TOP PICKS

July 2024

AXIS SECURITIES

Market Likely to Adjust to Fundamentals; Focus Remains on Style & Sector Rotation

The Axis Top Picks Basket delivered an excellent return of 11.8% in the last three months against the 7.5% return posted by Nifty 50 over the same period. This implies that the Axis Top Picks Basket beat the benchmark by a wide margin of 4.3%. Moreover, the basket inched up by 5.8% in the last one month. It gives us immense joy to share that our Top Picks Basket has delivered an impressive return of 306% since its inception (May'20), which stands well above the 159% return delivered by the NIFTY 50 index over the same period. In light of this, we continue to believe in our thematic approach to Top Picks selection.

FY25 – Good Start but Volatile Path Ahead; Macro to Remain at the Center: Nifty reached an all-time high of 24,045 on 27th Jun'24. This impressive growth was driven by several factors including 1) Positive development towards NDA 3.0, 2) Continued focus on CAPEX and Infrastructure development, 3) Improved sentiments towards policy continuity, 4) Strong domestic inflows, 5) Valuation comfort after the correction, and 6) Inline Q4FY24 earnings season. The Jun'24 was nonetheless an interesting month for the overall equity market. On June 4th, an unexpected surge in the number of votes in favour of the "India alliance" - no exit poll the day prior expected anything close to the actual voting pattern - caused a sharp and negative market reaction, with the Nifty 50 dropping by 6% and the India VIX jumping 28%. The ruling NDA faced tough competition but ultimately was able to form a coalition government, led by Prime Minister Narendra Modi for a third term. Later during the month, no major surprises were seen for the ministry allocation in the NDA 3.0 government. This sends a clear message to the market that the agenda of growth will continue to be a top priority moving forward. This development improved the confidence toward the political stability as well as the policy stability going forward. Election-related volatility has now reduced and India VIX is currently hovering around 13-14 levels, which stands far below its long-term average.

In the last one month, our benchmark index Nifty 50 went up by 6.6% while the broader market Midcap/Smallcaps went up by 8%/10% respectively. This outperformance was led by improved sentiments and positive flows. FIIs, who were the net sellers on a 3-month scale have turned into net buyers in the last one month. With this positive development, the Indian market cap has crossed the $5 Tn mark once again in June'24. Currently, 83% of the NSE 500 stocks were trading above their 200-DMA (day moving average) vs. the 60% of the stocks on the 4th June'24 closing. This indicates that the market has moved out of the oversold zone in the last one month.

We believe that with the recent run-up in the market, most of the narrative is already priced in. Moving forward, the market is likely to adjust to the fundamentals. In that regard, style and sector rotation will play a meaningful role in alpha generation. We further believe that the market fundamentals in the near term will be driven by: 1) Macroeconomic developments; 2) Pre-Budget Cues; 3) Q1FY25 Earnings; 4) Progress of Monsoon; 5) Direction of Bond Yields; 5) Oil Prices, and 6) Flows. Moreover, with a strong catch-up by Midcaps and Smallcaps in the last couple of months, we still believe the margin of safety (in terms of valuations) for these segments at current levels has reduced as compared to 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. Hence, we believe Nifty 50 could see a new high in the near term. In any case, the long-term story of the broader market continues to remain attractive and in this context, two themes – 'Growth at a Reasonable Price' and 'Quality' look attractive at the current juncture. Based on these developments, some market positioning is likely to shift towards defensive names from the domestic cyclicals in the near term. We believe Largecap private banks, Telecom, Consumption, IT, and Pharma provide more margin of safety in the near term. 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 some changes to our Top Picks recommendations. **We have booked Profit in Bank of Baroda and CreditAccess grameen and added HDFC Bank and HCL Tech to the recommendations.** Our modifications reflect the changing market style and shift towards the 'Growth at a Reasonable Price 'theme.

Our Key Themes

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Outlook 2024: The Indian economy continues to be a 'star performing' economy as against other emerging markets. Moreover, we firmly believe that it is likely to continue its growth momentum in 2024 and remain the land of stability against the backdrop of a volatile global economy. Consistently strong corporate earnings have meant that Indian corporates have been on a stronger footing than ever. Furthermore, corporates in need of capital have managed to raise capital, deleverage their balance sheets, and manage their capital structure better in the last 3 years. All these factors imply that Indian corporates are well-poised to generate growth in a volatile global scenario. It means Indian corporates are more likely to continue trading at premium valuations.

Key Monitorables in 2024: Multiple events are lined up in the second half of 2024 and the market will continue to closely monitor the developments around them. These key events are 1) Full-year budget around mid-Jul'24; 2) FED rate cut expectations around Sep'24; 3) Expectations of interest rates cut by the RBI in sync with global rate cuts; and 4) The US Election in Nov'24. The above-mentioned events are expected to keep the Indian equity market volatile and it could respond in either direction based on the developments. **In any case, we continue to believe in the long-term growth story of the Indian equity market.** With increasing Capex enabling banks to improve credit growth, we believe it is well-supported by the favourable structure emerging. With current valuations offering a limited scope for further expansion, an increase in corporate earnings will be the primary driver of the market returns moving forward. **Hence, bottom-up stock picking with a focus on 'growth at a reasonable price' and 'Quality' would be keys to generating satisfactory returns in the next one year**

We Maintain our Mar'25 Nifty Target at 24600

Base case: **In our Dec'23 Top Picks report, we upgraded the Dec'24 Nifty target to 23,000 with an upside potential of 14% from Nov'23 closing. We are happy to say that, we have successfully achieved the target well before the time. This indicates our confidence in the current macroeconomic cycle and the earnings growth.** We continue to believe that, the Indian economy stands at the 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, driven by the country's favourable structure, thanks to the increasing Capex which is enabling banks to improve credit growth. This will ensure that Indian equities will easily manage to deliver double-digit returns in the next 2-3 years, supported by double-digit earnings growth. Against this backdrop, we foresee Nifty earnings to post excellent growth of 16% CAGR over FY23-26. Financials will remain the biggest contributors for FY25/26 earnings.

In our base case, we maintained our Mar'25 Nifty target at 24,600 by valuing it at 20x on Mar'26 earnings. 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. Hence, any market correction on account of global challenges will be an opportunity to add to the equity investment. 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.

Bull case: In the bull case**, we value NIFTY at 22x, which translates into a Mar'25 target of 27,000.** Our bull case assumption is based on the Goldilocks scenario which presumes an overall reduction in volatility and the success of a soft landing in the US market. At present, we find ourselves near the peak of the current rate hike cycle, and the outlook for a soft landing has notably strengthened over the last one to two months. The market is currently building an expectation of at least one rate cut by US FED in the remaining part of 2024 and developments regarding the same will be keenly watched by the Street. Furthermore, the private Capex, which has been sluggish for the last several years, is expected to receive a much-needed push in the upcoming years with an expectation of policy continuity. In light of expectations of political stability, policy continuity, fiscal prudence path, private Capex cycle, rural revival and soft landing in the US market, Nifty earnings are likely to grow at 17-18% over FY23-26. This would augur well for capital inflows into emerging markets (EMs) and would increase the market multiples in the domestic market.

Bear Case: In the bear case, we value NIFTY at 16x, which translates into a Mar'25 target of 19,700. We assume the market to trade at an average valuation, led by political instability and deviation in policy continuity. Adding to that, we assume inflation to continue posing challenges in the developed world. Currently, we are near the peak of the rate hike cycle and the market has not seen such levels of interest rate hike in the recent past. Hence the chances to go wrong have increased significantly. If this scenario materializes, it would translate into a slowdown or heightened chance of recession in the developed market, which in turn, will impact export-oriented growth in the domestic market. Consequently, this will pose challenges to the earnings and market multiple of the domestic market. However, the likelihood of this scenario appears slim at the current juncture.

***Based on the above themes, we recommend the following stocks:* HDFC Bank, ICICI Bank, Coal India, Nestle India, State Bank of India, HCL Tech, Lupin ltd, Aurobindo Pharma, Federal Bank, Varun Beverages, TVS Motors, Bharti Airtel, J Kumar Infra, CIE Automotive India, WestlifeFood world, and Cholamandalam Invest and Finance**

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INVEST IN ONE CLICK

Axis Securities Top Picks

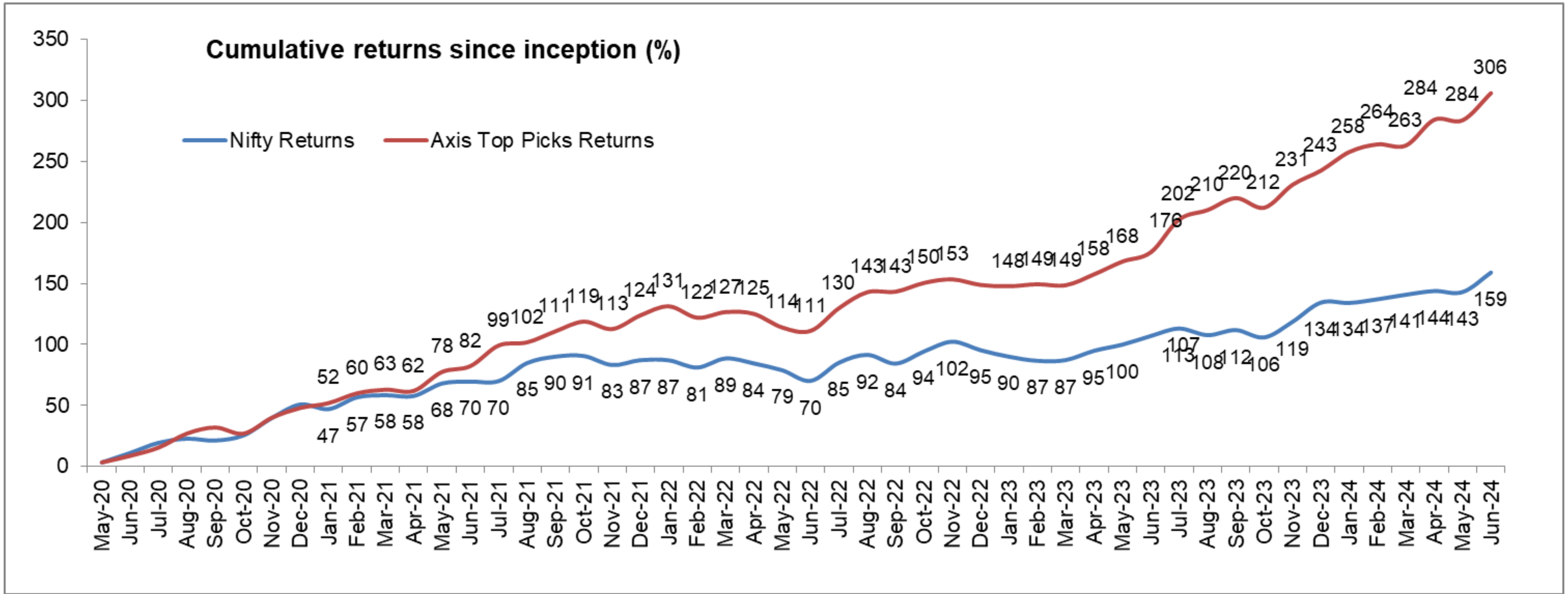
Category	Company Name	Sector	Stock price	Target Price	Upside (%)	12 Month Fwd PE	12 Month Fwd P/BV	Dividend Yield	TR 1M%	TR 3M %	TR 6M %	TR YTD %
Large Cap	ICICI Bank Ltd	Financials	1,200	1,325	10%	19.1	2.9	0.8	7.0	9.7	20.4	20.4
Large Cap	Coal India Ltd	Materials	473	550	16%	9.3	3.1	5.4	-3.7	9.0	27.3	27.3
Large Cap	Nestle India Ltd	Consumer Discretionary	2,552	2,880	13%	67.9	58.1	1.2	8.4	-2.7	-3.7	-3.7
Large Cap	State Bank of India	Financials	849	1,010	19%	11.0	1.7	1.6	2.2	14.7	34.4	34.4
Large Cap	Varun Beverages Ltd	Consumer Staples	1,630	1,830	12%	80.8	23.2	0.2	14.2	16.6	31.8	31.8
Large Cap	HDFC Bank Ltd.	Financials	1,684	2,000	19%	18.2	2.6	1.2	9.9	17.9	-0.2	-0.2
Large Cap	Bharti Airtel Ltd	Communication Services	1,444	1,650	14%	40.2	7.9	0.6	5.2	17.5	39.9	39.9
Large Cap	TVS Motor Company Ltd	Consumer Discretionary	2,365	2,700	14%	42.7	11.4	0.3	8.5	9.9	17.2	17.2
Large Cap	Cholamandalam Investment & Finance Company Ltd	Financials	1,424	1,575	11%	27.2	5.1	0.1	14.7	23.1	13.1	13.1
Large Cap	HCL Technologies Ltd.	IT	1,460	1,650	13%	23.5	5.7	3.6	10.2	-4.2	1.7	1.7
Mid Cap	Aurobindo Pharma Ltd	Health Care	1,208	1,330	10%	18.2	2.1	0.4	1.8	10.9	11.6	11.6
Mid Cap	Lupin Ltd	Health Care	1,621	1,785	10%	30.5	4.5	0.5	2.5	0.3	22.6	22.6
Mid Cap	Federal Bank Ltd	Financials	177	205	16%	10.4	1.4	0.7	9.4	18.0	13.5	13.5
Small Cap	CIE Automotive India Ltd	Consumer Discretionary	572	630	10%	22.7	3.2	0.9	8.4	25.0	22.6	22.6
Small Cap	Westlife Foodworld Ltd	Consumer Discretionary	840	980	17%	124.9	19.6	0.4	1.1	4.4	2.8	2.8
Small Cap	J.Kumar Infraprojects Ltd	Industrial	831	920	11%	16.3	2.1	0.5	9.9	31.6	43.9	43.9

Source: Company, Axis Securities, CMP as of 28th Jun 2024

Top Picks Performance

Axis Top Picks Performance							
	1M	3M	6M	1Y	3Y*	4Y*	Since Inception
Axis Top Picks Returns	5.8%	11.8%	18.5%	47.4%	30.6%	38.9%	306.0%
Nifty Returns	6.6%	7.5%	10.5%	25.1%	15.2%	23.6%	159.0%
Alpha	**-0.8%**	**4.3%**	**8.1%**	**22.2%**	**15.4%**	**15.4%**	**147.0%**

*CAGR Return



Note: Equal weight basket Performance as of 28th Jun 2024

Sector Outlook

Sector	Current View	Outlook
Automobiles	Over Weight	The Indian Automobile sector is witnessing significant demand improvement which is becoming more broad-based on a sequential basis. In FY24, FYTD domestic sales volumes of PV/2W/CV segments grew by 7.3%/10%/2.4% YoY respectively. It is noteworthy that this growth was despite the high base of FY23 and was driven by healthy demand. In the near term, demand momentum in PV/CV is expected to grow in low single digits, while 2W is anticipated to grow at high single digits (with volumes still below Pre-Covid levels). However, the tractor segment is expected to witness a single-digit decline. We expect EBITDA Margins to remain stable or even improve going forward, which will be led by a richer product mix, higher realizations, softer RM input cost, and positive operating leverage. We maintain our positive outlook on the sector as demand drivers remain intact. Based on the current development and positive outlook, we continue with our overweight stance on the sector. However, due to the recent rally in stocks, valuations are no longer attractive. Against this backdrop, we recommend a “Buy on Dips” strategy for Quality stocks.
Banking &Financial services	Over Weight	FY23 was a robust year for the BFSI sector as most of the Banks/NBFCs under our coverage remain well-placed to capitalize on growth opportunities going forward. Banks under our coverage continued to report healthy credit growth, largely led by the retail/SME segment, with some pick-up seen in the corporate lending segment as well. Commentary on the RBI asking banks to maintain a CD Ratio of ~75% dominated the discussion during the last few quarters. Most banks have highlighted that deposit accretion would remain a key lever to maintain the pace of credit growth. While credit growth has not shown any visible signs of slowdown, banks have indicated that they would calibrate growth in the unsecured segments (as the stress is visible in certain pockets) and will pursue growth where risk-reward is favourable. In our view, deposit mobilization remains a key lever to support the buoyancy in credit growth. The inability to do so would result in credit growth slowdown and/or NIM compression. Slippages during the quarter were marginally higher QoQ for certain banks. The outlook on asset quality remained largely stable supported by healthy recoveries/upgrades. Credit costs continued to remain under control. We believe RoAs for banks have peaked and should plateau or moderate marginally hereon for most banks. Current valuations are very attractive as compared to the market. Hence, we maintain our overweight stance on the sector.
Capital Goods	Equal Weight	The Capital Goods sector normalised towards the end of FY22/23 and companies are now being supported by the rise in the gross fixed capital formation. In the last three quarters, the domestic revenue of capital goods companies showed impressive growth on a YoY basis, thanks to efficient execution and a healthy order book. Moreover, the government’s Capex cycle continues to be robust and house registrations in the metro cities continue to witness promising traction. The private Capex cycle is also expected to pick up soon, which would further support the sector. Notably, most companies are now witnessing excellent growth traction in terms of order inflows which was not the case in the past 8-10 years. These companies are now commanding significant operating leverage, which essentially implies that the profit growth will be higher than the revenue growth in the upcoming years with improvement in the Capex cycle. However, in the near term, a slowdown in global growth is likely to weigh the order book of capital goods companies. Based on these developments, **we maintain our Equal Weight stance on the sector.**

Sector Outlook (Cont'd)

Sector	Current View	Outlook
Cement	Equal Weight	In Q4FY24, cement volume for our coverage universe grew by 12%, which was better than our expectation of 9%. EBITDA margins improved by 290bps YoY, driven by higher volume, operating leverage, and lower power/fuel costs. EBITDA/tonne for the quarter stood at Rs 1,002, up 18% YoY but down 8% QoQ. Cement demand stood better than expected, led by 1) Pre-election spending along with robust infrastructure and real estate demand which supported the overall volume growth during the quarter despite slow demand witnessed in the month of Jan'24 and the early part of Feb'24, 2) Higher government spending on infrastructure and housing supporting non-trade demand, 3) Real estate demand remaining robust and the cost of construction remaining under control. 4) IHB (Individual Home Builder) demand in Urban and Semi-Urban areas supporting overall cement demand. We remain positive as demand drivers are intact from the long-term perspective. We expect cement demand to grow at a CAGR of 8%-9% over FY23-FY26E. Despite companies adding capacities, we believe cement demand will outpace the cement supply. Cement prices and trends in fuel prices will be key monitorables. Hence, we **maintain our Equal Weight stance on the sector.**
Consumer staples	Equal Weight	Topline growth remains muted for staples companies, As most staple companies have delivered low to mid-single digit revenue growth as increased competitive intensity and anniversarization of price hikes have resulted in muted topline. On a positive front, most of the companies have highlighted early green shoots in rural areas. We are hopeful for demand recovery in the upcoming quarters. Easing inflation, higher government spending, and higher MSP are expected to drive rural demand in the coming quarters. However, the increasing competitive intensity from smaller and regional players, especially as raw material prices ease off, needs to be closely monitored. While gross margins continue on its recovery path, we keep EBITDA margins in 'Wait & Watch' mode. Gross margins across Staples companies are improving as key raw material prices such as crude, palm, and packaging materials remain stable. However, as companies increase advertising spends to regain market share, a slowdown in EBITDA margin expansion may be visible in the short term. Nonetheless, this is expected to benefit in the long run. Hence, **we maintain our Equal Weight stance on the FMCG sector**.
Consumer Discretionary	Equal Weight	After eight quarters of outperformance, demand in the Consumer Discretionary space has started showing signs of moderation from Q4FY23 onwards. A few important reasons for the said slowdown in sales growth are 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 the next 2 quarters. The focus is now shifted towards demand recovery as the slowdown in demand could limit the margin expansion from here onwards. Against this backdrop, we **continue with our Equal Weight stance on the sector** and remain watchful of the key developments in the space.
Information Technology	Equal Weight	After strong revenue growth momentum in FY22 and FY23, we believe Indian IT services may face short-term challenges on the demand front as well as on the margins front. This is on account of the economic slowdown, macroeconomic uncertainties, and weaker outlook. However, the industry's long-term outlook remains robust with the economy showing signs of recovery. We expect this recovery to begin in the second half of the year and FY25 will show strong revenue growth. We continue to believe that most IT services companies will regain momentum in H2FY25 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**.

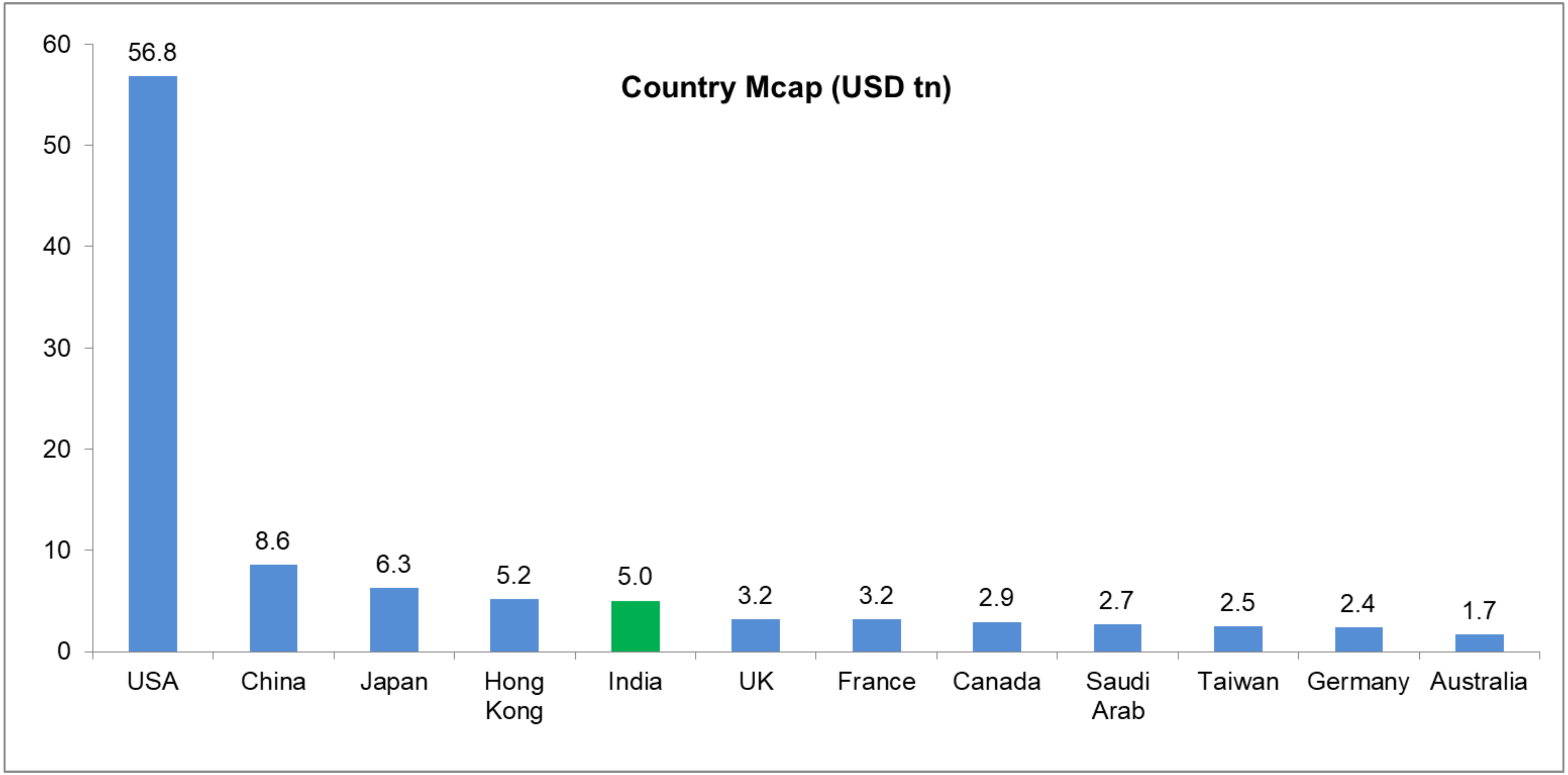
Sector Outlook (Cont'd)

Sector	Current View	Outlook
Metals &Mining	Equal Weight	Non-ferrous companies witnessed robust Margin Expansion in Q3FY24 on a QoQ basis. Ferrous reported mixed margin trends. In Q3FY24, the ex-Mumbai HRC prices rose by 2% YoY/QoQ each, averaging around Rs 57,374/t. Meanwhile, Chinese HRC prices remained range-bound, with a slight YoY increase of 1% and a QoQ decrease of 0.8%. China's Jan'24 annual CPI stood at -0.8% compared to the estimated -0.5% and the last year's -0.3%. Annual PPI declined by 2.5% YoY, against the estimate of a 2.6% decline and last year's estimates of a 2.7% decline. China's CPI experienced its longest phase of negative prices since Oct'09. Coking coal prices are still at an elevated level and are trading in the range of $310-$320/t. Iron ore prices have rallied to $130/t (CFR China), up 29%/12% YoY/QoQ in Q3FY24, led by restocking by China before the lunar holidays to replenish the stocks. Iron ore prices have corrected from the peak of $144/t in the 1st week of Jan'24 to the spot of $124/t. Steel spreads are likely to come under pressure or could remain flat QoQ in Q4FY24, primarily led by the surge in coking coal prices, while steel prices remain subdued. **We maintain our Equal Weight stance on the sector.**
Oil &Gas	Equal Weight	We have been noticing a high degree of uncertainty in the profitability of Oil Marketing companies for the last several quarters. This has been on account of 1) Limited ability to change the retail prices of automotive fuels and 2) Significant volatility in the crude prices leading to uncertainties in the retail margins. Fundamentally, higher crude prices result in losses for the OMCs and lower crude prices translate into profits. Encouragingly, the GOI cut the excise duty in Nov'21 and May'22 to mitigate the impact of high crude prices. Given the government's top priority clearly being inflation control, it seems unlikely that auto-fuel retail prices will be raised anytime soon. We, therefore, do not see an immediate recovery in the marketing margins of the OMCs. Factoring in these developments, we continue with our Equal Weight stance on the sector and will keep a close tab on further developments in the space.
Pharmaceuticals	Equal Weight	In Q4FY24, the Pharma Coverage universe demonstrated robust revenue growth of 11.5% YoY and 2.0% QoQ, primarily driven by volume gains, stable demand, and the introduction of new products such as gRevlimid, gSpiriva, and gPrezista. Additionally, there has been a stabilization of pricing pressure in the US base business. EBITDA margin witnessed a healthy improvement of 250bps YoY and 120bps QoQ, attributed to normalizing cost inflation and stabilizing prices. US price erosion remains benign, mostly in the low to mid-single digits for most players, with benefits derived from drug shortages and supply issues. There is an increasing focus on complex molecules, with Indian companies advancing up the value chain. Margins will also improve as raw material and freight costs normalize, US price erosion eases, and a better mix is achieved. Therefore, we continue to eye on companies that are focused on launching niche products in the US market and a strong product mix (Chronic Portfolio) in the Indian market. We maintain an Equal Weight stance on the sector.

Sector Outlook (Cont'd)

Sector	Current View	Outlook
Real Estate	Equal Weight	The Real Estate sector is seeing 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 Q1/Q2/Q3FY24, the demand did not pick up as expected. This was mainly on account of intense competition from Chinese manufacturers. The slowdown in the Chinese domestic market prompted Chinese companies to aggressively pursue exports to regain lost market share from Covid shutdowns. 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 in the near term and the broader demand scenario to normalize from FY25 onwards, given the current pace of recovery. Keeping this in view, **we maintain an Equal Weight stance on the sector.**
Telecom	Over Weight	The Telecom industry is highly consolidated with two strong and one weak player in the wireless space. 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 also been seeing an improved pricing environment. Rising consumption of data with increasing rural penetration, and rising conversion to 4G and 5G from 2G will help to gain further realization for telecom players. **We recommend an Over Weight stance on the sector.**

- India has retained its position as the fifth-largest market globally in terms of Mcap in USD Tn. It reached an all-time high level of $5 Tn once again in Jun'24.



