TOP PICKS

September 2024

AXIS SECURITIES

Near-term Consolidation; Focus Remains on Style & Sector Rotation

The Axis Top Picks Basket delivered an excellent return of 14.2% in the last three months against the 12% returns posted by Nifty 50 over the same period. Moreover, the basket climbed up by 2.7% in the last one month. It gives us immense joy to share that our Top Picks Basket has delivered an impressive return of 338% since its inception (May'20), which stands well above the 172% 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 Centre: Nifty reached an all-time high of 25,236 on 30th Aug'24. This impressive growth was driven by several factors including 1) Post-budget rally 2) Continued focus on Capex and other Infrastructure building, 3) Improved sentiments towards policy continuity, 4) Domestic inflows, 5) Valuation comfort after the correction, and 6) Q1FY25 earnings season in line with expectations, and 7) Strengthening of rate cut narrative in the global market. Aug'24 was a volatile month for the global market. In recent developments, the market experienced increased volatility during the first week of the month due to the unwinding of the Yen carry trade. However, later in the month, some recovery was seen across the world, supported by the strengthening narrative of the expectation of a rate cut in Sep'24. With this development, the IT sector saw some optimism towards the recovery in discretionary spending. In the last one month, our benchmark index Nifty 50 grew by 1.1% while the Midcap/Small Cap went up by 0.5%/1.2% respectively. Moreover, in FY25 so far, FIIs were neutral on the Indian market and invested $3 Bn while DIIs have invested $24 Bn over the same period. Mutual fund SIP contribution has crossed 23,000 Cr for the first time in Jul'24.

Led by the recent rally, India is now the 5th largest market in the world with a $5 Tn market cap. With this, India is likely to play a meaningful role in the global context going forward. In the last one month, defensive sectors continued their outperformance. In the later part of Aug'24, markets recovered from the early month correction and Pharma, IT, FMCG, and Private Banks outperformed the other cyclical sectors. Currently, 81% of the NSE 500 stocks were trading above their 200-DMA (day moving average) vs. the 60% of the stocks on the 4th Jun'24 closing. This indicates that the market has moved out of the oversold zone in the last two months with significant improvement in the market breadth.

We believe that with the recent run-up in the market, most of the narrative is already priced in. We see near-term consolidation in the market with style and sector rotation playing a meaningful role in alpha generation. Moreover, with a strong catch-up by Midcaps and Smallcaps in the last couple of months, we still believe their margin of safety (in terms of valuations) 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. This includes booking Profit in CIE Automotive and Westlife Foodworld and adding Prestige Estates and Sansera Engineering to the recommendations. Our modifications reflect the changing market style and shift towards the 'Growth at a Reasonable Price 'theme.

Our Key Themes

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.

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Key Monitorables in 2024: Two major domestic events are now behind us and the market will continue to closely monitor the developments around the following events going forward: 1) FED rate cut expectations around Sep'24, 2) Further progress and exit of ongoing monsoon, 3) Pick-up during the upcoming festival season, 4) US bond yields, 5) Oil Prices, 6) Flows, and 7) 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 a favourable structure emerging. However, with current valuations offering 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 the 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.

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. We believe the likelihood of this scenario is very high at the current juncture.

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, Dalmia Bharat, Nestle India, State Bank of India, HCL Tech, Lupin ltd, Aurobindo Pharma, Federal Bank, Varun Beverages, TVS Motors, Bharti Airtel, J Kumar Infra, Prestige Estates, Sansera Engineering, and Cholamandalam Invest and Finance**

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Axis Securities Top Picks

INVEST IN ONE CLICK

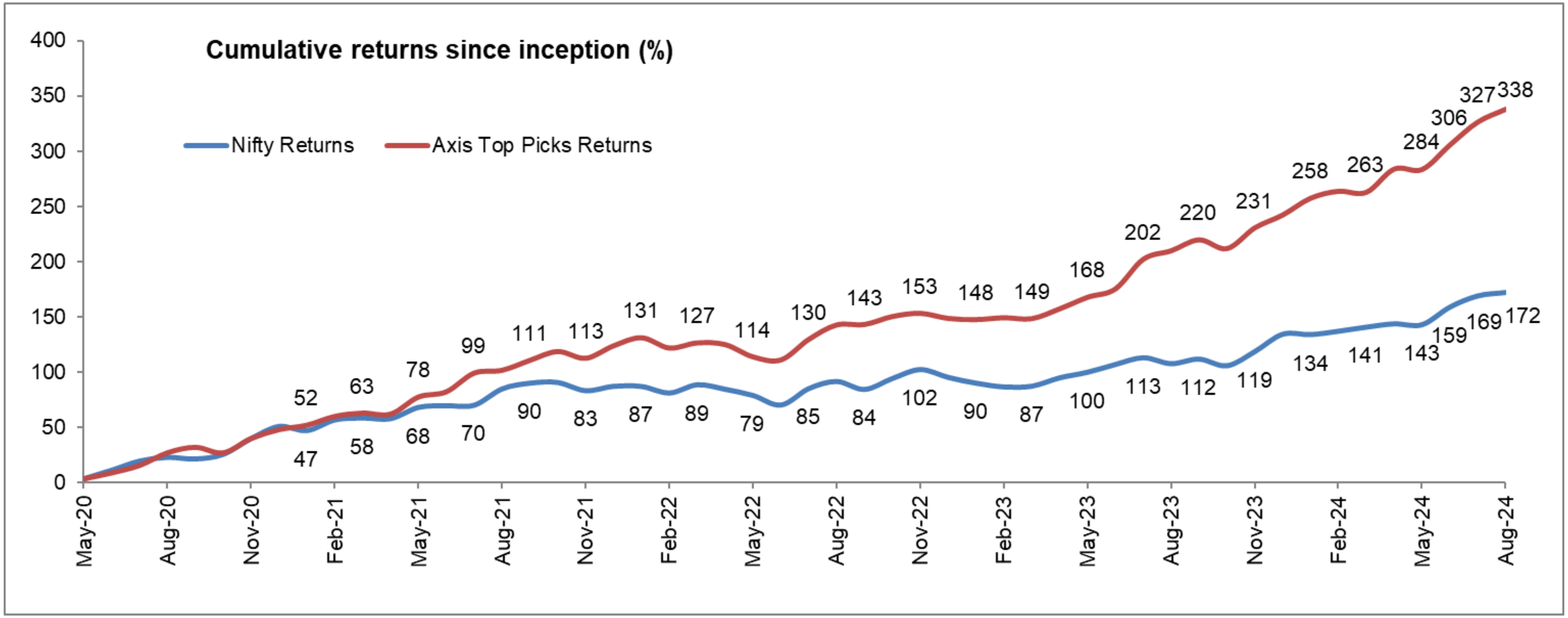
Category	Company Name	Sector	Stock price	Target Price	Upside (%)	12 Month Fwd PE	12 Month Fwd P/BV	Dividend Yield	TR 1M%	TR 3M %	TR 6M %	TR YTD %
Large Cap	ICICI Bank Ltd	Financials	1,229	1,425	16%	18.9	2.9	0.8	2.0	10.6	17.8	24.4
Large Cap	Nestle India Ltd	Consumer Staples	2,501	2,800	12%	67.3	56.7	0.7	1.8	6.7	-3.3	-5.2
Large Cap	State Bank of India	Financials	816	1,030	26%	10.1	1.6	1.7	-6.5	-1.8	10.8	29.2
Large Cap	Varun Beverages Ltd	Consumer Staples	1,501	1,800	20%	75.4	21.4	0.2	-4.8	5.3	6.7	21.5
Large Cap	HDFC Bank Ltd.	Financials	1,637	1,950	19%	17.6	2.5	1.2	1.3	6.9	18.2	-2.9
Large Cap	Bharti Airtel Ltd	Communication Services	1,589	1,750	10%	46.9	8.9	0.5	7.1	16.4	42.2	54.8
Large Cap	TVS Motor Company Ltd	Consumer Discretionary	2,813	3,100	10%	49.9	13.7	0.3	11.2	29.1	32.0	39.4
Large Cap	Cholamandalam Investment & Finance Company Ltd	Financials	1,456	1,710	17%	27.2	5.1	0.1	2.8	17.3	33.7	15.7
Large Cap	HCL Technologies Ltd.	IT	1,753	1,930	10%	28.0	6.8	3.1	6.7	33.4	7.6	23.0
Mid Cap	Aurobindo Pharma Ltd	Health Care	1,569	1,730	10%	23.3	2.8	0.3	9.4	32.4	52.7	45.0
Mid Cap	Lupin Ltd	Health Care	2,240	2,500	12%	37.3	6.2	0.4	17.2	42.2	38.8	70.1
Mid Cap	Dalmia Bharat Ltd	Materials	1,891	2,120	12%	36.3	2.1	0.5	2.2	6.8	-6.4	-16.7
Mid Cap	Federal Bank Ltd	Financials	195	230	18%	11.4	1.5	0.6	-2.7	20.9	30.2	25.4
Mid Cap	Prestige Estates Projects Ltd	Real Estate	1,813	2,195	21%	72.9	5.9	0.1	-0.2	13.5	55.4	53.8
Small Cap	Sansera Engineering Ltd	Consumer Discretionary	1,500	1,875	25%	31.2	5.0	0.2	5.8	43.0	46.2	47.2
Small Cap	J.Kumar Infraprojects Ltd	Industrial	851	950	12%	15.9	2.2	0.5	-1.2	12.6	31.8	47.4

Source: Company, Axis Securities, CMP as of 31st August 2024

Top Picks Performance

Axis Top Picks Performance							
	1M	3M	6M	1Y	3Y*	4Y*	Since Inception
Axis Top Picks Returns	2.7%	14.2%	20.4%	41.3%	29.5%	36.2%	338.4%
Nifty Returns	1.1%	12.0%	14.8%	31.1%	13.8%	22.0%	172.2%
Alpha	**1.6%**	**2.2%**	**5.6%**	**10.3%**	**15.7%**	**14.2%**	**166.2%**

*CAGR Return



Note: Equal weight basket Performance as of 30th Aug 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 Q1FY25, domestic sales volumes of 2W/PV/CV segments grew by 20%/3%/3% YoY respectively. For FY25E, demand momentum in 2Ws is anticipated to grow in early double-digits, though overall volumes are expected to remain below pre-covid levels. 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 long-term 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	FY24 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 for the quarter albeit marginally lower than the expectation. The growth was largely led by the retail/SME segment, with moderation in unsecured segment growth for certain banks. Deposit growth during the quarter disappointed and was sluggish for most banks. PSU banks continue to remain better placed than their private sector peers in terms of comfort on the C-D ratio, with scope to accelerate credit growth. CoF is nearly peaking out and thus, most management has hinted at NIMs bottoming out in the coming quarter. Following a disappointing performance in deposit growth, we expect banks to enhance their focus on deposit mobilization. Despite intense competition among the banks and challenges in attracting CASA deposits, we anticipate sectoral deposit growth to pick up in the coming quarters. The outlook on asset quality remained largely stable supported by healthy recoveries/upgrades. We anticipate credit growth to be driven by the retail/MSME segment, with a gradual pick-up in corporate lending over FY25. We believe ROAs for the banks remain largely steady over the medium term with a slight negative bias. However, the 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, however, some moderation was seen in the last quarter. 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 Q1FY25, cement volume for our coverage universe grew by 5%, which was in line with our expectations. EBITDA margins declined by 50 bps YoY during the quarter, driven by lower realization, although positively impacted by lower costs. EBITDA/tonne for the quarter stood at Rs 816, down 18%/6% QoQ/YoY. Management indicated that softness in cement prices is likely to persist until Q2FY25 due to current muted demand. Competitive intensity has escalated as the industry continued to consolidate and pricing came under pressure. Election-related factors, extreme weather conditions, and a shortage of labour impacted the cement demand during the quarter, although it was in line with our expectations. Demand remained muted in April and May 2024 before recovering in June 2024, albeit at a slower pace. Current demand remains soft but is expected to improve after the conclusion of the monsoon season. Non-trade demand is anticipated to rise following budgetary allocations for various government projects. Price hikes implemented in April 2024 have been rolled back, and prices further corrected in July 2024. Based on the current pricing trend, we anticipate an impact of Rs 200-Rs 250 per tonne on realizations in Q2FY25. We remain positive as long-term demand drivers are intact. We expect cement demand to grow at a CAGR of 7%-8% over FY23-FY26E. **Hence, we maintain our Equal Weight stance on the sector.**
Consumer staples	Equal Weight	Topline growth remains muted for staple companies as most have delivered low to mid-single-digit revenue growth due to increased competitive intensity and the anniversarization of price hikes. On a positive front, most companies under coverage 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 has 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 deliver 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**.

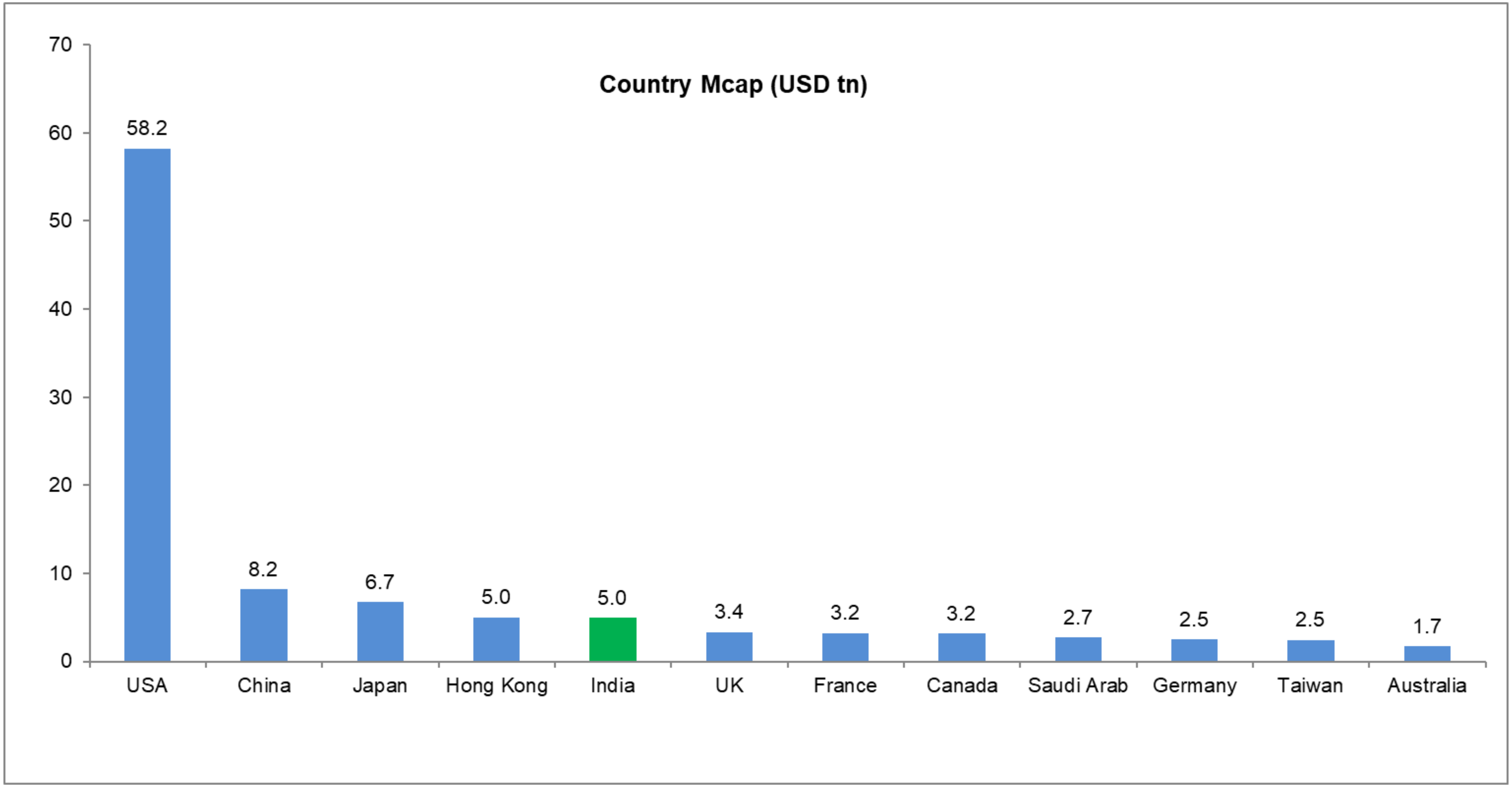
Sector Outlook (Cont'd)

Sector	Current View	Outlook
Metals &Mining	Equal Weight	During Q1FY25, EBITDA/t improved across Steel and Non-Ferrous companies led by lower Coal costs, offsetting lower operating leverage. For Aluminium companies under coverage, Hindalco's Indian operations delivered a robust performance. Overall consolidated revenue stood largely in line with consensus (up 8% YoY, 2% QoQ), while reported EBITDA grew by 31%/11% YoY/QoQ (6% and 11% beat vs. our estimates and consensus), led by strong upstream Aluminium and copper division. During Q1FY25, Aluminium prices averaged $2,525/t in Q1FY25, up 11%/15% YoY/QoQ. The aluminium price rally was led by Bauxite supply issues from Guinea, production cuts at Yunnan in China and sanctions on Russian metal at LME. Subdued Steel prices are likely to compress spreads in Q2FY25 for Steel companies. Tata Steel has guided that the NSR in India will be Rs 1,500/t lower on a QoQ basis. It will be flat in the UK and down by £60/t QoQ. For SAIL, blended coking coal consumption cost fell to Rs 23,000/t in Q1FY25 and will be flat QoQ in Q2FY25. Key Monitorable for the sector are decisions on Federal rate cuts, China Stimulus and other Geopolitical events. **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 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	**Q1FY25 Pharma Coverage Performance:** In Q1FY25, the Pharma Coverage universe posted robust revenue growth of 11%/4% YoY/QoQ, driven by a strong domestic market, new launches (especially Darunavir, DDR D, gMyrbetriq, and gSpiriva), lower price erosion, gross margin expansion through cost optimization, and growth in the US base business portfolio. EBITDA margin improved by a healthy ~250bps/120bps YoY/QoQ amidst normalizing cost inflation and stabilizing prices. The US base business maintained healthy momentum, with new product launches offsetting single-digit price erosion. There is increasing focus on complex molecules as Indian companies move up the value chain. India's growth exceeded expectations, driven by field force expansion that fueled volume growth. Softening input costs and lower freight expenses contributed to improved margins. Hospitals experienced seasonally lower occupancies but saw a continuous YoY increase in ARPOB. Growth in the US market is projected to remain robust, driven by price normalization in the base business, continued ramp-up of gRevlimid, and new product launches, including Darunavir, gMyrbetriq, DRR D, and gSpiriva. In India, growth has primarily been fueled by price increases and strong performance in chronic therapies, with most major companies forecasting high single-digit growth for FY25E. Given these dynamics, the focus remains on companies launching niche products in the US market and those with a strong 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. From the last three-four quarters, 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 H2FY25 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 gain further realization for telecom players. **We recommend an overweight stance on the sector.**

