30.3
Book value per share (Rs)	130	154	181	211
DPS (Rs)	0.5	0.5	0.0	0.0

Source: Company, Axis Research

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