Source: Bloomberg, Axis Securities

Multi-Asset Scorecard

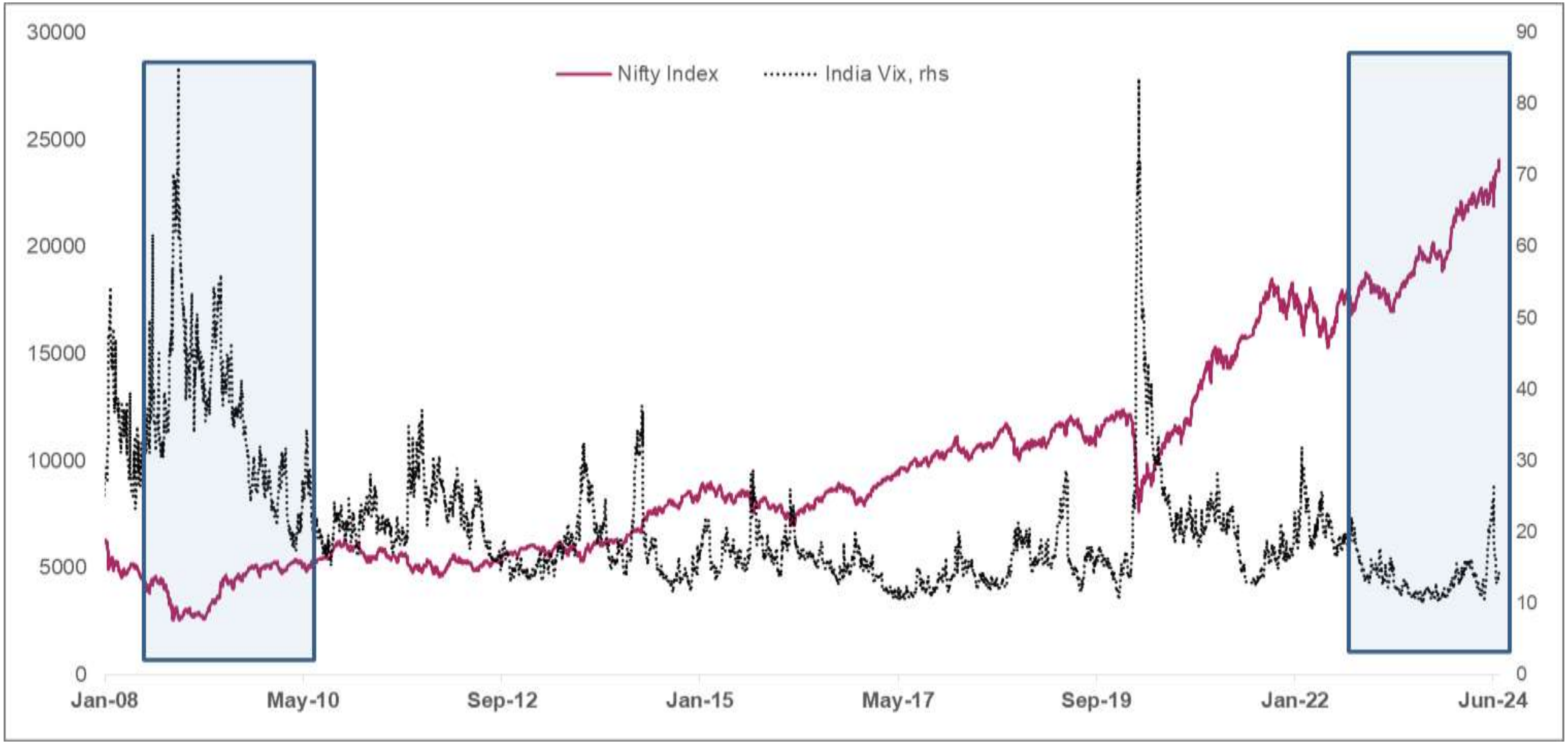
- On a YTD basis, the broader market has emerged as one of the best-performing asset classes in the last two weeks, overtaking the MCX Gold which was the outperformer till May end.
- The broader market has emerged as the best-performing asset class in 2023 as well as over the last 6.5-month period.
- The Indian broader 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 2024 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	2023	YTD
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: 55.6%	SmallCap: 21%
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: 46.6%	Midcap: 20.7%
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: 24.6%	S&P 500: 14.9%
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: 20%	MCX Gold: 13.6%
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%	MCX Gold: 14.9%	Nifty 50: 10.5%
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%	BSE Bond index: 7.9%	EM Index: 6.9%
7	SmallCap: -34%	Crisil comp Bond: 9%	SmallCap: -8%	MCX Gold: -6%	EM Index: -18%	SmallCap: 2%	Crisil comp Bond: 5%	SmallCap: -29%	SmallCap: -10%	Crisil comp Bond: 12%	MCX Gold: -4%	EM Index: -19.6%	EM Index: 5.7%	BSE Bond Index: 4.2%

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

India's Nifty Index Vs. VIX: Event Concludes with Volatility Drop

- Market volatility increased during the first week of Jun'24. India VIX was already on the higher side before the election results and it went up to 27 level on 4th Jun'24, led by a below-than-expected mandate for the ruling party NDA. As the event concluded with positive development towards the formation of the NDA 3.0 government, volatility drop was clearly visible in the market.
- Now, the India VIX is currently trading at ~13-14 level, which is below the long-term average.



Source: Bloomberg, Axis Securities

All Three Indices Moving in Tandem; Some Correction followed by Recovery Witnessed in the Broader Market

- The broader market has rebounded strongly from the Jun'24 low, thanks to the improved macro sentiment.
- In the last one month, the broader market outperformed the Largecap by a notable margin.

On 4th Jun'24

Nifty 50: -6%

NSE Mid Cap 100: -8%

NSE Small Cap 250: -7%

Returns since 4th June bottom

Nifty 50: 10%

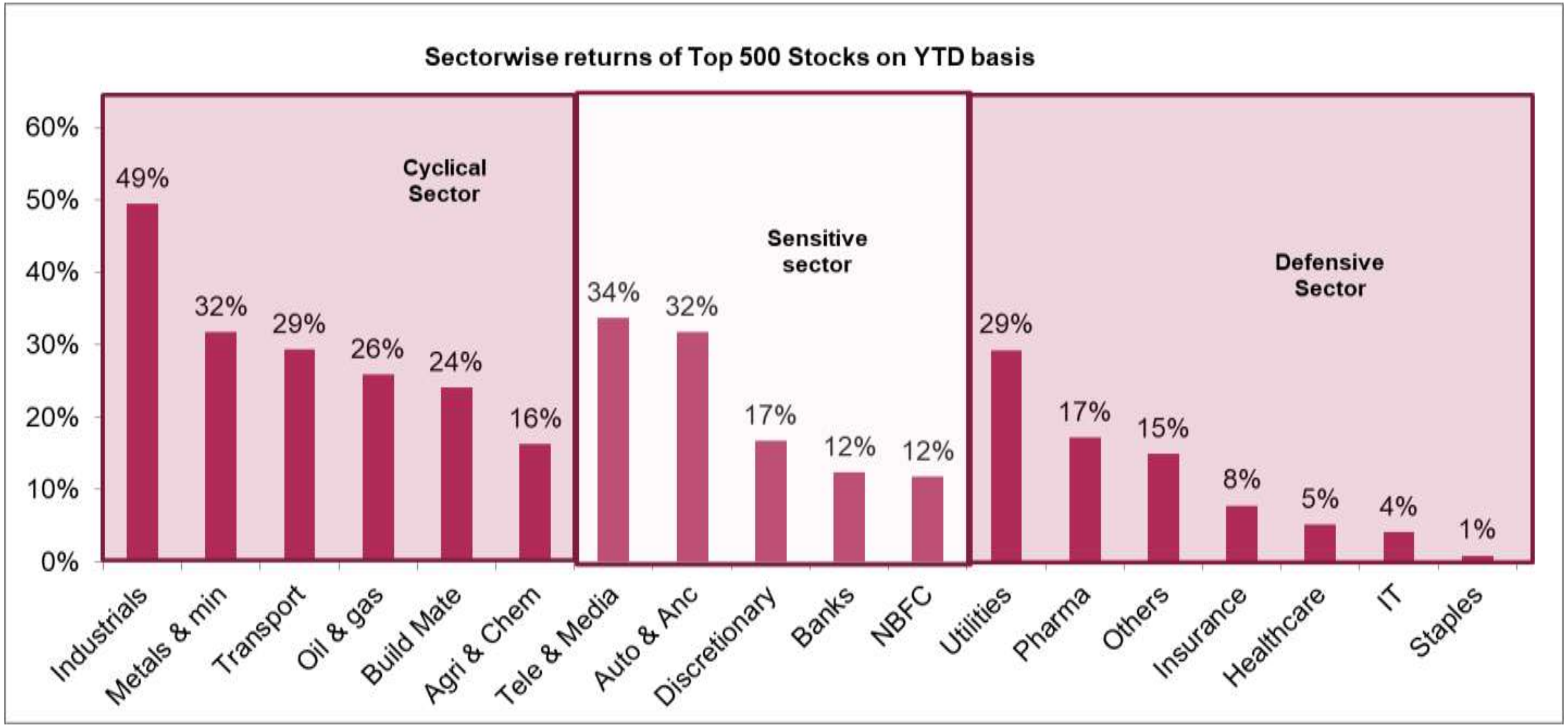
NSE Mid Cap 100: 13%

NSE Small Cap 250: 16%

Source: Bloomberg, Axis Securities

What Has Happened in 2024 Till Now

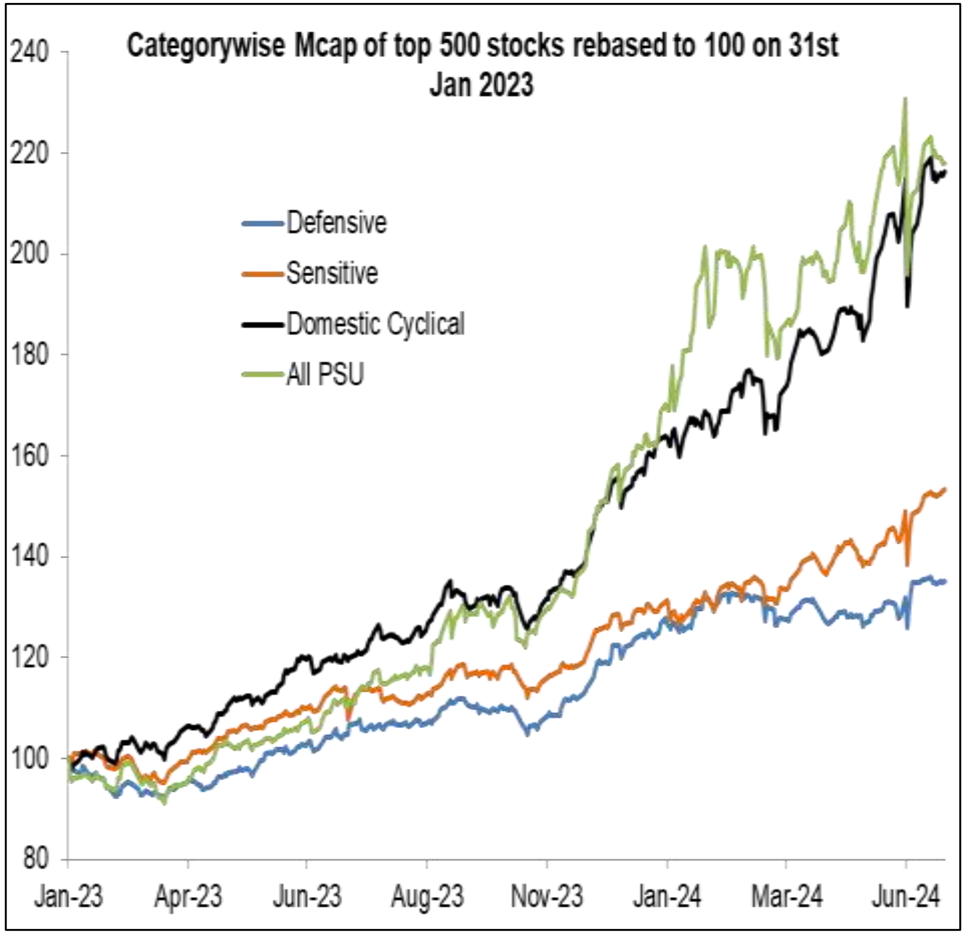
- Domestic cyclicals have outperformed the broader market
- Telecom and Auto have outperformed rate-sensitive plays
- Utility (due to Adani stocks) and Pharma are the clear winners in the Defensive sector

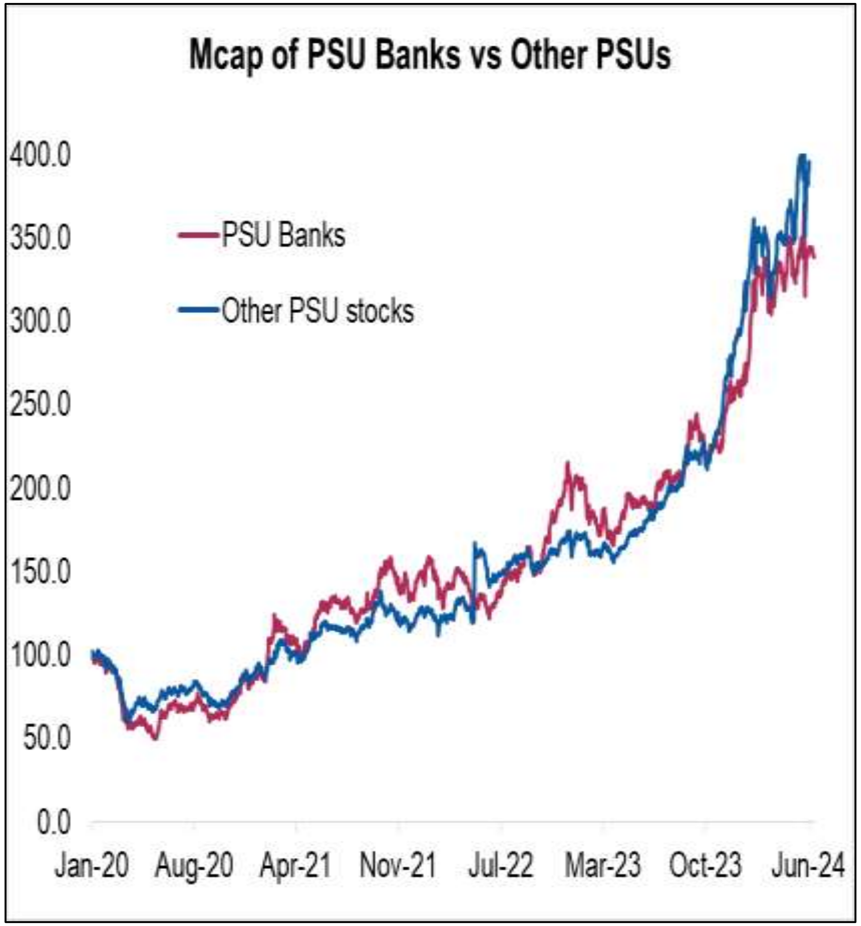


Source: Bloomberg, Axis Securities

All PSUs and Domestic Cyclicals are holding the Performance

Since last year's Budget, PSU stocks have outperformed other themes (Defensive, Cyclical, and Interest-rate sensitive).
Over the last three months, other PSU stocks in Utilities, Defense, and Railways have outperformed the Banking PSUs by a notable margin.





Source: Bloomberg, Axis Securities

PSU Performance May Sustain in NDA 3.0

- PSUs Mcap as % of total Mcap has reached 17% vs. 8% during the fall of Covid-19
- The historical 20-year average is 21%, implying enough growth headroom for the PSU stocks
- **Defence, PSU banks, OMCs, Utilities, Railway, PSUs might be the next big leaders**

Source: Bloomberg, Axis Securities

52W-High Analysis

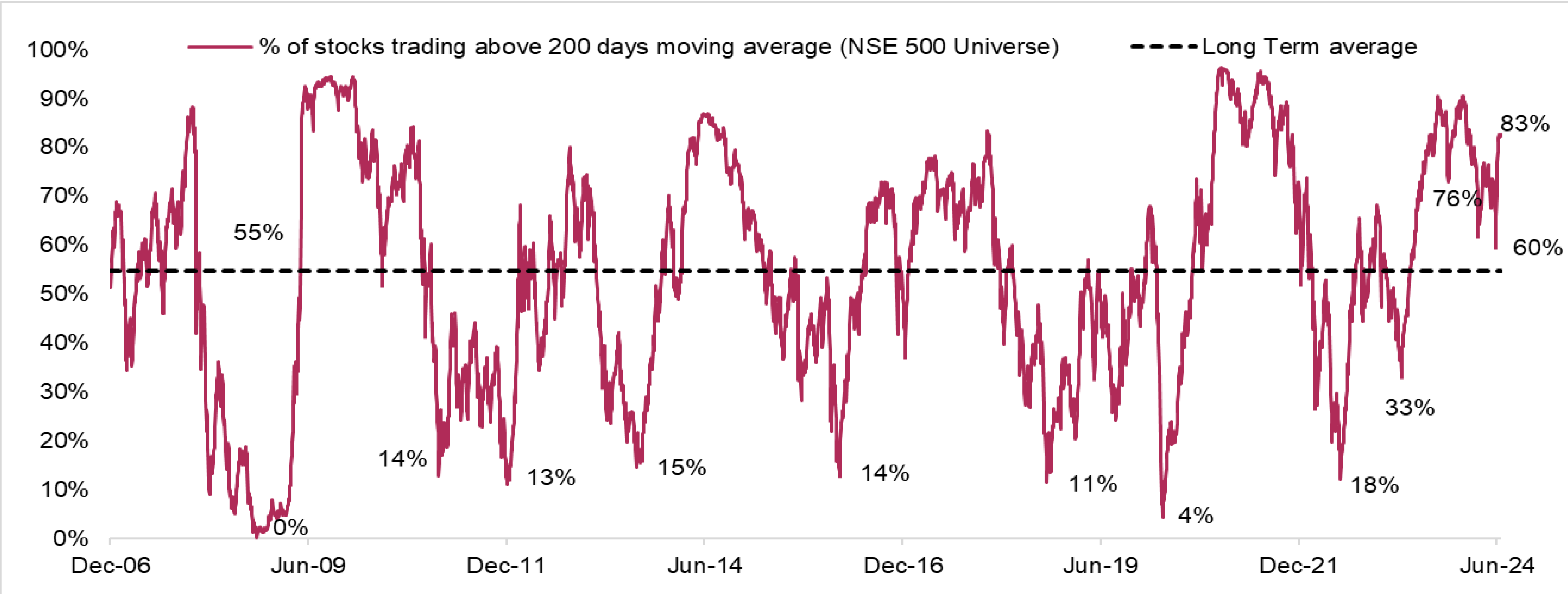
- After a recovery, 102 stocks are now trading at an all-time high vs. 70 stocks in May'24 end
- 308 (~61%) stocks are trading between 5%-20% below their 52W highs
- The Largecap market looks attractive at current levels
- Only 19 stocks are trading below 30% to their respective 52-week high
- Out of 55 PSUs, only 4 stocks are now near their 52W high vs. 35 stocks during Feb'24

		Current Level of Number of Stocks as Compared to 52W High			
Sector	**No of Stocks**	**Near to 52W high**	**5%-20% below 52W high**	**20%-30% below 52W high**	**Below 30%**
Agri & Chem	42	5	28	7	1
Auto &Anc	36	10	25	0	0
Banks	28	5	16	7	0
Build Mate	34	6	25	3	0
Discretionary	54	7	35	8	3
Healthcare	43	11	30	2	0
Industrials	40	11	24	2	3
IT	36	4	24	6	1
Metals & min	16	4	11	1	0
NBFC	50	11	29	8	2
Oil & gas	14	6	5	3	0
Others	49	13	18	12	4
Staples	26	3	18	3	2
Tele & Media	12	1	6	2	3
Transport	8	3	5	0	0
Utilities	13	2	9	2	0
Total	**501**	**102**	**308**	**66**	**19**
Large cap	**100**	**26**	**68**	**5**	**0**
Mid cap	**150**	**37**	**90**	**16**	**3**
Small cap	**250**	**37**	**149**	**45**	**16**
PSUs	**55**	**4**	**34**	**9**	**0**

Source: Bloomberg, Axis Securities, Performance as of 28th June 2024

NSE 500 Universe (200-Day Moving Average)

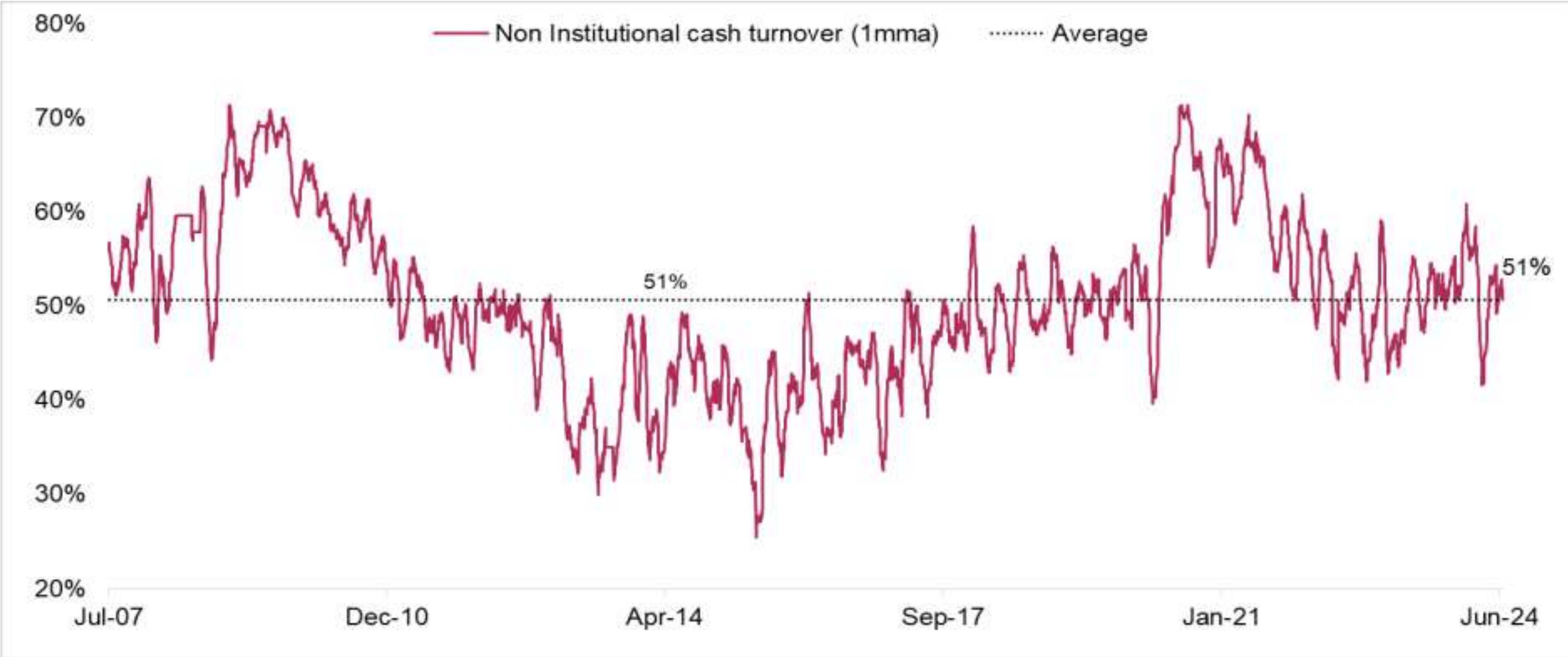
- In the last year, the market experienced a roller coaster ride. On 4th Jun’24, 60% of the stocks traded above 200 DMA due to volatility caused by the election results. Now with progress towards the formation of the NDA 3.0 government, the market has taken a breather and 83% of the stocks are now trading above 200 DMA, indicating that the market has moved out of the oversold zone of 4th Jun’24.
- Nonetheless, in the near term, the market will continue to be driven by macroeconomic data and its performance is likely to be range-bound for at least one quarter until signs of inflation moderating become visible. Sector and Style Rotation are likely to be visible in the market moving forward.



Source: Bloomberg, Axis Securities

Non-Institutional Turnover Recovered in the Last One Month

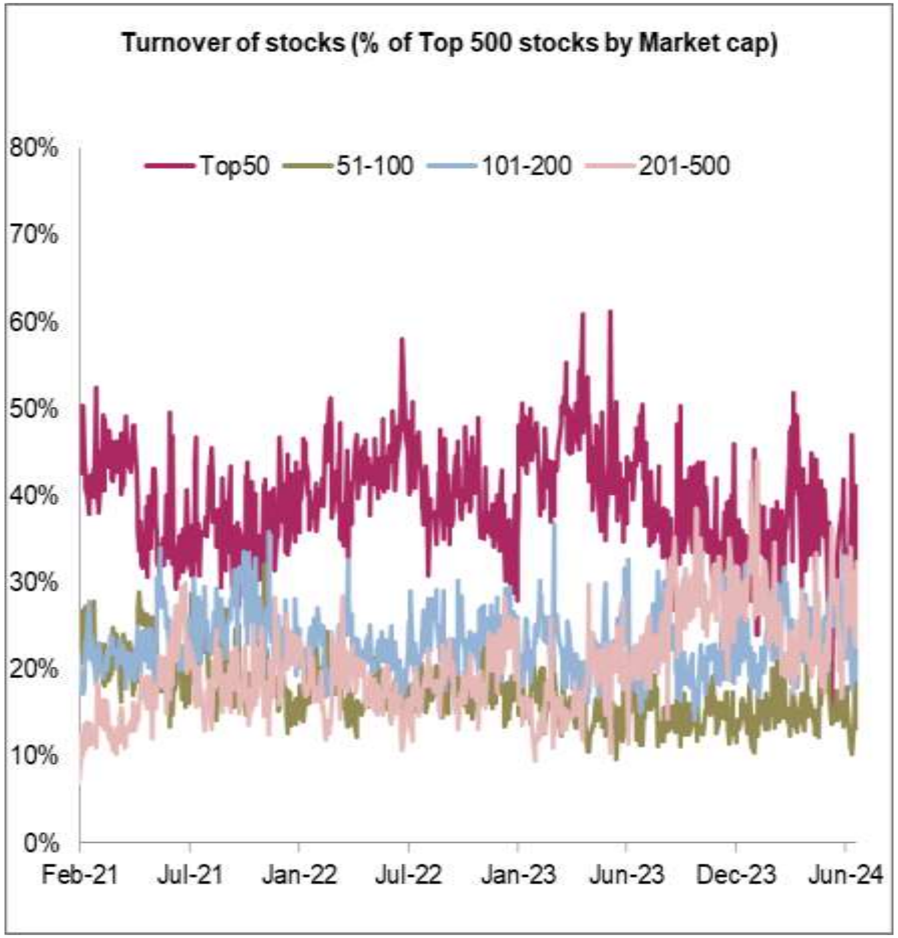
- Non-Institutional (Retail) turnover is currently at 51%, which is near its long-term average. It had fallen below the LTA in the last one month due to increased volatility.
- Participation by Retail investors is expected to improve further in the coming months, given that equity is the only asset class that can beat the current inflationary scenario.

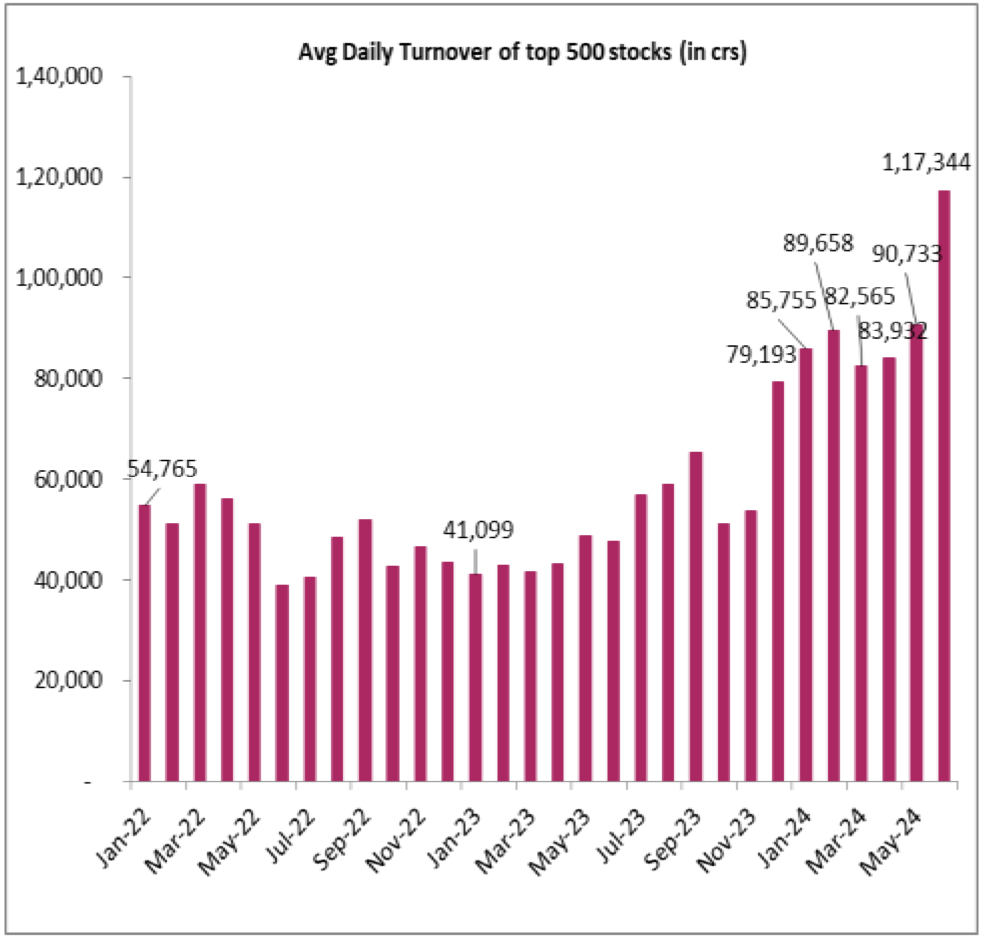


Source: Bloomberg, Axis Securities

Market Turnover (% of the Top 500 Names)

- Market turnover has crossed Rs 1 Lc Cr for the first time during Jun'24.