- **India is now the 5th largest market in the world with a $5 Tn market cap**



Source: Bloomberg, Axis Securities

Multi-Asset Scorecard

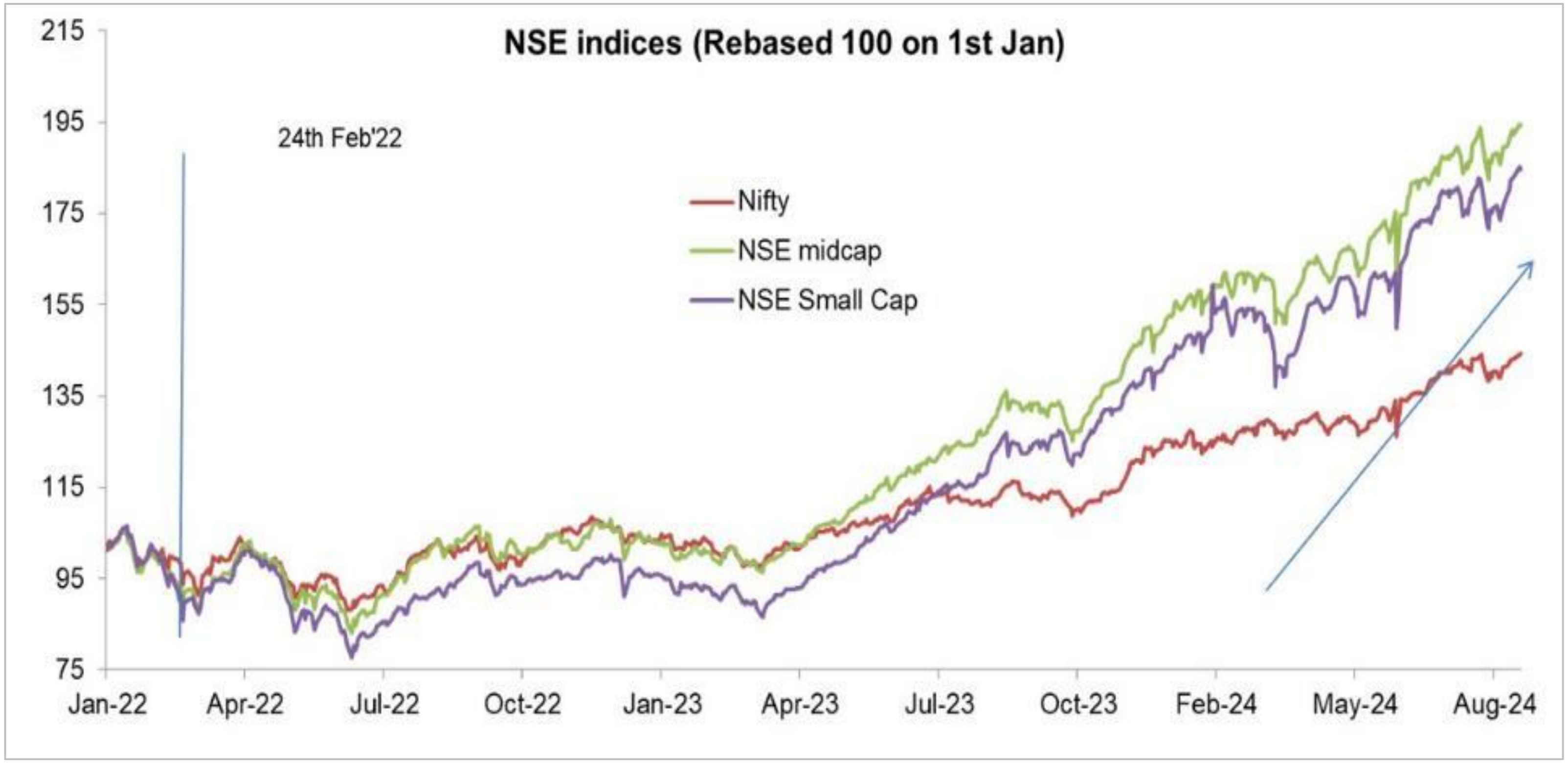
- Gold was the outperformer in 2024 till May end; however, in the last 3 months, the broader market has emerged as one of the best-performing asset classes.
- The broader market had emerged as the best-performing asset class in 2023 as well as over the last 8-month period.
- The Indian broader market 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.

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%	Midcap: 28.3%
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%	SmallCap: 27.5%
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: 17.2%
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%	Nifty 50: 16.1%
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%	MCX Gold: 14%
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: 8.9%
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%	NSE G Sec composite: 7.2%

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

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.



Source: Bloomberg, Axis Securities

On 4th June'24

Nifty 50: -6%

NSE Mid Cap 100: -8%

NSE Small Cap 250: -7%

Returns since 4th June bottom

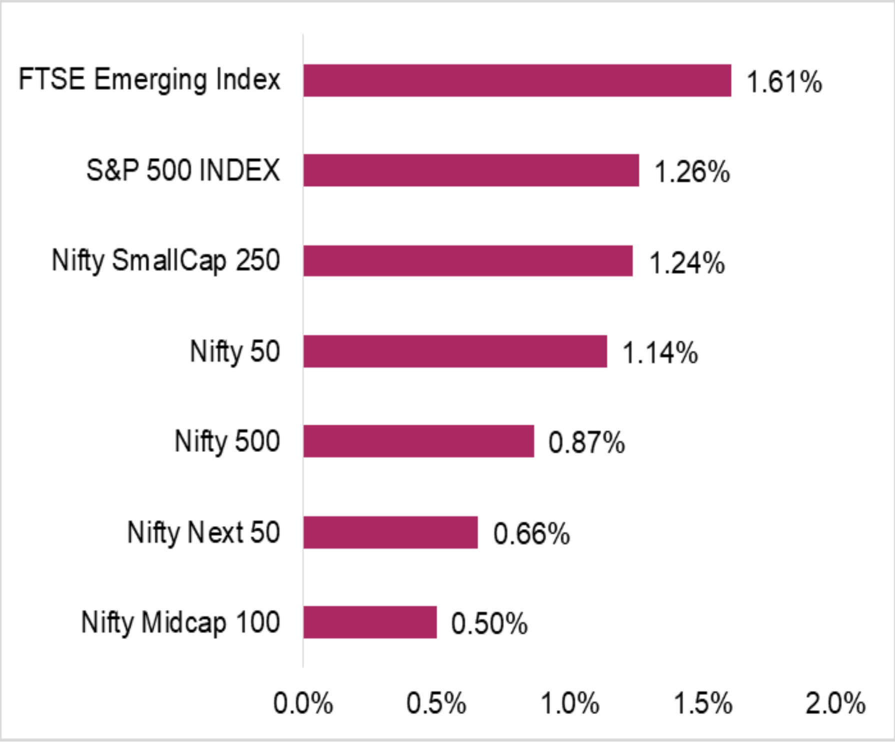
Nifty 50: 15%

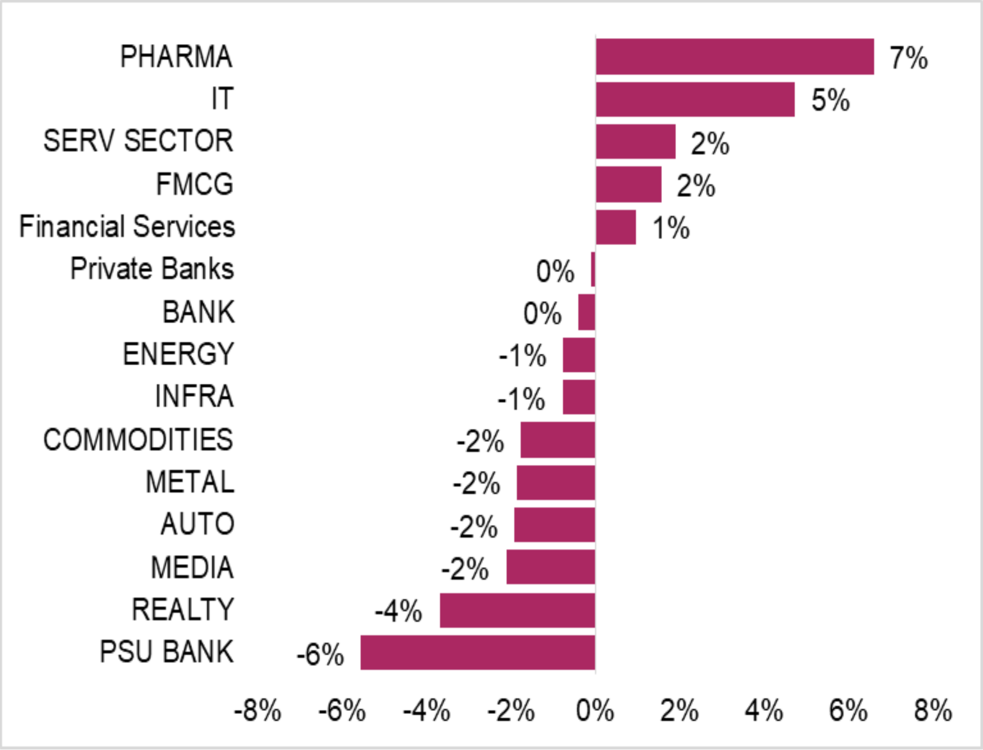
NSE Mid Cap 100: 21%

NSE Small Cap 250: 23%

What Happened in the Last One Month

- Market recovered in the later part of August from the early month correction
- Defensive sector continues to outperform the market

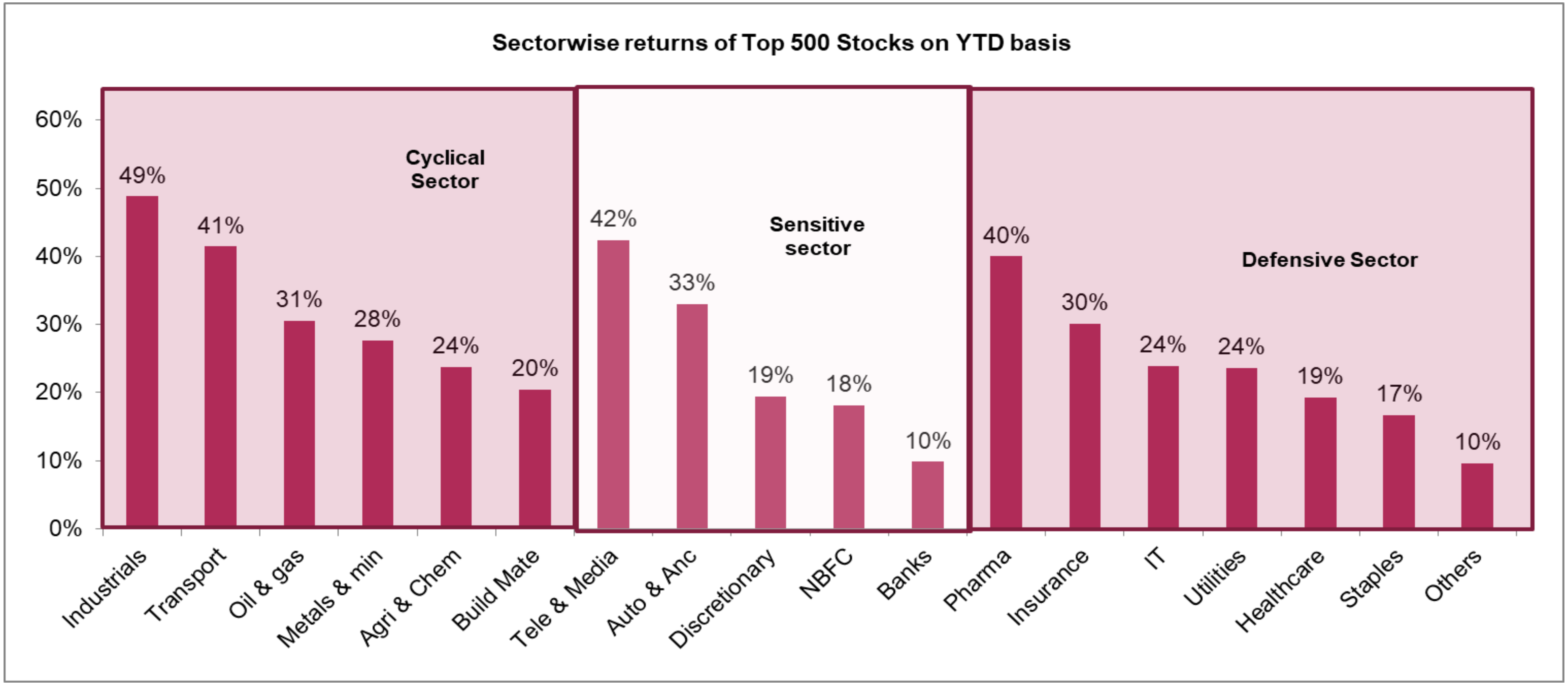




Source: Bloomberg, Axis Securities

What Has Happened in 2024 till Now

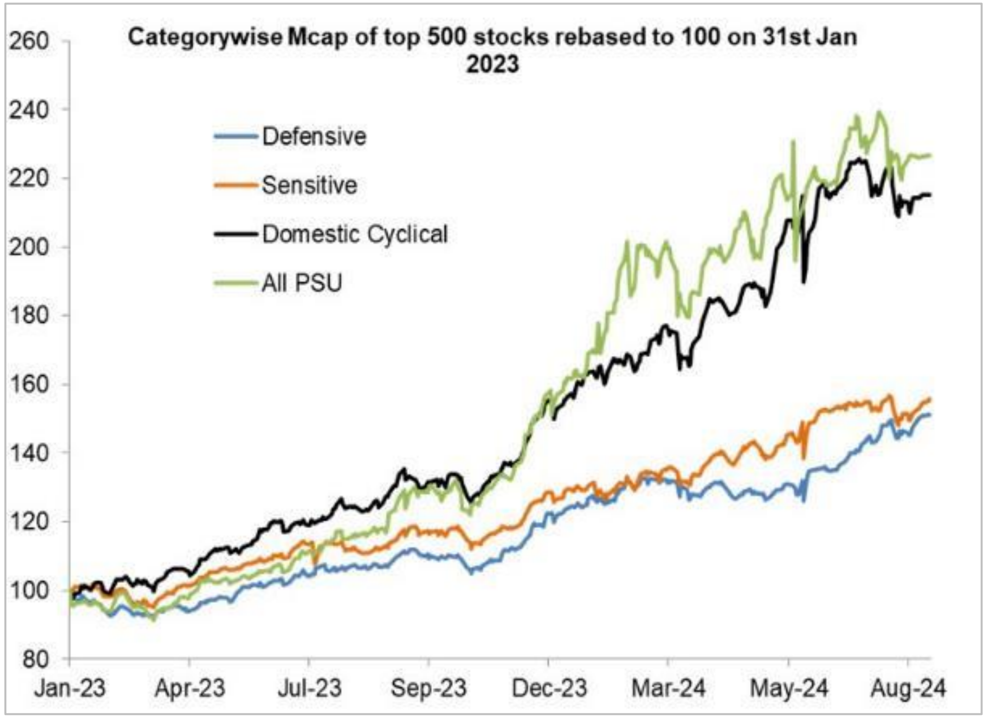
- Domestic cyclicals have outperformed the broader market
- Telecom and Auto have outperformed rate-sensitive plays
- Utility (due to Adani stocks) and Pharma are the clear winners in the Defensive sector

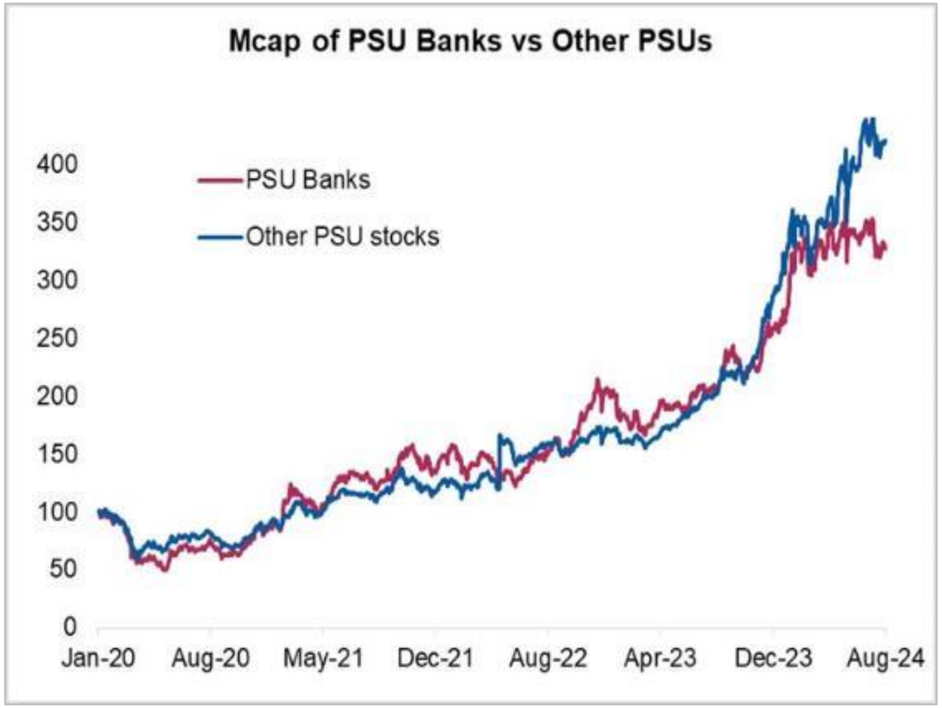


Source: Bloomberg, Axis Securities

Some Moderation Seen in the PSU Rally

- Since the 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.
- The defensive theme has come back in the last one month

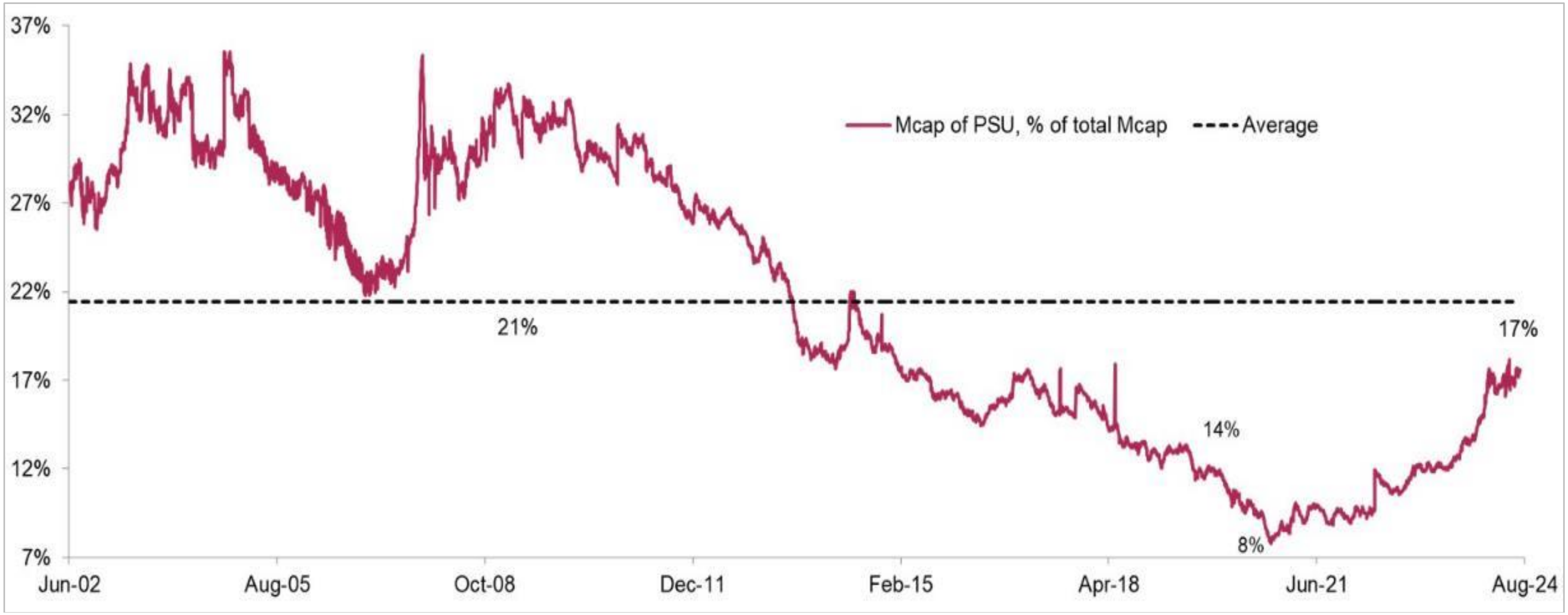




Source: Bloomberg, Axis Securities

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, and PSUs might be the next big leaders