Source: Bloomberg, Axis Securities

NSE200 Top Gainers & Losers (Last 1 Month)

Top Gainers	Last Price	% 1M Chg	Top Losers	Last Price	% 1M Chg
Samvardh. Mothe.	190	38.2%	Ipca Labs.	1,130	-16.1%
Whirlpool India	1,998	29.8%	S A I L	149	-14.3%
Oracle Fin.Serv.	9,882	29.7%	Union Bank (I)	137	-13.5%
Dixon Technolog.	11,971	26.9%	H P C L	332	-10.4%
Coromandel Inter	1,601	25.3%	I R C T C	989	-10.0%
Shriram Finance	2,912	24.0%	Poonawalla Fin	409	-9.5%
Vodafone Idea	18	23.1%	REC Ltd	525	-9.4%
LIC Housing Fin.	797	22.9%	Bank of India	121	-8.7%
Sun TV Network	752	18.6%	Punjab Natl.Bank	123	-8.0%
JSW Energy	735	18.4%	Alkem Lab	4,991	-7.8%

NSE200 Top Gainers & Losers (Last 3 Months)

Top Gainers	Last Price	% 3M Chg	Top Losers	Last Price	% 3M Chg
Hindustan Zinc	670	129.2%	Poonawalla Fin	409	-14.5%
Samvardh. Mothe.	190	69.3%	Jubilant Food.	563	-13.8%
Vedanta	454	63.2%	Delhivery	400	-12.8%
Whirlpool India	1,998	62.0%	Berger Paints	504	-11.5%
Hind.Aeronautics	5,264	61.0%	L&T Technology	4,909	-10.1%
Dixon Technolog.	11,971	58.4%	Titan Company	3,404	-10.1%
Crompton Gr. Con	405	57.2%	Ipca Labs.	1,130	-9.7%
Prestige Estates	1,893	55.8%	Tata Elxsi	7,001	-8.8%
AdityaBir. Fas.	312	55.4%	Mankind Pharma	2,129	-8.6%
M & M	2,867	53.6%	Union Bank (I)	137	-8.5%

Source: Bloomberg, Axis Securities

Style Indicators

The Quality and Value Theme has Returned Over the Last 1 Month

- In the last one year, Quality and Momentum themes delivered the highest returns. However, Momentum was the dominating theme in the last 1-month, 3-month, and 6-month periods.
- Over the 2-year duration, Quality and Momentum themes have been the most dominating themes in the market.
- Quality theme has made a comeback in the last 1/3/6 months.
- The theme ‘Growth at a Reasonable Price’ looks attractive on account of the robust growth expectation, the cool-off in commodity prices, lowering 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.

Source: Bloomberg, Axis Securities

Performance (%)				
Perf	Value	Growth	Quality	Momentum
2020	24.9%	10.2%	22.6%	6.6%
2021	34.1%	8.8%	22.2%	32.6%
2022	-0.9%	12.4%	-0.9%	7.1%
1m	6.2%	5.3%	5.6%	4.6%
3m	6.8%	1.4%	10.9%	16.5%
6m	12.3%	2.8%	12.7%	30.2%
1YR	32.3%	15.4%	32.4%	73.0%
2YR	61.5%	43.0%	65.9%	120.5%

India's Performance vis-à-vis Peers

Indian Market Bounced Back Sharply in the Last One Month

On 27th Jun'24, NIFTY made an all-time closing high of 24,045 on account of improvement in various macroeconomic indicators such as 1) Positive development towards NDA 3.0, 2) Focus on CAPEX and other Infrastructure building, 3) Improved sentiments towards policy continuity, 4) Domestic inflows, 5) Valuation comfort after the correction, and 6) Inline Q4FY24 earnings season.

In the last one month, the market has seen increased volatility on account of the election but all the indices are in the green in the last one month. Strong performance was seen in the IT, Banks, Realty, Auto, and Services indices.

Positive Near-term Outlook: Domestic-oriented stocks, Telecom, Auto, Domestic Cyclical

Improving Outlook: Export-oriented themes, BFSI, Industrials, PSUs, Rural theme

Mixed Bag: Pharma, Discretionary, and IT

Near-term challenging but well-placed for longer-time horizons: Metals, Commodity-linked stocks, and Selective Cyclicals (Cement).

National Index						
Index Performance (%)	**1M**	**3M**	**6M**	**30th Nov'22**	**YTD**	**1 YR**
Nifty 50	6.6%	7.5%	10.5%	28.0%	10.5%	26.6%
Nifty Next 50	5.9%	18.0%	34.1%	63.7%	34.1%	64.6%
Nifty 500	6.9%	11.4%	16.1%	41.5%	16.1%	38.6%
Nifty Midcap 100	7.8%	15.9%	20.7%	74.0%	20.7%	56.9%
Nifty SmallCap 250	9.5%	19.4%	21.9%	77.3%	21.9%	63.1%
Sector Index (%)	**1M**	**3m**	**6m**	**30th Nov'22**	**YTD**	**1 YR**
NIFTY AUTO	7.6%	17.7%	35.4%	90.5%	35.4%	69.8%
NIFTY BANK	6.9%	11.1%	8.4%	21.1%	8.4%	18.1%
NIFTY COMMODITIES	4.3%	11.2%	20.1%	52.3%	20.1%	53.9%
Nifty Financial Services	7.8%	11.6%	9.0%	21.0%	9.0%	17.7%
NIFTY ENERGY	3.8%	7.1%	24.9%	52.8%	24.9%	70.2%
NIFTY FMCG	4.9%	5.2%	-0.4%	24.6%	-0.4%	9.4%
NIFTY IT	11.6%	3.6%	1.8%	19.0%	1.8%	25.4%
NIFTY INFRA	5.4%	9.6%	25.1%	67.7%	25.1%	60.3%
NIFTY MEDIA	6.5%	10.9%	-16.6%	-5.9%	-16.6%	14.4%
NIFTY METAL	0.9%	18.9%	23.0%	49.5%	23.0%	58.0%
NIFTY PHARMA	5.0%	3.9%	17.2%	50.1%	17.2%	44.8%
NIFTY PSU BANK	-0.3%	5.1%	28.9%	84.1%	28.9%	82.9%
Nifty Private Banks	7.6%	10.7%	4.8%	18.4%	4.8%	15.1%
NIFTY REALTY	8.4%	22.7%	41.1%	145.4%	41.1%	113.6%
NIFTY SERV SECTOR	8.0%	9.3%	9.9%	18.4%	9.9%	23.7%

Source: Bloomberg, Axis Securities, and Performance as of 28th June'24

International Index						
Index Performance (%)	**1M**	**3M**	**6m**	**30th Nov'22**	**YTD**	**1 YR**
Shanghai Comp	-3.9%	-2.4%	-0.3%	-5.8%	-0.3%	-7.0%
Bovespa	1.8%	-3.0%	-7.4%	10.5%	-7.4%	6.5%
Russia	2.3%	1.3%	6.3%	2.4%	6.3%	13.5%
south africa	3.7%	6.9%	3.6%	6.6%	3.6%	5.0%
Korea	6.1%	1.9%	5.4%	13.2%	5.4%	9.1%
Mexico	-5.1%	-8.0%	-7.9%	1.9%	-7.9%	-2.4%
Indonesia	1.3%	-3.1%	-2.9%	-0.3%	-2.9%	6.0%
Argentina	-1.0%	34.8%	75.9%	870.6%	75.9%	299.3%
Japan	2.8%	-1.9%	18.3%	41.5%	18.3%	19.2%
Hongkong	-2.0%	7.1%	3.9%	-4.7%	3.9%	-7.6%
Philipines	-0.3%	-7.1%	-0.6%	-5.4%	-0.6%	-1.4%
Taiwan	8.8%	13.5%	28.5%	54.8%	28.5%	36.0%
Singapore	-0.1%	3.4%	2.9%	1.3%	2.9%	3.9%
Thailand	-3.3%	-5.6%	-8.1%	-20.4%	-8.1%	-11.3%
Veitnam	-1.3%	-3.0%	10.2%	18.8%	10.2%	9.4%
Dow	1.2%	-1.6%	3.9%	13.2%	3.9%	15.7%
Nasdaq	6.7%	9.0%	19.0%	55.7%	19.0%	31.4%
FTSE 100 INDEX	-0.6%	3.4%	6.4%	8.6%	6.4%	9.7%
DAX INDEX	-0.9%	-0.9%	9.4%	27.3%	9.4%	14.9%
CAC 40 INDEX	-6.0%	-8.5%	-0.4%	11.5%	-0.4%	3.1%
S&P 500 Index	3.9%	4.3%	14.9%	34.4%	14.9%	25.3%

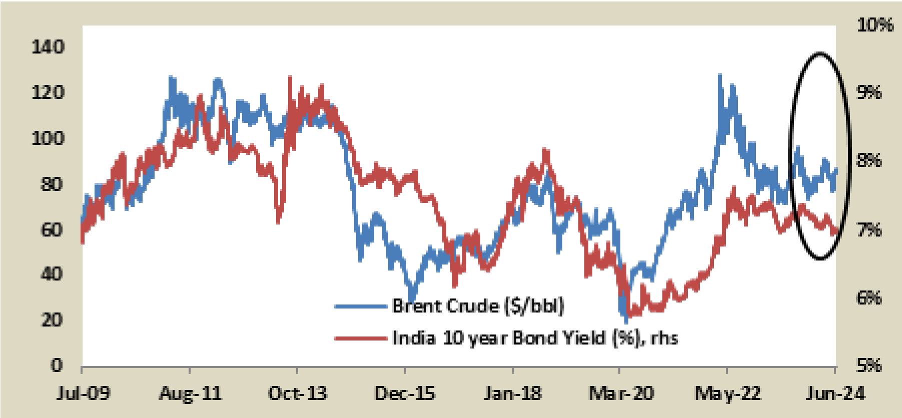
Commodities Have Seen A Comeback in the Last One Month

- **Precious Metals:** Gold prices went up 13% in the last 6 months on account of a cool-off in bond yields.
- **Commodities:** Steel prices have corrected by 1% while Aluminium prices have gone up by 8% in the last one month.
- **Crude:** Brent crude is now trading above $87/bbl and has been highly volatile due to the rising geopolitical risk and ongoing supply-side concerns

Market Indicator	28-06-2024	1M ago	3M ago	Nov-22	YTD	1 YR
Brent Crude ($/bbl)	87.0	81.6	87.5	85.4	77.0	74.0
Bond Yield (GOi 10Yr)	7.0	7.0	7.1	7.3	7.2	7.1
USD/INR	83.4	83.5	83.4	81.4	83.2	82.1
India Vix	13.8	24.6	12.8	13.8	14.5	10.9

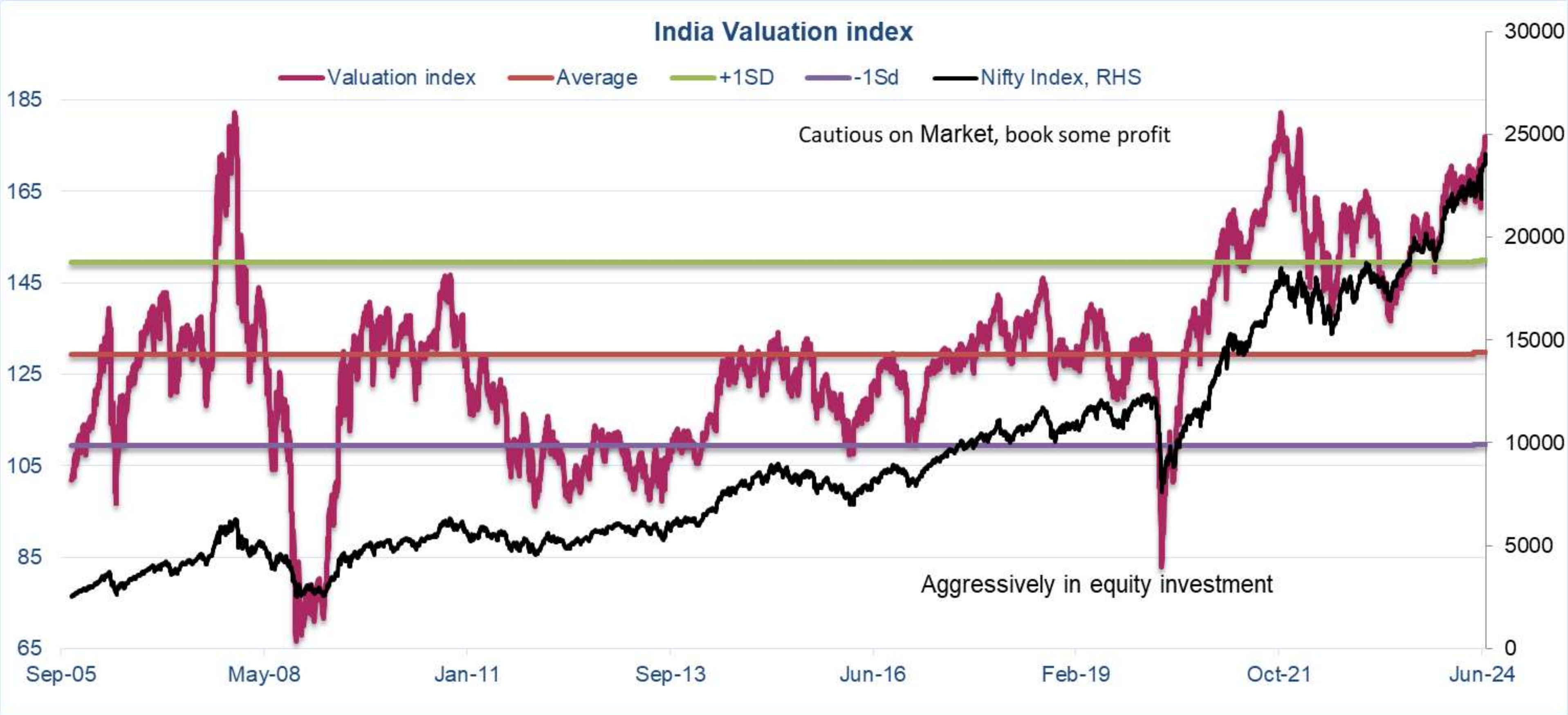
Commodity Index	1M	3M	6M	Since 01 Aug	YTD	1 YR
Gold ($/OZ)	0.3%	4.7%	13.2%	32.1%	13.2%	22.4%
Steel ($/ton)	-0.9%	3.9%	-6.2%	-0.9%	-6.2%	-3.6%
Aluminium ($/ton)	-8.2%	8.3%	5.3%	3.0%	5.3%	14.8%
Copper ($/ton)	-5.5%	6.9%	10.7%	13.9%	10.7%	13.5%
Zinc ($/ton)	-3.9%	20.3%	8.9%	-3.3%	8.9%	22.5%

Source: Bloomberg, Axis Securities, Performance as of 28th Jun 24



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

Our Market Valuation Index has retraced back to 1stdev after the recent rally. Current valuations offer limited scope for rerating. Hence, the market will follow the earnings growth going forward. At current levels, **stock selection and sector rotation are keys to achieving outperformance**. The calculation of the India Valuation Index is based on four fundamental market parameters (12m fwd PE, 12m fwd PB, Bond Equity Earnings Yield Ratio, and Mcap to GDP Ratio).



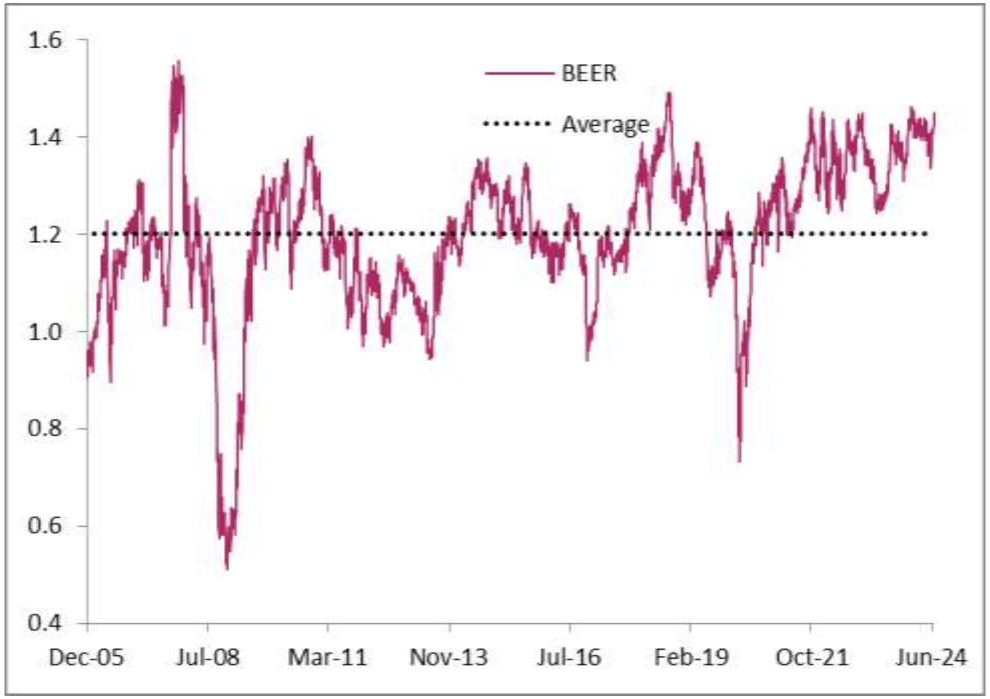
Source: Bloomberg, Axis Securities

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

BEER: After a status quo by the US FED in the Jan'24 FOMC meeting and the Interim budget, a sharp correction of 14-15bps was seen in India's 10-year bond yields. BEER ratio is still 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 142%, above its long-term average (rebased after FY24 GDP of Rs 297 Tn released by the government on 1st Feb'24). However, at projected levels of nominal GDP for FY25, the Mcap/GDP ratio translates into 128% (fairly valued). As per the Union Budget 2024-25, the FY25 GDP assumption is pegged at Rs 327 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.

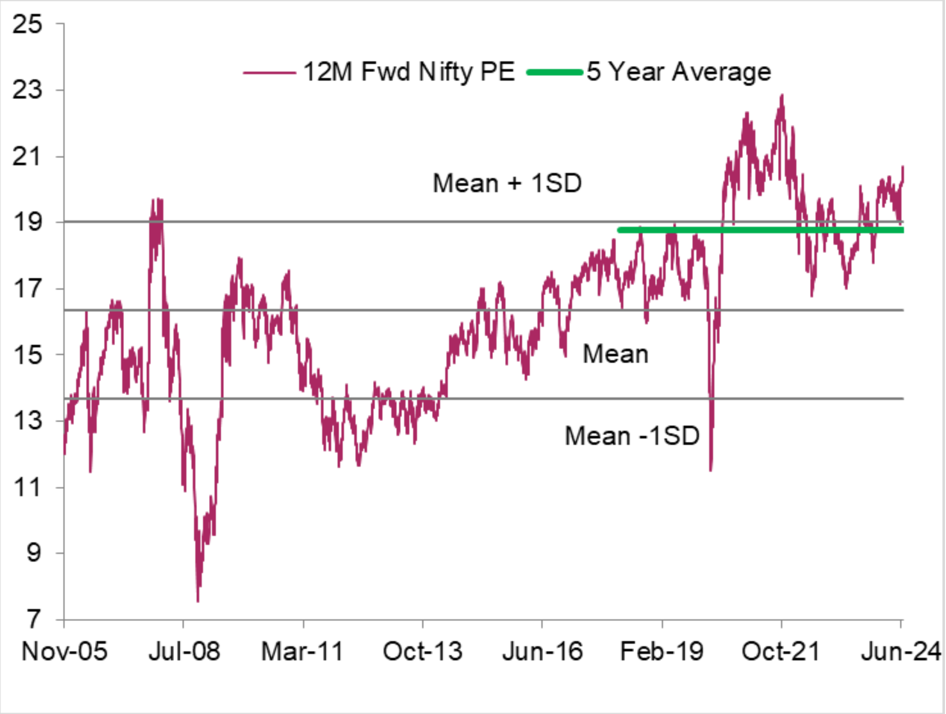


Source: Bloomberg, Axis Securities

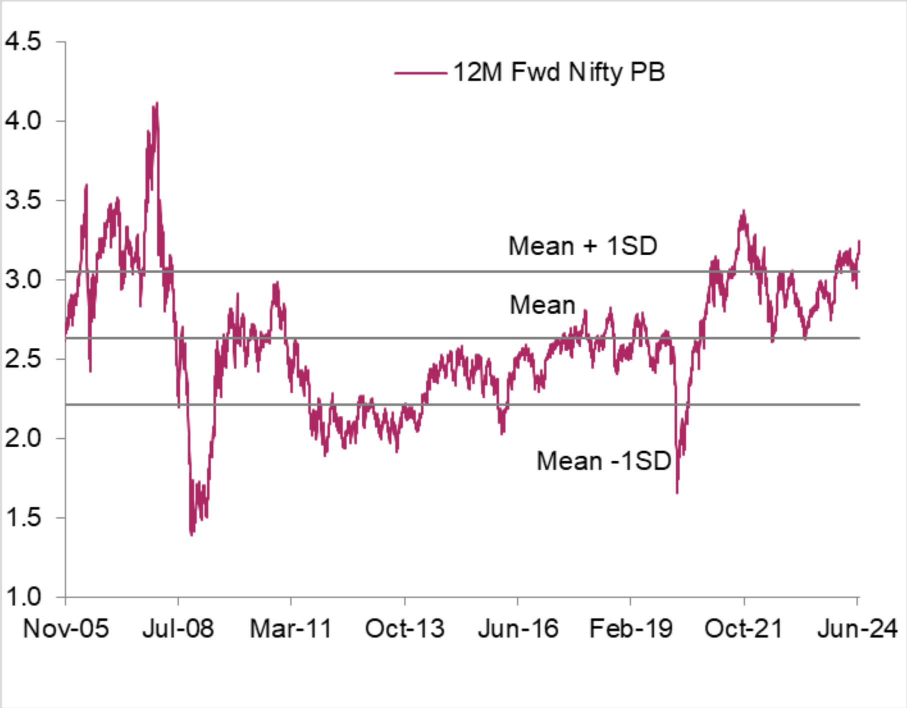
Market Valuations: 12M Fwd PE Now Trading at 20.6x

- NIFTY is currently trading at 20.6x on a 12M Fwd PE, which stands at 1.6std to its long-term average (16.2x). However, it is trading slightly above its long-term average on a 12M Fwd PB.
- Current valuations are slightly above its 5-year average (18.8x), providing a good entry point for long-term investors.
- Style rotation and sector selection are keys to generating alpha as earning expectations from the broader market remain intact.

Nifty 12M Fwd PE



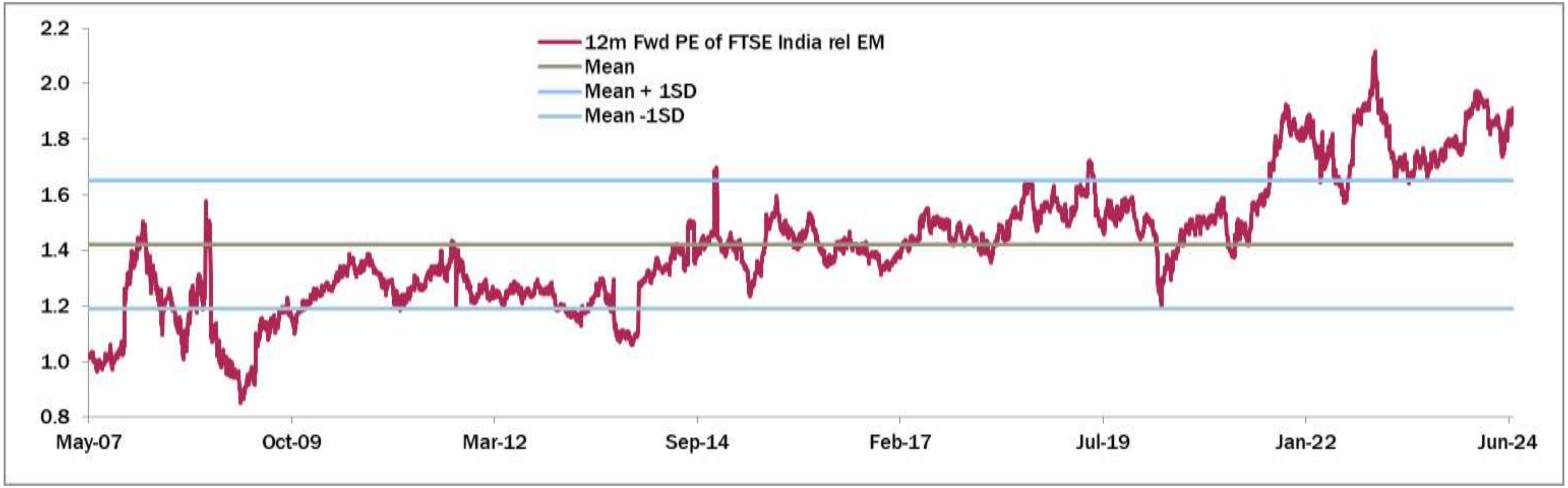
Nifty 12M Fwd PB



Source: Bloomberg, Axis Securities

Market Valuations: FTSE India rel. FTSE EM

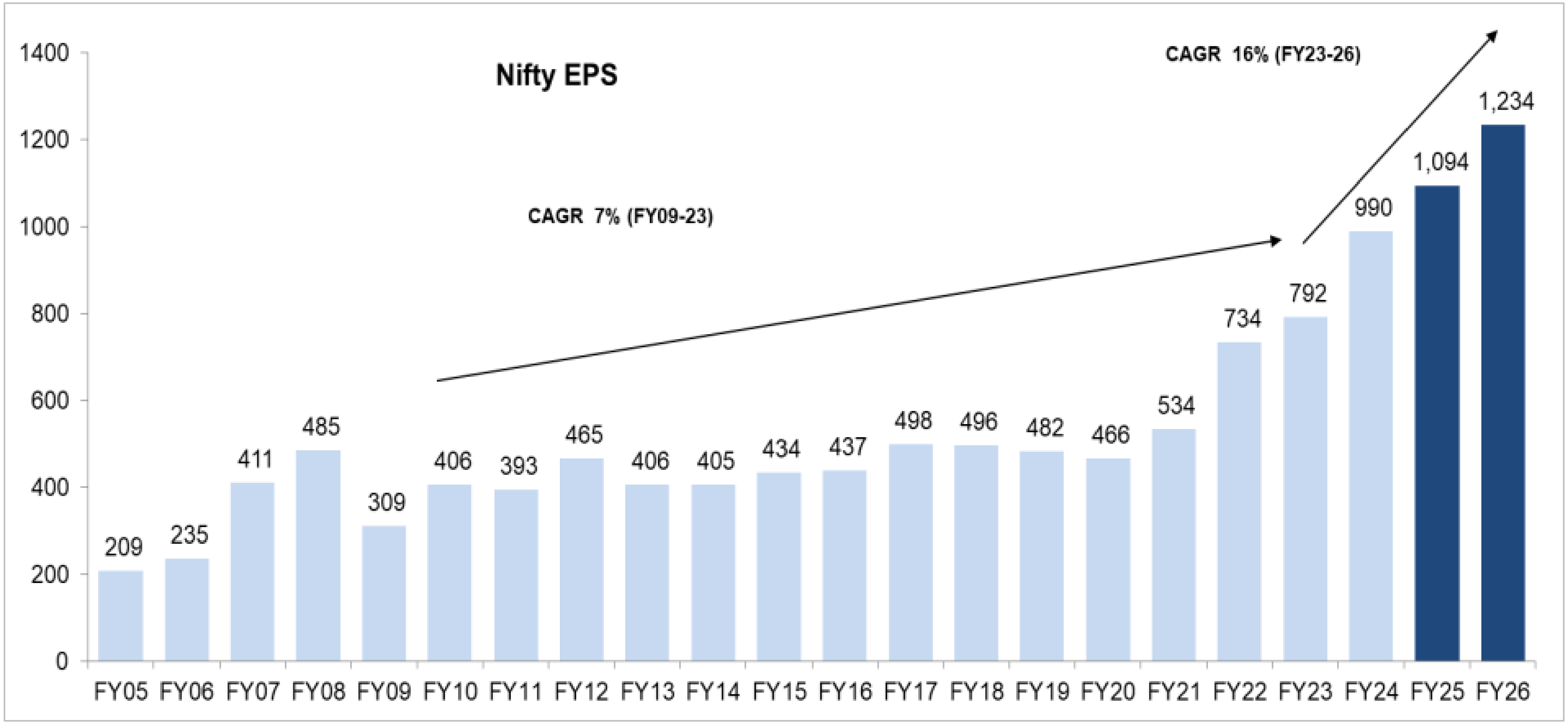
- Benchmark indices have reached all-time highs, and the FTSE India is currently trading at a PE premium of 91% to the EM index (PE) vs. an average premium of 42%. During Oct/Nov'22 last year, the Indian market reached a previous all-time high on account of the underperformance of the Chinese equity 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.
- Despite reaching another all-time high, the Indian market's price-to-earnings (PE) premium currently stands at only 91%. This indicates that, relative to previous periods, the market is not as expensive as it was last year. We believe these favourable valuations will continue to attract inflows going forward.
- We believe the Indian equity market will continue to trade at a higher premium to EM in the next one year due to a) Robust economic growth relative to other EM countries, b) Strong earnings outlook, c) Robust demand across sectors, d) Banking sector in better shape, e) Private Capex cycle expectations, f) Better performance of the ruling party in state elections, and g) Strengthening market confidence due to expected political continuity in the 2024 general election with the continuation of macro policies.



Source: Bloomberg, Axis Securities

NIFTY EPS Growth Expectation Remains Robust

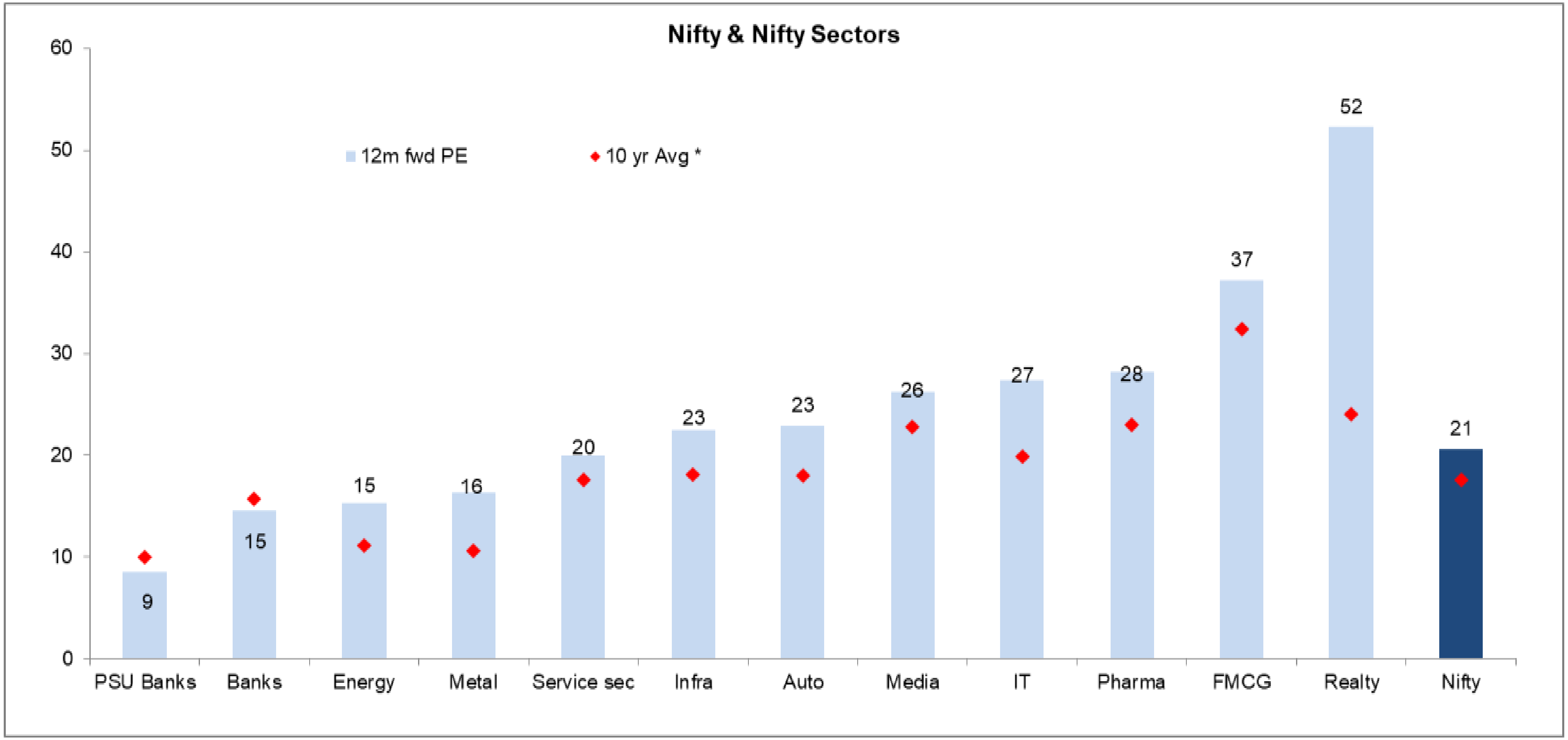
- NIFTY EPS Growth Expectations Remain Robust
- Nifty EPS is expected to grow at 16% CAGR over FY23-FY26 vs. 7% CAGR over FY09-FY23



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

Marginal Upgrade in Nifty EPS

- We foresee FY25/26 NIFTY Earnings at 1094/1234 after Q4FY24. FY25/26 expectations are marginally upgraded by 2.4%/3% respectively which is supported by the addition of Shriram Finance to the index. For FY25, upgrades were seen in Financials, Auto, and Metals while downgrades were seen in IT and Cement sectors.
- We foresee 10%/13% earnings growth in Nifty EPS for FY25/26.
- Our estimates for FY25 stand conservative at 3% below street expectations. Financials remain the biggest contributors for FY25/26 earnings.

Nifty EPS		Post Q3FY24		Post Q4FY24		Chg post Q4FY24	
Sector	**FY25**	**FY26**	**FY24**	**FY25E**	**FY26E**	**FY25E**	**FY26E**
Financial	458	503	434	476	540	4.0%	7.3%
IT	117	132	108	113	128	-3.0%	-3.0%
Oil & Gas	137	147	141	138	151	0.9%	2.9%
FMCG	61	70	57	60	67	-2.0%	-4.0%
Power	40	45	37	42	42	5.4%	-6.0%
Industrial	51	58	40	48	55	-5.0%	-5.4%
Pharma	34	39	28	32	36	-5.6%	-8.1%
Metals	72	84	48	78	89	8.2%	6.7%
Automobile	73	85	82	78	88	6.8%	3.7%
Cement	8	10	6	8	9	-4.8%	-2.1%
Telecom	19	26	8	21	28	10.4%	7.3%
Total	**1068**	**1199**	**990**	**1094**	**1234**	**2.4%**	**3.0%**
Growth			**25%**	**10%**	**13%**		

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

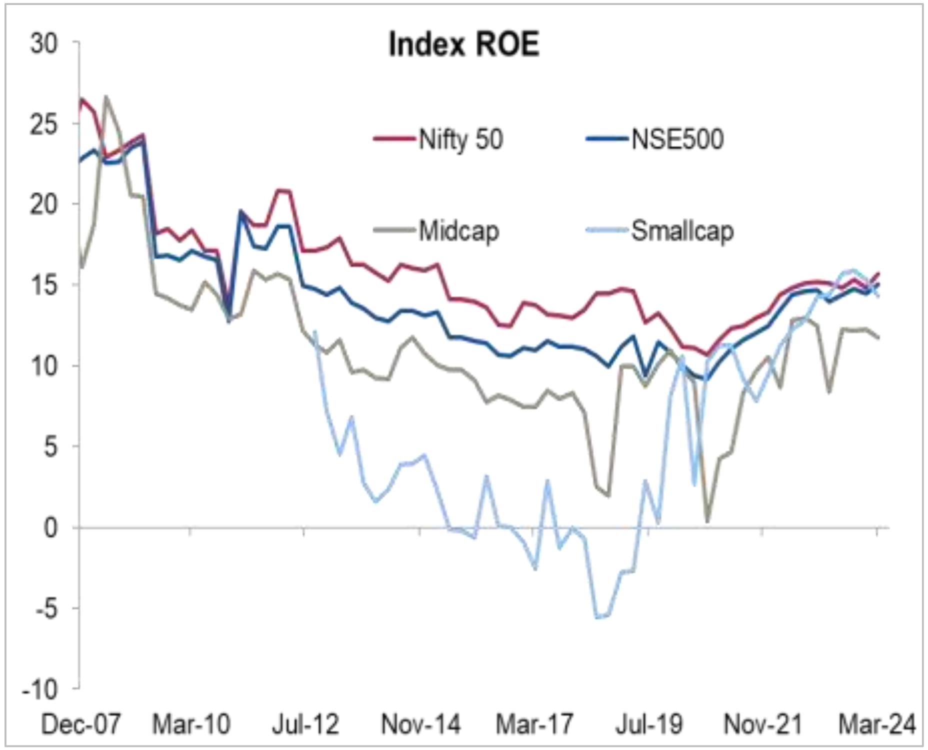
- The last 4 quarters' cumulative net profit reached an all-time high in Q4FY24, crossing the mark of 13.4 Lc Cr. This was led by improvement in the profitability of Industrials, Transport, Building materials, Auto, and Financials.
- **Sequential improvement was seen in domestic cyclical sectors like Industrials, Transport, and Building Materials while weakness was seen in Chemicals and Metals**
- **Financials, Oil & Gas, Metals, and IT sectors** now contribute 69% 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. Overall, the Transport sector is up 10%.

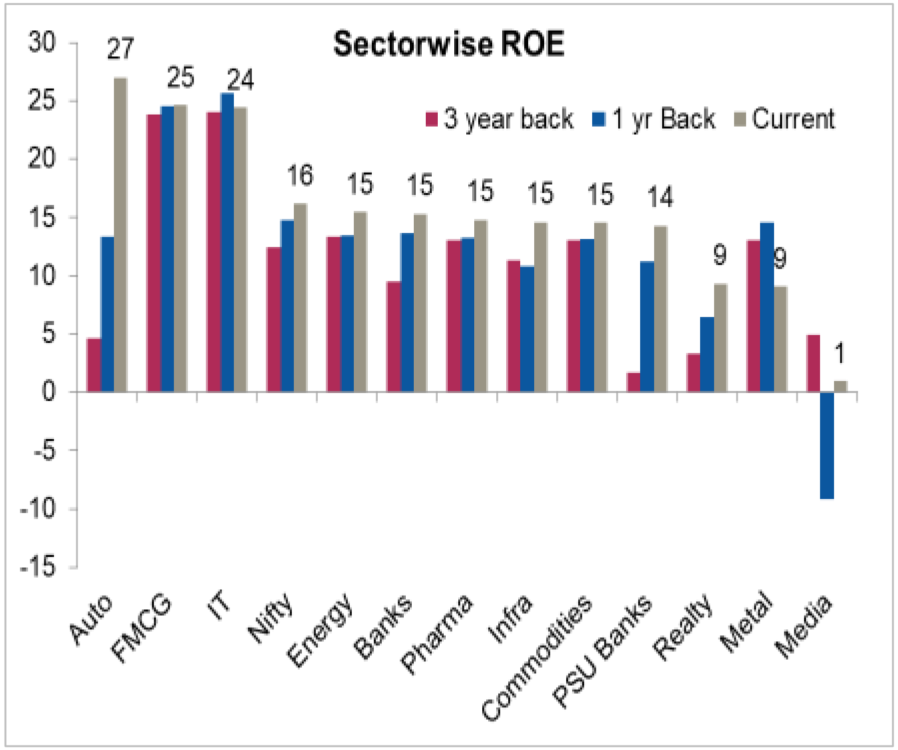
Sector-wise Net profit for NSE 500 – Trailing 4 Quarters (In Cr)										
	Q2FY20	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Growth %
Auto &Anc	36,212	40,331	42,081	45,088	43,028	49,650	57,353	63,946	67,747	5.94%
Staples	34,044	42,652	43,919	45,919	49,516	51,167	51,944	53,081	50,228	-5.38%
Discretionary	18,283	21,470	24,360	25,563	30,085	30,501	31,057	32,596	33,541	2.90%
Financials	85,507	2,69,282	2,95,407	3,25,923	3,87,050	4,22,052	4,48,298	4,58,189	4,94,368	7.90%
IT	81,462	1,05,164	1,06,797	1,09,167	1,14,293	1,17,849	1,18,865	1,17,800	1,22,298	3.82%
Oil & gas	1,00,204	1,63,364	1,42,301	1,31,123	1,28,660	1,73,424	2,09,327	2,26,853	2,26,405	-0.20%
Metals & min	58,266	1,47,291	1,19,152	99,487	88,438	76,782	76,168	87,213	86,072	-1.31%
Industrials	31,188	33,254	34,465	36,668	37,174	37,386	40,485	43,892	47,755	8.80%
Build Mate	22,387	32,381	29,296	28,432	23,965	22,436	28,301	31,442	36,109	14.84%
Healthcare	28,133	41,786	39,280	41,744	39,045	41,068	43,207	47,039	49,106	4.40%
Utilities	27,165	52,660	54,488	55,146	59,631	63,288	73,665	76,777	73,246	-4.60%
Transport	2,462	-1,624	-1,495	97	4,152	8,632	10,470	12,113	13,328	10.03%
Agri & Chem	12,424	24,919	25,999	26,702	31,842	27,988	26,267	21,685	17,340	-20.04%
Tele & Media	-19,015	13,207	13,347	11,188	12,474	13,107	12,719	15,351	15,213	-0.90%
Others	12,486	25,407	17,533	17,011	16,661	18,422	15,787	16,830	15,875	-5.68%
Total	**5,31,208**	**10,11,545**	**9,86,930**	**9,99,258**	**10,66,015**	**11,53,755**	**12,43,913**	**13,04,808**	**13,48,629**	
Ex Oil and Gas	**4,31,004**	**8,48,181**	**8,44,629**	**8,68,135**	**9,37,354**	**9,80,330**	**10,34,586**	**10,77,955**	**11,22,225**	
Total Growth		**5%**	**-2%**	**1%**	**2%**	**7%**	**8%**	**4%**	**3%**	
Growth ex Oil and Gas		**7%**	**0%**	**3%**	**8%**	**5%**	**6%**	**4%**	**4%**	

Source: Bloomberg, Axis Securities, Note: Tata Motors and Vodafone are not included in the study, Data of Q4FY23, Q1FY24 and Q2FY24 are based on new constituents, For Q4FY24, data is of 465 constituents only

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.
- The profitability of Auto, Commodities, Pharma, and Infra sectors has improved in the past couple of years, thanks to the positive outlook.

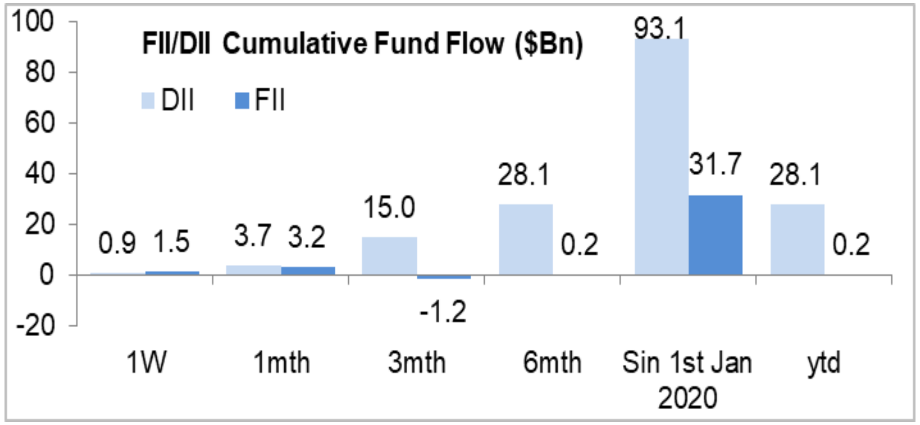


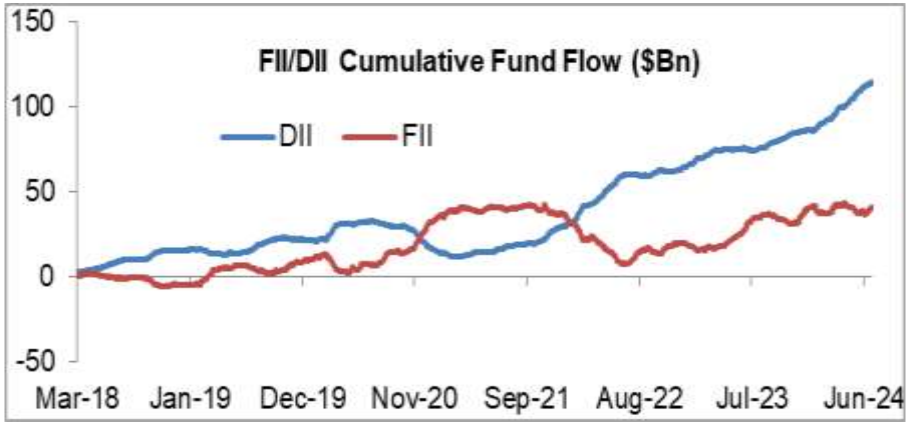


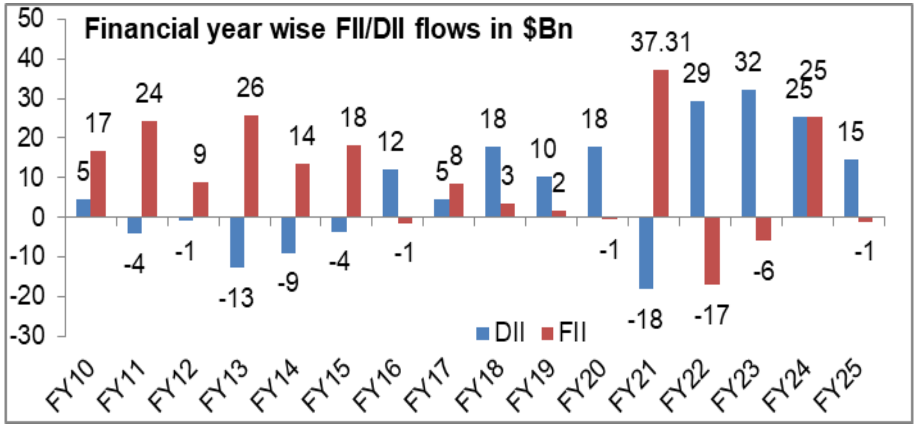
Source: Bloomberg, Axis Securities

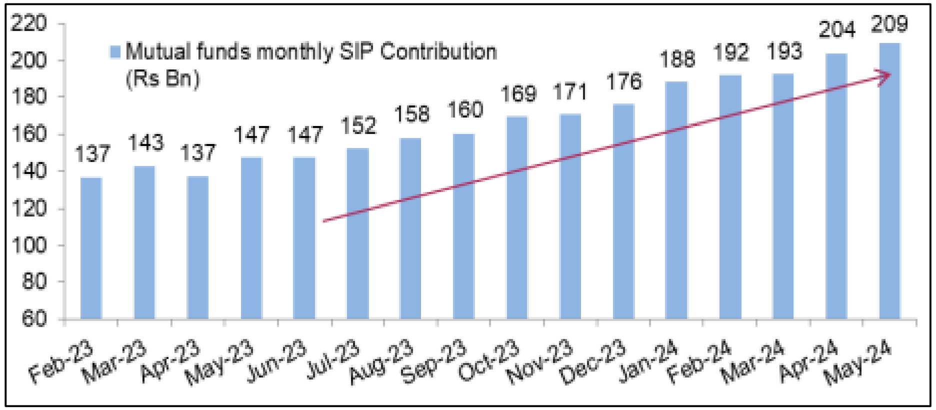
FIIs are back with positive flows in the last one month

Investors, both domestic and foreign, have actively demonstrated confidence in India's long-term growth narrative. In FY24, both FIIs and DIIs invested $25 Bn each in the Indian equity market. After being net sellers in FY22 and FY23, FIIs regained confidence in FY24 and the sentiment was further reinforced by the BJP's big-bang performance in assembly elections across three out of four key states. Moreover, in the last one month, FIIs returned with positive flows vs. the outflow seen in the last three months. SIP flows for May'24 have touched Rs 21,000 Cr for the first time.





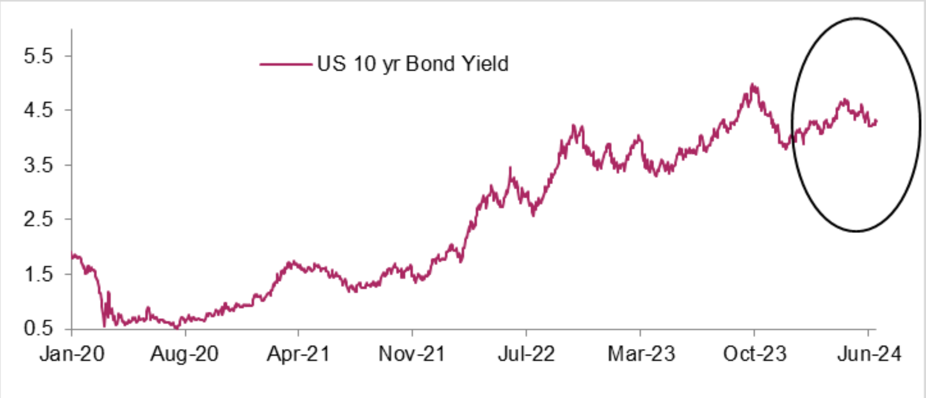


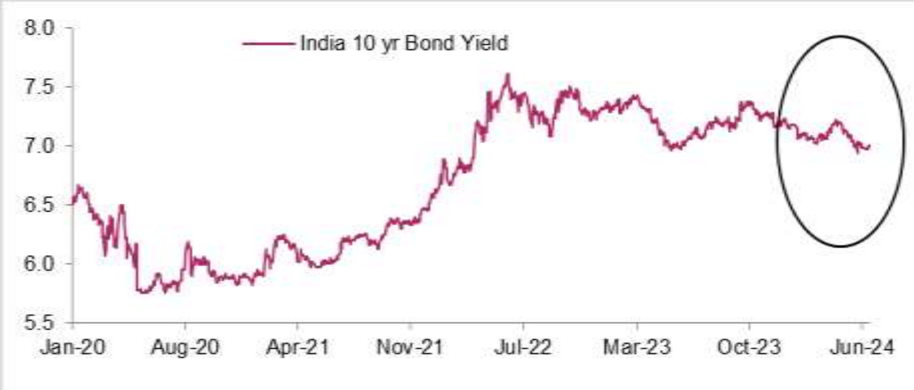


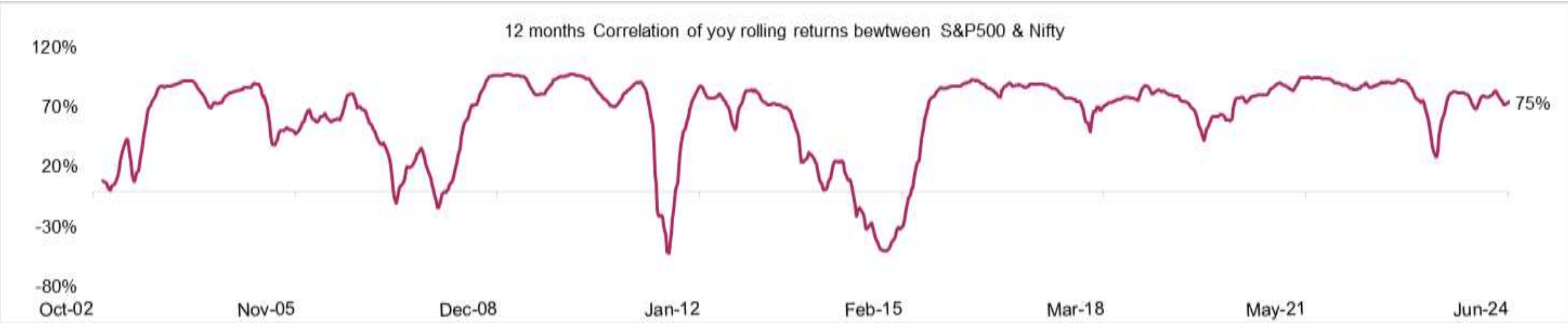
Source: Bloomberg, Axis Securities

Macro will continue to Drive Near-term Market Fundamentals

- The US bond yields went up to 4.99% in Oct'23. However, a sharp correction was seen in the last two to three months after the status quo maintained by the FOMC in the Nov'23 meeting. Currently, US bond yields are trading at ~4.2% levels. The market will continue to watch the direction of the bond yields.
- Indian bond yields were largely volatile in the last one month and went down by 14-15bps after the Interim budget. Now the upcoming budget remains critical for the further direction of the bond yields.
- The correlation between the Indian market and the US market remains high at 75%.