Source: Bloomberg, Axis Securities

52W-High Analysis

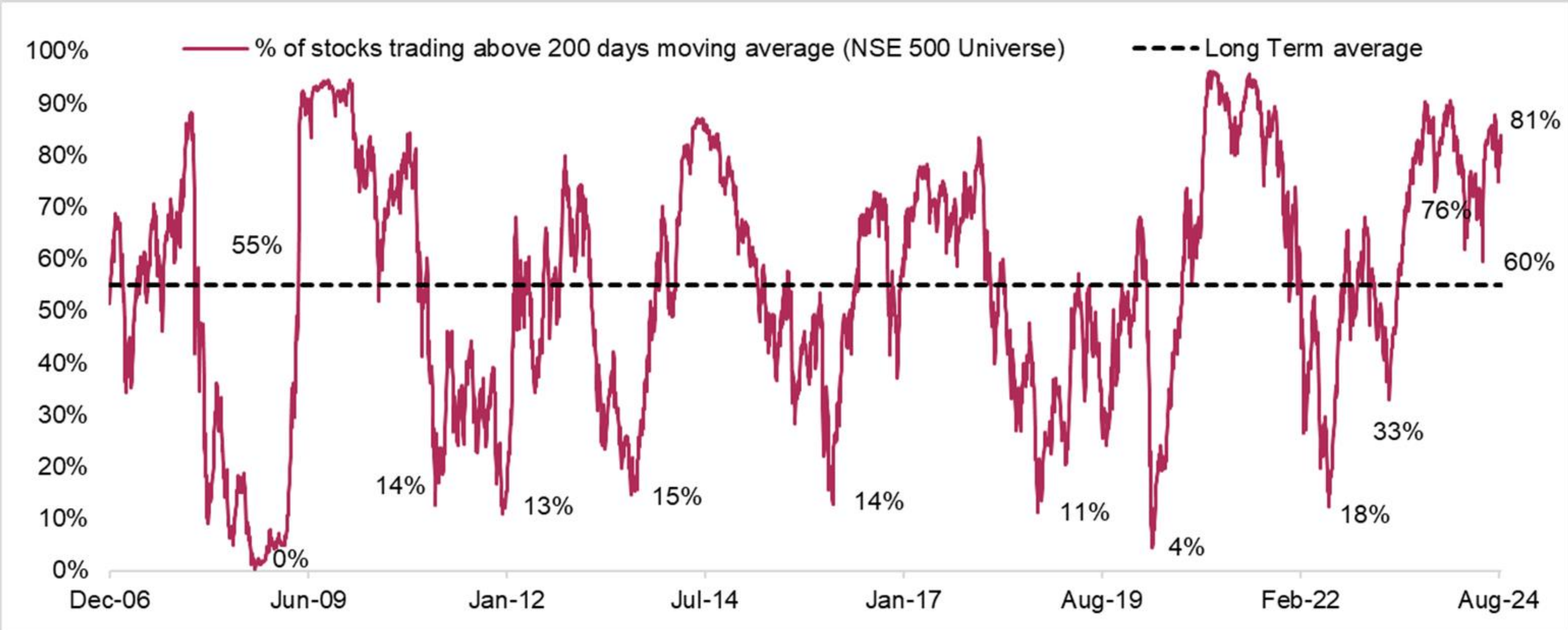
- After a recent recovery, now 122 stocks are trading near their 52-week high
- 270 (~54%) stocks are trading between 5%-20% below their 52W highs
- The Largecap market looks attractive at current levels
- Only 23 stocks are trading below 30% to their respective 52-week high
- Out of 55 PSUs, only 7 stock is 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	7	28	5	1
Auto & Anc	36	5	22	7	0
Banks	28	3	13	11	1
Build Mate	34	1	22	9	0
Discretionary	54	10	35	5	3
Healthcare	43	31	10	2	0
Industrials	40	4	23	9	4
IT	36	13	17	5	0
Metals & min	16	3	9	3	1
NBFC	50	15	25	5	3
Oil & gas	14	8	4	1	1
Others	49	5	29	8	5
Staples	26	13	11	0	2
Tele & Media	12	2	6	2	2
Transport	8	1	7	0	0
Utilities	13	1	9	3	0
Total	**501**	**122**	**270**	**75**	**23**
Large cap	**100**	**45**	**49**	**3**	**2**
Mid cap	**150**	**41**	**79**	**21**	**5**
Small cap	**250**	**36**	**139**	**51**	**16**
PSUs	**55**	**7**	**22**	**16**	**2**

Source: Bloomberg, Axis Securities, Performance as of 30th Aug 2024

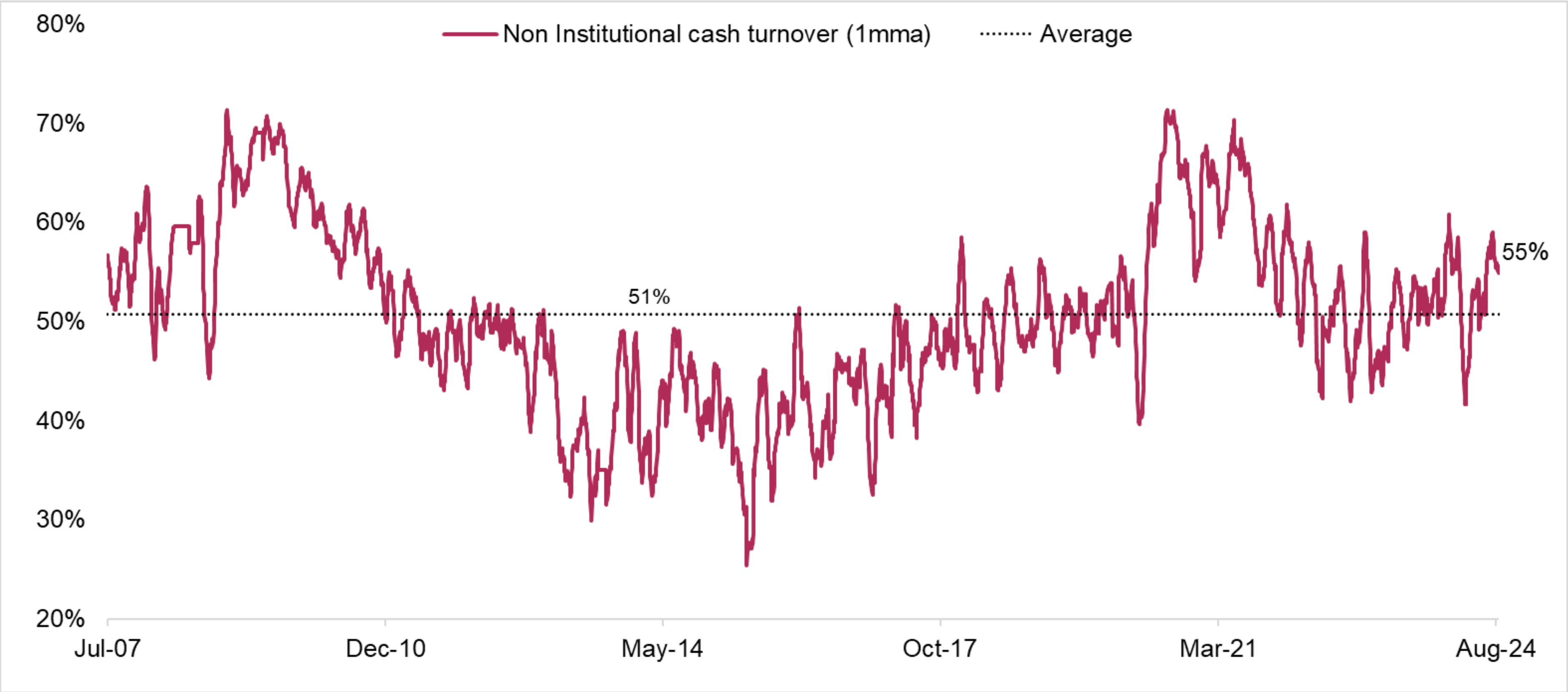
NSE 500 Universe (200-Day Moving Average)

- 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 81% 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.



Non-Institutional Turnover Recovered in the Last One Month

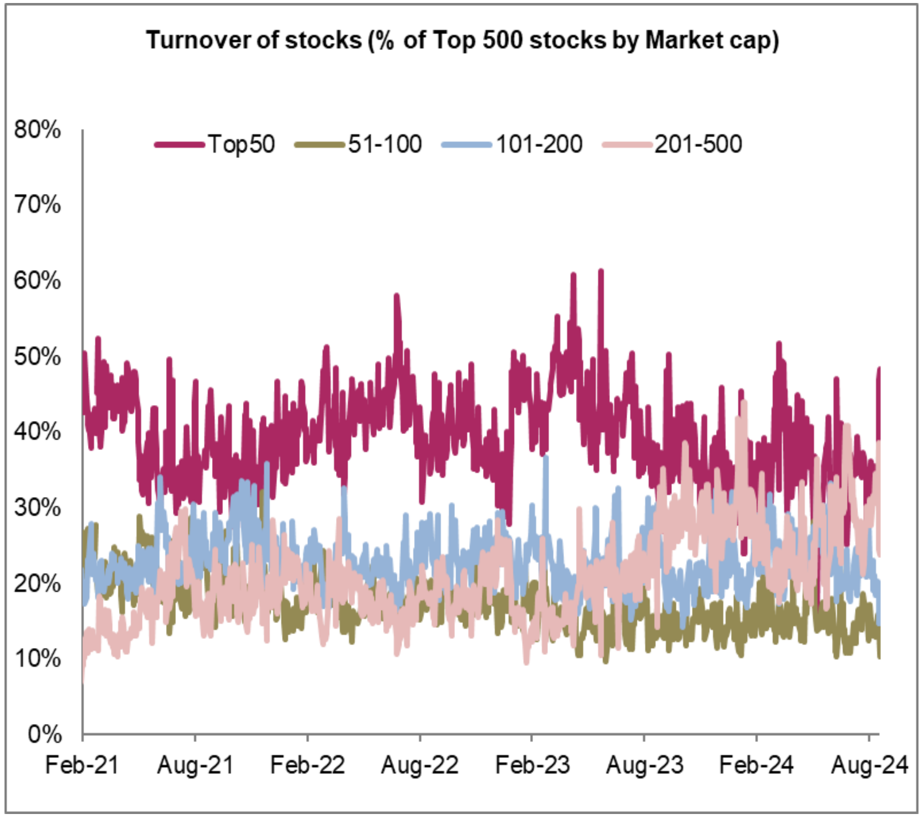
- Non-institutional (Retail) turnover is currently at 55%, which is higher than long-term average. It had fallen below the LTA in the last one month due to increased volatility.
- Participation by Retail investors is expected to improve further in the coming months, given that equity is the only asset class that can beat the current inflationary scenario.

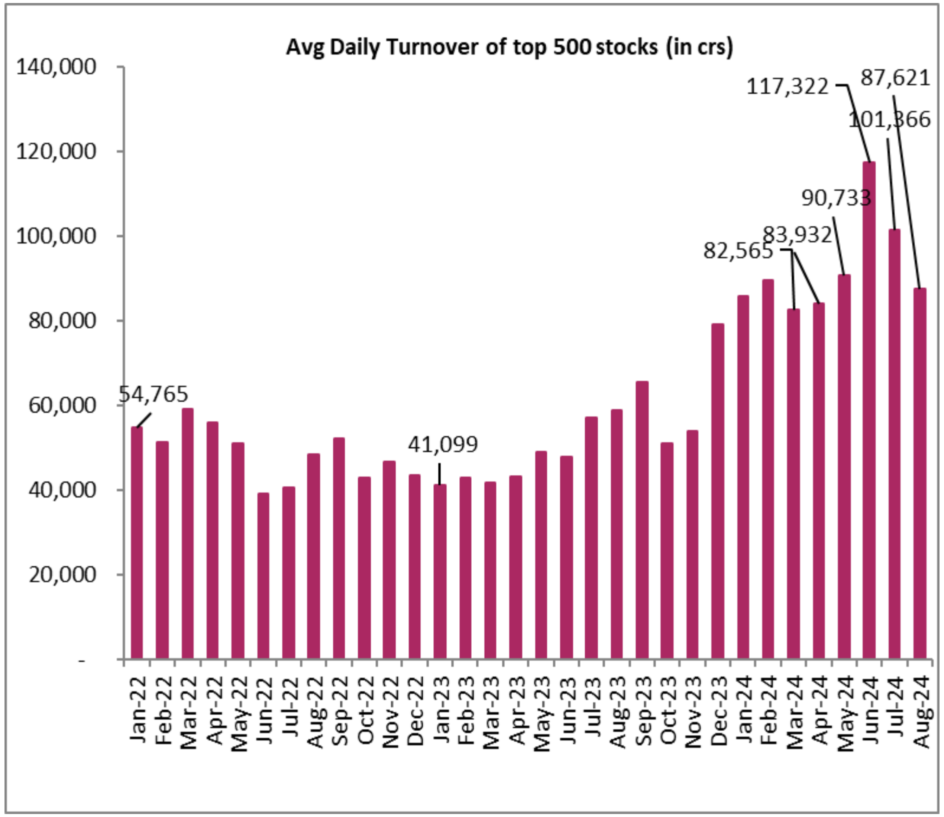


Source: Bloomberg, Axis Securities

Market Turnover (% of the Top 500 Names)

- Market turnover has crossed Rs 1 Lc Cr for the first time during Jun'24. A similar trend was observed so far in Jul'24. However, some moderation was seen in Aug'24.





Source: Bloomberg, Axis Securities

NSE200 Top Gainers & Losers (Last 1 Month)

Top Gainers	Last Price	% 1M Chg	Top Losers	Last Price	% 1M Chg
Trent	7,159	30.0%	Hindustan Zinc	501	-21.7%
Oil India	741	26.5%	LIC Housing Fin.	674	-14.6%
Voltas	1,744	18.0%	Balkrishna Inds	2,830	-13.7%
Lupin	2,240	17.9%	Astral	1,919	-12.4%
Mankind Pharma	2,488	17.6%	Bandhan Bank	200	-11.4%
PB Fintech.	1,772	15.6%	ACC	2,329	-11.3%
Alkem Lab	6,170	15.3%	Apollo Tyres	493	-10.8%
FSN E-Commerce	208	14.6%	Bata India	1,453	-10.5%
Tata Elxsi	8,001	14.3%	Varun Beverage	1,501	-10.5%
Dixon Technolog.	13,171	13.5%	Adani Power	632	-10.1%

NSE200 Top Gainers & Losers (Last 3 Months)

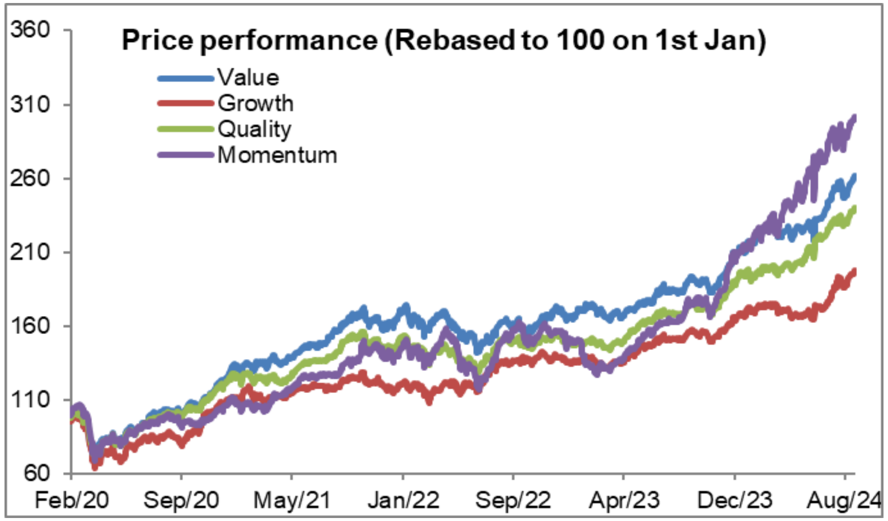
Top Gainers	Last Price	% 3M Chg	Top Losers	Last Price	% 3M Chg
Oil India	741	72.8%	Hindustan Zinc	501	-30.3%
One 97	622	54.3%	Union Bank (I)	122	-20.5%
Trent	7,159	53.5%	S A I L	134	-17.3%
PB Fintech.	1,772	46.3%	Jubilant Food.	650	-13.8%
Whirlpool India	2,184	43.3%	NMDC	223	-13.3%
Oracle Fin.Serv.	10,989	43.1%	Poonawalla Fin	387	-12.7%
Dixon Technolog.	13,171	42.9%	Tata Steel	153	-12.2%
Persistent Sys	5,171	39.1%	Adani Total Gas	830	-11.9%
Zomato Ltd	251	37.6%	I R C T C	933	-11.5%
Lupin	2,240	37.0%	Container Corpn.	965	-11.2%

Source: Bloomberg, Axis Securities

Style Indicators

After Taking A Backseat for a While, The 'Growth' Style Has Come Back in The Last Three Months

- In the last three months, the 'Value' and 'Growth' styles have outperformed the other styles by notable margins.
- In the last one year, Value, Quality and Momentum themes delivered the highest returns. However, Momentum was the dominating theme in the last 3-month and 6-month periods.
- Over the 2-year duration, Value and Momentum themes have been the most dominating themes in the market.
- Quality/Growth theme has made a comeback in the last 1/3 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	1.4%	2.7%	2.0%	1.7%
3m	16.8%	20.5%	14.6%	15.4%
6m	16.8%	13.8%	20.9%	33.1%
1YR	43.4%	31.4%	42.9%	81.6%
2YR	61.5%	44.2%	58.5%	91.1%

India's Performance vis-à-vis Peers

Indian Market Bounced Back Sharply in the Last Three Month

On 30th Aug'24, NIFTY made an all-time closing high of 25,235 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) Largely Inline Q1FY25 earnings season.

After making an all-time high, in the last one month, the market has seen increased volatility on account of macroeconomic challenges due to the reverse of carry trade in Japan, and recessionary pressure in the US market.