Source: Bloomberg, Axis Securities

ICICI BANK – CONSISTENT PERFORMER; PREFERRED PICK AMONGST BANKS

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

Industry view

Equal Weight

CMP
1,200

Target Price
1,325

Upside
10%

Key Rationale

- **Strong credit growth:** ICICIB reported a healthy domestic credit growth of 17/3% YoY/QoQ vs. our expectation of ~18%. Retail books grew by 19/4% YoY/QoQ, and Business Banking grew by 32/6.5% YoY/QoQ. SME book grew by 25/4% YoY/QoQ and the domestic corporate book grew by 10%/flat YoY/QoQ. The management highlighted that the bank will continue to adopt the micro-market approach to steer growth. Given ICICIB's current market share across micro markets, the bank has adequate growth headroom. The management also indicated that the demand visibility across segments continues to remain strong and should not be constrained for the bank over the medium term. We expect ICICIB to continue its credit growth momentum delivering a strong growth of ~17% CAGR over FY24-26E.
- **NIM contraction to continue in H1FY25, quantum significantly lower:** ICICIB has taken a rate increase on retail deposits in Feb'24, which is yet to reflect in the CoF. Thus, with the repricing of deposits and deposit accretion at higher rates, its CoF will continue to inch up in H1FY25, albeit at a moderate pace. In terms of lending yields, the bank has seen competitive intensity cool off to some extent. However, ICICIB will remain watchful and pursue growth where risk-reward is favourable. Thus, margins are likely to contract, though the quantum of contraction would also moderate. We expect NIMs to remain stable at ~4.3% over FY25-26E vs. 4.5% in FY24
- **Well-placed to deliver 2%+ ROA over the medium term:** While margins could continue to contract, the quantum is expected to moderate. ICICIB expects improvement in Opex ratios led by moderation in the pace of headcount addition is likely to slow down and improving operating efficiency. Improving cost ratios would support PPOP growth. Thus, we expect Opex ratios to remain stable at ~40% (+/-0.5%) over the medium term. Asset quality metrics continue to remain at comfortable levels and we do not expect any major challenges on the asset quality, thereby keeping credit costs at ~40bps (in line with the management expectations of sub-50bps). Collectively, these factors should enable ICICIB to deliver an RoA of 2.2-2.3% over FY25-26E.
- **Outlook & Valuation:** The bank has been demonstrating consistency in reporting a strong all-around performance across operational metrics. We expect the bank to continue delivering a strong performance over the medium term, delivering a consistent RoA/RoE of 2.2-2.3%/16-17%, supported by (1) Demand-led credit growth, (2) Steady C-D Ratio, (3) Adequate capitalisation, and (4) Strong asset quality metrics. ICICIB remains our most preferred pick amongst banks.
- **Key risks:** a) Slowdown in credit growth momentum due to lag in deposit mobilisation

Key Financials (Standalone)

Y/E Mar (RsBn)	NII (RsBn)	PPOP (RsBn)	PAT (RsBn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY23	621	491	319	45.7	270.0	4.4	2.1	0.5
FY24	743	581	409	58.2	321.8	3.7	2.4	0.4
FY25E	830	657	459	65.3	375.3	3.2	2.3	0.4
FY26E	960	758	521	74.2	437.8	2.7	2.2	0.4

Source: Company, Axis Securities

Income Statement (RsBn)

Y/E March	FY23	FY24E	FY25E	FY26E
Net Interest Income	**621**	**743**	**830**	**960**
Other Income	198	230	269	312
Total Income	**820**	**973**	**1,099**	**1,272**
Total Operating Exp	329	391	443	514
PPOP	**491**	**581**	**657**	**758**
Provisions & Contingencies	67	36	46	63
PBT	**424**	**545**	**611**	**695**
Provision for Tax	105	136	153	173
PAT	**319**	**409**	**459**	**521**

Source: Company, Axis Research

Balance Sheet (RsBn)

Y/E March	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS				
Share Capital	14	14	14	14
Reserves	1,993	2,370	2,751	3,196
Shareholder's Funds	**2,007**	**2,384**	**2,765**	**3,210**
Total Deposits	11,808	14,128	16,539	19,349
Borrowings	13,002	15,378	17,723	20,570
Other Liabilities & Provisions	833	953	1,077	1,250
Total Liabilities	**15,842**	**18,715**	**21,565**	**25,030**
APPLICATION OF FUNDS				
Cash & Bank Balance	1,194	1,399	1,572	1,839
Investments	3,623	4,619	5,126	5,804
Advances	10,196	11,844	13,884	16,247
Fixed &Other Assets	828	852	982	1,140
Total Assets	**15,842**	**18,715**	**21,565**	**25,030**

Source: Company, Axis Research

Valuation Ratios (%)

Y/E March	FY23	FY24	FY25E	FY26E
EPS	45.7	58.2	65.3	74.2
Earnings growth (%)	*36.0*	*27.5*	*12.1*	*13.7*
Adj. BVPS	270.0	321.8	375.3	437.8
ROAA (%)	2.1	2.4	2.3	2.2
ROAE (%)	17.2	18.6	17.8	17.4
P/ABV (x)	4.4	3.7	3.2	2.7
Dividend Yield (%)	*0.7*	*0.9*	*1.0*	*1.0*
PROFITABILITY				
Yield on Advances (%)	8.9	9.9	9.8	9.7
Cost of Deposits (%)	3.7	4.8	5.0	5.0
Cost of Funds (%)	3.9	5.0	5.2	5.1
NIM (%)	4.5	4.5	4.3	4.3
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	2.2	2.3	2.2	2.2
Cost-Income Ratio (%)	40.5	40.2	40.3	40.4

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E March	FY23	FY24	FY25E	FY26E
Loan Growth (%)	18.7	16.2	17.2	17.0
Deposit Growth (%)	10.9	19.6	17.1	17.0
C/D Ratio (%)	86.3	83.8	84.0	84.0
Equity/Assets (%)	12.7	12.7	12.8	12.8
Equity/Advances (%)	19.7	20.1	19.9	19.8
Total Capital Adequacy Ratio	18.3	16.3	16.4	16.0
Tier I CAR	*17.6*	*15.6*	*15.8*	*15.5*
ASSET QUALITY				
Gross NPLs	300	280	313	353
Net NPLs	52	54	59	67
Gross NPLs (%)	2.9	2.4	2.3	2.2
Net NPLs (%)	0.5	0.5	0.4	0.4
Coverage Ratio (%)	82.8	80.8	81.1	80.9
Provision/Avg. Loans (%)	0.7	0.3	0.4	0.4
ROAA TREE				
Net Interest Income	4.1	4.3	4.1	4.1
Non-Interest Income	1.3	1.3	1.3	1.3
Operating Cost	2.2	2.3	2.2	2.2
Provisions	0.4	0.2	0.2	0.2
Tax	0.7	0.8	0.8	0.8
ROAA	2.1	2.4	2.3	2.2
Leverage (x)	8.1	7.9	7.8	7.8
ROAE	17.2	18.6	17.8	17.4

Source: Company, Axis Research

Coal India Ltd. - COAL IS HERE TO STAY

Coal India Limited (CIL) – incorporated in 1975 is the largest coal producer in the world. CIL was conferred the Maharatna status by the Government of India (GOI) in April 2011, which gave the company operational and financial autonomy. CIL operates 322 mines (as of Mar'23), of which, 138 are underground, 171 opencast, and 13 mixed. The company has total resources of 178 billion tonnes (BT) and reserves of 54 BT. As of Apr'21, India's total coal resource estimate stands at ~352 BT

Industry view

Equal Weight

CMP
473

Target Price
550

Upside
16%

Key Rationale

- **Robust production and off-take:** CIL FY24 production exceeded the target of 770MT and stood at 774MT (coal offtake stood at 754 MT, up 8.4% YoY). CIL has ambitious coal production and offtake targets for FY25/FY26 of 838/1,000MT.
- **E-auction premiums moderating but E-auction volumes to rise**: E-auction volumes improved to 11% of total offtake in Q4FY24, recovering from the low of 8% in Q3FY24 (the target was to achieve 15%). In FY25, the e-auction volume target has been set at above 15%. Higher e-auction volumes will partly offset the lower e-auction prices. In Q4FY24, E-auction premium stood at 66% (vs. our assumption of 40%) against 117% in Q3FY24 (192% in Q4FY23). E-auction prices declined to Rs 2,545/t (down 44% YoY, 23% QoQ), led by a drop in international coal prices and were largely along the expected lines. FSA prices stood flat YoY/QoQ at Rs 1,536/t.
- **Volume growth:** We keep our sales volume offtake assumption unchanged at 820/880 MT (CIL target is 838/1,000 MT) for FY25/26E. Our earnings changes reflect the impact of higher employee and contractual expenses.
- **Demand:** Demand for coal will continue to rise, driven by the addition of 80 GW of thermal power plants by FY30. In FY25, CIL plans to increase coal supply to the power sector by 50 MT annually. Additionally, CIL aims to substitute ~175-200 MT of imported coal to reduce reliance on imports. The company has also initiated the supply of high-grade coal.
- **Outlook & Valuation:** We value the stock at 6.0x 1-year forward EV/EBITDA multiple on FY26E Adj. EBITDA (unchanged). Based on this, we arrive at our target price of Rs 550/share (Unchanged), implying an upside of 16% from the CMP.
- **Key risks:** The key risk to our BUY rating is the fall in international coal prices from the current level, leading to a collapse in e-auction premiums. The decline in E-Auction volumes vs. our expectations could pose a downside risk to our target price and rating. A fall in domestic demand is also the key risk for volume offtake in future years.

Key Financials (Standalone)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY23A	1,38,252	36,818	28,165	45.7	4.4	6.3	56.11%	24.36%
FY24E	1,42,324	47,971	37,402	60.7	7.8	6.4	53.44%	26.00%
FY25E	1,54,819	41,417	31,298	50.8	9.3	5.9	35.17%	18.83%
FY26E	1,66,535	47,394	35,498	57.6	8.2	5.1	34.68%	20.06%

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY23A	FY24A	FY25E	FY26E
Total Income From Operations	1,38,252	1,42,324	1,54,819	1,66,535
Consumption of Raw Materials	13,557	11,580	12,451	13,505
Increase / Decrease in Stocks	(208)	(1,522)	1,900	1,900
Contractual expense	23,289	27,598	30,606	33,552
Stripping activity adjustment	3,809	(6,138)	4,248	4,631
Power	2,760	3,044	3,337	3,615
Repairs	1,772	1,959	2,178	2,389
Employees Cost	49,409	48,783	49,270	49,763
Other Expenses	7,046	9,049	9,411	9,787
Total Expenditure	**1,01,434**	**94,352**	**1,13,402**	**1,19,142**
EBITDA	**36,818**	**47,971**	**41,417**	**47,394**
Adj EBIDA (Exl Overburden)	**40,820**	**41,833**	**45,666**	**52,025**
Depreciation and Amortization	4,675	6,735	7,177	8,238
EBIT	**32,143**	**41,236**	**34,240**	**39,155**
Other Income	6,551	7,969	8,635	9,289
Share Of P/L Of Associates (Net of Tax)	(8)	427	-	-
Less: Interest & Fin Chg.	684	819	1,384	1,384
Less: Exceptional Items	-	-	-	-
Profit before tax	**38,001**	**48,813**	**41,492**	**47,060**
Provision for Tax	9,876	11,443	10,194	11,562
Minority Interest	40	33	-	-
Attr Reported PAT	**28,165**	**37,402**	**31,298**	**35,498**
EPS (Rs/sh)	**45.7**	**60.7**	**50.8**	**57.6**
DPS (Rs/sh)	**24.3**	**25.5**	**30.5**	**34.6**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY23A	FY24A	FY25E	FY26E
Net Block	44,448	67,900	75,462	84,223
CWIP	15,263	14,739	17,000	17,000
Intangible assets	4,947	6,940	6,940	6,940
Investments	7,139	7,110	7,110	7,110
Inventories	8,155	10,177	11,071	11,909
Trade Receivables	13,060	13,256	14,420	15,511
Cash / Bank balance	39,922	30,235	31,610	35,809
Misc. Assets	78,272	87,315	87,315	87,315
Total assets	**2,11,207**	**2,37,672**	**2,50,928**	**2,65,817**
Equity capital	6,163	6,163	6,163	6,163
Reserves	51,082	76,567	89,086	1,03,285
Borrowings	4,115	6,289	6,289	6,289
Def Tax Liabilities	1,331	1,822	1,822	1,822
Other Liabilities	56,176	57,454	57,454	57,454
Provisions	83,791	80,992	80,992	80,992
Trade Payables	8,549	8,386	9,122	9,812
Capital employed	**2,11,207**	**2,37,672**	**2,50,928**	**2,65,817**

Cash Flow (Rs Cr)

Y/E March	FY23A	FY24A	FY25E	FY26E
Profit before tax	38,001	48,846	41,492	47,060
Depreciation	4,675	6,735	7,177	8,238
Interest Expenses	684	819	1,384	1,384
Non-operating / EO item	(533)	(10,387)	-	-
Change in W/C	2,609	(2,381)	(1,321)	(1,239)
income Tax (Paid)/Refund	(9,750)	(11,727)	(10,194)	(11,562)
Operating Cash Flow	**35,686**	**31,905**	**38,537**	**43,882**
Capital Expenditure	(14,209)	(16,380)	(17,000)	(17,000)
Free cash Flow	**21,477**	**15,525**	**21,537**	**26,882**
Other Investments	(9,214)	11,894	-	-
Investing Cash Flow	**(23,423)**	**(4,486)**	**(17,000)**	**(17,000)**
Proceeds / (Repayment) of Borrowings	805	1,423	-	-
Finance cost paid	(138)	(224)	(1,384)	(1,384)
Dividend paid	(14,328)	(15,098)	(18,779)	(21,299)
Other Financing activities	-	-	-	-
Financing Cash Flow	**(13,661)**	**(13,899)**	**(20,162)**	**(22,683)**
Change in Cash	**(1,398)**	**13,520**	**1,375**	**4,199**
Opening Cash	7,063	5,627	6,009	7,384
Closing Cash	**5,665**	**5,345**	**7,384**	**11,583**

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY 23A	FY 24A	FY 25E	FY 26E
Operational Ratios				
Sales growth (% YoY)	26%	3%	9%	8%
EBITDA growth (% YoY)	43%	2%	9%	14%
Op. profit growth (% YoY)	59%	28%	-17%	14%
Net Profit growth (% YoY)	62%	33%	-16%	13%
EBITDA Margin %	30%	29%	29%	31%
Net profit Margin %	20%	26%	20%	21%
Tax Rate %	26%	24%	25%	25%
Efficiency Ratios				
Total Asset turnover (x)	0.7	0.6	0.6	0.6
Sales/Gross block (x)	2.1	1.7	1.4	1.4
Sales/Net block(x)	3.2	2.5	2.2	2.1
Working capital/Sales (x)	(0.00)	0.09	0.09	0.09
Valuation Ratios				
PER (x)	4.4	7.8	9.3	8.2
P/BV (x)	2.2	3.5	3.1	2.7
EV/Adj Ebitda (x)	6.3	6.4	5.9	5.1
EV/Sales (x)	1.9	1.9	1.7	1.6
Dividend Yield (%)	12%	5%	6%	7%
Return Ratios				
ROE	56.1%	53.4%	35.2%	34.7%
ROCE	24.4%	26.0%	18.8%	20.1%
ROIC	111.0%	53.6%	36.9%	37.0%

Source: Company, Axis Research

NESTLE – RESILIENT ALL-ROUND PERFORMANCE

Nestle India manufactures and markets a wide range of food and beverage products, including milk and milk products, coffee, tea, noodles, chocolates, confectionery, and infant nutrition. Some of its popular brands in India include Maggi, Nescafe, KitKat, MilkyBar, and Nestle Everyday. Furthermore, it recently acquired Purina Petcare to enter into the pet care business and launched Gerber Cereals to drive the premiumisation agenda. The company operates a robust distribution network (5.1 Mn outlets) that covers both urban and rural areas of India.

Industry view

Over Weight

CMP
2,552

Target Price
2,880

Upside
13%

Key Rationale

- **All-round performance:** Nestle delivered resilient all-round performance in Q1CY24, driven by strong growth across all categories, with a healthy balance of the product mix, pricing, and volume growth. Domestic revenue grew by 8.9% YoY (~5% volume estimates) and exports grew by 19% YoY).
- **Rural on a recovery path:** FMCG companies have been grappling with a rural slowdown for several quarters, significantly affecting their overall volume growth. We anticipate that rural growth is poised for a rebound in the upcoming quarters due to increased spending in the lead up to the general election, higher minimum support prices (MSP), an uptick in urban remittances, all of which are expected to bolster rural recovery. Coupled with Nestle's endeavour to expand in rural areas will benefit the company further in delivering market-leading growth.
- **Betting on RURBAN –** Rural accounts for 20% of sales and the management highlighted that its various initiatives such as HAAT activations, improving shop visibility through RURBAN smart stores, and implementation of Project Swabhimaan to empower rural women (similar to HUL's Shakiamma's) is bearing fruits in overall rural growth. As of Mar'24, Nestle has a total reach of 2,00,000 villages vs. 1,96,000 villages as of Dec'23.
- **NPD and Premiumisation growing strong:** Nestle launched over 125 products in the last seven years which now accounts for 6% of the sales. The company has further 10 new projects under the pipeline which will be launched in the next one year. It intends to increase the share of the overall NPD to 10% of the sales.
- **New initiatives:** 1) The company has launched Nespresso in India. It will be sold online and will open its first boutique store in Delhi which will be expanded gradually in other cities. 2) The company plans to form a JV with Dr Reddy's (51%) to launch a science-based nutritional portfolio.
- **Valuation & Outlook**: We remain positive on Nestle as it has consistently delivered resilient performance, led by 1) Efforts towards rural penetration and market share gains through the RURBAN strategy, 2) Constant focus on innovation (launching 125 products in the last seven years), thereby leading growth, 3) Driving premiumisation in the core categories (Maggi noodles range) and launching differentiated products, 4) Entering into new categories of the future (Nespresso), Purina Pet care and Gerber's for toddler nutrition), 5) Introducing D2C platform to gauge consumer attention, and 6) Renewed focus on fast-growing nutraceutical portfolio. We believe Nestle has all the right levers for growth in the long run.

Key Financials (Standalone)

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (X)	ROE (%)	ROCE (%)	EV/EBITDA (X)
CY22	16,790	3,713	2,391	24.8	102.9	97.2	44.6	65.9
CY23E	19,021	4,471	3,004	31.2	81.9	98.6	48.4	54.7
CY24E	21,613	5,347	3,506	36.4	70.1	88.7	47.4	45.8
CY25E	24,248	6,093	3,968	41.2	62.0	76.0	44.3	40.0

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar, Rs Cr	CY22	CY23E	CY24E	CY25E
Net sales	**16,790**	**19,021**	**21,613**	**24,248**
Growth, %	14	13	14	12
Other operating income	107	105	116	127
Total income	16,897	19,126	21,729	24,375
Raw material expenses	(7,750)	(8,433)	(9,360)	(10,484)
Employee expenses	(1,635)	(1,849)	(2,108)	(2,382)
Other Operating expenses	(3,799)	(4,373)	(4,913)	(5,417)
EBITDA (Core)	**3,713**	**4,471**	**5,347**	**6,093**
Growth, %	4	20	20	14
Margin, %	22	24	25	25
Depreciation	(403)	(429)	(618)	(752)
EBIT	**3,310**	**4,042**	**4,730**	**5,341**
Growth, %	4	22	17	13
Margin, %	20	21	22	22
Interest paid	(155)	(119)	(119)	(119)
Other Income	101	121	127	140
Non-recurring Items	-	(6)	-	-
Pre-tax profit	**3,256**	**4,038**	**4,738**	**5,362**
Tax provided	(865)	(1,040)	(1,232)	(1,394)
Profit after tax	**2,391**	**2,999**	**3,506**	**3,968**
Wtdavg shares (Cr)	96	96	96	96

Source: Company, Axis Research, *P&L numbers are adjusted for split

Balance Sheet (Rs Cr)

As at 31st Mar, Rs Cr	CY22	CY23E	CY24E	CY25E
Cash & bank	946	968	763	2,265
Marketable securities at cost	217	217	217	217
Debtors	192	208	237	266
Inventory	1,929	2,185	2,483	2,786
Loans & advances	66	66	66	66
Other current assets	196	196	196	196
Total current assets	3,546	3,842	3,962	5,797
Investments	560	560	560	560
Gross fixed assets	5,293	6,593	8,793	9,793
Less: Depreciation	(2,249)	(2,678)	(3,296)	(4,048)
Add: Capital WIP	358	358	358	358
Net fixed assets	3,402	4,273	5,855	6,103
Non-current assets	1,445	1,445	1,445	1,445
Total assets	**8,979**	**10,145**	**11,849**	**13,930**
Current liabilities	3,047	3,199	3,504	3,815
Provisions	3,205	3,631	4,126	4,629
Total current liabilities	6,252	6,830	7,630	8,444
Non-current liabilities	268	268	268	268
Total liabilities	6,520	7,098	7,898	8,711
Paid-up capital	96	96	96	96
Reserves & surplus	2,363	2,951	3,854	5,123
Shareholders' equity	2,459	3,048	3,951	5,219
Total equity & liabilities	**8,979**	**10,145**	**11,848**	**13,930**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar (Rs Cr)	CY22	CY23E	CY24E	CY25E
Pre-tax profit	3,256	4,038	4,738	5,362
Depreciation	403	429	618	752
Chg in working capital	(170)	305	474	482
Total tax paid	(832)	(1,040)	(1,232)	(1,394)
Other operating activities	-	-	-	-
Cash flow from operating activities	**2,656**	**3,733**	**4,598**	**5,202**
Capital expenditure	(564)	(1,300)	(2,200)	(1,000)
Chg in investments	151	-	-	-
Chg in marketable securities	(154)	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing activities	**(568)**	**(1,300)**	**(2,200)**	**(1,000)**
Free cash flow	2,089	2,433	2,398	4,202
Equity raised/(repaid)	68	-	-	-
Debt raised/(repaid)	(1)	-	-	-
Dividend (incl. tax)	(21,208)	(2,410)	(2,603)	(2,699)
Other financing activities	-	-	-	-
Cash flow from financing activities	**(21,141)**	**(2,410)**	**(2,603)**	**(2,699)**
Net chg in cash	(19,052)	23	(205)	1,502
Opening cash balance	735	946	968	763
Closing cash balance	946	968	763	2,265

Source: Company, Axis Research

Ratio Analysis (%)

Y/E Mar	CY22	CY23E	CY24E	CY25E
EPS (INR)	24.8	31.2	36.4	41.2
Growth, %	(89.8)	25.7	16.7	13.2
Book NAV/share (INR)	25.5	31.6	41.0	54.1
FDEPS (INR)	24.8	31.2	36.4	41.2
CEPS (INR)	29.0	35.7	42.8	49.0
CFPS (INR)	26.5	37.5	46.4	52.5
DPS (INR)	220.0	25.0	27.0	28.0
Return ratios				
Return on assets (%)	29.6	32.6	33.0	31.7
Return on equity (%)	97.2	98.6	88.7	76.0
Return on capital employed (%)	44.6	48.4	47.4	44.3
Turnover ratios				
Asset turnover (x)	7.0	6.3	5.0	4.6
Sales/Total assets (x)	2.0	2.0	2.0	1.9
Sales/Net FA (x)	5.1	5.0	4.3	4.1
Working capital/Sales (x)	4.2	4.0	4.0	4.0
Receivable days	41.9	41.9	41.9	41.9
Inventory days	53.5	51.9	52.8	53.1
Payable days	(14.4)	(10.4)	(8.8)	(7.5)
Working capital days				
Liquidity ratios	1.2	1.2	1.1	1.5
Current ratio (x)	0.5	0.5	0.4	0.8
Quick ratio (x)	21.4	33.9	39.6	44.8
Interest cover (x)	0.0	0.0	0.0	0.0
Net debt/Equity (%)	(0.5)	(0.4)	(0.2)	(0.5)
Valuation				
PER (x)	102.9	81.9	70.1	62.0
PEG (x) - y-o-y growth	(1.1)	3.2	4.2	4.7
Price/Book (x)	100.0	80.7	62.2	47.1
EV/Net sales (x)	14.6	12.9	11.3	10.0
EV/EBITDA (x)	65.9	54.7	45.8	40.0
EV/EBIT (x)	74.0	60.6	51.8	45.6

Source: Company, Axis Research

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

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

Industry view

Equalweight

CMP
849

Target Price
1,010

Upside
19%

Key Rationale

- **Healthy growth momentum in advances to sustain:** SBI reported a robust growth of 15.2% YoY over FY23. The healthy growth in the loan book was driven by the retail book growing at 15% YoY, Agri loan growth of ~18% YoY, and SME book growth of 21% YoY. The management maintains confidence in achieving sustainable growth of 13-15.
- **Margins likely to remain stable at current levels going forward:** Margins improved by 8bps in the current quarter as yield improvement outpaced deposit repricing. The growth trajectory is supported by stable margins, anticipated to remain at current levels of 3.30%, as the cost of deposits stabilizes and the yield on advances increases by 6bps QoQ. Furthermore, the management emphasized that the majority of deposits have been re-priced, which further strengthens their position for sustainable growth.
- **Asset quality improvement continues**: Asset quality showed continued improvement in Q4FY24, with the slippage ratio decreasing to 0.62% compared to 0.67% in the previous quarter, and gross slippages declining by 24% QoQ. Lower credit costs were attributed to reversals in standard assets and provisions. Moreover, the levels of SMA 1 and SMA 2 were lower, indicating reduced stress formation. With a stable asset quality outlook, we anticipate that credit costs will remain under control, thereby supporting the bank in delivering sustainable RoA.
- **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:** Loan growth and margin sustenance are unlikely to remain a challenge. This coupled with improving fee income profile, reducing operating expenses and declining credit cost, we expect SBI to continue delivering healthy RoA/RoE of 1.1-1..2%/16-18% over the medium term. Among PSU banks, SBI, with a healthy PCR, adequate capitalization, a strong liability franchise, and an improved asset quality outlook, remains the best play for the resilient Indian economy.
- **Valuation:** We believe SBI warrants a re-rating on account of the expected sustenance of RoA above the 1%+ levels and therefore we maintain our 'BUY' rating on the stock with a revised SOTP-based target price of Rs 1,010/share (Valuing Core-book at 1.5x FY26E ABV as we roll forward multiple and valuing subsidiaries at Rs 219)
- **Key risks:** a) Significant slowdown in credit growth

Key Financials (Standalone)

Y/E Mar	NII (RsBn)	PPOP (RsBn)	Net Profit (RsBn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY23	1,448	837	502	56.3	343.0	2.5	1.0	0.7
FY24	1,599	938	682	68.4	399.1	2.1	1.0	0.6
FY25E	1,785	1,127	723	81.1	461.2	1.8	1.1	0.5
FY26E	2,004	1,252	792	88.7	527.4	1.6	1.1	0.5

Source: Company, Axis Securities.

Profit & Loss (Rs Bn)

Y/E MAR	FY23	FY24	FY25E	FY26E
Net Interest Income	**1,448**	**1,599**	**1,785**	**2,004**
Other Income	366	517	561	602
Total Income	**1,815**	**2,116**	**2,346**	**2,606**
Total Operating Exp.	977	1,178	1,219	1,355
PPOP	**837**	**938**	**1,127**	**1,252**
Provisions & Contingencies	165	49	160	193
PBT	**672**	**889**	**967**	**1,059**
Provision for Tax	170	207	244	267
PAT	**502**	**682**	**723**	**792**

Source: Company, Axis Research

Balance Sheet (Rs Bn)

Y/E MAR	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS				
Share capital	9	9	9	9
Reserves and surplus	3,267	3,764	4,329	4,948
Shareholders' funds	**3,276**	**3,772**	**4,338**	**4,957**
Total Deposits	44,238	49,161	55,114	61,752
Total Borrowings	49,169	55,136	61,894	69,215
Other Liabilities, provisions	2,725	2,888	3,247	3,636
Total	**55,170**	**61,797**	**69,479**	**77,809**
APPLICATION OF FUNDS				
Cash & Bank Balance	3,079	3,108	3,319	3,719
Investments	15,704	16,713	18,324	19,914
Advances	31,993	37,040	42,287	47,962
Fixed Assets & Other Assets	4,394	4,936	5,549	6,215
Total assets	**55,170**	**61,797**	**69,479**	**77,809**

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY23	FY24	FY25E	FY26E
VALUATION RATIOS				
EPS	56.3	68.4	81.1	88.7
Earnings Growth (%)	*58.6%*	*21.6%*	*18.4%*	*9.5%*
BVPS	367.1	422.7	486.1	555.4
Adj. BVPS	343.0	399.1	461.2	527.4
ROAA (%)	1.0	1.0	1.1	1.1
ROAE (%)	16.5	17.3	17.8	17.0
P/E (x)	14.6	12.0	10.1	9.2
P/ABV (x)	2.2	1.9	1.7	1.5
Dividend Yield (%)	1.4	1.7	2.2	2.4
PROFITABILITY				
NIM (%)	3.4	3.3	3.3	3.3
Cost-Income Ratio	53.9	55.7	52.0	52.0

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY23	FY24	FY25E	FY26E
Loan Growth (%)	17.0	15.8	14.2	13.4
Deposit Growth (%)	9.2	11.1	12.1	12.0
C/D Ratio (%)	72.3	75.3	76.7	77.7
CASA	42.7	39.5	39.2	39.6
CRAR	14.7	14.3	13.9	13.6
Tier I	12.1	11.9	11.7	11.5
ASSET QUALITY				
Gross NPLs (%)	2.8	2.2	2.1	2.0
Net NPLs (%)	0.7	0.6	0.5	0.5
PCR	76.4	75.0	74.9	74.9
Credit cost	0.6	0.2	0.4	0.4

Source: Company, Axis Research

VARUN BEVERAGES – GEARED FOR GROWTH

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

Industry view

Equal Weight

CMP
1,630

Target Price
1,830

Upside
12%

Key Rationale

- **VBL is well-placed for growth backed by strong set of numbers:** VBL delivered robust all-around performance in Q1CY24. This was led by volume growth of 7.2% YoY to Rs 240.2 Mn cases, despite the delay in the Holi festive season by 17 days, resulting in a delayed seasonality cycle. The realization grew by 3.5% to Rs 179.7/case, led by an improved product mix in India and a higher contribution of International markets (grew 22% in Q1CY24). Furthermore, the management continues to maintain its growth momentum guidance for the coming quarters, supported by scaling up the dairy/juices portfolio, increasing distribution reach, robust on-ground execution, and expanding manufacturing capacities, especially in the South African business.
- **Continued Focus on Energy drink/sports drink:** The company continues to focus on expanding high-margin Sting energy drink across outlets. It is also expanding value-added dairy, sports drink (Gatorade), and juice segment.
- **Entry into the Snacks Food:** Varun Beverages Morocco SA, a wholly-owned subsidiary, has entered into an Exclusive Snacks agreement to manufacture and package Cheetos in Morocco by May 2025. DRC: It has also entered into the new territory of DRC, thereby expecting to start commercial production at the Greenfield plant from the next quarter. The management believes that the forthcoming Capex of Rs 4,000 Mn for the DRC unit will enhance its capacity and expansion strategy in the African territory.
- **Commencing multiple manufacturing facilities:** Successfully commenced three new Greenfield facilities located in Supa (Maharashtra), Gorakhpur (Uttar Pradesh), and Khordha (Odissa). Furthermore, it is setting up backward integration facilities at Guwahati Plant, thereby taking the total number of integrated plants to 13.
- **Acquires 100% stake in South Africa-based company –** The company successfully concluded the strategic acquisition of the Beverage Company (BevCo) in South Africa. Now it will expand its footprint across several dynamic markets in the African region - Lesotho, Eswatini, Namibia, Botswana, Mozambique, and Madagascar. The company is engaged in the business of manufacturing and distribution of licensed (Pepsico) and own-branded non-alcoholic beverages in South Africa.
- **Outlook**: We believe VBL is expected to continue its strong growth momentum on account of 1) Successful strategic acquisition of the Beverage Company, thereby consolidating its presence in South Africa and DRC, 2) Continued focus on expansion in its distribution reach, mainly in rural areas and 3) Commissioning of multiple green field and brownfield facilities across geographies, strengthening manufacturing capabilities and extending market reach, thus saving significant transportation costs. We believe these investments are poised to support the company's long-term growth objectives and profitability.