In the last one month, strong performance was seen in the Pharma, IT, and FMCG sectors while underperformance was seen in the Realty and PSU banking index

- **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**	**04th Jun'24**	**YTD**	**1 YR**
Nifty 50	1.1%	12.0%	14.8%	15.3%	16.1%	31.1%
Nifty Next 50	0.7%	11.5%	27.6%	17.6%	41.1%	69.5%
Nifty 500	0.9%	12.5%	18.1%	16.8%	22.2%	40.2%
Nifty Midcap 100	0.5%	14.7%	22.7%	20.6%	28.4%	51.6%
Nifty SmallCap 250	1.2%	16.3%	21.4%	23.1%	29.4%	52.3%
Sector Index (%)	**1m**	**3m**	**6m**	**04th Jun'24**	**YTD**	**1 YR**
NIFTY AUTO	-1.9%	11.8%	28.2%	12.8%	40.6%	67.0%
NIFTY BANK	-0.4%	4.8%	11.3%	9.4%	6.3%	16.7%
NIFTY COMMODITIES	-1.8%	6.7%	16.5%	13.3%	22.9%	52.3%
Nifty Financial Services	1.0%	8.8%	15.8%	13.5%	10.0%	20.6%
NIFTY ENERGY	-0.7%	8.7%	12.7%	16.3%	30.7%	70.1%
NIFTY FMCG	1.6%	16.5%	16.7%	14.3%	10.7%	23.4%
NIFTY IT	4.7%	32.1%	13.4%	32.4%	20.5%	37.3%
NIFTY INFRA	-0.8%	8.7%	16.6%	15.3%	29.1%	58.5%
NIFTY MEDIA	-2.1%	12.5%	2.7%	16.8%	-11.9%	-8.2%
NIFTY METAL	-1.9%	-3.3%	18.7%	4.7%	17.9%	41.2%
NIFTY PHARMA	6.6%	23.5%	22.2%	24.8%	37.9%	53.8%
NIFTY PSU BANK	-5.6%	-5.4%	0.8%	2.8%	22.3%	56.4%
Nifty Private Banks	-0.1%	6.0%	11.2%	10.4%	3.3%	12.1%
NIFTY REALTY	-3.7%	3.3%	15.7%	7.9%	34.5%	88.6%
NIFTY SERV SECTOR	1.9%	13.8%	15.8%	17.8%	15.8%	29.7%

Source: Bloomberg, Axis Securities, and Performance as of 30th Aug'24

International Index						
Index Performance (%)	**1m**	**3m**	**6m**	**04th Jun'24**	**YTD**	**1 YR**
Shanghai Comp	-3.3%	-7.9%	-5.7%	-8.1%	-4.5%	-8.9%
south africa	1.0%	8.5%	15.2%	8.3%	8.4%	10.3%
Korea	-3.5%	1.4%	1.2%	0.5%	0.7%	4.6%
Mexico	0.4%	-2.4%	-1.5%	0.5%	-5.2%	1.4%
Indonesia	5.7%	10.0%	4.8%	8.0%	5.5%	10.3%
Argentina	10.1%	0.5%	63.6%	5.0%	78.6%	154.0%
Japan	-1.2%	0.4%	-1.3%	-0.5%	15.5%	18.5%
Hongkong	3.7%	-0.5%	8.9%	-2.5%	5.5%	-2.1%
Philipines	4.2%	7.2%	-0.7%	8.0%	6.9%	11.7%
Taiwan	0.3%	5.2%	17.4%	4.3%	24.2%	33.9%
Singapore	-0.4%	3.2%	9.6%	3.1%	6.3%	6.5%
Thailand	2.9%	1.0%	-0.8%	1.6%	-4.0%	-13.2%
Veitnam	2.6%	1.8%	2.5%	0.0%	13.6%	4.9%
Dow	1.2%	6.8%	6.0%	6.8%	9.7%	19.0%
Nasdaq	-0.5%	4.7%	8.9%	3.9%	16.7%	24.8%
FTSE 100 INDEX	0.4%	1.6%	10.1%	2.1%	8.7%	13.0%
DAX INDEX	2.4%	2.5%	7.2%	3.0%	13.1%	18.8%
CAC 40 INDEX	1.9%	-4.0%	-3.2%	-3.3%	1.7%	4.9%
S&P 500 Index	1.3%	6.0%	9.7%	5.7%	17.2%	24.1%

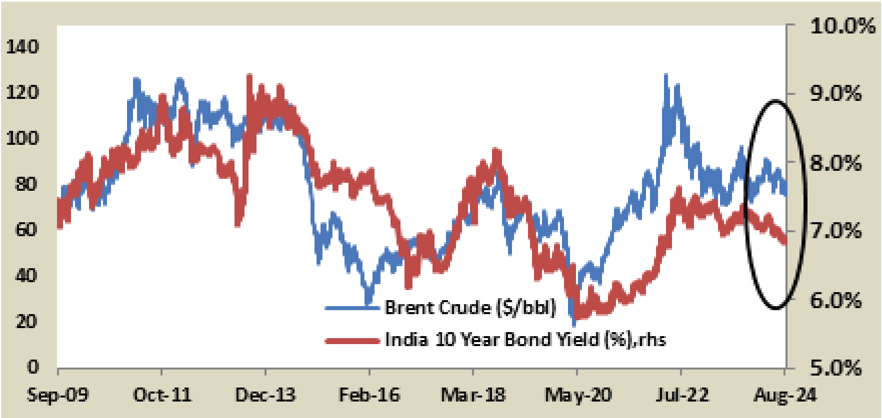
Correction Seen in Key Commodities with Muted Chinese Data

- **Precious Metals:** Gold prices went up 23% in the last 6 months on account of a cool-off in bond yields.
- **Commodities:** Steel prices have corrected by 13% while Aluminium prices also corrected by 8% in the last three months.
- **Crude:** Brent crude is now trading above $80/bbl and has been highly volatile due to the rising geopolitical risk and ongoing supply-side concerns.

Market Indicator	8/30/2024	1m ago	3m ago	04th Jun'24	YTD	1 YR
Brent Crude ($/bbl)	80.0	80.7	81.6	77.5	77.0	86.9
Bond Yield (GOi 10Yr)	6.9	6.9	7.0	7.0	7.2	7.2
USD/INR	83.9	83.7	83.5	83.5	83.2	82.8
India Vix	13.4	13.3	24.6	26.7	14.5	12.1

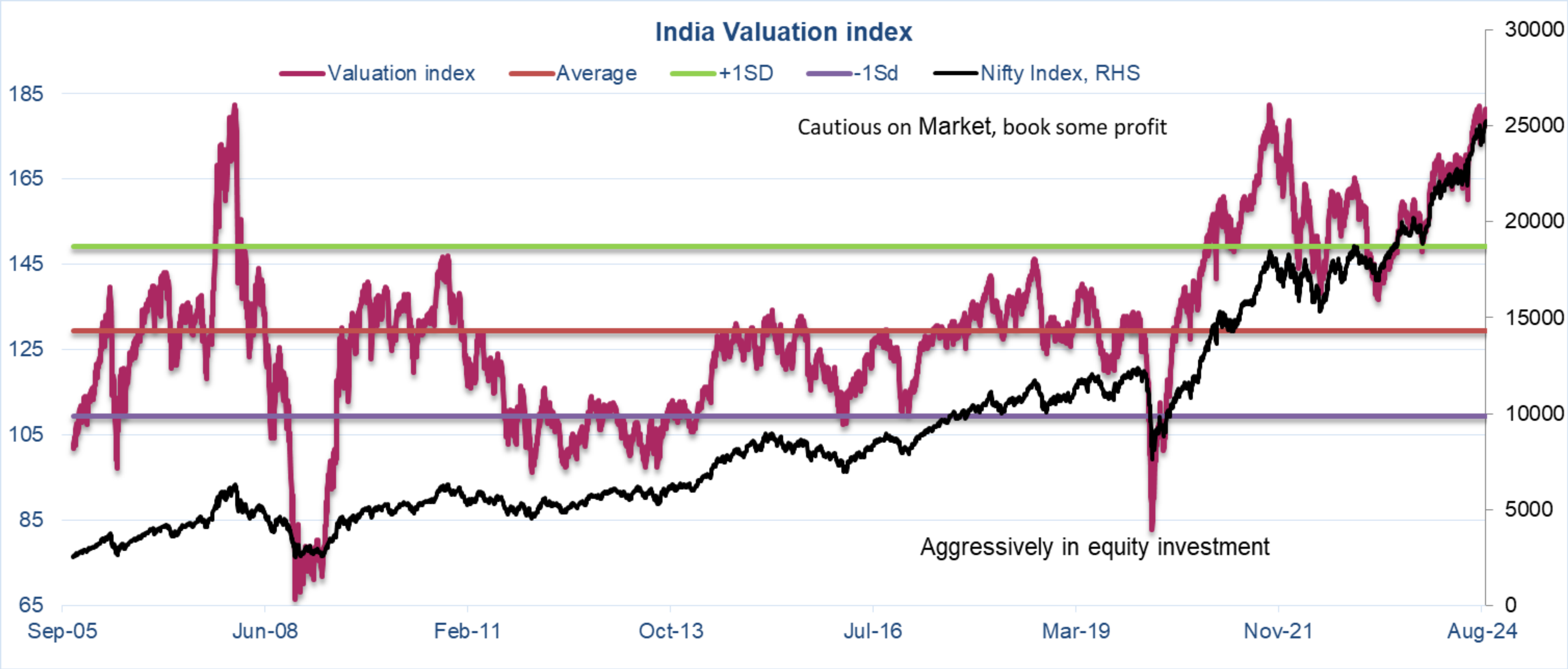
Commodity Index	1m	3m	6m	04th Jun'24	YTD	1 YR
Gold ($/OZ)	3.0%	8.3%	23.3%	8.3%	22.2%	29.9%
Steel ($/ton)	-8.8%	-13.1%	-17.7%	-13.1%	-17.7%	-16.2%
Aluminium ($/ton)	8.2%	-8.9%	12.7%	-6.4%	4.4%	12.6%
Copper ($/ton)	0.3%	-7.9%	8.6%	-7.1%	7.8%	8.6%
Zinc ($/ton)	7.0%	-5.8%	18.4%	-1.7%	6.8%	16.9%

Source: Bloomberg, Axis Securities, Performance as of 30th Aug 24



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

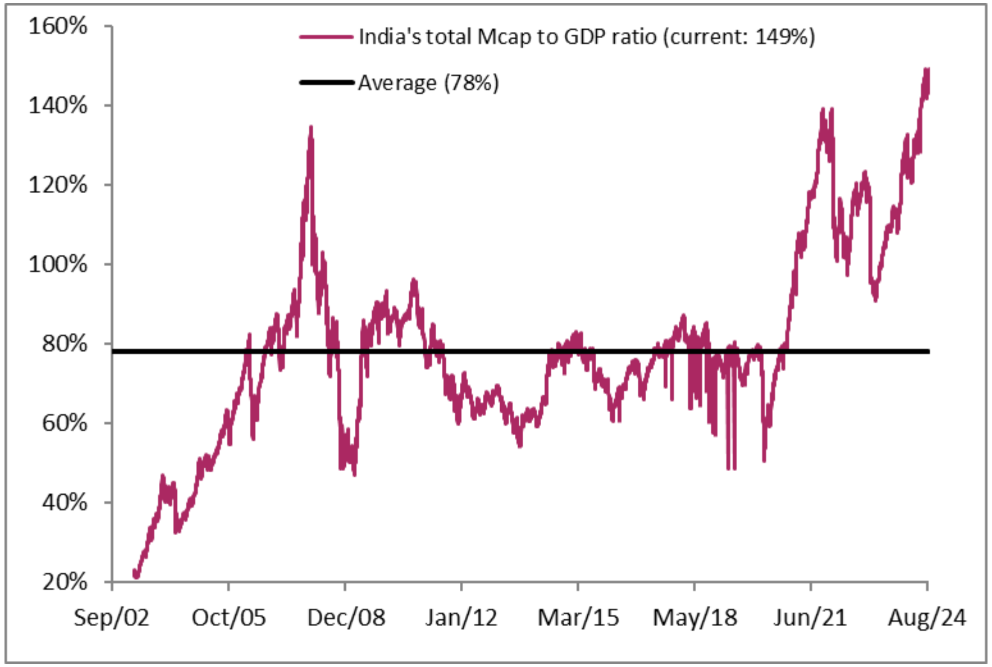
- Our Market Valuation Index has retraced back to 1stdev after the recent rally. Current valuations offer limited scope for rerating. Hence, the market will follow the earnings growth going forward. At current levels, **stock selection and sector rotation are keys to achieving outperformance**. The calculation 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).

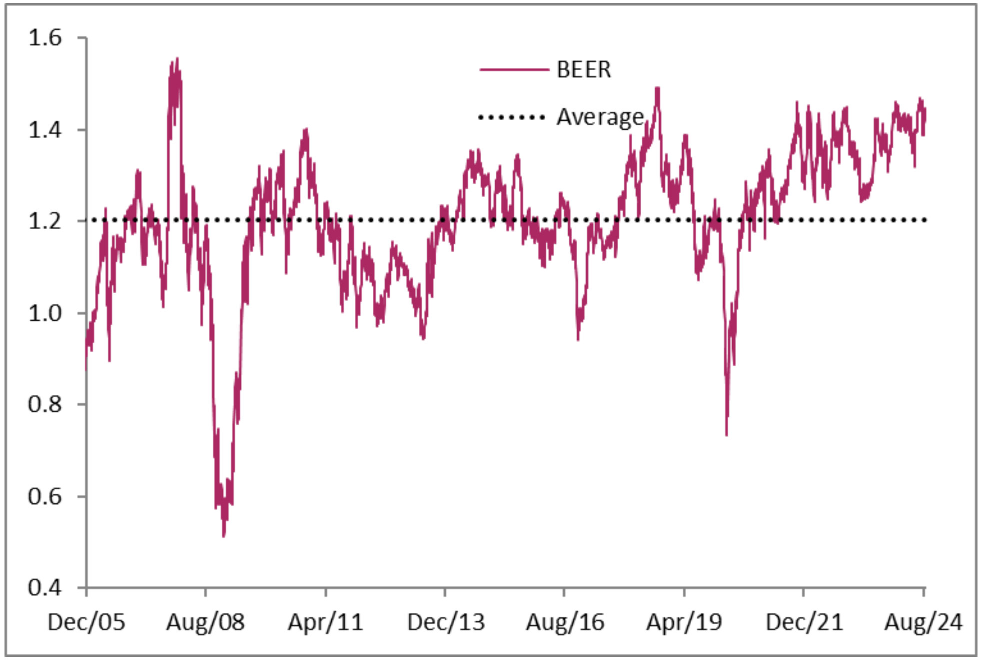


Source: Bloomberg, Axis Securities

In terms of Mcap to GDP, India stands 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 25-28bps 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 149%,** 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 135% (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.



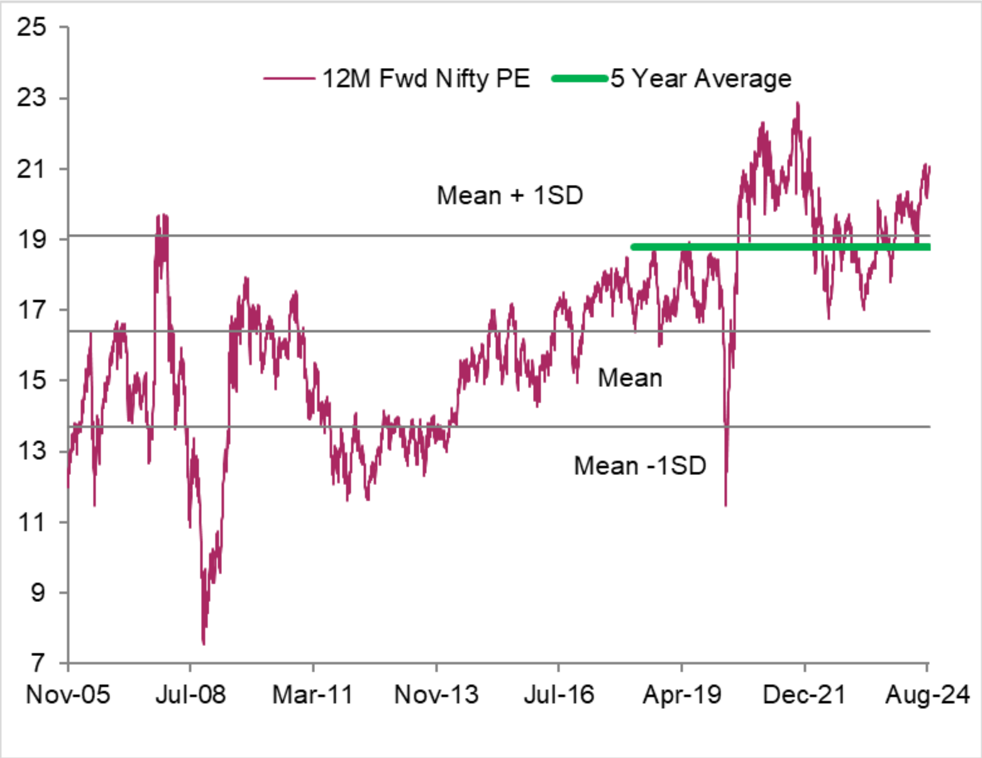


Source: Bloomberg, Axis Securities

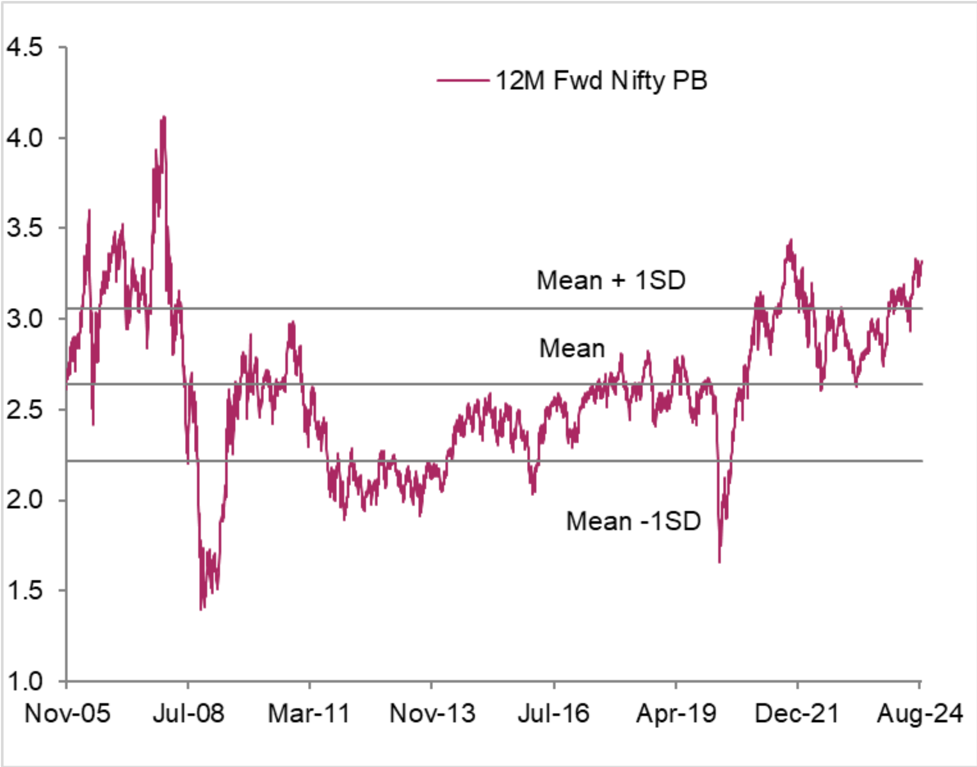
Market Valuations: 12M Fwd PE Now Trading at 21x

- NIFTY is currently trading at 21x on a 12M Fwd PE, which stands at 1.7std 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



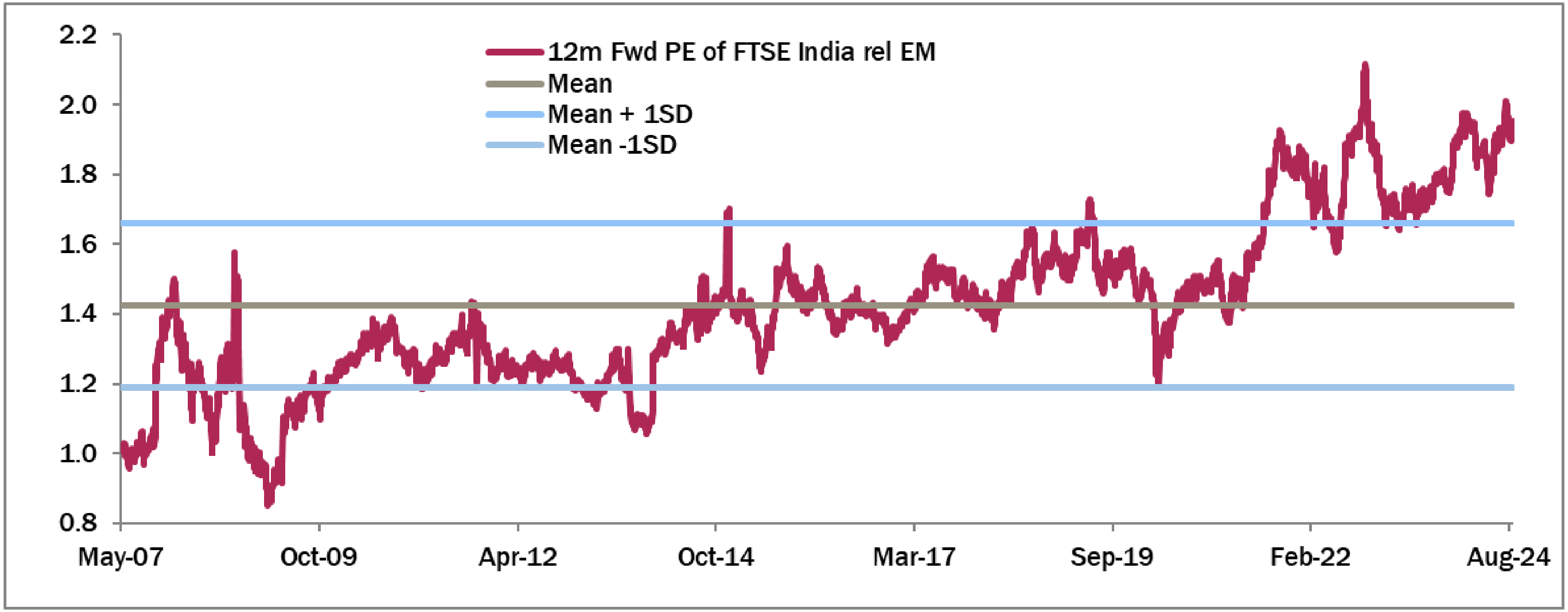
Nifty 12M Fwd PB



Source: Bloomberg, Axis Securities

Market Valuations: FTSE India rel. FTSE EM

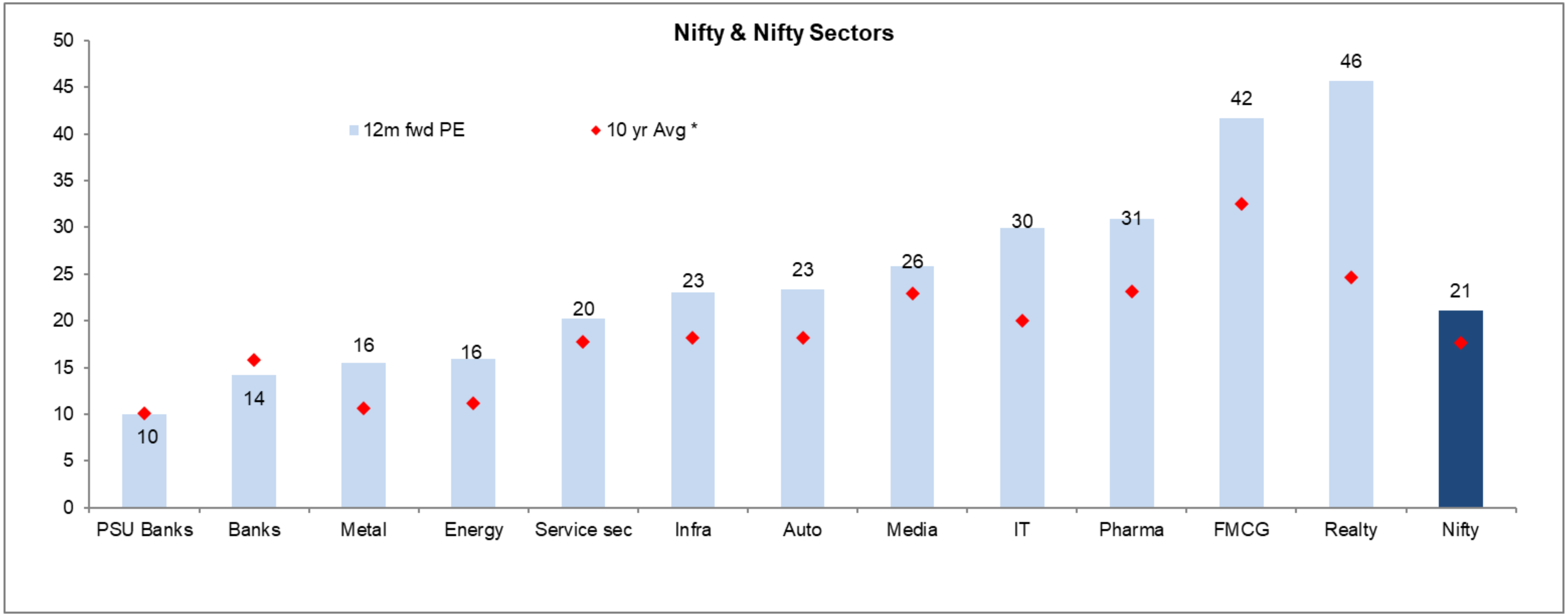
- Benchmark indices have reached all-time highs and the FTSE India is currently trading at a PE premium of 95% to the EM index (PE) vs. an average premium of 42%. During Oct/Nov'22 last year, the Indian market reached a previous all-time high on account of the underperformance of the Chinese equity market 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 95%. 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.



Source: Bloomberg, Axis Securities

NIFTY and Sectors

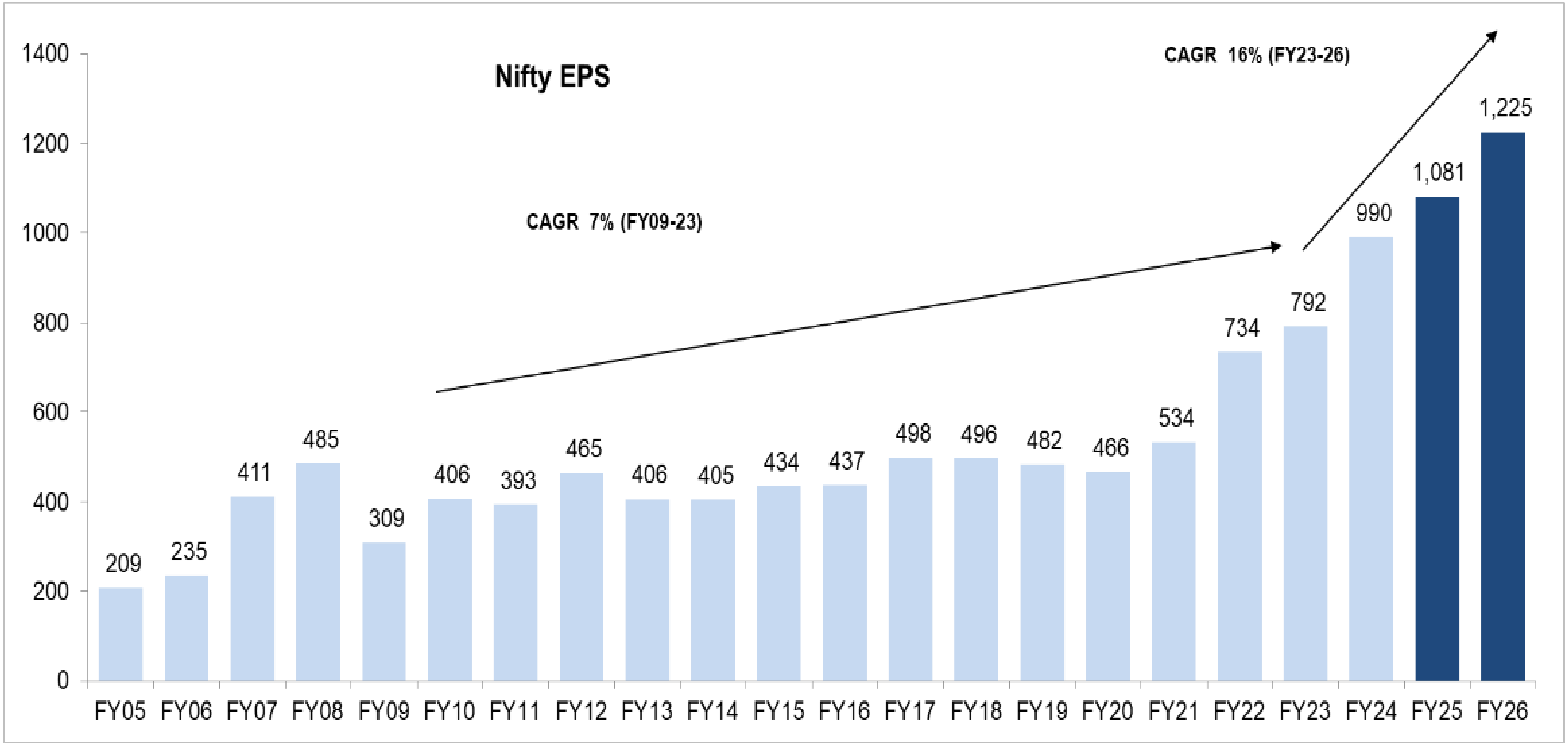
- At current levels, PSU Banks, Energy, and the Metal Index are exhibiting valuation comfort. On the other hand, valuations for the IT, Pharma, and Auto sectors appear expensive. After a correction, the Banking sector looks attractive.
- We believe the Indian equity market will continue to trade at a 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) Much improved shape of the Banking sector, e) Private Capex cycle expectations, f) Better performance of the ruling party in state elections, and g) Strengthening market confidence due to the political continuity and the continuation of macro policies post general election 2024.



Source: Bloomberg, Axis Securities

NIFTY EPS Growth Expectation Remains Robust

- Nifty EPS is expected to grow at 16% CAGR over FY23-FY26 vs. 7% CAGR over FY09-FY23



Source: Bloomberg, Axis Securities

Marginal Downgrade in Nifty EPS

- We foresee FY25/26 NIFTY Earnings at 1081/1225 after Q1FY25. FY25/26 expectations are marginally downgraded by 1% respectively after the upgrade of 2.4%/3% was seen after Q4FY24. During the quarter upgrades were seen in Automobiles, Power, and Pharma while downgrades were visible in Oil & Gas, Metals, Cement and Industrial sectors
- We foresee 9%/13% earnings growth in Nifty EPS for FY25/26.
- Our estimates for FY25 stand conservative at 1% below street expectations. Financials remain the biggest contributors for FY25/26 earnings.

Nifty EPS	Post Q4FY24		Post Q1FY25			Chg post Q1FY25	
Sector	FY25	FY26	FY24	FY25E	FY26E	FY25E	FY26E
Financial	476	540	434	470	532	-1.2%	-1.5%
IT	113	128	108	113	128	0.0%	0.0%
Oil & Gas	138	151	141	134	149	-3.0%	-1.1%
FMCG	60	67	57	60	68	-0.1%	1.1%
Power	42	42	37	42	42	1.0%	-1.1%
Industrial	48	55	40	47	54	-2.7%	-2.2%
Pharma	32	36	28	32	37	1.3%	1.0%
Metals	78	89	48	76	88	-3.0%	-2.0%
Automobile	78	88	82	80	89	2.0%	2.0%
Cement	8	9	6	7	9	-5.7%	-2.3%
Telecom	21	28	8	20	29	-2.3%	2.6%
Total	**1094**	**1234**	**990**	**1081**	**1225**	**-1.1%**	**-0.8%**
Growth			**25%**	**9%**	**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 Q1FY25, crossing the mark of 13.7 Lc Cr. This was led by improvement in the profitability of Industrials, Auto, Financials, Transport, Metals
- **Sequential improvement was seen in Telecom, Helathcare, Metals, and Industrials while de-growth was seen in Oil & Gas, Utilities, and Agri**
- Financials, Oil & Gas, Metals, and IT are now contributing 67% of the NSE 500 profitability.
- Loss-making sectors have turned positive post witnessing significant disruption by the pandemic.
- The Airline sector has seen significant improvement in profitability. Overall, the Transport sector is up 10%.
- The Airline sector has seen significant improvement in profitability. Overall, the Transport sector is up 10%.

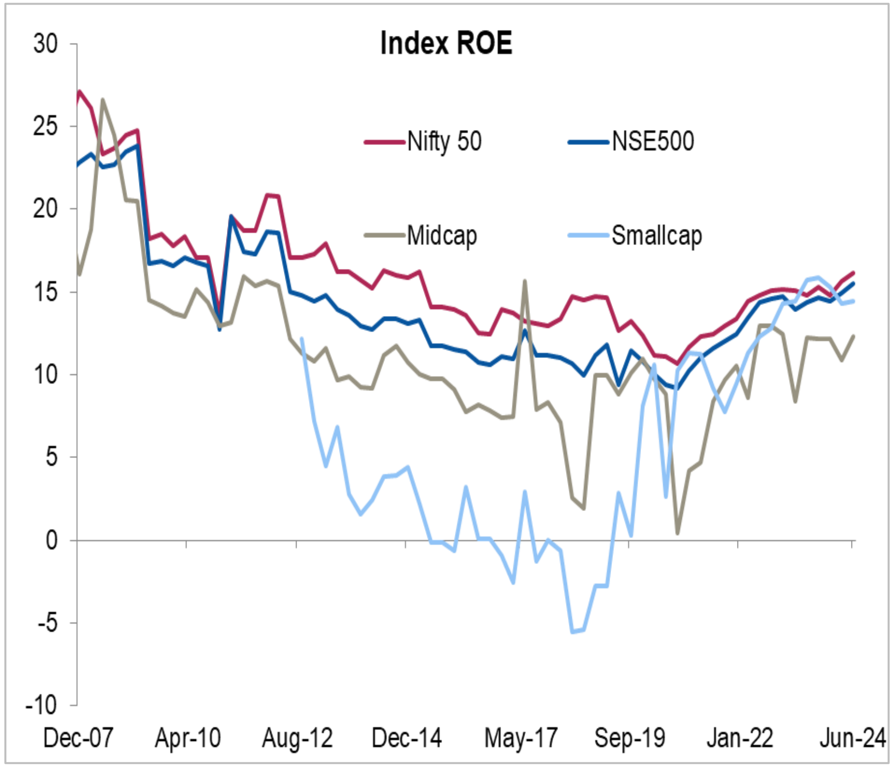
Sector-wise Net profit for NSE 500 – Trailing 4 Quarters (In Cr)

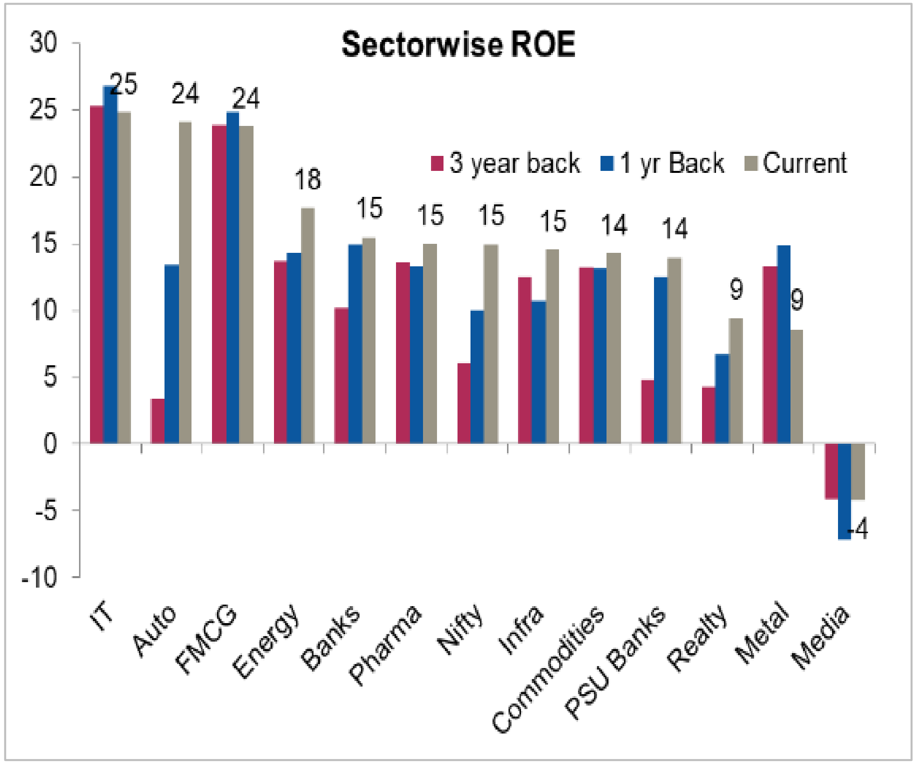
	Q2FY20	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Growth %
Auto & Anc	36,212	40,331	42,081	45,088	43,028	49,650	57,353	63,931	68,321	70,962	3.86%
Staples	34,044	42,652	43,919	45,919	49,516	51,167	51,944	53,081	50,374	51,233	1.71%
Discretionary	18,283	21,470	24,360	25,563	30,085	30,501	31,057	32,531	33,867	33,943	0.23%
Financials	85,507	2,69,282	2,95,407	3,25,923	3,87,050	4,22,052	4,48,298	4,58,423	4,93,186	5,14,171	4.26%
IT	81,462	1,05,164	1,06,797	1,09,167	1,14,293	1,17,849	1,18,865	1,17,801	1,22,299	1,25,021	2.23%
Oil & gas	1,00,204	1,63,364	1,42,301	1,31,123	1,28,660	1,73,424	2,09,327	2,28,237	2,28,100	1,98,794	-12.85%
Metals & min	58,266	1,47,291	1,19,152	99,487	88,438	76,782	76,168	87,215	86,559	90,737	4.83%
Industrials	31,188	33,254	34,465	36,668	37,174	37,386	40,485	43,798	47,698	50,331	5.52%
Build Mate	22,387	32,381	29,296	28,432	23,965	22,436	28,301	31,700	36,272	37,215	2.60%
Healthcare	28,133	41,786	39,280	41,744	39,045	41,068	43,207	47,032	50,094	59,401	18.58%
Utilities	27,165	52,660	54,488	55,146	59,631	63,288	73,665	75,970	72,289	69,544	-3.80%
Transport	2,462	-1,624	-1,495	97	4,152	8,632	10,470	12,116	13,331	13,310	-0.16%
Agri & Chem	12,424	24,919	25,999	26,702	31,842	27,988	26,267	21,744	17,341	16,803	-3.10%
Tele & Media	-19,015	13,207	13,347	11,188	12,474	13,107	12,719	15,351	15,213	18,340	20.55%
Others	12,486	25,407	17,533	17,011	16,661	18,422	15,787	16,829	16,014	22,491	40.44%
Total	**5,31,208**	**10,11,545**	**9,86,930**	**9,99,258**	**10,66,015**	**11,53,755**	**12,43,913**	**13,05,757**	**13,50,957**	**13,72,297**	
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**	**10,77,521**	**11,22,858**	**11,73,503**	
Total Growth		**5%**	**-2%**	**1%**	**2%**	**7%**	**8%**	**4%**	**3%**	**2%**	
Growth ex Oil and Gas		**7%**	**0%**	**3%**	**8%**	**5%**	**6%**	**4%**	**4%**	**5%**	