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBITDA (x)	ROE (%)	ROCE (%)
CY22	12,921	2,788	1,497	11.5	67.3	38.6	30.4	24.4
CY23E	15,622	3,609	2,056	15.8	100.0	59.5	30.3	25.4
CY24E	19,543	4,958	3,039	23.6	69.1	43.2	31.5	26.8
CY25E	24,061	6,217	3,956	30.7	53.1	34.0	29.8	27.1

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E DEC	CY23	CY24	CY25E	CY26E
Net sales	**15,622**	**19,543**	**24,061**	**29,364**
Growth, %	20.9	25.1	23.1	22.0
Other operating income	421	463	509	560
Total income	16,043	20,006	24,570	29,924
Raw material expenses	(7,405)	(8,775)	(10,705)	(13,060)
Employee expenses	(1,447)	(1,808)	(2,242)	(2,735)
Other Operating expenses	(3,582)	(4,465)	(5,406)	(6,521)
EBITDA (Core)	**3,609**	**4,958**	**6,217**	**7,607**
Growth, %	29.5	37.4	25.4	22.4
Margin, %	23.1	25.4	25.8	25.9
Depreciation	(681)	(802)	(889)	(976)
EBIT	**2,929**	**4,155**	**5,327**	**6,631**
Growth, %	34.9	41.9	28.2	24.5
Margin, %	18.7	21.3	22.1	22.6
Other Income	79	87	96	106
Non-recurring Items	-	-	-	-
Pre-tax profit	**2,740**	**3,961**	**5,156**	**6,483**
Tax provided	(638)	(922)	(1,200)	(1,509)
Net Profit	**2,102**	**3,039**	**3,956**	**4,974**
Unadj. shares (Cr)	129	129	129	129

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E DEC	CY23	CY24	CY25E	CY26E
Cash & bank	460	1,354	3,850	7,360
Debtors	359	535	659	804
Inventory	2,151	2,690	3,312	4,042
Loans & advances	539	539	539	539
Other current assets	726	726	726	726
Total current assets	4,235	5,845	9,087	13,473
Investments	3	3	3	3
Gross fixed assets	12,463	14,563	16,063	17,563
Less: Depreciation	(4,036)	(4,838)	(5,728)	(6,704)
Add: Capital WIP	1,922	1,922	1,922	1,922
Net fixed assets	10,349	11,647	12,258	12,782
Non-current assets	537	537	537	537
Total assets	**15,187**	**18,094**	**21,947**	**26,856**
Current liabilities	4,153	4,344	4,563	4,820
Provisions	213	213	213	213
Total current liabilities	4,366	4,556	4,775	5,033
Non-current liabilities	3,737	3,737	3,737	3,737
Total liabilities	8,103	8,293	8,512	8,770
Paid-up capital	650	650	650	650
Reserves & surplus	6,287	9,004	12,638	17,289
Shareholders' equity	7,085	9,802	13,435	18,087
Total equity & liabilities	**15,187**	**18,094**	**21,947**	**26,857**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	CY23	CY24	CY25E	CY26E
Pre-tax profit	2,740	3,961	5,156	6,483
Depreciation	681	802	889	976
Chg in working capital	(349)	(525)	(526)	(618)
Total tax paid	(631)	(922)	(1,200)	(1,509)
Cash flow from operating activities	**2,441**	**3,316**	**4,319**	**5,332**
Capital expenditure	(3,491)	(2,100)	(1,500)	(1,500)
Chg in marketable securities	-	-	-	-
Cash flow from investing activities	**(3,495)**	**(2,100)**	**(1,500)**	**(1,500)**
Free cash flow	(1,054)	1,216	2,819	3,832
Equity raised/(repaid)	0	-	-	-
Dividend (incl. tax)	(227)	(323)	(323)	(323)
Cash flow from financing activities	**1,270**	**(323)**	**(323)**	**(323)**
Net chg in cash	216	894	2,496	3,510
Opening cash balance	285	460	1,354	3,850
Closing cash balance	460	1,354	3,850	7,360

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY23	CY24	CY25E	CY26E
Per Share data				
EPS (INR)	15.8	23.6	30.7	38.6
Growth, %	(32.7)	44.6	30.2	25.7
Book NAV/share (INR)	53.8	74.8	103.0	139.1
FDEPS (INR)	16.3	23.6	30.7	38.6
CEPS (INR)	21.6	29.8	37.6	46.1
CFPS (INR)	17.2	25.0	32.7	40.5
DPS (INR)	1.8	2.5	2.5	2.5
Return ratios				
Return on assets (%)	17.7	20.0	21.1	21.4
Return on equity (%)	30.3	31.5	29.8	27.7
Return on capital employed (%)	25.4	26.8	27.1	26.5
Turnover ratios				
Asset turnover (x)	1.5	1.5	1.7	1.9
Receivable days	8.4	10.0	10.0	10.0
Inventory days	50.2	50.2	50.2	50.2
Payable days	22.3	23.0	23.2	23.3
Working capital days	(8.8)	2.8	10.2	16.1
Liquidity ratios				
Current ratio (x)	1.0	1.3	2.0	2.8
Quick ratio (x)	0.5	0.7	1.3	2.0
Interest cover (x)	10.9	14.8	19.9	26.1
Total debt/Equity (%)	0.7	0.5	0.4	0.3
Net debt/Equity (%)	0.4	0.1	(0.1)	(0.3)
Valuation				
PER (x)	100.0	69.1	53.1	42.2
PEG (x) - y-o-y growth	(3.1)	1.6	1.8	1.6
Price/Book (x)	30.3	21.8	15.8	11.7
EV/Net sales (x)	13.8	11.0	8.8	7.1
EV/EBITDA (x)	59.5	43.2	34.0	27.3

Source: Company, Axis Research

HDFC Bank Ltd – Embracing the Upturn!

HDFC Bank (HDFCB) is the second-largest bank in the country with a Balance Sheet size of ~Rs 36 Tn (post-merger). As of Mar'24, the bank has 8,738 branches and 20,938 ATMs spread across 4,065 Indian cities. Key subsidiaries of the bank post the merger with HDFC Ltd. are HDFC Life, HDFC ERGO General Insurance, HDFC AMC, HDB Financial, and HDFC Securities.

Industry view

Equal weight

CMP
1,684

Target Price
2,000

Upside
19%

Key Rationale

- **Growth Levers identified:** The management has identified levers to steer growth for HDFCB over the medium-long term. These include ***(a) Improving profitability metrics – RoA and EPS, (b) Ensuring sustainable deposit growth alongside delivering strong growth in the retail deposit franchise, (c) Investing in distribution, workforce, and technology/digital infrastructure*** and ***(d) Unabated focus on quality with a balance between margins and risk.*** Given HDFCB's track record of delivering a strong and consistent performance across cycles, we remain confident in the bank's ability to deliver robust performance over the medium term. We pen down Advances/Deposits/Earnings growth of 15/18/18% CAGR over FY24-26E, with an improvement in RoA to ~1.9% by FY26E from 1.6% in FY24E.
- **Deposit Growth takes centre stage:** HDFCB's focus remains on gaining incremental deposit market share while keeping CoF range-bound. The bank will look to leverage the strength of its franchise, ensure enhanced customer engagement, elevate a 'service-first' culture, and ensure increasing customer wallet share to ensure sustainable retail-franchise-led deposit growth. However, despite its focus on mobilizing granular deposits, HDFCB will not want to be an outlier in terms of deposit pricing. As HDFC Ltd's borrowings get replaced, HDFCB is likely to have substantial liquidity, which it would deploy in pursuing growth. Till then, the bank will look to pursue credit growth where the risk-reward ratio is favourable. Thus, with deposit growth likely to outpace credit growth, we expect a visible improvement in the LDR over the medium term.
- **NIM improvement to be visible, albeit gradual:** A shift in the portfolio mix towards retail assets along with the replacement of HDFC Ltd's higher-cost borrowings with deposits are key levers for margin improvement. Some of HDFC Ltd's high-cost borrowings will begin maturing in FY25. Near-term constraints w.r.t higher CoF will continue to limit NIM expansion, thereby keeping margins largely steady at current levels (~3.6% of Interest earning assets/~3.4% Core NIMs in Q4FY24).
- **Outlook & Valuation:** While the bank witnessed improved deposit growth as it exited FY24, credit growth was slower as it shifted its focus towards deposit accretion. Hereon, continued momentum on deposit mobilisation and improvement trajectory of NIMs/RoA would be key re-rating levers for the stock. We believe current valuations are attractive, given expectations of improved NIMs and RoA. We value the core book at 2.5x FY26E ABV vs. its current valuation of 2.4x FY26E ABV and assign a value of Rs 217/share to subsidiaries of the merged entity.
- **Key risks:** a) Slowdown in overall credit momentum owing to the bank's inability to ensure deposit mobilization, b) Slower substitution of higher-cost debt with lower-cost deposits

Key Financials (Consolidated)

Y/E Mar	NII (Rs Bn)	PPOP (Rs Bn)	Net Profit (Rs Bn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY23	868	704	441	79.1	487.5	3.5	1.9	0.3
FY24	1,085	944	668	80.0	568.9	3.0	2.0	0.3
FY25E	1,310	1,090	701	92.2	633.4	2.7	1.8	0.3
FY26E	1,551	1,300	841	110.7	714.0	2.4	1.9	0.3

Source: Company, Axis Securities.

Profit & Loss (RsBn)

Y/E MAR	FY23	FY24	FY25E	FY26E
Net Interest Income	**868**	**1,085**	**1,310**	**1,551**
Other Income	312	492	500	575
Total Income	**1,181**	**1,578**	**1,809**	**2,125**
Total Operating Exp.	477	634	720	826
PPOP	**704**	**944**	**1,090**	**1,300**
Provisions & Contingencies	119	235	161	185
PBT	**585**	**709**	**929**	**1,115**
Provision for Tax	144	101	228	274
PAT	**441**	**608**	**701**	**841**

Source: Company, Axis Research

Balance Sheet (RsBn)

Y/E MAR	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS				
Share capital	6	8	8	8
Reserves and Surplus	2,786	4,368	4,894	5,525
Deposits	**2,791**	**4,376**	**4,902**	**5,533**
Shareholders' funds	18,834	23,798	28,099	32,927
Borrowings	2,068	6,622	7,152	7,884
Other Liabilities, provisions	957	1,354	1,562	1,803
Total liabilities	**24,650**	**36,150**	**41,715**	**48,147**
APPLICATION OF FUNDS				
Cash & Bank Balance	1,938	2,191	2,391	2,719
Investments	5,170	7,024	8,294	9,719
Advances	16,006	24,849	28,511	32,825
Fixed Assets & Other Assets	1,547	2,112	2,519	2,883
Total assets	**24,650**	**36,150**	**41,715**	**48,147**

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY23	FY24	FY25E	FY26E
VALUATION RATIOS				
EPS	79.1	80.0	92.2	110.7
Earnings Growth (%)	*18.6*	*1.3*	*15.2*	*20.0*
BVPS	502.2	579.5	645.2	728.3
Adj. BVPS	487.5	568.9	633.4	714.0
ROAA (%)	1.9	2.0	1.8	1.9
ROAE (%)	17.0	14.2	15.1	16.1
P/E (x)	21.4	21.1	18.3	15.3
P/ABV (x)	3.5	3.0	2.7	2.4
PROFITABILITY				
NIM (%)	4.1	3.7	3.6	3.7
Cost-Assets Ratio	2.1	1.9	1.8	1.8
Cost-Income Ratio	40.4	40.2	39.8	38.9

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY23	FY24	FY25E	FY26E
Loan Growth (%)	16.9	55.2	14.7	15.1
Deposit Growth (%)	20.8	26.4	18.1	17.2
C-D Ratio (%)	85.0	104.4	101.5	99.7
CRAR	19.3	18.8	18.0	17.5
Tier I	17.1	16.3	15.7	15.3
ASSET QUALITY				
Gross NPLs (%)	1.1	1.3	1.3	1.3
Net NPLs (%)	0.3	0.3	0.3	0.3
PCR	75.8	74.0	75.0	75.0
Credit Cost	0.8	1.2	0.6	0.6

Source: Company, Axis Research

Bharti Airtel Ltd – HIGHEST ARPU IN THE INDUSTRY

Bharti Airtel (Airtel) is an Indian multinational telecommunications services company headquartered in New Delhi. Operating in 18 countries across South Asia, Africa, and the Channel Islands, Airtel is India's second-largest telecom operator. The company boasts a robust presence in India, offering a comprehensive digital services portfolio that includes fiber optic cables, desktop telephones, mobile phones, and other offerings.

Industry view

Over Weight

CMP
1,444

Target Price
1,650

Upside
14%

Key Rationale

- **Best ARPU in the industry:** Bharti Airtel has the leading ARPU in the industry. Management expects ARPU to improve from the current level of Rs 203 (compared to Reliance's current ARPU of Rs 181). This improvement is attributed to a richer customer mix and strong customer conversion from 2G to 4G/5G and other services. The company continues on its ARPU growth trajectory and expects it to reach Rs 300 in the future. With a strong focus on customers, Airtel will continue to increase its realizations going forward. Rising data consumption and increasing rural penetration will also contribute to gaining ARPU. Average data usage per customer is healthy at 21.7 GB/month.
- **Huge revenue and profit growth potential:** The company's business fundamentals remain strong and continue to improve. Management foresees significant potential for sustained revenue and profit growth, driven by expanding distribution in rural areas, investments in the network, and increasing 4G coverage. Additionally, strategic investment opportunities are available in tower sales, minority, and IPO investments in mobile money, among others. The company's digital portfolio is gaining momentum, along with market share gains. Airtel maintained a strong share of 4G/5G net ads in the market, with the 4G customer base growing by 7.7 Mn QoQ and 27.2 Mn YoY. This now constitutes 69% of the overall customer base.
- **Improvement in the Digital/Home Segment:** The management anticipates improvement in the Home Segment through offering multiple solutions in one go. Airtel has adopted a robust strategy of "Hunting" by providing diverse solutions to existing customers (primarily 50 Mn customers with strong financial conditions) and actively acquiring new customers. Enhanced growth in the Home segment is expected to bolster revenue realization and fortify the business model. Management expresses confidence in achieving industry-leading growth supported by robust rural penetration and an enhanced service portfolio.
- **Moderated Capex and const optimization effort:** The company anticipates no immediate significant capital expenditure despite the rollout of 5G. Management expects Capex levels to remain stable, with investments focused on broadband expansion, enterprise solutions, and data centers. However, Capex related to 4G radio is expected to decline. Airtel has identified over 2,500 sites for network cost reduction initiatives, which will contribute to lowering operating costs in the future.
- **Valuation & Recommendation:** our BUY rating on the stock is retained due to the company's superior margins, impressive subscriber growth, and increased 4G conversions. We upgrade our target price
- **Key risks:** a) Competitors may eat market share resulting in loss of sustainable revenue.

Key Financials (Consolidated)

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (X)	ROE (%)	ROCE (%)	EV/EBITDA (X)
FY22	1,16,547	57,534	6,607	11.8	99.2	7.77	11.9	9.1
FY23	1,39,145	71,274	15,356	27.5	50.9	15.3	22.5	8.8
FY24	1,57,219	65,934	13,522	18.8	105	16.7	26.6	8.1
FY25E	2,01,095	1,11,297	49,958	21.9	67.2	20.7	30.2	3.5

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY22	FY23	FY24	FY25E
Net sales	**1,16,547**	**1,39,145**	**1,57,219**	**2,01,095**
Growth, %	16	19	13	28
Total income	1,16,547	1,39,145	1,57,219	2,01,095
Raw material expenses	(6,761)	(7,621)	(8,653)	(10,272)
Employee expenses	(4,433)	(4,831)	(5,314)	(5,436)
Other Operating expenses	(57,894)	(66,626)	(89,889)	(88,227)
EBITDA (Core)	**57,534**	**71,274**	**65,934**	**1,11,297**
Growth, %	27	24	(7)	69
Margin, %	49	51	42	55
Depreciation	(33,091)	(36,432)	(39,523)	(39,466)
EBIT	**24,443**	**34,842**	**26,411**	**71,830**
Growth, %	53	43	(24)	172
Margin, %	21	25	17	36
Interest paid	(16,616)	(16,901)	(17,878)	(18,196)
Other Non-Operating Income	534	937	1,353	1,342
Non-recurring Items	-	-	-	-
Pre-tax profit	10,785	19,629	12,093	57,057
Tax provided	(4,178)	(4,273)	(1,571)	(7,099)
Profit after tax	**6,607**	**15,356**	**10,522**	**49,958**
Net Profit	**6,607**	**15,356**	**10,522**	**49,958**
Growth, %	(188)	132	(31)	375
Net Profit (adjusted)	**6,607**	**15,356**	**10,522**	**49,958**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY22	FY23	FY24	FY25E
Cash & bank	12,980	19,088	14,649	14,417
Other current assets	38,659	39,033	39,109	37,672
Total current assets	51,640	58,121	53,758	52,089
Gross fixed assets	2,71,414	2,75,280	2,75,464	2,78,465
Net fixed assets	2,71,414	2,75,280	2,75,464	2,78,465
Non-current assets	32,806	32,435	32,973	33,102
Total assets	**3,82,132**	**4,69,456**	**4,51,173**	**5,01,139**
Current liabilities	1,14,026	1,21,964	1,21,964	1,21,964
Total current liabilities	1,14,026	1,21,964	1,21,964	1,21,964
Non-current liabilities	1,57,695	2,18,225	2,18,225	2,18,225
Total liabilities	2,71,721	3,40,189	3,40,189	3,40,189
Paid-up capital	2,795	2,795	2,795	2,795
Reserves & surplus	82,235	97,591	1,08,113	1,58,071
Shareholders' equity	1,10,411	1,29,267	1,10,984	1,60,950
Total equity & liabilities	**3,82,132**	**4,69,456**	**4,51,173**	**5,01,139**

Source: Company, Axis Research

Valuation ratios (%)

Y/E March	FY22	FY23	FY24	FY25
Per Share data				
EPS (INR)	12	27	19	89
Growth, %	(186)	132	(31)	375
Book NAV/share (INR)	152	180	198	288
FDEPS (INR)	12	27	19	89
CEPS (INR)	71	93	90	160
CFPS (INR)	63	104	83	156
Return ratios				
Return on assets (%)	5	7	6	17
Return on equity (%)	8	15	9	31
Return on capital employed (%)	6	8	6	17
Turnover ratios				
Asset turnover (x)	1	1	1	1
Sales/Total assets (x)	0	0	0	1
Sales/Net FA (x)	0	1	1	1
Working capital/Sales (x)	(1)	(1)	(1)	(0)
Fixed capital/Sales (x)	2	2	2	1
Working capital days	(236)	(218)	(192)	(153)
Liquidity ratios				
Current ratio (x)	0	0	0	0
Quick ratio (x)	0	0	0	0
Interest cover (x)	1	2	1	4
Dividend cover (x)				
Total debt/Equity (%)	168	202	182	126
PEG (x) - y-o-y growth	(0)	0	(1)	0
Price/Book (x)	5	4	4	2
Yield (%)				
EV/Net sales (x)	4.5	4.1	3.7	2.9
EV/EBITDA (x)	9.1	8.1	8.8	5.2

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY22	FY23	FY24	FY25
Pre-tax profit	10,785	19,629	12,093	57,057
Depreciation	33,091	36,432	39,523	39,466
Chg in working capital	1,254	1,131	(606)	1,163
Total tax paid	(3,340)	(4,646)	(1,571)	(7,099)
Cash flow from operating activities	**41,644**	**52,509**	**49,431**	**90,732**
Capital expenditure	(51,864)	(40,299)	(39,706)	(42,468)
Chg in marketable securities	(1,451)	(374)	(76)	1,437
Other investing activities	(6,560)	(12,647)	(3,542)	-
Cash flow from investing activities	(56,001)	(52,193)	(41,041)	(40,387)
Free cash flow	**(14,356)**	**316**	**8,389**	**50,345**
Equity raised/(repaid)	49	-	-	-
Debt raised/(repaid)	6,922	59,807	-	-
Cash flow from financing activities	10,078	63,308	(28,805)	7
Net chg in cash	(4,278)	63,623	(20,416)	50,352
Opening cash balance	17,582	12,980	19,088	14,649
Closing cash balance	**12,980**	**19,088**	**14,649**	**14,417**

Source: Company, Axis Research

TVS Motor Company Ltd – "New Product Launches To Drive Growth"

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

Industry view

Over Weight

CMP
2,365

Target Price
2,700

Upside
14%

Key Rationale

- **Industry Outlook:** In FY24, TVS Motor Co Ltd (TVS) delivered 34%/17% YoY growth in the domestic motorcycles/scooters segment vs. the industry growth of 14%/13% YoY respectively. This increased its domestic market share in the motorcycles/scooters segments to 10.5%/24.5% in FY24 from 8.9%/24% in FY23 respectively. To continue this volume momentum, TVS will be launching multiple products in the ICE, EV, and 3W segments over the next few quarters to address white spaces in the portfolio. On the back of normal monsoon expectations, the management is confident about rural recovery with higher demand for premium products.
- **EV Strategy**: TVS iQUBE has been established as a strong brand in the EV segment with 100% YoY volume growth in FY24. The management informed that the TVS iQube is available at 700+ touchpoints as of Apr'24 in India and exports have begun to ASEAN and Asian markets. To attain a dominant position amid rising competition and reduction in government subsidies, TVS will launch a portfolio of EV products (incl e3W) in the near term, focusing on varied customer preferences.
- **EBITDA growth outlook**: EBITDA margins have improved from 10.3% in Q4FY23 to 11.3% in Q4FY24, led by sustained material cost reduction efforts, commodity softening, opportunistic price hikes taken during the year, supply chain management, and overall product mix. This is despite the higher mix of margin-dilutive EVs in the sales mix. The long-term EBITDA margin target for TVS is 14-16%. We factor EBITDA to grow at 21% CAGR over FY24E-26E.
- **Valuation & Outlook:** Being well-placed among listed players, we expect the company's Revenue/EBITDA/PAT to grow at ~17%/21%/25% CAGR over FY24E-26E. We like TVS because of its engineering and R&D capabilities, strong domestic retail network, export recovery, and increasing sales volumes from premium offerings in developed countries (we estimate Norton's business to be able to generate revenue by FY26-27). Based on this strong fundamental outlook, we expect the company to deliver a strong ROE, ranging between 27%-30% over the next few years.
- **Key risks:** a) Higher Interest rate, b) Macro Economic risks, and c) Higher fuel prices.

Key Financials (Standalone)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	ROE (%)	ROCE (%)	EV/EBIDTA (x)
FY23A	26,378	2,675	1,491	31.0	37.7	26.7	19.5	21.7
FY24E	31,776	3,514	2,083	43.8	53.9	29.4	22.8	32.4
FY25E	37,046	4,288	2,581	54.3	43.5	28.6	23.9	26.5
FY26E	43,195	5,124	3,241	68.2	34.7	27.6	24.7	21.7

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY23A	FY24	FY25E	FY26E
Net revenues	**26,378**	**31,776**	**37,046**	**43,195**
Operating expenses	23,703	28,262	32,757	38,072
EBIDTA	**2,675**	**3,514**	**4,288**	**5,124**
EBIDTA margin (%)	**10.1**	**11.1**	**11.6**	**11.9**
Other income	76	149	133	221
Interest	141	182	140	140
Depreciation	631	700	803	883
Profit Before Tax	2,003	2,781	3,478	4,322
Tax	512	698	897	1,080
Reported Net Profit	**1,491**	**2,083**	**2,581**	**3,241**
Net Margin (%)	5.7	6.6	7.0	7.5
Adjusted Net Profit	**1,473**	**2,083**	**2,581**	**3,241**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY23A	FY24	FY25E	FY26E
Equity capital	48	48	48	48
Reserves & surplus	6,000	7,684	10,094	13,145
Shareholders funds	**6,048**	**7,731**	**10,142**	**13,193**
Total Loans	2,663	2,201	1,801	1,401
Deferred tax liability	235	187	187	187
Total Liabilities and Equity	**8,947**	**10,119**	**12,130**	**14,781**
Gross block	7,988	9,465	10,544	11,469
Depreciation	4,392	5,092	5,895	6,779
Net block	3,596	4,372	4,649	4,691
Capital WIP	628	330	250	225
Investments	5,492	6,967	7,767	8,367
Inventory	1,236	1,371	2,030	2,367
Debtors	955	1,302	1,827	2,130
Cash & Bank Bal	242	706	539	2,350
Loans & Advances	1,843	1,014	2,496	3,174
Current Assets	**4,277**	**4,393**	**6,891**	**10,021**
Sundry Creditors	4,131	5,112	6,597	7,692
Other Current Liability	274	177	177	177
Current Liability& Provisions	5,046	5,943	7,428	8,523
Net current assets	-769	-1,550	-537	1,498
Total Assets	**8,947**	**10,119**	**12,130**	**14,781**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY23	FY24	FY25E	FY26E
EBIT	2,043	2,814	3,486	4,240
Other Income	76	149	133	221
Depreciation & Amortisation	631	700	803	883
Interest paid(-)	-141	-182	-140	-140
Tax paid(-)	-512	-698	-897	-1,080
Extra Ord Income	25	0	0	0
Operating Cash Flow	**2,122**	**2,783**	**3,384**	**4,125**
Change in Working Capital	-680	1,245	-1,181	-223
Cash flow from Operations	**1,443**	**4,029**	**2,203**	**3,902**
Capex	-1,124	-1,198	-980	-900
Strategic Investment	-944	-1,376	-800	-600
Non Strategic Investment	38	-99	0	0
Cash flow from Investing	**-2,030**	**-2,674**	**-1,780**	**-1,500**
Change in borrowing	701	-462	-400	-400
Others	-58	-48	-0	0
Dividends paid(-)	-214	-380	-190	-190
Cashflow from Financial Activities	**428**	**-891**	**-590**	**-590**
Change in Cash	-159	464	-167	1,812
Opening cash	401	242	706	539
Closing cash	242	706	539	2,350

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY23	FY24	FY25E	FY26E
Revenue Growth	26.9	20.5	16.6	16.6
EBITDA Margin	10.1	11.1	11.6	11.9
Net Profit Margin	5.6	6.6	7.0	7.5
ROCE (%)	19.5	22.8	23.9	24.7
ROE (%)	26.7	29.4	28.6	27.6
EPS(Rs)	31.0	43.8	54.3	68.2
P/E (x)	37.7	53.9	43.5	34.7
P/ BV (x)	9.2	14.5	11.1	8.5
EV/ EBITDA (x)	21.7	32.4	26.5	21.7
Fixed Assets Turnover Ratio (x)	7.3	7.3	8.0	9.2
Debt / Equity (x)	0.4	0.3	0.2	0.1
EV/ Sales (x)	2.2	3.6	3.1	2.6

Source: Company, Axis Research

CHOLAMANDALAM INVESTMNT & FINANCE Co. LTD. – STRONG GROWTH ACROSS KEY PARAMETERS

Cholamandalam Investment & Finance Company Ltd. (CIFC) is the financial services arm of the Murugappa Group. CIFC commenced business as an equipment financing company and has emerged as a comprehensive financial services provider offering vehicle finance, home loans, loan against property, SME loans, Secured Business Personal Loans (SBPL), Consumer & Small Enterprises Loans (CSEL) and a variety of other financial services to customers. Chola operates from 1309 branches across India with assets under management of over Rs 1.4 Lc Cr.