Source: Bloomberg, Axis Securities, Note: Tata Motors and Vodafone are not included in the study,

Return Ratios Improving

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

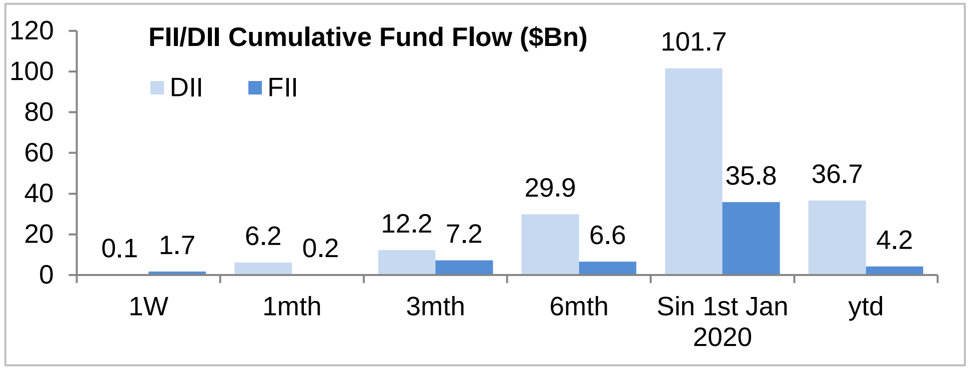


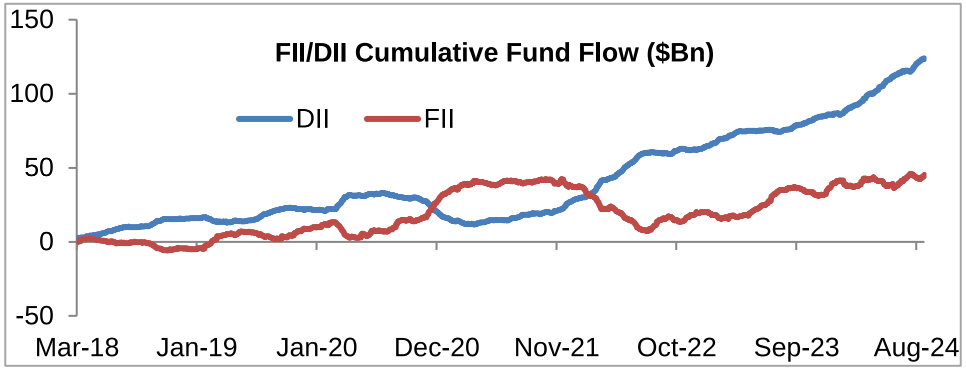


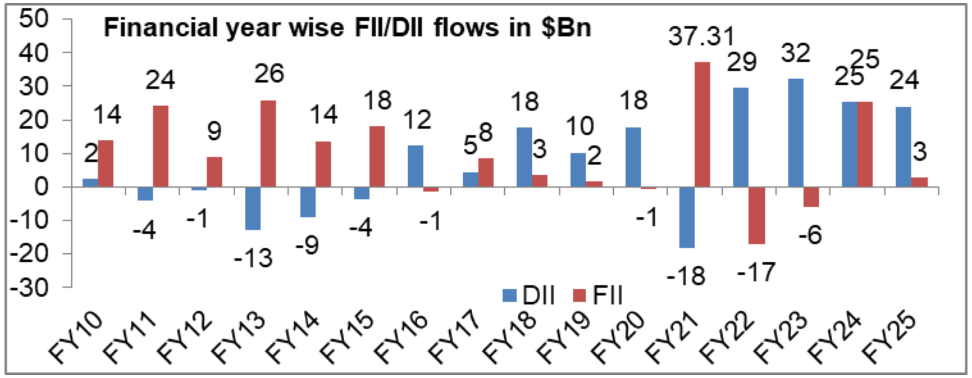
Source: Bloomberg, Axis Securities

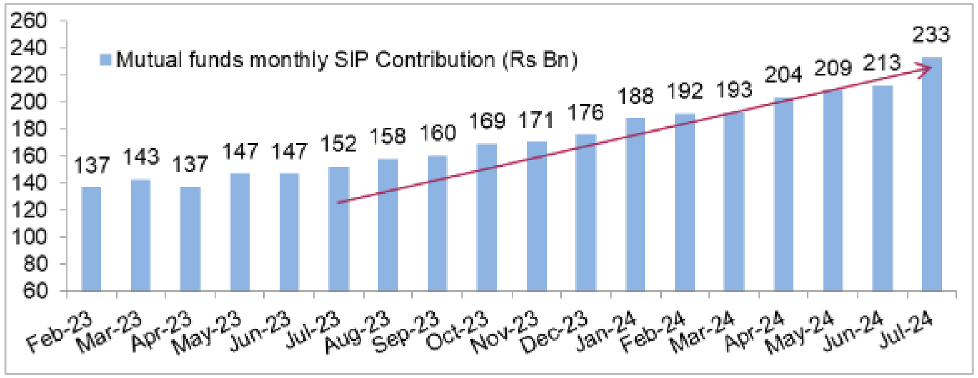
FIIs are Back with Positive Flows in the Last Three Month

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 FY25 so far, FIIs were neutral on the Indian market while DIIs have invested $ 24 Bn over the same period. Mutual fund SIP contribution has crossed 23,000 Cr for the first time in Jul'24.





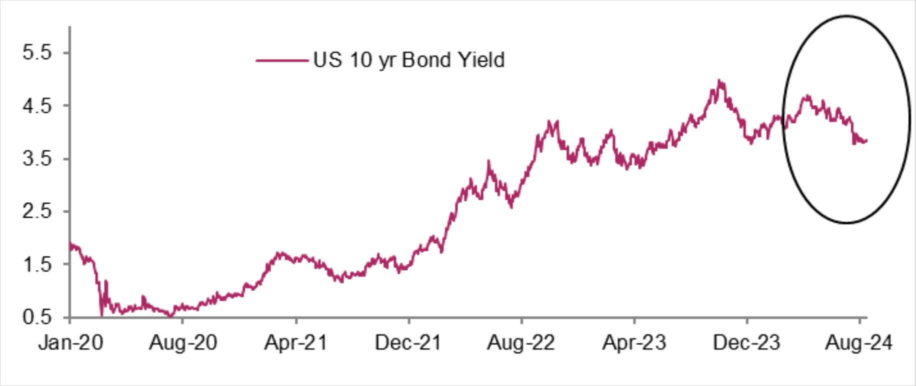


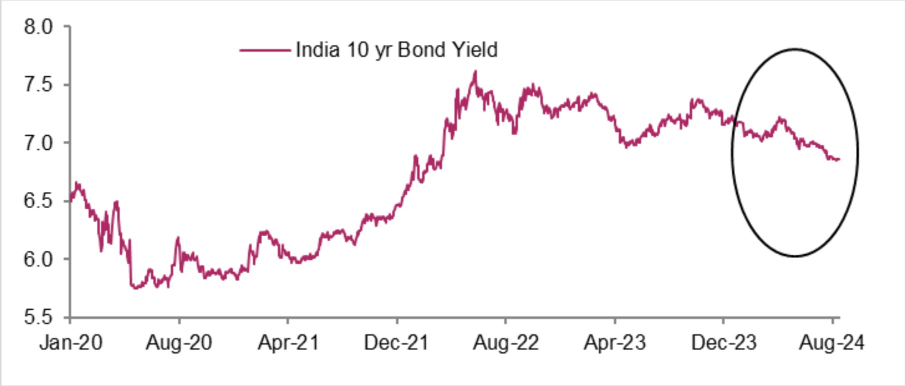


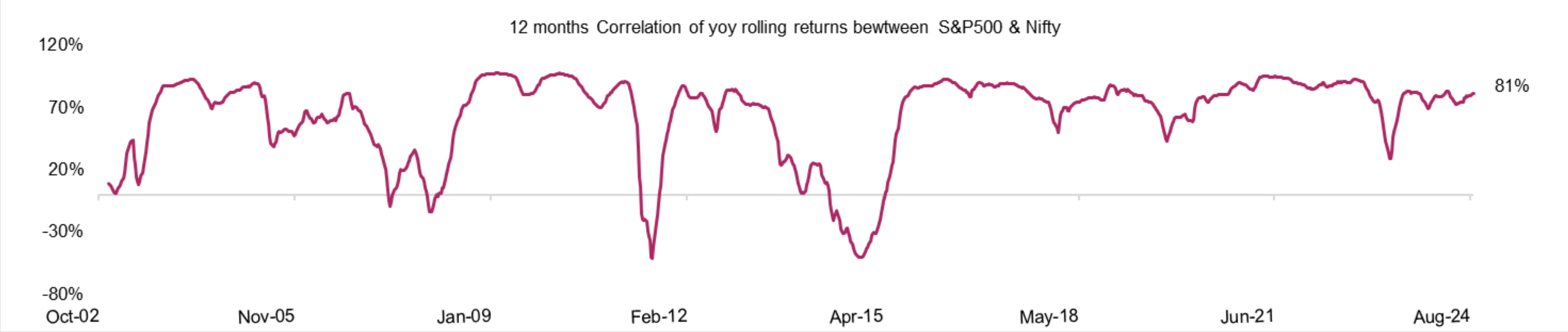
Source: Bloomberg, Axis Securities

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 ~3.87% 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 25-28 bps after the Interim budget.
- The correlation between the Indian market and the US market remains high at 81%.







Source: Bloomberg, Axis Securities

Q1FY25 Earnings: Largely In Line with the Expectations

- 64% of the companies were either in line or beat earnings expectations; 80% of companies were either in line or beat on the revenue front.
- **IT Sector:** Earnings from the IT sector were largely in line with expectations with some positive commentaries from the mid-tier IT names. Further recovery is expected in the upcoming quarters.
- **Banking sector:** In the banking sector, while credit growth remains robust, banks are facing challenges with deposit mobilization. Most banks have reported modest deposit growth, primarily driven by term deposits (TDs). Banks are focused on improving deposit accretion, with future credit growth expected to be largely deposit-led. Margin pressures have been noticeable during the quarter.
- **FMCG:** Most staple companies delivered mid to high single-digit revenue growth despite challenges such as severe heatwaves in the North region affecting consumption, increased competitive intensity, and the impact of the general election. The revenue growth was mainly led by rural areas as it recovered and grew faster than urban growth.
- **Cement:** Pricing is down and is expected to remain soft till Q2. Demand was soft but is expected to bounce back. The industry is expected to grow between 7-9%.

Q1FY25 Performance So Far

Beat results: HDFC Bank, SBI Life, BPCL, L&T, Adani Port

Missed results: Grasim, Nestle, Wipro, Reliance, Asian Paints

Nifty Q1FY25	Earnings			EBITDA			Revenue		
Results Out	Beat	In Line	Miss	Beat	In Line	Miss	Beat	In Line	Miss
50	13	19	18	18	20	10	7	33	10

FY25 EPS

Key Upgrade: Coal India (15%), Kotak (9%), SBI Life (3%)

Key Downgrade: JSW Steel (-16%), Grasim Ind (-16%), Tata Steel (-12%), Asian Paints (-5%), Ultra tech (-5%)

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
1,229

Target Price
1,425

Upside
16%

Key Rationale

- **Strong business growth to continue:** ICICIB reported a healthy credit growth of 16/3% YoY/QoQ. While growth on both credit and deposit fronts does not appear to be challenging, the recent draft guidelines of LCR could require some calibration on growth. ICICIB highlighted that the price-based competition in the corporate and mortgage segment remains intense and the bank will look to deliver a similar growth rate, maintaining a favourable risk-reward. The management emphasized that the credit card segment (5% mix in the portfolio) remains a key growth driver for the bank and ICICIB will continue to invest in the business. On the other hand, the bank has been rationalising growth in the personal loan portfolio and expects growth to moderate to ~20% in FY25 vs ~33% in FY24. Deposit growth will continue to remain in line with credit growth and the bank remains comfortable with maintaining C-D Ratio at current levels. We factor in strong business growth and expect the pace of earnings growth to remain healthy. We factor in Advances/NII/Earnings growth of 16/13/13% CAGR over FY25-27E.
- **Credit costs to normalise:** Currently, the bank does not envisage any major asset quality challenges even on the unsecured book. However, the management has highlighted that credit costs would normalise gradually. FY25E credit costs are expected to be contained at ~50bps.
- **Well-placed to deliver 2%+ ROA over the medium term:** NIMs are likely to face some pressure in the near term owing to the increase in CoF, reflecting the rate hike in retail deposits and some possible pressure due to the draft guidelines on LCR. We believe NIMs could settle at ~4.3% over FY25-27E. The management does not expect any surprises on Opex growth which is expected to be in line with business growth. Thus, the C-I Ratio is likely to remain in a narrow range of 40-41%. Despite the gradual normalisation of credit costs, ICICIB remains well-positioned to deliver a consistent RoA/RoA of 2.2%/17-18% over FY25-27E.
- **Outlook & Valuation:** The bank continues to deliver a strong all-round performance. We expect the bank to continue demonstrating a strong performance over the medium term delivering a consistent RoA/RoE of 2.2%/17-18% supported by (1) strong credit and deposit growth, thereby maintaining steady C-D Ratio, (2) stable asset quality metrics and (3) adequate capitalisation. ***ICICIB remains our most preferred pick amongst banks.*** We maintain our BUY rating on the stock with a target price of Rs 1,425/share (SOTP basis core book at 2.8x FY26E and Rs 209 Subsidiary value).
- **Key Risks:** a) Slowdown in credit growth momentum due to lag in deposit mobilisation

Key Financials (Standalone)

Y/E Mar (RsBn)	NII (Rs Bn)	PPOP (Rs Bn)	PAT (Rs Bn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY24	743	581	409	58.2	321.8	3.9	2.4	0.4
FY25E	819	653	446	63.5	372.0	3.4	2.2	0.4
FY26E	942	751	507	72.2	433.0	2.9	2.2	0.4
FY27E	1,099	880	589	83.9	503.7	2.5	2.2	0.4

Source: Company, Axis Securities

Income Statement (Rs Bn)

Y/E March	FY24	FY25E	FY26E	FY27E
Net Interest Income	**743**	**819**	**942**	**1,099**
Other Income	230	272	308	350
Total Income	**973**	**1,091**	**1,251**	**1,449**
Total Operating Exp	391	438	499	569
PPOP	**581**	**653**	**751**	**880**
Provisions & Contingencies	36	58	75	95
PBT	**545**	**595**	**676**	**785**
Provision for Tax	136	148	169	196
PAT	**409**	**446**	**507**	**589**

Source: Company, Axis Research

Balance Sheet (Rs Bn)

Y/E March	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS				
Share Capital	14	14	14	14
Reserves	2,370	2,729	3,163	3,665
Shareholder's Funds	**2,384**	**2,744**	**3,177**	**3,679**
Total Deposits	14,128	16,539	19,349	22,598
Borrowings	15,378	17,852	20,895	24,332
Other Liabilities & Provisions	953	1,037	1,265	1,472
Total Liabilities	**18,715**	**21,632**	**25,338**	**29,484**
APPLICATION OF FUNDS				
Cash & Bank Balance	1,399	1,572	1,742	1,809
Investments	4,619	5,292	6,384	7,683
Advances	11,844	13,784	16,057	18,650
Fixed &Other Assets	852	985	1,154	1,343
Total Assets	**18,715**	**21,632**	**25,338**	**29,484**

Source: Company, Axis Research

Valuation Ratios (%)

Y/E March	FY24	FY25E	FY26E	FY27E
EPS	58.2	63.5	72.2	83.9
Earnings growth (%)	27.5	9.1	13.6	16.2
BVPS	339.4	390.6	452.4	523.9
Adj. BVPS	321.8	372.0	433.0	503.7
ROAA (%)	2.4	2.2	2.2	2.2
ROAE (%)	18.6	17.4	17.1	17.2
P/E (x)	21.1	19.4	17.1	14.7
P/ABV (x)	3.9	3.4	2.9	2.5
Dividend Yield (%)	0.7	0.9	1.0	1.0
PROFITABILITY & OPERATING EFFICIENCY				
NIM (%)	4.5	4.5	4.3	4.3
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	FY24	FY25E	FY26E	FY27E
Loan Growth (%)	16.2	16.4	16.5	16.1
Deposit Growth (%)	19.6	17.1	17.0	16.8
C/D Ratio (%)	83.8	83.3	83.0	82.5
Equity/Assets (%)	12.7	12.7	12.5	12.5
Equity/Advances (%)	20.1	19.9	19.8	19.7
Total Capital Adequacy Ratio	16.3	16.4	16.0	15.7
Tier I CAR	15.6	15.8	15.5	15.3
ASSET QUALITY				
Gross NPLs	280	313	346	384
Net NPLs	54	61	68	75
Gross NPLs (%)	2.4	2.3	2.2	2.1
Net NPLs (%)	0.5	0.4	0.4	0.4
Coverage Ratio (%)	80.8	80.4	80.5	80.5
Provision/Avg. Loans (%)	0.3	0.4	0.5	0.5
ROAA TREE				
Net Interest Income	4.3	4.1	4.1	4.1
Non-Interest Income	1.3	1.3	1.3	1.3
Operating Cost	2.3	2.2	2.1	2.1
Provisions	0.2	0.3	0.3	0.3
Tax	0.8	0.7	0.7	0.7
ROAA	2.4	2.2	2.2	2.2
Leverage (x)	7.9	7.9	7.9	8.0
ROAE	18.6	17.4	17.1	17.2

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
2,501

Target Price
2,800

Upside
12%

Key Rationale

- **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)
FY24	24,275	5,820	3,928	40.8	60.3	117.6	64.9	40.5
FY25E	21,464	5,094	3,429	35.6	69.0	82.3	51.8	46.5
FY26E	23,751	5,629	3,744	38.8	63.2	71.8	49.9	41.9
FY27E	26,297	6,287	4,181	43.4	56.6	62.5	46.3	37.3

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Net sales	**24,275**	**21,464**	**23,751**	**26,297**
Growth, %	45	(12)	11	11
Other operating income	118	107	117	129
Total income	24,394	21,570	23,868	26,426
Raw material expenses	(10,709)	(9,531)	(10,531)	(11,584)
Employee expenses	(2,336)	(2,032)	(2,256)	(2,504)
Other Operating expenses	(5,529)	(4,913)	(5,451)	(6,050)
EBITDA (Core)	**5,820**	**5,094**	**5,629**	**6,287**
Growth, %	57	(12)	11	12
Margin, %	24	24	24	24
Depreciation	(538)	(477)	(589)	(659)
EBIT	**5,282**	**4,617**	**5,040**	**5,628**
Growth, %	60	(13)	9	12
Margin, %	22	22	21	21
Interest paid	(145)	(116)	(122)	(128)
Other Income	148	133	141	150
Non-recurring Items	(4)	-	-	-
Pre-tax profit	**5,280**	**4,634**	**5,059**	**5,650**
Tax provided	(1,356)	(1,205)	(1,315)	(1,469)
Profit after tax	**3,924**	**3,429**	**3,744**	**4,181**
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	FY24	FY25E	FY26E	FY27E
Cash & bank	779	(119)	837	2,336
Marketable securities at cost	40	40	40	40
Debtors	300	235	260	288
Inventory	2,089	1,847	2,044	2,263
Loans & advances	76	76	76	76
Other current assets	275	275	275	275
Total current assets	3,559	2,354	3,532	5,278
Investments	424	424	424	424
Gross fixed assets	6,119	8,319	9,319	10,319
Less: Depreciation	(2,658)	(3,135)	(3,724)	(4,383)
Add: Capital WIP	1,742	1,742	1,742	1,742
Net fixed assets	5,202	6,925	7,336	7,677
Non-current assets	1,338	1,338	1,338	1,338
Total assets	**10,523**	**11,041**	**12,629**	**14,717**
Current liabilities	3,918	3,947	4,216	4,516
Provisions	2,917	2,579	2,854	3,160
Total current liabilities	6,835	6,526	7,070	7,676
Non-current liabilities	347	347	347	347
Total liabilities	7,182	6,873	7,418	8,024
Paid-up capital	96	96	96	96
Reserves & surplus	3,244	4,071	5,115	6,597
Shareholders' equity	3,341	4,167	5,212	6,693
Total equity & liabilities	**10,523**	**11,041**	**12,629**	**14,717**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E	FY27E
Pre-tax profit	5,280	4,634	5,059	5,650
Depreciation	538	477	589	659
Chg in working capital	396	(2)	322	359
Total tax paid	(1,313)	(1,205)	(1,315)	(1,469)
Other operating activities	-	-	-	-
Cash flow from operating activities	**4,901**	**3,905**	**4,655**	**5,199**
Capital expenditure	(2,338)	(2,200)	(1,000)	(1,000)
Chg in investments	136	-	-	-
Chg in marketable securities	177	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing activities	**(2,024)**	**(2,200)**	**(1,000)**	**(1,000)**
Free cash flow	2,877	1,705	3,655	4,199
Equity raised/(repaid)	(837)	-	-	-
Debt raised/(repaid)	(1)	-	-	-
Dividend (incl. tax)	(21,208)	(2,603)	(2,699)	(2,699)
Other financing activities	-	-	-	-
Cash flow from financing activities	**(22,047)**	**(2,603)**	**(2,699)**	**(2,699)**
Net chg in cash	(19,170)	(898)	956	1,499
Opening cash balance	946	779	(119)	837
Closing cash balance	779	(119)	837	2,336

Source: Company, Axis Research

Ratio Analysis (%)

Y/E Mar	FY24	FY25E	FY26E	FY27E
EPS (INR)	40.8	35.6	38.8	43.4
Growth, %	64.3	(12.7)	9.2	11.7
Book NAV/share (INR)	34.7	43.2	54.1	69.4
FDEPS (INR)	40.8	35.6	38.8	43.4
CEPS (INR)	46.4	40.5	44.9	50.2
CFPS (INR)	48.2	39.1	46.8	52.4
DPS (INR)	220.0	27.0	28.0	28.0
Return ratios				
Return on assets (%)	41.7	32.9	32.7	31.5
Return on equity (%)	117.6	82.3	71.8	62.5
Return on capital employed (%)	64.9	51.8	49.9	46.3
Turnover ratios				
Asset turnover (x)	7.7	4.8	4.5	4.7
Sales/Total assets (x)	2.5	2.0	2.0	1.9
Sales/Net FA (x)	5.6	3.5	3.3	3.5
Working capital/Sales (x)	4.5	4.0	4.0	4.0
Receivable days	31.4	31.4	31.4	31.4
Inventory days	44.0	52.1	52.1	52.2
Payable days	(17.7)	(25.7)	(24.0)	(22.4)
Working capital days				
Liquidity ratios	0.9	0.6	0.8	1.2
Current ratio (x)	0.4	0.1	0.4	0.7
Quick ratio (x)	36.3	39.7	41.2	43.9
Interest cover (x)	0.0	0.0	0.0	0.0
Net debt/Equity (%)	(0.2)	0.0	(0.2)	(0.4)
Valuation				
PER (x)	60.3	69.0	63.2	56.6
PEG (x) - y-o-y growth	0.9	(5.4)	6.9	4.9
Price/Book (x)	70.9	56.8	45.4	35.4
EV/Net sales (x)	9.7	11.0	9.9	8.9
EV/EBITDA (x)	40.5	46.5	41.9	37.3
EV/EBIT (x)	44.7	51.3	46.8	41.6

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
816

Target Price
1,030

Upside
26%

Key Rationale

- **Judiciously pursuing deposit growth:** The management has highlighted that SBI does not envisage any challenges on deposit mobilisation. Deposit accretion, particularly CASA accounts is being adequately supported by strong traction on the 'YONO' app. However, SBI remains selective in garnering deposits, prioritizing the rate at which deposits are raised rather than pursuing irrational deposit growth. Additionally, SBI's adequate balance sheet liquidity offers the opportunity to utilise it rather than raising deposits at a higher cost, thereby enabling the bank to defend margins at current levels. However, the bank will focus on protecting its deposit market share.
- **Credit growth to remain buoyant:** SBI highlighted that growth opportunities across segments continue to remain buoyant. The bank will look to maintain credit growth momentum of ~15% in FY25, with growth being broad-based. The bank remains comfortably placed on the C-D Ratio to pursue faster credit growth vs deposit growth. The bank will aim at maintaining its domestic C-D Ratio between 70-72% on a steady state basis. Hereon, credit growth will calibrate its growth across segments and growth will be an outcome of its impact on capital consumption (primarily in the Xpress Credit Card segment). The management has highlighted that the corporate sanctions pipeline continues to remain healthy (at ~Rs 4.6 Tn), with the majority being from the private sector. We expect SBI to deliver a robust 14% CAGR credit growth vs. a 12% CAGR deposit growth over FY24-27E.
- **Non-banking subsidiaries to boost overall performance:** Apart from the core banking, SBI's subsidiaries are expected to continue adding further value. The bank has a strong presence in various financial services operations, most of which are generating stable returns and support the overall performance of the bank.
- **Outlook:** The bank is focusing on increasing deposits by giving priority to CoD and CoF rather than overall growth. It is also moving assets from investments to loans, which should help improve the Loan-to-Deposit Ratio (LDR) and maintain its margins at ~3.2% in the medium term. Despite challenges with non-interest income, keeping operating expenses low (with the current Cost-to-Income ratio considered the new normal) should lead to healthy PPOP growth. While major asset quality challenges are not visible currently, the ageing provisions on standard assets are likely to drive credit costs to settle at ~50bps on a steady state basis. However, we do not expect any challenges to the bank's ability to protect RoA at 1-1.1% over FY25-27E.
- **Valuation:** Amongst PSU banks, SBI is the best play on the growth trajectory of India's economic growth supported by its (1) Comfortable footing on the C-D Ratio, (2) Healthy PCR, (3) Adequate capitalization and (4) improved asset quality outlook.
- **Key risks:** a) Significant slowdown in credit growth

Key Financials (Standalone)

Y/E Mar	NII (Rs Bn)	PPOP (Rs Bn)	Net Profit (Rs Bn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY24	1,599	867	611	68.4	399.1	2.0	1.0	0.6
FY25E	1,723	1,102	719	80.6	460.7	1.8	1.1	0.6
FY26E	1,969	1,257	786	88.0	526.6	1.5	1.1	0.6
FY27E	2,224	1,410	859	96.2	598.3	1.4	1.0	0.6

Source: Company, Axis Securities.

Profit & Loss (RsBn)

Y/E MAR	FY24	FY25E	FY26E	FY27E
Net Interest Income	**1,599**	**1,723**	**1,969**	**2,224**
Other Income	517	486	528	575
Total Income	**2,116**	**2,209**	**2,497**	**2,799**
Total Operating Exp.	1,249	1,108	1,241	1,390
PPOP	**867**	**1,102**	**1,257**	**1,410**
Provisions & Contingencies	49	140	206	262
PBT	**818**	**962**	**1,050**	**1,148**
Provision for Tax	207	242	265	289
PAT	**611**	**719**	**786**	**859**

Source: Company, Axis Research

Balance Sheet (RsBn)

Y/E MAR	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS				
Share capital	9	9	9	9
Reserves and surplus	3,764	4,339	4,967	5,654
Shareholders' funds	**3,772**	**4,348**	**4,976**	**5,663**
Total Deposits	49,161	54,154	60,851	68,511
Total Borrowings	55,136	61,141	69,451	78,956
Other Liabilities, provisions	2,888	3,428	3,895	4,429
Total	**61,797**	**68,916**	**78,323**	**89,048**
APPLICATION OF FUNDS				
Cash & Bank Balance	3,108	3,532	3,969	4,468
Investments	16,713	17,328	19,471	21,922
Advances	37,040	42,552	48,627	55,545
Fixed Assets & Other Assets	4,936	5,504	6,256	7,112
Total assets	**61,797**	**68,916**	**78,323**	**89,048**

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY24	FY25E	FY26E	FY27E
VALUATION RATIOS				
EPS	68.4	80.6	88.0	96.2
Earnings Growth (%)	*21.6%*	*17.7%*	*9.2%*	*9.3%*
BVPS	422.7	487.2	557.6	634.5
Adj. BVPS	399.1	460.7	526.6	598.3
ROAA (%)	1.0	1.1	1.1	1.0
ROAE (%)	17.3	17.7	16.8	16.1
P/E (x)	11.9	10.1	9.3	8.5
P/ABV (x)	2.0	1.8	1.5	1.4
Dividend Yield (%)	1.3	1.9	2.1	2.3
PROFITABILITY				
NIM (%) – Domestic	3.4	3.3	3.3	3.3
NIM (%) - Global	3.3	3.2	3.2	3.2
Cost-Income Ratio	59.0	50.1	49.7	49.6

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY24	FY25E	FY26E	FY27E
Loan Growth (%)	15.8	14.9	14.3	14.2
Deposit Growth (%)	11.1	10.2	12.4	12.6
C-D Ratio (%)	75.3	78.6	79.9	81.1
Equity to Assets (%)	6.1	6.3	6.4	6.4
Equity to Loans (%)	10.2	10.2	10.2	10.2
CRAR (%)	14.3	13.9	13.5	13.1
Tier I (%)	11.9	11.7	11.5	11.2
ASSET QUALITY				
Gross NPLs (%)	2.2	2.2	2.2	2.3
Net NPLs (%)	0.6	0.6	0.6	0.6
PCR	75.0	75.0	75.0	75.0
Credit cost	0.1	0.4	0.5	0.5

Source: Company, Axis Research

VARUN BEVERAGES – GEARED FOR GROWTH

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

Industry view

Equal Weight

CMP
1,501

Target Price
1,800

Upside
20%

Key Rationale

- **Higher opex played spoilsport:** The Q2CY25 results were below estimates due to increased operating costs associated with integrating the Africa business and establishing new production facilities, coupled with higher depreciation and interest expenses impacting overall PAT. Despite this, VBL maintained strong revenue growth, up 28.7% YoY, with consolidated volume increasing by approximately 28% YoY. India volumes grew by about 23%, driven by capacity expansion, a broader distribution reach (4 Mn outlets), and a robust summer season. However, international markets remained flat due to lower volumes in Zimbabwe, affected by the transition to zero-sugar products and a seasonally weak quarter in the African market. Realization per case was flat, attributed to BevCo's consolidation, which has lower realizations for its own brands. Q3 continues to grow in double-digit and guided double growth volume growth for CY24 for India 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 (%)
CY23	15,622	3,609	2,056	15.8	92.0	54.9	30.3	25.4
CY24E	19,177	4,890	2,828	21.9	68.4	40.7	30.0	26.3
CY25E	23,377	6,060	3,668	28.4	52.8	32.5	28.7	26.6
CY26E	28,497	7,485	4,717	36.6	41.0	25.9	27.5	26.6

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E DEC	CY23	CY24	CY25E	CY26E
Net sales	**15,622**	**19,177**	**23,377**	**28,497**
Growth, %	20.9	22.8	21.9	21.9
Other operating income	421	463	509	560
Total income	16,043	19,640	23,887	29,057
Raw material expenses	(7,405)	(8,590)	(10,351)	(12,524)
Employee expenses	(1,447)	(1,765)	(2,153)	(2,627)
Other Operating expenses	(3,582)	(4,396)	(5,323)	(6,421)
EBITDA (Core)	**3,609**	**4,890**	**6,060**	**7,485**
Growth, %	29.5	35.5	23.9	23.5
Margin, %	23.1	25.5	25.9	26.3
Depreciation	(681)	(889)	(993)	(1,080)
EBIT	**2,929**	**4,001**	**5,066**	**6,405**
Growth, %	34.9	36.6	26.6	26.4
Margin, %	18.7	20.9	21.7	22.5
Other Income	79	87	96	106
Non-recurring Items	-	-	-	-
Pre-tax profit	**2,740**	**3,686**	**4,780**	**6,147**
Tax provided	(638)	(858)	(1,112)	(1,430)
Net Profit	**2,102**	**2,828**	**3,668**	**4,717**
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	(228)	1,822	5,200
Debtors	359	525	640	781
Inventory	2,151	2,640	3,218	3,923
Loans & advances	539	539	539	539
Other current assets	726	726	726	726
Total current assets	4,235	4,203	6,946	11,169
Investments	3	3	3	3
Gross fixed assets	12,463	16,063	17,863	19,363
Less: Depreciation	(4,036)	(4,925)	(5,919)	(6,999)
Add: Capital WIP	1,922	1,922	1,922	1,922
Net fixed assets	10,349	13,060	13,867	14,286
Non-current assets	537	537	537	537
Total assets	**15,187**	**17,865**	**21,415**	**26,058**
Current liabilities	4,153	4,326	4,530	4,778
Provisions	213	213	213	213
Total current liabilities	4,366	4,538	4,742	4,991
Non-current liabilities	3,737	3,737	3,737	3,737
Total liabilities	8,103	8,275	8,479	8,727
Paid-up capital	650	650	650	650
Reserves & surplus	6,287	8,793	12,138	16,533
Shareholders' equity	7,085	9,590	12,936	17,330
Total equity & liabilities	**15,187**	**17,866**	**21,415**	**26,058**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	CY23	CY24	CY25E	CY26E
Pre-tax profit	2,740	3,686	4,780	6,147
Depreciation	681	889	993	1,080
Chg in working capital	(349)	(483)	(489)	(597)
Total tax paid	(631)	(858)	(1,112)	(1,430)
Cash flow from operating activities	**2,441**	**3,235**	**4,172**	**5,201**
Capital expenditure	(3,491)	(3,600)	(1,800)	(1,500)
Chg in marketable securities	-	-	-	-
Cash flow from investing activities	**(3,495)**	**(3,600)**	**(1,800)**	**(1,500)**
Free cash flow	(1,054)	(365)	2,372	3,701
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	(688)	2,050	3,378
Opening cash balance	285	460	(228)	1,822
Closing cash balance	460	(228)	1,822	5,200

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY23	CY24	CY25E	CY26E
Per Share data				
EPS (INR)	15.8	21.9	28.4	36.6
Growth, %	(32.7)	34.5	29.7	28.6
Book NAV/share (INR)	53.8	73.2	99.1	133.2
FDEPS (INR)	16.3	21.9	28.4	36.6
CEPS (INR)	21.6	28.8	36.1	44.9
CFPS (INR)	17.2	24.4	31.6	39.5
DPS (INR)	1.8	2.5	2.5	2.5
Return ratios				
Return on assets (%)	17.7	19.5	20.6	21.4
Return on equity (%)	30.3	30.0	28.7	27.5
Return on capital employed (%)	25.4	26.3	26.6	26.6
Turnover ratios				
Asset turnover (x)	1.5	1.4	1.5	1.7
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	23.4
Working capital days	(8.8)	2.0	9.3	15.3
Liquidity ratios				
Current ratio (x)	1.0	1.0	1.5	2.3
Quick ratio (x)	0.5	0.4	0.8	1.5
Interest cover (x)	10.9	9.9	13.3	17.6
Total debt/Equity (%)	0.7	0.5	0.4	0.3
Net debt/Equity (%)	0.4	0.3	0.0	(0.2)
Valuation				
PER (x)	92.0	68.4	52.8	41.0
PEG (x) - y-o-y growth	(2.8)	2.0	1.8	1.4
Price/Book (x)	27.9	20.5	15.1	11.3
EV/Net sales (x)	12.7	10.4	8.4	6.8
EV/EBITDA (x)	54.9	40.7	32.5	25.9

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 over ~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
1,637

Target Price
1,950

Upside
19%

Key Rationale

- **Deposit growth takes precedence:** HDFCB's disappointing deposit growth in Q1FY25 can be attributed to the seasonal weakness generally seen in Q1 alongside a significant outflow from CA accounts. The bank remains committed to pursuing deposit-led credit growth and expects the pace of deposit accretion to pick up in the coming quarters. HDFCB expects to leverage the strength of its franchise by improving the distribution reach of branches with lower vintage and ensuring enhanced customer engagement. Moreover, the bank's focused efforts at converting mortgage customers into primary banking customers (particularly SA) and further deepening relationships with existing corporate clients to ensure the building of the CA Deposit franchise should support deposit growth. Despite the heightened competition for deposits and the bank's continued focus on garnering granular deposits, HDFCB does not intend to tinker around with deposit pricing.
- **C-D Ratio improvement gradual:** HDFCB has reiterated its intention to bring down the C-D Ratio to pre-merger levels (84-87%) in a phased manner. As a result, the pace of credit growth is expected to slow down and we expect HDFCB to deliver a credit growth of ~13% CAGR over FY24-27E against a ~16% CAGR deposit growth over the same period. Unabated focus remains on pursuing risk-adjusted profitable growth and aligning with this, HDFCB has been forgoing opportunities where the risk-reward is not favourable. However, the bank will optimize this opportunity to improve the mix of retail loans.
- **NIM improvement to be visible, RoA to improve gradually:** NIM improvement for the bank will be driven by improving the mix of retail loans along with the high-cost borrowings of e-HDFC getting replaced with lower-cost deposits and improving CASA deposits. Additionally, the management aspires to trim down the C-I Ratio to ~38% over the medium-long term. While the bank will not shy away from continuously investing in tech and enhancing distribution, improving efficiency and a fillip to the top line from the run-down of the higher-cost borrowings should augur well from the C-I Ratio perspective. Asset quality has continued to remain stable across cycles and incremental stress formation does not appear to be worrisome. Thus, credit costs are expected to remain steady and under control. Collectively, improving NIMs, gradual reduction in Opex ratios, and steady credit costs should drive RoA improvement.
- **Outlook & Valuation:** HDFCB remains confident of growth picking up in the coming quarters. The bank's focus on deposit-led credit growth would imply a slowdown in credit growth momentum. However, HDFCB's pursuit of eyeing profitable growth bodes well from a RoA improvement perspective over the medium term. Consistent deposit growth and NIM improvement remain key re-rating levers for the bank.
- **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 (%)
FY24	1,085	944	608	80.0	568.9	2.8	2.0	0.3
FY25E	1,297	1,049	671	88.1	638.5	2.5	1.7	0.3
FY26E	1,528	1,241	800	105.1	721.2	2.2	1.8	0.3
FY27E	1,786	1,450	927	121.8	817.9	2.0	1.9	0.3

Source: Company, Axis Securities.