Industry view

Equal weight

CMP
1,424

Target Price
1,575

Upside
11%

Key Rationale

- **AUM growth momentum to persist:** In Q4FY24, AUM growth was driven by strong growth across segments. NII grew by 33/8% YoY/QoQ. The management remains confident about 20-25% growth in disbursements on the back of strong growth in the Vehicle finance portfolio, with passenger vehicles (especially entry-level cars) doing well, a 29% YoY growth in the MUV segment, and 22% YoY growth in used-vehicle portfolios. Although there was some softness in the SME which was down ~2%, the company targets New business book to constitute about 15% of the total AUM in the next few years.
- **NIMs to be maintained at current levels:** In Q4FY24, margins improved by 40bps QoQ (positive surprise). NIM improvement was driven by yield (blended) improvement of 30bps QoQ and CoF contraction of 10bps QoQ. The company reported a Net Interest Margin (NIM) of 7.5% for FY24, a figure that management expects to maintain going forward. This expectation is supported by repricing in the Vehicle portfolio, where the marginal book reflects a 1% increase compared to the current rate. Furthermore, home loans are expanding in newer geographies (Tier 2 and Tier 3 towns) wherein the yields are higher. Thus, the overall yield is expected to increase further in the upcoming quarter. ~15% of the loan book is fixed, 25-30% of the loan book is MCLR linked, and the rest of the loan book is EBLR Linked. Thus, margins are likely to remain at the current level until the rate-cut cycle begins.
- **Asset quality to remain stable:** The company reported GNPA/NNPA at 3.54%/2.32%, down 109bps/ 38bps YoY/QoQ. The PCR stands at 46.45%. Going forward, the company expects the LAP-related credit cost to normalise which has remained benign in the last few quarters.
- **Outlook & Valuation:** CIFC has guided growth momentum to sustain with AUM growing at ~25% over FY25, sustaining the current NIM as improving product mix offset the rising cost of funds. This will be primarily driven by non-VF businesses. Although growth in commercial vehicles and tractors is expected to remain substandard, other loan segments such as LAP, home loans, and new businesses would support the CIFC to maintain robust growth momentum in AUM. With margins expected to remain stable around the current levels and strong AUM growth, NII is expected to report healthy growth. Asset quality is currently stable and there are no signs of any major stress. Thus, with stable asset quality, we believe, CIFC can sustain its ROA at 2.3%+ over FY25-26E.
- **Key risks:** a) Moderation in growth momentum, b) Inability to scale up new products and c) Asset quality concerns cropping out

Key Financials (Consolidated)

Y/E Mar	NII (Rs Cr)	PPOP (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY23	6,333	4,449	2,666	32.4	133.9	10.6	2.7	3.1
FY24	8,383	5,904	3,423	40.7	209.5	6.8	2.5	1.4
FY25E	11,045	7,745	4,274	50.9	257.2	5.5	2.4	1.1
FY26E	13,947	9,742	5,390	64.1	315.0	4.5	2.4	1.1

Source: Company, Axis Securities.

Profit & Loss (Rs Cr)

Y/E MAR	FY23	FY24	FY25E	FY26E
Net Interest Income	**6,333**	**8,383**	**11,045**	**13,947**
Other Income	896	1,603	2,065	2,322
Total Income	**7,229**	**9,986**	**13,110**	**16,270**
Total Operating Exp.	2,780	4,082	5,364	6,528
PPOP	**4,449**	**5,904**	**7,745**	**9,742**
Provisions & Contingencies	850	1,322	2,023	2,526
PBT	**3,600**	**4,582**	**5,722**	**7,215**
Provision for Tax	933	1,159	1,448	1,826
PAT	**2,666**	**3,423**	**4,274**	**5,390**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E MAR	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS				
Share capital	164	168	168	168
Reserves and Surplus	14,132	19,388	23,526	28,744
Shareholders' funds	**14,296**	**19,557**	**23,694**	**28,912**
Borrowings	**97,356**	**1,34,474**	**1,72,761**	**2,13,437**
Other Liabilities, provisions	1,863	2,421	3,087	3,809
Total liabilities	**1,13,516**	**1,56,451**	**1,99,543**	**2,46,157**
APPLICATION OF FUNDS				
Cash & Bank Balance	2,961	4,320	5,909	7,290
Investments	3,620	4,100	6,028	7,436
Advances	1,04,748	1,44,424	1,83,007	2,25,758
Fixed Assets & Other Assets	2,186	3,606	4,599	5,674
Total assets	**1,13,516**	**1,56,451**	**1,99,543**	**2,46,157**

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY23	FY24	FY25E	FY26E
VALUATION RATIOS				
EPS	32.4	40.7	50.9	64.1
Earnings Growth (%)	*24.0*	*25.6*	*24.9*	*26.1*
BVPS	173.8	232.7	282.0	344.1
Adj. BVPS	133.9	209.5	257.2	315.0
ROAA (%)	2.7	2.5	2.4	2.4
ROAE (%)	20.6	20.1	19.7	20.4
P/E (x)	43.9	34.9	28.0	22.2
P/ABV (x)	10.6	6.8	5.5	4.5
PROFITABILITY				
NIM (%)	6.6	6.3	6.4	6.4
Cost-Assets Ratio	2.8	3.0	3.0	2.9
Cost-Income Ratio	38.5	40.9	40.9	40.1

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY23	FY24	FY25E	FY26E
Loan Growth (%)	41.3	37.9	26.7	23.4
Borrowings Growth (%)	40.7	38.1	28.5	23.5
CRAR	17.1	18.6	18.4	17.7
Tier I	14.8	15.1	14.9	14.2
ASSET QUALITY				
Gross NPLs (%)	4.7	2.5	2.1	2.0
Net NPLs (%)	3.1	1.4	1.1	1.1
PCR	33.8	46.4	46.0	46.0
Credit costs	0.9	1.1	1.2	1.2

Source: Company, Axis Research

HCL Tech Ltd – Better Business Matrix; Beating Growth Compared to Large Cap Peers

HCL Technologies (HCLT) is India's third-largest IT services exporter with a strong global presence. It offers industry-wide solutions, including next-gen services such as Cloud Computing, Digital Transformations, IoT, Machine Learning, and ER&D. Additionally, HCLT has expertise in providing solutions in banking, financial services, and other sectors through its product and platform portfolio..

Industry view

Equal Weight

CMP
1,460

Target Price
1,650

Upside
13%

Key Rationale

- **Capitalizing demand for digital transformation services:** The recent deal trend remains robust for HCL Tech, reflecting strong traction in BFSI, Retail & CPG, and Manufacturing verticals. HCL Tech will continue to invest in digital capabilities, digital talent, and S&M to drive growth. We believe the company has a significant opportunity to achieve strong organic growth across various verticals globally. The ramp-up in the Verizon deal will also contribute to better revenue growth for HCL Tech compared to its peers.
- **Robust deal wins despite challenging macroeconomic conditions**: HCLT's deal pipeline remained industry-leading in Q4FY24 at $2.29 Bn. Despite uncertainty across verticals such as BFSI, Communication, Manufacturing, and Automobile, HCLT secured many large transformation deals. This robust deal pipeline enhances revenue visibility for FY25-26E. The company won 21 large deals, including 13 in the Services vertical and eight in the Software vertical. With a strong deal pipeline, the company anticipates signing mega deals in FY25 as well.
- **Robust recovery in ER&D; IT Services & Products remain Flat**: IT services, comprising 72% of revenue, showed a growth of 4% QoQ. However, ER&D services, accounting for 16.4% of revenue, declined by 1.6% QoQ despite strong traction for automation. IT software, which represents 12.3% of the company's revenue, improved by 18.5% QoQ. While the near-term outlook remains uncertain, management is confident about the company's medium to long-term prospects.
- **Accelerating demand for ER&D services:** Digital engineering spends are accelerating across industries, with companies swiftly transitioning from traditional to digital engineering. Major industries such as Manufacturing, BFSI, Media & Technology, Retail, Healthcare Payers & Providers, and Travel & Hospitality are developing new products and services to differentiate themselves, thereby creating significant opportunities for the company. HCL Tech's large pool of expertise in the ER&D vertical enhances its vertical-specific capabilities in ER&D services.
- **Capitalizing on growing investment in the Transportation vertical**: The outlook for the Auto sector remains strong, with a growth of 30% YoY. HCLT is uniquely positioned to meet the increased demand in areas such as Infotainment, Connected, ADAS, Autonomous, and Hybrid & Electric Mobility. In the Semiconductor sector, recent softness due to macro issues has been observed; however, management anticipates demand recovery in the latter part of the year, driven by high-performance computing, AI, and automotive segments. Growth in the medical vertical has been paused over the last couple of quarters, but opportunities in Predictive, Proactive, and Personalized patient care, connected devices, digital platforms, the shift to value-based care, and the need for accelerated testing should help it grow in H2FY25.
- **Outlook & Valuation:** HCL Tech is well-placed for encouraging long-term growth, given its multiple long-term contracts with the world's leading brands. Enhanced revenue visibility instills confidence in its future business growth. However, rising concerns over business uncertainties in large economies and ongoing supply-side constraints present challenges for the company's growth prospects moving forward.
- **Key risks:** a) Slowdown in North America may impact IT spend creating adverse impact on the revenue growth.

Key Financials (Standalone)

Y/E March	Sales (Rs Cr)	PAT (Rs Cr)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
FY24	1,09,913	15,710	57.8	12%	25.7	25%	31%	15.1	52.0
FY25E	1,15,667	22,555	75.0	30%	22.6	27%	34%	14.3	53.0
FY26E	1,25,202	28,796	83.0	11%	20.2	28%	36%	12.6	54.0

Source: Company, Axis Securities

Income Statement (Rs Bn)

Y/E March	FY23A	FY24A	FY25E	FY26E
Net sales	**1,01,456**	**1,09,913**	**1,15,667**	**1,25,202**
Other operating income	0%	0%	0%	0%
Total income	1,01,456	1,09,913	1,15,667	1,25,202
Total Expenditure				
Employee benefit expenses	55,280	62,480	66,509	71,991
Outsourcing cost	14,950	14,578	15,615	16,902
Other Costs	6,593	6,860	7,518	8,138
Total Cost	**78,828**	**85,715**	**89,642**	**97,032**
EBITDA	**22,628**	**24,198**	**26,025**	**28,170**
Other income	1,358	1,495	1,735	626
PBIDT	**23,986**	**25,693**	**27,760**	**28,796**
Depreciation	4,145	4,173	4,627	4,181
Interest & Fin Chg.	353	553	578	600
Pre-tax profit	**19,488**	**20,967**	**22,555**	**28,796**
Tax provision	4,643	5,257	0	0
Profit after Tax	**14,845**	**15,710**	**22,555**	**28,796**
Other Comprehensive Income	0	0	0	0
PAT after Comprehensive Income	**14,845**	**15,710**	**22,555**	**28,796**

Source: Company, Axis Research

Balance Sheet (Rs Bn)

Y/E March	FY23A	FY24A	FY25E	FY26E
Total assets	**72,089**	**80,336**	**99,315**	**1,13,763**
Net Block	5,371	5,612	5,371	0
CWIP	18,677	21,910	23,851	26,226
Investments	**15,896**	**16,392**	**17,914**	**19,851**
Wkg. cap. (excl cash)	6,640	20,971	23,627	26,824
Cash / Bank balance	25,506	15,453	28,554	40,862
Misc. Assets	-1	-1	-1	-1
Capital employed	**72,089**	**80,336**	**99,315**	**1,13,763**
Equity capital	543	543	543	543
Reserves	**64,863**	**67,039**	**82,997**	**99,988**
Minority Interests	-7	-7	-7	-7
Borrowings	3,485	3,480	3,480	3,480
Def tax Liabilities	161	161	161	161

Source: Company, Axis Research

Cash Flow (%)

Y/E March	FY23A	FY24A	FY25E	FY26E
Sources	11,066	7,631	20,097	20,792
Cash profit	19,343	20,436	27,760	28,796
(-) Dividends	4,342	4,595	6,597	7,025
Retained earnings	15,001	15,841	21,163	21,772
Change in Oth. Reserves	-1,471	-7,652	-487	-380
Borrowings	59	-5	0	0
Others	-2,523	-553	-578	-600
0	0	0	0	0
Applications	11,066	7,631	20,097	20,792
Capital expenditure	5,793	8,991	6,418	6,418
Investments	1,793	757	798	841
Net current assets	-1,355	7,936	1,967	2,467
Change in cash	4,835	-10,053	13,101	12,308
Closing cash	**25,506**	**15,453**	**28,554**	**40,862**

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY23A	FY24A	FY25E	FY26E
Sales growth	18.5	8.3	5.2	8.2
	0%	0%	0%	0%
OPM	22.3	22.0	22.5	22.5
Oper. profit growth	10.2	6.9	7.6	8.2
COGS / Net sales	0.0	0.0	0.0	0.0
Depreciation / G. block	-1256.1	1731.5	-1919.8	-77.8
Effective interest rate (%)	11.4	17.0	17.8	18.4
Net wkg.cap / Net sales	9%	14%	21%	21%
Net sales / Gr block (x)	736%	796%	826%	882%
	0%	0%	0%	0%
RoCE	28%	30%	29%	26%
Debt / equity (x)	0	0	0	0
Effective tax rate	24	25	0	0
RoE	23%	23%	29%	25%
Payout ratio (Div/NP)	25	25	25	25
EPS (Rs.)	**55**	**58**	**75**	**83**
EPS Growth	10	6	44	6
CEPS (Rs.)	70	73	100	104
DPS (Rs.)	14	14	21	22

Source: Company, Axis Research

Aurobindo Pharma Limited – Several Growth Levers To Drive Topline

Aurobindo Pharma Limited (ARBP) is an integrated global pharmaceutical company based in Hyderabad, India. The company develops, manufactures, and commercializes a wide range of generic pharmaceuticals, branded specialty pharmaceuticals and active pharmaceutical ingredients globally in over 150 countries. The company has 25 manufacturing and packaging facilities that are approved by leading regulatory agencies, including USFDA, UK MHRA, EDQM, Japan PMDA, WHO, Health Canada, South Africa MCC, and Brazil ANVISA. The company's robust product portfolio is spread over 7 major therapeutic product areas, encompassing CNS, AntiRetroviral, CVS, Antibiotics, Gastroenterological, Anti-Diabetics and Anti-Allergic, supported by a strong R&D set-up.

Industry view

Over Weight

CMP
1,208

Target Price
1,330

Upside
10%

Key Rationale

- **Strong Q4FY24 Performance:** Aurobindo Pharma reported better-than-expected results with EBITDA and PAT beating estimates by ~8% YoY and 11% YoY respectively. Consolidated revenue grew by 17.1% YoY led by incremental sales from gRevlimid. Gross margin improved by 250bps QoQ, while EBITDA margins grew by 30bps QoQ. PAT grew significantly by 91% YoY, indicating strong bottom-line performance. US Revenue increased to $432 Mn, up 16.8% YoY, primarily due to incremental sales of $20 Mn (from gRevlimid). However, this growth was partially offset by shutdowns in certain plant lines due to US FDA inspections, amounting to ~$20 Mn. The growth markets and the ARV segment witnessed robust growth of 44.2% and 49.7% YoY respectively. The API segment reported flat growth. Injectable sales surged by 52.5% YoY, primarily driven by gRevlimid ($20 Mn).
- **New Expansion Plans:** The Pen-G API and China plants are expected to begin commercialization in H1FY25. 40-50% of ABRP' Pen-G API capacities of 15K TPA will be consumed internally and we expect ABRP's external Pen-G API sales to be $100/150 Mn in FY25/FY26, assuming pricing of $20/kg. The new China plant and the Vizag plant will help to scale-up injectable supplies in the EU market and will aid in improving EU margins to the mid-teens.
- **Eugia III Unit:** This unit has received Official Action Indicated (OAI) by USFDA recently. This is an important unit comprising injectables and ophthalmology and the company has already received 111 approvals from this unit and 29 approvals are under review. We expect this could have a negative impact on Aurobindo' upcoming launches.
- **Outlook & Valuation:** Injectable represents $500 Mn in revenues, constituting 30% of US sales and boasts of having the highest gross margins. However, the issuance of OAI for injectable segments may negatively impact new launches. Moreover, price erosion within the injectable portfolio poses a risk to gross margins in the upcoming quarters. Aurobindo has already invested Rs 7,000 Cr in Capex over the last two years, primarily in segments like Biosimilars and Pen-G (API). Aurobindo' valuations in the coming years will be influenced by the return on invested capital (ROIC) generated from this Capex. Despite these challenges, considering the favorable industry trends and investments in new growing sectors.
- **Valuation:** At the CMP, the stock trades at 19.3x and 16.8x its FY25E and FY26E earnings.

Key Financials (Consolidated)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (%)	ROE (%)	ROCE (%)
FY24	29,002	5,843	3,169	54.2	22.0	12.0	10.6	15.1
FY25E	31,358	6,428	3,600	61.5	19.3	10.6	10.8	15.7
FY26E	34,399	7,189	4,135	70.7	16.8	9.2	11.2	17.2

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY24	FY25E	FY26E
Net Sales	**29,002**	**31,358**	**34,399**
Growth (%)	**16.7%**	**8.1%**	**9.7%**
Total Expenditure	23,159	24,930	27,209
Raw Material Consumed	12,603	13,484	14,619
% of sales	43.5%	43.0%	42.5%
Gross margins (%)	**56.5%**	**57.0%**	**57.5%**
Employee Expenses	3,923	4,233	4,644
% of sales	13.5%	13.5%	13.5%
Other Expenses	5,155	5,582	6,123
% of sales	17.8%	17.8%	17.8%
EBIDTA	**5,843**	**6,428**	**7,189**
EBITDAM (%)	**20.1%**	**20.5%**	**20.9%**
Depreciation	1,522	1,676	1,741
EBIT	4,321	4,752	5,449
EBITM (%)	14.9%	15.2%	15.8%
Interest	290	277	277
Other Income	557	304	311
Exceptional Items	-192	0	0
Share of P/L of Associates	-17	20	30
PBT	**4,380**	**4,799**	**5,513**
Tax Rate (%)	27.6%	25.0%	25.0%
Tax	1,211	1,200	1,378
Reported PAT	**3,169**	**3,600**	**4,135**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY24	FY25E	FY26E
Share Capital	59	59	59
Reserves & Surplus	29,792	33,128	36,999
Shareholders Fund	29,851	33,187	37,058
Total Debt	6,648	6,148	6,148
Total Non-Current Liabilities	3,022	3,015	3,075
- Trade Payables	4,454	4,725	4,901
Total Current Liabilities	12,199	12,352	12,902
TOTAL EQUITY & LIABILITIES	**45,071**	**48,553**	**53,035**
Turnover	1.6	1.6	1.6
Capex	5,239	1,800	1,800
Gross Block	**18,157**	**19,957**	**21,757**
Depreciation	6,896	8,572	10,313
% of GB	38.0%	43.0%	47.4%
Net Block	11,261	11,384	11,444
CWIP	2,739	2,739	2,739
Total Non-Current Assets	20,866	21,088	21,390
- Current Investments	51	51	51
- Inventories	9,808	10,739	11,780
- Trade Receivables	4,817	5,670	6,220
- Cash & Cash Equivalents	6,278	7,384	9,623
- Other Current Assets	3,239	3,608	3,958
Total Current Assets	24,205	27,465	31,645
TOTAL ASSETS	**45,071**	**48,553**	**53,035**

Cash Flow (Rs Cr)

Y/E Mar	FY24	FY25E	FY26E
PBT	4,380	4,799	5,513
Add: depreciation	1,522	1,676	1,741
Add: Interest	290	277	277
Cash flow from operations	6,191	6,752	7,530
Change in working capital	1,926	1,606	1,573
Taxes	1,211	1,200	1,378
Miscellaneous expenses	0	0	0
Net cash from operations	3,055	3,946	4,579
Capital expenditure	-3,473	-1,800	-1,800
Change in Investments	101	-1	0
Net cash from investing	-3,373	-1,801	-1,800
Increase/Decrease in debt	1,362	-500	0
Dividends	-264	-264	-264
Interest	-290	-277	-277
Others	-296	-0	-0
Net cash from financing	512	-1,040	-540
Net Inc./(Dec.) in Cash	194	1,106	2,239
Opening cash balance	6,084	6,278	7,384
Closing cash balance	6,278	7,384	9,623

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY24	FY25E	FY26E
Sales growth	**16.7**	**8.1**	**9.7**
OPM	20.1	20.5	20.9
Oper. profit growth	57.1	10.0	11.8
COGS / Net sales	43.5	43.0	42.5
Overheads/Net sales	31.3	31.3	31.3
Depreciation / G. block	8.4	8.4	8.0
Effective interest rate	27.6	25.0	25.0
Net wkg.cap / Net sales	40.4	42.5	43.3
Net sales / Gr block (x)	1.6	1.6	1.6
RoCE	15.1	15.7	17.2
Debt / equity (x)	0.2	0.2	0.2
Effective tax rate	27.6	25.0	25.0
RoE	10.6	10.8	11.2
Pay-out ratio (Div/NP)	4.5	4.5	4.5
EPS (Rs.)	54.2	61.5	70.7
EPS Growth	64.4	13.6	14.9
CEPS (Rs.)	80.2	90.2	100.4
DPS (Rs.)	4.5	4.5	4.5

Source: Company, Axis Research

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

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

Industry view

Over Weight

CMP
1,621

Target Price
1,785

Upside
10%

Key Rationale

- **Strong Q4FY24:** Lupin reported strong financial results, largely meeting expectations. Its revenue increased by 12%, supported by notable improvements in EBITDA margins, resulting in Reported PAT reaching to Rs 561 Cr. Gross margin showed a significant improvement of 777bps YoY and 148bps QoQ, driven by higher margins from high-value drugs in the portfolio. EBITDA stood at 20.1%, up 705bps YoY and 12bps QoQ, contributing to a substantial growth in Reported PAT, which surged by 125% YoY. US revenue showed robust growth, reaching $209 Mn, up 19.4% YoY. The company's India Business grew by 8.3%, outpacing industry growth (1.2x IPM Growth), with core therapies like cardio and respiratory treatments exceeding market growth at 8.7% over IPM growth of 6%. Other markets also performed well in the last quarter.

- **New Products Launch:** In the US, the base business performed well and new products like gSpiriva and gProlensa helped offset the seasonal product decline. Tiotropium is expected to continue to be a major growth driver in FY25E as the company has achieved 30% MS in this product since its launch. We expect the company to sustain >$200 Mn quarterly run rate in the US business based on new launches.

- **Outlook & Valuation:** New launches in the US market like Darunavir and Spiriva have gained market shares of up to 30% and 25% respectively. The recent launch approval of gMegabran has the potential to add yearly incremental sales of $50 Mn. Recent approvals for Tolvaptan (market size $287 Mn) and Xyway (market size $958 Mn with 180 days exclusivity, could add business in the second half. The compnay has a strong pipeline of products including Cynocobalamin, Diazepam Gel, Vereniciline, Bromfenac, Glucagen, and Risperidone, among others. Double-digit growth in the India business is expected as the company has already increased MR (Medical Representative) numbers to 1,000. An uptick in the API (Active Pharmaceutical Ingredient) business, as the API industry is witnessing a demand revival. Lupin's margins, currently at 18%, are still below the industry levels of 22%, which implies a significant scope for margin improvement in the upcoming quarters. This improvement will also be supported by the macro environment, which is currently favourable for the industry, such as falling raw material prices, low logistic costs, and fuel costs.
- **Valuation:** At the CMP, the stock trades at 27.6x and 23.2x its FY25E and FY26E earnings.

Key Financials (Consolidated)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (%)	ROE (%)
FY24	20,011	3,811	1,915	42.0	38.2	19.6	13.3
FY25E	21,559	4,420	2,650	58.1	27.6	16.4	15.8
FY26E	23,727	5,101	3,150	69.1	23.2	13.7	16.1

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY24	FY25E	FY26E
Total Net Sales	**20,011**	**21,559**	**23,727**
% Change	20.2%	7.7%	10.1%
Raw material Consumption	6,643	7,007	7,474
Staff costs	3,495	3,665	4,034
Other Expenditure	6,062	6,468	7,118
Total Expenditure	16,200	17,140	18,626
EBITDA	**3,811**	**4,420**	**5,101**
% Change	111.9%	16.0%	15.4%
EBITDA Margin %	**19.0%**	**20.5%**	**21.5%**
Depreciation	1,197	1,014	1,074
EBIT	2,614	3,406	4,028
EBIT Margin %	13.1%	15.8%	17.0%
Interest	312	121	106
Other Income	120	112	116
PBT	**2,422**	**3,397**	**4,038**
Tax	487	747	888
Tax Rate %	*20.1%*	*22.0%*	*22.0%*
APAT	1,936	2,650	3,150
P/L after discontinution	-21	0	0
PAT after Ass.	1,915	2,650	3,150
Adj. PAT	**1,915**	**2,650**	**3,150**
Growth %	**345.1%**	**38.4%**	**18.9%**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY24	FY25E	FY26E
Share Capital	91	91	91
Reserves & Surplus	14,282	16,637	19,492
Shareholders Fund	14,373	16,728	19,583
Total Debt	2,922	2,422	1,922
- Trade Payables	2,958	3,190	3,510
- Other Long Term Liabilities	346	354	390
- Other Current Liabilities	2,252	2,422	2,665
TOTAL EQUITY & LIABILITIES	**23,997**	**26,261**	**29,216**
Gross Block	9,535	10,135	10,735
Depriciation	4,951	5,965	7,038
% of GB	51.9%	58.9%	65.6%
- Fixed Assets(incl. Capital Work in Progress)	9,677	9,264	8,790
- Other Non Current Assets	872	881	881
- Current Investments	847	847	847
- Inventories	4,954	5,316	5,851
- Trade Receivables	4,692	5,080	5,591
- Cash & Cash Equivalents	1,202	2,984	5,177
- Other Current Assets	1,752	1,890	2,080
TOTAL ASSETS	**23,997**	**26,262**	**29,216**

Cash Flow (Rs Cr)

Y/E Mar	FY24	FY25E	FY26E
PBT	2,422	3,397	4,038
Add: depreciation	1,197	1,014	1,074
Add: Interest	312	121	106
Cash flow from operations	3,931	4,532	5,217
Change in working capital	-143	487	636
Taxes	487	747	888
Miscellaneous expenses	21	0	0
Net cash from operations	3,566	3,298	3,693
Capital expenditure	-1,251	-600	-600
Change in Investments	-407	0	0
Net cash from investing	-1,658	-600	-600
Increase/Decrease in debt	-1,620	-500	-500
Dividends	-385	-295	-295
Proceedings from equity	0	0	0
Interest	-312	-121	-106
Others	317	0	-0
Net cash from financing	-1,999	-916	-901
Net Inc./(Dec.) in Cash	-91	1,782	2,193
Opening cash balance	1,293	1,202	2,984
Closing cash balance	1,202	2,984	5,177

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY24	FY25E	FY26E
Sales growth (%)	20.2	7.7	10.1
OPM	19.0	20.5	21.5
Oper. profit growth	111.9	16.0	15.4
COGS / Net sales	33.2	32.5	31.5
Overheads/Net sales	-	-	-
Depreciation / G. block	12.6	10.0	10.0
Effective interest rate	20.1	22.0	22.0
Net wkg.cap / Net sales (%)	29.1	29.2	29.2
Net sales / Gr block (x)	2.1	2.1	2.2
RoCE	15.1	17.8	18.7
Debt / equity (x)	0.2	0.1	0.1
Effective tax rate	20.1	22.0	22.0
RoE	13.3	15.8	16.1
Payout ratio (Div/NP)	422.4	323.7	323.7
EPS (Rs.)	42.0	58.1	69.1
EPS Growth	345.1	38.4	18.9
CEPS (Rs.)	68.3	80.4	92.7
DPS (Rs.)	8.4	6.5	6.5

Source: Company, Axis Research

FEDERAL BANK – ASPIRING AN ROAOF 1.5% BY FY25E

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

Industry view

Equal Weight

CMP
177

Target Price
205

Upside
16%

Key Rationale

- **Shift in Portfolio Mix to Support Margins**–FB reported healthy credit growth of 20/5% YoY/QoQ. FBs higher-yielding portfolio contributes ~24.6% of the total portfolio vs. 21.8% YoY. FB's management expects margins to improve slightly by 2-3bps in FY25, supported by a shift in portfolio mix towards the higher-yielding businesses. With expectations of businesses like Credit Cards, Microfinance, Personal Loans and Tractors picking up momentum, yields are likely to find support. Additionally, FB continues to focus on higher-yielding sub-segments to improve yields. On the flip side, the CoD continues its upward trajectory and is likely to rise over the next couple of quarters, though at a moderate pace. Resultantly, improving yields should offset the impact of higher CoF, thereby supporting a gradual NIM expansion.
- **Business Growth to Remain Robust –** FB expects credit growth momentum to sustain going into FY25E, driven by the strong demand visible across products. Thus, the bank will eye at clocking advances growth of ~18% in FY25. It will also look to replicate the asset growth in terms of deposits. Footprint expansion across the country has helped FB mobilize deposits. The bank has seen an improvement in CASA deposit accretion (high-teen growth) from geographies wherein it traditionally did not have a stronghold and expects a similar growth momentum to continue. We expect Credit/Deposit growth to remain healthy at ~18% CAGR over FY24-26E each.
- **Asset Quality remains a priority –** FB has handled asset quality stress well and has seen significant improvement across metrics. The bank will continue to prioritize tapping better-quality customers in the newer segments, thereby keeping credit costs under control. FB has not eased any underwriting criteria in the co-lending partnerships and credit filters of the bank are applicable.
- **Outlook:** The bank has constituted a search committee to identify a suitable successor for the current MD CEO Mr Shyam Srinivasan who is slated to retire in Sep'24. The committee is in advanced stages of considering candidates – both internal (considering 2 internal candidates) and external.
- **Valuation:** FB continues to remain confident of its ability to improve RoA by 4-5bps each year, driven by (1) gradually improving margins driven by a shift in portfolio mix towards high-yielding segments, (2) strong fee income growth (~20-25% growth), (3) operating leverage kicking-in thereby supporting Cost ratios and (4) controlled credit costs led by healthy asset quality. We expect FB to deliver RoA/RoE of 1.3-1.4%/14-15% over FY25-26E. We maintain our BUY rating on the stock with a target price of Rs205/share.
- **Key risks**: a)Loan growth moderation, b) Asset quality challenges in the higher-yielding segment

Key Financials (Standalone)

Y/E Mar (Rs Cr)	NII (Rs Cr)	PPOP (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	ABV (x)	P/ABV (x)	ROAA (%)	NNPA (%)
FY23	7,232	4,794	3,011	14.2	95.9	1.8	1.3	0.7
FY24	8,293	5,174	3,721	15.3	114.3	1.6	1.3	0.6
FY25E	9,910	6,719	4,506	18.5	129.6	1.4	1.3	0.6
FY26E	11,677	8,228	45,440	22.3	147.8	1.2	1.4	0.5

Source: Company, Axis Securities

Profit & Loss (RsCr)

Y/E MAR	FY23	FY24	FY25E	FY26E
Net Interest Income	**7,232**	**8,293**	**9,910**	**11,677**
Other Income	2,330	3,079	3,796	4,585
Total Income	**9,562**	**11,373**	**13,706**	**16,262**
Total Operating Exp	4,768	6,198	6,987	8,034
PPOP	**4,794**	**5,174**	**6,719**	**8,228**
Provisions & Contingencies	750	196	690	948
PBT	**4,045**	**4,978**	**6,030**	**7,280**
Provision for Tax	1,034	1,258	1,523	1,839
PAT	**3,011**	**3,721**	**4,506**	**5,440**

Source: Company, Axis Research

Balance Sheet (RsCr)

Y/E MAR	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS				
Share Capital	423	487	487	487
Reserves	21,083	28,607	32,470	37,078
Shareholder's Funds	21,506	29,094	32,957	37,565
Total Deposits	2,13,386	2,52,534	3,00,326	3,55,557
Borrowings	19,319	18,026	18,818	21,702
Other Liabilities & Provisions	6,130	8,657	10,172	11,984
Total Liabilities	**2,60,342**	**3,08,312**	**3,62,272**	**4,26,809**
APPLICATION OF FUNDS				
Cash & Bank Balance	17,689	18,963	20,458	23,332
Investments	48,983	60,860	72,377	85,688
Advances	1,74,447	2,09,403	2,47,011	2,91,368
Fixed Assets & Other Assets	19,223	19,086	22,426	26,422
Total Assets	**2,60,342**	**3,08,312**	**3,62,272**	**4,26,809**

Source: Company, Axis Research

Key Ratios (%)

Y/E MAR	FY23	FY24	FY25E	FY26E
VALUATION RATIOS				
EPS	14.2	15.3	18.5	22.3
Earnings Growth (%)	*58.3*	*7.4*	*21.1*	*20.7*
BVPS	101.6	119.5	135.3	154.3
Adj. BVPS	95.9	114.3	129.6	147.8
ROAA (%)	1.3	1.3	1.3	1.4
ROAE (%)	14.9	14.7	14.5	15.4
P/E (x)	12.5	11.6	9.6	7.9
P/ABV (x)	1.8	1.6	1.4	1.2
DPS	1.0	2.0	2.6	3.4
Dividend Yield (%)	0.6	1.2	1.6	2.0
PROFITABILITY				
NIM (%)	3.2	3.3	3.2	3.2
Cost-Income Ratio	49.9	54.0	51.0	49.4

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY23	FY24	FY25E	FY26E
Loan Growth (%)	20.4	20.0	18.0	18.0
Deposit Growth (%)	17.4	18.3	18.9	18.4
C/D Ratio (%)	81.8	82.9	82.2	81.9
CAR	14.8	16.1	15.9	15.4
CAR Tier I	13.0	14.6	14.4	14.0
ASSET QUALITY				
Gross NPLs (%)	2.4	2.2	2.0	1.9
Net NPLs (%)	0.7	0.6	0.6	0.5
Coverage Ratio (%)	71.2	72.3	72.0	72.0
ROAA Tree				
Net Interest Income	3.0	2.9	3.0	3.0
Non-Interest Income	1.0	1.1	1.1	1.2
Operating Cost	2.0	2.2	2.1	2.0
Provisions	0.3	0.1	0.2	0.2
Tax	0.4	0.4	0.5	0.5
ROAA	1.3	1.3	1.3	1.4
Leverage (x)	11.9	11.2	10.8	11.2
ROAE	14.9	14.7	14.5	15.4

Source: Company, Axis Research

CIE Automotive India Ltd - ROBUST INDIAN OPERATIONS; GRADUAL RECOVERY EXPECTED IN EU

Mahindra CIE Automotive (MCIE) is 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, aluminium, gears, composites, machining and assembly of components for engines, transmission, chassis, and other applications.

Industry view

Over Weight

CMP
572

Target Price
630

Upside
10%

Key Rationale

- **Strong Orderbook to drive outperformance in Indian operations:** Improvement across segments and customers is expected in H2CY24 driven by a strong orderbook, ramp-up of Mahindra's XUV3XO, upcoming launches by Bajaj's CNG 2W and Mahindra' tractor and LCV vehicles. Mahindra, Bajaj, and Maruti are anchor investors for the company accounting for 55% of Indian business operations. The company has won Rs 300 Cr annual orders in Q1CY24. We expect the company to report revenue growth of 10% CAGR over CY24-26E in the Indian operations.
- **European Business Outlook**: Post a strong 13% YoY growth in the European PV industry in CY23, the management expects a 2-3% decline in CY24. While the EU market forecast for the medium term is muted, we are optimistic about the CIEAUTO – Metalcastello operations in CY25 (post-US elections) which exhibit higher margins, higher returns, and strong cash flow generation capabilities. We estimate a 4.5% CAGR revenue growth over CY24-26E in the EU business.
- **EV business:** The EV business in Europe is expected to slow down in CY24 due to the elimination of subsidies in certain countries like Germany. Furthermore, the delay in the new Euro 7 norms until mid-CY27 has led the OEMs to slow down their EV programs. The transition to EVs will hence be more gradual than expected earlier.

Valuation & Outlook: We are optimistic about the company's growth prospects driven by several factors: (a) Operational Performance and focus on building an EV product portfolio; (b) Healthy orderbook position skewed towards EVs in Europe and steady growth in Indian/Mexican operations; (c) Strong Free Cash Flow (FCF) generation capabilities; (d) Capacity building to meet demand from Indian OEMs. The growth trajectory in EU operations is expected to gradually recover from CY25 as per the management's guidance. Considering these factors, we forecast the company to post consolidated Revenue/EBITDA/PAT CAGR of 8.2%/10.4%/14.5% over CY24-26E.

- **Key risks:** a) Higher Interest rate, b) Business skewed towards ICE vehicles.

Key Financials (Standalone)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	ROCE (%)	ROE (%)	EV/EBIDTA (x)
CY23A	9.280	1,424	798	21	22.4	17.60%	13.30%	7.5
CY24	9,792	1,542	916	24.2	22.1	17.8%	13.50%	7.0
CY25E	10,571	1,723	1072	28.3	17.0	18.4%	13.80%	5.6
CY26E	11,455	1,879	1,201	31.7	15.0	18.1%	13.50%	4.8

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	CY23	CY24E	CY25E	CY26E
Net sales	**9,280**	**9,792**	**10,571**	**11,455**
Raw materials	(4,911)	(5,117)	(5,465)	(5,911)
Staff costs	(994)	(1,077)	(1,163)	(1,260)
Other expenses	(1,951)	(2,056)	(2,220)	(2,406)
Total expenses	**(7,856)**	**(8,250)**	**(8,848)**	**(9,577)**
EBITDA	**1,424**	**1,542**	**1,723**	**1,879**
Depreciation	(322)	(339)	(354)	(357)
EBIT	**1,102**	**1,203**	**1,369**	**1,522**
Other income	82	108	108	108
Interest expense	(107)	(76)	(28)	(7)
Share of Profit/loss from associates	(0)	1	1	1
Exceptional (expenses)/income	-	-	-	-
Profit before tax	**1,076**	**1,236**	**1,449**	**1,623**
Tax expense	(278)	(320)	(377)	(422)
Adjusted PAT	798	916	1,072	1,201
Reported PAT	**798**	**916**	**1,072**	**1,201**
No. of shares	37.9	37.9	37.9	37.9
Reported EPS (Rs/share)	21.0	24.2	28.3	31.7

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	CY23	CY24E	CY25E	CY26E
Equity Share Capital	379	379	379	379
Reserves and Surplus	5,609	6,430	7,407	8,514
Total Shareholders Funds	**5,988**	**6,809**	**7,787**	**8,893**
NON-CURRENT LIABILITIES				
Long Term Borrowings	101	81	61	32
Long-Term Finance/Lease Liabilities	34	34	34	34
Long Term Provisions	101	101	101	101
Deferred Tax Liabilities	333	333	333	333
Other LT liabilities	103	103	103	103
Total Non-Current Liabilities	**671**	**651**	**631**	**602**
CURRENT LIABILITIES				
Short Term Borrowings	702	502	252	52
Short-Term Lease Liabilities	19	19	19	19
Trade Payables	1,934	2,388	2,553	2,348
Other Financial Liabilities	57	57	57	57
Other Current Liabilities	279	279	279	279
Short Term Provisions	52	52	52	52
Current Tax Liabilities	60	60	60	60
Disposal group	-	-	-	-
Total Current Liabilities	**3,103**	**3,356**	**3,272**	**2,867**
Total Capital And Liabilities	**9,762**	**10,817**	**11,690**	**12,362**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	CY22A	CY23	CY24E	CY25E
Cash flows from operating activities				
Profit before tax for the year	**1,076**	**1,236**	**1,449**	**1,623**
Finance costs	107	76	28	7
Depreciation and amortisation	322	339	354	357
Others	-114			
Cash Flow From operation before changes in WC	1,326	1,772	1,650	1,831
Change in operating assets and liabilities:	1,772	1,650	1,831	1,987
Net cash generated by operating activities	**(389)**	**(491)**	**(407)**	**(846)**
Cash flows from investing activities	**1,383**	**1,159**	**1,424**	**1,141**
Payments for PPE & IA	(530)	(300)	(300)	(300)
Others	(379)	-	-	-
Net cash (used in)/generated by investing activities	(910)	(300)	(300)	(300)
Cash flows from financing activities				
Dividends Paid	(95)	(95)	(95)	(95)
Net Proceeds/(Repayment) of LT borrowings	40	(20)	(20)	(29)
Net Proceeds/(Repayment) of ST borrowings	(248)	(200)	(250)	(200)
Interest paid	(104)	(76)	(28)	(7)
Net cash used in financing activities	(427)	(391)	(393)	(330)
Net increase/(decrease) in CCE	46	468	731	511
Opening Cash and cash equivalents	158	210	678	1,409
Effects of exchange rate changes	5	-	-	-
Closing Cash and cash equivalents	210	678	1,409	1,920

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY22A	CY23	CY24E	CY25E
Operational Ratios				
Sales growth (% YoY)	6.0%	5.5%	8.0%	8.4%
EBITDA growth (% YoY)	21.5%	8.3%	11.7%	9.0%
Net Profit growth (% YoY)	12.1%	14.8%	17.1%	12.0%
EBITDA Margin %	15.3%	15.8%	16.3%	16.4%
Net profit Margin %	8.6%	9.4%	10.1%	10.5%
Efficiency Ratios				
Total Asset Turnover (x)	0.94	0.95	0.94	0.95
Sales/Gross block (x)	1.76	1.74	1.75	1.81
Sales/Net block(x)	3.4	3.5	4.0	4.5
Valuation Ratios				
PER (x)	22	22	17	15
P/BV (x)	3	3	3	2
EV/Ebitda (x)	7.5	7.0	5.6	4.8
Return Ratios				
ROE	13.3%	13.5%	13.8%	13.5%
ROCE	17.6%	17.8%	18.4%	18.1%
ROIC	18.21%	17.28%	17.26%	16.84%
Leverage Ratios				
Debt / equity (x)	0.18	0.12	0.07	0.04
Net debt/ Equity (x)	0.10	0.00	0.00	0.00
Interest Coverage ratio (x)	10.26	15.87	48.55	225.00

Source: Company, Axis Research

Westlife Foodworld Ltd – WELL-PLACED TO GROW

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

Industry view

Overweight

CMP
840

Target Price
980

Upside
17%

Key Rationale

- **Encouraging Q4FY24 results with market share gains:** WestlifeFoodworld surpassed revenue estimates with a 1.6% YoY growth in topline. However, SSSG declined by 5% YoY, compared to a 9% decline in Q3FY24, due to weak consumer demand and external challenges, notably the cheese controversy in the Western market. The company responded with strategic market interventions and proactive communication efforts, leading to some improvement in in-store performance. Unaffected stores maintained flat to low single-digit SSSG growth.
- **Multi-year growth tailwinds in the QSR space –**QSR (Quick Service Restaurant) segment comprises 22% of the organised foodservice market and is expected to grow at 23% CAGR over FY20-25E, outpacing all other chain food segments on account of 1) Younger demographics of the country, 2) Increasing participation of women workforce, and 3) Shutdown of over 25% of the restaurants after the pandemic, which in turn, will lead to faster market share gains, and 4) New players entering in the QSR turf which would further expand the market opportunity.
- **WLDL poised for QSR growth:** The company is set to seize the expanding QSR opportunity by a) Ensuring consistent SSSG growth and ongoing innovation, b) Introducing new products tailored to Indian tastes, c) Expanding into emerging QSR segments like fried chicken and coffee, d) Promoting affordability through combo meals, and e) Boosting premium offerings to raise average ticket size (currently Rs 200-250). Additionally, it maintains a strong focus on convenience formats like delivery, drive-thrus, and On-The-Go to mitigate dine-in risks and enhance overall consumer experience.
- **Large headroom for expansion**:WFL expanded aggressively, opening 17 new outlets in Q4FY24 (40 in FY24), bringing the total net store count to 397 outlets. The company aims to maintain its FY25/Vision 2027 store opening guidance of 45-50/ 580-630 stores, with a focus on South India, smaller towns, and Drive-Thrus. The southern market, being underpenetrated and ripe for store expansion, presents a significant opportunity for Westlife.
- **Outlook:** We maintain our positive outlook on WLDL. Our confidence in the company's bright future prospects is supported by its strong execution track record of Revenue/EBITDA growth of 17%/51% over FY16-20, which was driven by new product launches and cost rationalization programs (100-200bps cost reduction every year). We expect the company to deliver healthy Revenue/EBITDA growth of 15%/16% CAGR over FY23-26E (Post Ind. AS), led by above growth tailwinds.

Key Financials (Consolidated)

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (X)	ROE (%)	ROCE (%)	EV/EBITDA (X)
FY23	2,259	374	112	7.2	NA	19.7	28.4	34.6
FY24	2,368	369	69	4.4	186.3	11.9	22.8	35.1
FY25E	2,878	469	128	8.2	101.1	18.9	29.4	27.4
FY26E	3,429	581	184	11.8	70.0	22.6	33.0	21.9

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar, Rs Cr	FY23	FY24	FY25E	FY26E
Net sales	**2,259**	**2,368**	**2,878**	**3,429**
Growth, %	45	5	22	19
Raw material expenses	(686)	(711)	(860)	(1,019)
Employee expenses	(311)	(329)	(398)	(473)
Rent	-	-	-	-
Other Operating expenses	(908)	(983)	(1,178)	(1,384)
EBITDA (Core)	**374**	**369**	**469**	**581**
Growth, %	98	(1)	27	24
Margin, %	17	16	16	17
Depreciation	(152)	(182)	(198)	(224)
EBIT	**222**	**187**	**271**	**357**
Growth, %	320	(16)	45	32
Margin, %	10	8	9	10
Other Non-Operating Income	20	18	20	22
Pre-tax profit	**149**	**96**	**170**	**246**
Tax provided	(38)	(27)	(43)	(61)
Net Profit	**112**	**69**	**128**	**184**
Growth, %	(6,800)	(38)	84	44
Unadj. shares (Cr)	16	16	16	16

Source: Company, Axis Research

Balance Sheet (Rs Cr)

As at 31st Mar, Rs Cr	FY23	FY24	FY25E	FY26E
Cash & bank	158	143	227	367
Debtors	11	11	14	16
Inventory	71	75	91	108
Loans & advances	99	99	99	99
Other current assets	6	6	6	6
Total current assets	345	333	436	596
Investments	-	-	-	-
Gross fixed assets	1,945	2,339	2,661	3,005
Less: Depreciation	(322)	(585)	(774)	(988)
Add: Capital WIP	57	57	57	57
Net fixed assets	1,680	1,811	1,943	2,074
Total assets	**2,099**	**2,219**	**2,454**	**2,745**
Current liabilities	13,260	14,235	15,624	17,155
Provisions	-	-	-	-
Total current liabilities	13,260	14,235	15,624	17,155
Total liabilities	1,533	1,638	1,777	1,930
Paid-up capital	31	31	31	31
Reserves & surplus	535	550	645	783
Shareholders' equity	566	581	676	814
Total equity & liabilities	**2,099**	**2,219**	**2,454**	**2,745**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar (Rs Cr)	FY23	FY24	FY25E	FY26E
Pre-tax profit	149	96	170	246
Depreciation	152	182	198	224
Chg in working capital	165	101	120	133
Total tax paid	(46)	(27)	(43)	(61)
Cash flow from operating activities	**420**	**353**	**446**	**541**
Capital expenditure	(434)	(314)	(330)	(355)
Chg in investments	-	-	-	-
Cash flow from investing activities	**(434)**	**(314)**	**(330)**	**(355)**
Free cash flow	(14)	39	116	186
Dividend (incl. tax)	-	-	-	-
Cash flow from financing activities	**(3)**	**-**	**-**	**-**
Net chg in cash	(16)	39	116	186
Opening cash balance	174	158	143	227
Closing cash balance	158	143	227	367

Source: Company, Axis Research

Ratio Analysis (%)

Y/E Mar	FY23	FY24	FY25E	FY26E
EPS (INR)	7.2	4.4	8.2	11.8
Growth, %	(6,800.3)	(38.0)	84.2	44.5
Book NAV/share (INR)	36.4	37.3	43.5	52.4
FDEPS (INR)	7.2	4.4	8.2	11.8
CEPS (INR)	17.0	16.2	20.9	26.2
CFPS (INR)	25.7	21.5	27.4	33.4
DPS (INR)	-	-	-	-
Return ratios				
Return on assets (%)	10.5	8.3	10.6	12.2
Return on equity (%)	19.7	11.9	18.9	22.6
Return on capital employed (%)	28.4	22.8	29.4	33.0
Turnover ratios				
Asset turnover (x)	4.7	4.3	5.0	5.9
Sales/Total assets (x)	1.2	1.1	1.2	1.3
Sales/Net FA (x)	1.5	1.4	1.5	1.7
Working capital/Sales (x)	(0.5)	(0.5)	(0.5)	(0.4)
Receivable days	1.7	1.7	1.7	1.7
Inventory days	11.5	11.6	11.5	11.5
Payable days	36.0	35.6	35.9	36.1
Liquidity ratios				
Current ratio (x)	0.3	0.2	0.3	0.3
Quick ratio (x)	0.2	0.2	0.2	0.3
Valuation				
PER (x)	116	186	101	70
PEG (x) - y-o-y growth	(0.0)	(4.9)	1.2	1.6
Price/Book (x)	22.8	22.2	19.1	15.8
EV/Net sales (x)	5.7	5.5	4.5	3.7
EV/EBITDA (x)	34.6	35.1	27.4	21.9
EV/EBIT (x)	58.3	69.3	47.5	35.7

Source: Company, Axis Research

J Kumar Infraprojects Ltd – Robust Order Book & Efficient Execution To Drive Growth

J. Kumar Infraprojects Limited (JKIL) is an EPC player with more than 24 years of experience in the construction of Urban Infra Projects including Metros, Flyovers, Bridges, Tunnels, and STPs to name a few. It is renowned for undertaking design and construction projects on a turnkey basis, meeting clients' requirements with precision and efficiency. JKIL is focused on EPC projects, with a specific focus on Urban Infrastructure, Transportation, Infrastructure and Civil Construction. The company has a diverse portfolio of projects across different sectors, including roads, highways, bridges, metro railways, urban infrastructure, and tunnelling water supply, among others.

Industry view

Overweight

CMP
831

Target Price
920

Upside
11%

Key Rationale

- **Robust order book to drive revenue growth:** As of 31st Mar'24, the company's order book stood at Rs 21,011 Cr, including L1 of Rs 4,700 (Virar Alibaug Multi Modal Corridor & Hari nagar building) total order book now stands at Rs 25,711 cr which is 5x FY24 revenue. The company received an order inflow of Rs 11,810 Cr (excluding GST) during FY24. A healthy and robust order book gives revenue visibility for the next 3-4 years.We expect the company to report revenue CAGR of 18% over FY24-FY26E
- **Established track record of timely project execution:** JKIL has a proven track record of successfully undertaking and timely executing large and complex projects, including notable projects such as the Mumbai Metro, Delhi Metro, JNPT, and Dwarka Expressway. The company is recognised for its scale, technical intricacies, and expertise in managing such projects. This combined with its meticulous planning and execution capabilities has allowed it to deliver outstanding results. The company owns and operates a remarkable fleet of eight Tunnel Boring Machines (TBMs), one of the highest in India, enabling it to undertake and execute underground projects more efficiently and with exceptional precision.
- **Improvement in EBITDA margin:** The company expects EBITDA margins to trend higher in FY26 from current 14%-15% range to 15%-16% range backed by efficient project execution and accretion of more orders.
- **Outlook:** The government has made a commitment to allocate Rs 11 Lc Cr in the Interim union budget 2024-25 for the infrastructure sector, taking into consideration its vital contribution to economic growth. The allocation for Roads & Railways has been raised to Rs 2.78 Lc Cr and 2.55 Lc Cr in the interim budget 2024-25. To increase the ambit of the metro rail system across the country, the government had also earmarked Rs 19,518 Cr for Metro Projects in last year's budget. This higher allocation demonstrates the government's commitment to achieving inclusive and sustainable urban development as well as to modernising and improving the efficiency of Indian Railways, which stands as one of the most extensive railway networks in the world.. The company reported good operating performance in Q4FY24 with Revenue/EBITDA/PAT growth of 26%/27%/35% which were above estimates. Considering strong and diversified order book position, healthy bidding pipeline, new order inflows, emerging opportunities in the construction space, the company's efficient and timely execution and strong financial credence, we expect JKIL to report Revenue/EBITDA/APAT CAGR of 17%/19%/22% respectively over FY24-FY26E.
- **Valuation:** Stock is currently trading at 16x and 13x FY25E/FY26E EPS..
- **Key risks:** a) Delay in project execution; b) Lower Order inflow than expected c) Increase in input cost.

Key Financials

Y/E Mar (Rs Cr)	NetSales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY23	4,203	597	274	36	18	18	12	20
FY24	4,879	704	329	43	19	19	13	21
FY25E	5,658	828	391	52	16	16	14	21
FY26E	6,676	1001	490	65	13	13	15	23

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Net sales	**4,203**	**4,879**	**5,658**	**6,676**
Other operating income	0	0	0	0
Total income	4,203	4,879	5,658	6,676
Cost of materials consumed	2,784	3,170	3,654	4,326
Civil construction cost	457	550	643	714
Contribution (%)	*22.9%*	*23.8%*	*24.0%*	*24.5%*
Other Expenses	365	455	533	634
Operating Profit	**597**	**704**	**828**	**1,001**
Other income	30	28	33	33
PBIDT	**627**	**732**	**860**	**1,035**
Depreciation	155	168	191	224
Interest & Fin Chg.	99	124	147	157
Pre-tax profit	**374**	**441**	**522**	**654**
Tax provision	99	112	130	163
PAT	274	329	391	490

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Total assets	**4,356**	**4,708**	**5,381**	**6,010**
Net Block	925	971	1180	1206
CWIP	107	111	111	111
Investments	1	1	1	1
Wkg. cap. (excl cash)	1128	1394	1658	2039
Cash / Bank balance	377	504	423	506
Other assets	1818	1726	2008	2147
Capital employed	**4,356**	**4,708**	**5,381**	**6,010**
Equity capital	38	38	38	38
Reserves	2302	2604	2996	3486
Minority Interests	0	0	0	0
Borrowings	516	576	576	576
Other Liabilities	1500	1490	1772	1910

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
PBT	374	441	522	654
Depreciation	155	168	191	224
Interest Expense	99	124	147	157
Changes in Working Capital	-323	-250	-264	-381
Others	-30	-26	-33	-33
Tax Paid	-92	-120	-130	-163
Net Cash from Operations	**183**	**337**	**433**	**457**
Capex	-218	-218	-400	-250
Others	32	25	33	33
Net Cash from Investing	**(186)**	**(193)**	**(367)**	**(217)**
Interest Expense	-96	-124	-147	-157
Others	53	19	0	0
Net Cash from Financing	**(43)**	**(105)**	**(147)**	**(157)**
Net Change in Cash	**(46)**	**38**	**(82)**	**83**
Opening cash	86	65	103	21
Closing cash	**40**	**103**	**21**	**105**

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY23	FY24E	FY25E	FY26E
Sales Growth	19%	16%	16%	18%
EBITDA Growth	18%	18%	18%	21%
PAT Growth	33%	20%	19%	25%
Profitabilty Ratio				
EBITDA Margin	14.2%	14.4%	14.6%	15.0%
Adjusted Net Margin	6.5%	6.7%	6.9%	7.3%
Effeciency Ratio				
Capital Turnover	1.8	1.8	1.9	1.9
Total Asset Turnover	1.7	1.7	1.7	1.7
Fixed Asset Turnover	4.1	4.5	4.4	5.1
Debtor days	99	89	89	89
Inventory days	40	42	42	42
Creditor days	64	51	51	51
Cash Conversion Cycle (days)	75	80	80	80
Leverage Ratios				
Debt to equity	0.2	0.2	0.2	0.2
Net debt to equity	0.1	0.0	0.1	0.0
Interest coverage	6	6	6	6
Per Share Data				
Diluted EPS (Rs)	36	43	52	65
Book value per share (Rs)	309	349	401	466
DPS (Rs)	3.0	4.0	0.0	0.0

Source: Company, Axis Research

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