Profit & Loss (Rs Bn)

Y/E MAR	FY24	FY25E	FY26E	FY27E
Net Interest Income	**1,085**	**1,297**	**1,528**	**1,786**
Other Income	492	463	529	601
Total Income	**1,578**	**1,759**	**2,057**	**2,387**
Total Operating Exp.	634	711	816	937
PPOP	**944**	**1,049**	**1,241**	**1,450**
Provisions & Contingencies	235	152	172	210
PBT	**709**	**897**	**1,070**	**1,239**
Provision for Tax	101	226	270	312
PAT	**608**	**671**	**800**	**927**

Source: Company, Axis Research

Balance Sheet (Rs Bn)

Y/E MAR	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS				
Share capital	8	8	8	8
ESOPs	27	33	40	50
Reserves and Surplus	4,368	4,905	5,545	6,286
Deposits	**4,402**	**4,945**	**5,592**	**6,344**
Shareholders' funds	23,798	27,354	31,669	36,697
Borrowings	6,622	6,667	6,988	7,613
Other Liabilities, provisions	1,354	1,558	1,769	2,025
Total liabilities	**36,176**	**40,524**	**46,019**	**52,680**
APPLICATION OF FUNDS				
Cash & Bank Balance	2,191	2,327	2,695	3,122
Investments	7,024	7,869	8,872	10,281
Advances	24,849	27,881	31,696	36,095
Fixed Assets & Other Assets	2,112	2,447	2,756	3,181
Total assets	**36,176**	**40,524**	**46,019**	**52,680**

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY24	FY25E	FY26E	FY27E
VALUATION RATIOS				
EPS	80.0	88.1	105.1	121.8
Earnings Growth (%)	*1.3*	*10.1*	*19.3*	*15.9*
BVPS	579.5	650.0	735.1	833.9
Adj. BVPS	568.9	638.5	721.2	817.9
ROAA (%)	2.0	1.7	1.8	1.9
ROAE (%)	14.2	14.3	15.2	15.5
P/E (x)	20.1	18.2	15.3	13.2
P/ABV (x)	2.8	2.5	2.2	2.0
PROFITABILITY				
NIM (%)	3.8	3.7	3.8	3.9
Cost-Assets Ratio	2.1	1.9	1.9	1.9
Cost-Income Ratio	40.2	40.4	39.7	39.3

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY24	FY25E	FY26E	FY27E
Loan Growth (%)	55.2	12.2	13.7	13.9
Deposit Growth (%)	26.4	14.9	15.8	15.9
C-D Ratio (%)	104.4	101.9	100.1	98.4
CRAR	18.3	17.8	18.1	17.7
Tier I	16.3	16.0	16.4	16.3
ASSET QUALITY				
Gross NPLs (%)	1.3	1.3	1.3	1.3
Net NPLs (%)	0.3	0.3	0.3	0.3
PCR	74.0	75.9	75.0	75.0
Credit Cost	1.0	0.6	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
1,589

Target Price
1,750

Upside
10%

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 – "Rural Recovery 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
2,813

Target Price
3,100

Upside
10%

Key Rationale

- **Business Outlook:** In Q1FY25, TVS Motor Co Ltd (TVS) achieved 15% YoY and 4% QoQ growth in the domestic market. With expectations of a normal monsoon, the government's commitment to infrastructure and the rural economy, overall industry volumes are anticipated to grow in the high single digits in FY25 (excluding HMSI on a low base of FY24), with TVS expected to outperform the industry average. In exports, demand for TVS is expected to rise from the Middle East, LATAM, and a recovering African market.
- **EV Strategy:** TVS iQUBE has established itself as a strong brand in the EV segment with 34% YoY volume growth in Q1FY25. Management indicated that the TVS iQUBE is available at over 750 dealerships in India as of June 2024, and exports have commenced to Asian markets. TVS plans to launch one electric two-wheeler and one electric three-wheeler in the near term, focusing on diverse customer preferences.
- **EBITDA growth outlook:** EBITDA margins have improved from 10.6% in Q1FY24 to 11.5% in Q1FY25, driven by sustained material cost reduction efforts, commodity softening, opportunistic price hikes taken during the year, and an overall better geographical and product mix. This improvement occurred despite a higher mix of margin-dilutive EVs in the sales mix. The long-term EBITDA margin target for TVS is 14-16%. We project EBITDA to grow at a 19% CAGR over FY24E-27E.
- **Valuation & Outlook:** Being well-placed among listed players, we expect the company's Revenue/EBITDA/PAT to grow by ~17%/19%/26% CAGR over FY24E-27E. 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 business to be able to generate revenues by FY27). Based on the above 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) Competitive intensity Increasing.

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)
FY24	31,776	3,515	2,083	41.5	51.8	28.3	22.2	29.5
FY25E	37,085	4,317	2,703	56.9	43.8	29.8	25.3	27.5
FY26E	43,241	5,123	3,641	76.6	32.5	30.2	27.4	22.6
FY27E	50,418	5,960	4,211	88.6	28.1	26.7	25.3	18.8

Source: Company, Axis Securities Research

Profit & Loss (Rs Cr)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Net revenues	**31,776**	**37,085**	**43,241**	**50,418**
Operating expenses	28,261	32,767	38,117	44,459
EBIDTA	**3,515**	**4,317**	**5,123**	**5,960**
EBIDTA margin (%)	**11.1**	**11.6**	**11.8**	**11.8**
Other income	1	255	766	766
Interest	182	122	123	123
Depreciation	700	802	911	987
Profit Before Tax	2,781	3,648	4,855	5,615
Tax	698	945	1,214	1,404
Reported Net Profit	**2,083**	**2,703**	**3,641**	**4,211**
Net Margin (%)	6.6	7.3	8.4	8.4
Adjusted Net Profit	**1,973**	**2,703**	**3,641**	**4,211**

Source: Company, Axis Securities Research

Balance Sheet (Rs Cr)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Equity capital	48	48	48	48
Reserves & surplus	7,684	10,197	13,648	17,669
Shareholders funds	**7,731**	**10,244**	**13,695**	**17,716**
Total Loans	1,964	1,564	1,164	764
Deferred tax liability	219	219	219	219
Total Liabilities and Equity	**9,913**	**12,026**	**15,077**	**18,698**
Gross block	8,726	10,406	11,331	12,231
Depreciation	4,954	5,756	6,667	7,654
Net block	3,772	4,650	4,664	4,577
Capital WIP	930	250	225	225
Investments	6,828	7,628	8,228	8,828
Inventory	1,371	2,032	2,369	2,763
Debtors	1,302	1,829	2,132	2,486
Cash & Bank Bal	531	1,402	3,640	6,920
Loans & Advances	1,328	1,877	2,555	2,914
Current Assets	**4,532**	**7,139**	**10,697**	**15,084**
Sundry Creditors	5,112	6,604	7,700	8,979
Other Current Liability	349	349	349	349
Current Liability& Provisions	6,149	7,641	8,737	10,016
Net current assets	-1,617	-502	1,960	5,068
Total Assets	**9,913**	**12,026**	**15,077**	**18,698**

Source: Company, Axis Securities Research

Cash Flow (Rs Cr)

Y/E Mar	FY24	FY25E	FY26E	FY27E
EBIT	2,815	3,515	4,212	4,972
Other Income	1	255	766	766
Depreciation & Amortisation	700	802	911	987
Interest paid(-)	-182	-122	-123	-123
Tax paid(-)	-698	-945	-1,214	-1,404
Extra Ord Income	147	0	0	0
Operating Cash Flow	**2,783**	**3,505**	**4,552**	**5,198**
Change in Working Capital	1,137	-244	-223	172
Cash flow from Operations	**3,920**	**3,261**	**4,328**	**5,370**
Capex	-1,179	-1,000	-900	-900
Strategic Investment	-1,343	-800	-600	-600
Non Strategic Investment	7	0	0	0
Cash flow from Investing	**-2,515**	**-1,800**	**-1,500**	**-1,500**
Change in borrowing	-700	-400	-400	-400
Others	-238	0	0	0
Dividends paid(-)	-178	-190	-190	-190
Cashflow from Financial Activities	**-1,116**	**-590**	**-590**	**-590**
Change in Cash	289	871	2,238	3,280
Opening cash	242	531	1,402	3,640
Closing cash	531	1,402	3,640	6,920

Source: Company, Axis Securities Research

Ratio Analysis (%)

Key Ratios	FY24	FY25E	FY26E	FY27E
Revenue Growth	20.5	16.7	16.6	16.6
EBITDA Margin	11.1	11.6	11.8	11.8
Net Profit Margin	6.2	7.3	8.4	8.4
ROCE (%)	22.2	25.3	27.4	25.3
ROE (%)	28.3	29.8	30.2	26.7
EPS(Rs)	41.5	56.9	76.6	88.6
P/E (x)	51.8	43.8	32.5	28.1
P/ BV (x)	13.2	11.6	8.7	6.7
EV/ EBITDA (x)	29.5	27.5	22.6	18.8
Fixed Assets Turnover Ratio (x)	8.4	8.0	9.3	11.0
Debt / Equity (x)	0.3	0.2	0.1	0.0
EV/ Sales (x)	3.3	3.2	2.7	2.2

Source: Company, Axis Securities Research

CHOLAMANDALAM INVESTMENT & 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.

Industry view

Equal weight

CMP
1,456

Target Price
1,710

Upside
17%

Key Rationale

- **AUM Growth to remain healthy**: CIFC started FY25 with a strong note delivering a healthy disbursement/AUM growth, as the impact of general assembly elections on disbursements was lower than anticipated. The management remains confident of growth momentum continuing over FY25 and has guided for Disbursement/AUM growth of 20-25%/25-30%. Going ahead, the focus will remain on building a granular book with Home Loans (HL), LAP and newer businesses seeing better growth vs Vehicle Finance (VF). The portfolio mix is likely to shift to VF and non-VF segments contributing equally. The unsecured portfolio will be capped at 8%.
- **NIMs to improve:** The management expects margins to improve in FY25/26E led by yield improvement in the VF book and an improved product mix. Additionally, NIMs should find support from the higher incremental disbursement yield which should start flowing in gradually. CIFC's bank borrowings are linked to PSL and are bench-marked against T-bills. For the public sector bank borrowings, which are primarily linked to MCLR continue to witness marginal increases in CoF. However, CoF going ahead is likely to stabilise at current levels. CIFC continues to invest in new businesses, and the management expects benefits to accrue over the next couple of years.
- **Eyeing pre-tax RoTA of 4% over the next 5 years:** In addition to improved NIMs, CIFC expects the cost ratios in the HL business are expected to improve. Improved efficiency and lower Opex in the newer businesses should drive Cost ratio moderation over the medium term. Backed by expectations of stable asset quality across segments, credit costs are likely to be capped at 1-1.2% on a sustainable basis. Thus, the management has guided for near-term pre-tax RoA of 3.5% and with the aforementioned levers playing out CIFC aspires to improve pre-tax RoA to 4% over the next 5 years.
- **Outlook & Valuation:** Given a strong start to FY25, the company remains well-positioned to sustain its growth momentum over FY25. With contributions from the non-VF businesses, we expect CIFC to deliver a strong ~26% CAGR AUM growth over FY25-27E Backed by expectations on NIM improvement, moderating cost ratios and stable credit costs, CIFC is likely to deliver a strong earnings growth of ~30% CAGR over FY25-27E. RoA/RoE is expected to range between 2.6-2.7%/21-22% over the same period.
- **Key risks:** a) Moderation in growth momentum, b) Inability to scale up new products and c) Asset quality concerns cropping out

Key Financials (Standalone)

Y/E Mar	NII (Rs Cr)	PPOP (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY24	8,383	5,904	3,423	40,7	192.6	7.6	2.5	2.3
FY25E	11,482	8,250	4,643	55.3	239.7	6.1	2.6	2.0
FY26E	14,718	10,648	5,914	70.4	296.7	4.9	2.6	1.9
FY27E	18,354	13,441	7,501	89.3	365.2	4.0	2.7	1.9

Source: Company, Axis Securities.

Profit & Loss (Rs Cr)

Y/E MAR	FY24	FY25E	FY26E	FY27E
Net Interest Income	**8,383**	**11,482**	**14,718**	**18,354**
Other Income	1,603	2,039	2,340	2,731
Total Income	**9,986**	**13,521**	**17,059**	**21,084**
Total Operating Exp.	4,082	5,271	6,410	7,643
PPOP	**5,904**	**8,250**	**10,648**	**13,441**
Provisions & Contingencies	1,322	1,997	2,684	3,340
PBT	**4,582**	**6,253**	**7,964**	**10,102**
Provision for Tax	1,159	1,610	2,050	2,601
PAT	**3,423**	**4,643**	**5,914**	**7,501**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E MAR	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS				
Share capital	168	168	168	168
Reserves and Surplus	19,388	23,683	29,153	36,092
Shareholders' funds	**19,557**	**23,851**	**29,322**	**36,260**
Borrowings	**1,34,474**	**1,77,445**	**2,19,700**	**2,72,327**
Other Liabilities, provisions	2,421	3,163	3,914	4,850
Total liabilities	**1,56,451**	**2,04,460**	**2,52,935**	**3,13,437**
APPLICATION OF FUNDS	4,320	6,055	7,490	9,282
Cash & Bank Balance	4,100	8,221	7,641	9,468
Investments	1,44,424	1,85,472	2,31,975	2,87,462
Advances	3,606	4,713	5,830	7,225
Fixed Assets & Other Assets	**1,56,451**	**2,04,460**	**2,52,935**	**3,13,437**
Total assets	168	168	168	168

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY24	FY25E	FY26E	FY27E
VALUATION RATIOS				
EPS	40.7	55.3	70.4	89.3
Earnings Growth (%)	*25.6*	*35.6*	*27.4*	*26.8*
BVPS	232.7	283.8	348.9	431.5
Adj. BVPS	192.6	239.7	296.7	365.2
ROAA (%)	2.5	2.6	2.6	2.7
ROAE (%)	20.1	21.4	22.3	22.9
P/E (x)	35.2	25.9	20.3	16.0
P/ABV (x)	7.6	6.1	4.8	4.0
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	FY24	FY25E	FY26E	FY27E
Loan Growth (%)	36.7	28.7	25.1	23.9
Borrowings Growth (%)	38.1	32.0	23.8	24.0
Equity/Assets (%)	12.5	11.7	11.6	11.6
Equity/Loans (%)	13.5	12.9	12.6	12.6
Total Capital Adequacy Ratio (CAR)	18.6	18.1	17.1	16.5
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
1,753

Target Price
1,930

Upside
10%

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
1,569

Target Price
1,730

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
2,240

Target Price
2,500

Upside
12%

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

DALMIA BHARAT LIMITED – DEMAND TAILWINDS AND STRONG MARKET POSITION TO DRIVE GROWTH

Dalmia Bharat Limited (DBL), established in 1939, has emerged as one of the fastest-growing players in the Indian cement sector. It holds a 5% share of India's cement capacity in its operational areas. DBL boasts a total cement production capacity of 46.6 million tonnes per annum (mtpa), a clinker capacity of 22.6 mtpa, and a power generation capacity of 397 MW, including waste heat recovery systems (WHRS) and solar power. The company's operations extend across 16 locations in India, encompassing 10 integrated plants and 6 grinding units, supported by a robust distribution network of 49,000 channel partners nationwide.

Industry view

Overweight

CMP
1,891

Target Price
2,120

Upside
12%

Key Rationale

- **Capacity expansion to sustain growth:** The company's total cement grinding capacity is projected to increase to 49.5 mtpa in FY25E from the current 46.6 mtpa, which will support its volume growth. With the current capacity utilization at 66%, there is considerable potential for the company to enhance its capacity utilization. Additionally, the ramp-up of recently commercialized new capacities is expected to provide a significant growth impetus. We anticipate DBL will achieve a revenue CAGR of 8% over FY24-FY26E, driven by a volume CAGR of 9% during the same period.
- **Efficient operations with a focus on reducing costs further:** DBL's integrated operations, superior cement/clinker ratio, introduction of Portland composite cement, digitization of its sales channels, and effective resource utilization make it one of the lowest-cost cement producers in India. Additionally, various cost optimization initiatives at its operating facilities are expected to enhance margins going forward. The company also plans to increase its share of green energy in its overall power mix to 35-45%, which will further reduce power and fuel costs. Supported by these cost optimization measures and improved price realization, we expect DBL's EBITDA margin to improve to 19% from the current 18% by FY26E.
- **Higher consolidation to benefit large players:** Between 2013 and 2024, the market share of large players in the cement sector has risen from 46% to 55%. With the accelerating pace of consolidation and capacity expansion among top players, their overall market share is expected to increase further. This trend is likely to positively influence cement pricing, economies of scale, and supply chain efficiency. As one of the top five players in the country, the company is well-positioned to benefit from this consolidation trend in the medium to long term.
- Cement demand in its operating regions is anticipated to remain robust, supporting the company's projected double-digit growth going forward.
- **Outlook:** During Q1FY25, the company's operating cost for cement production decreased by 4% QoQ and 7% YoY to ₹3,989 per tonne, positively impacting its EBITDA margin. Blended realization remained stable on a QoQ basis, with a favourable product mix and rationalization of discounts mitigating any further decline in prices. Cement demand is anticipated to stay strong, driven by infrastructure development. The industry is expected to grow at 1.2 times the GDP growth, which is projected to be 6.5%-7% over the next several years.
- Given the company's superior positioning in key markets in the East and South, exposure to the West region, the government's focus on infrastructure and affordable housing, increasing real estate demand, new capacity ramp-up, and ongoing cost optimization measures, DBL is expected to deliver stable performance. The company is projected to grow its Volume/Revenue/EBITDA/APAT at a CAGR of 9%/8%/11%/21% over FY24-FY26E.
- **Valuation**: The stock is currently trading at 13x and 11x FY25E/FY26E EV/EBITDA and EV/tonne of $88 and $85. Valuation remains attractive. We maintain our BUY rating on the stock with a TP of Rs 2,120/share.
- **Key risks:** a) Lower demand and contraction in Cement prices impacting realization; b) Further rise in input prices hampering margin profile.

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	13,540	2,316	1,035	55	36	16	7%	6
FY24	14,680	2,628	827	44	41	13	5%	7
FY25E	15,477	2,655	913	43	43	13	5%	7
FY26E	17,253	3,260	1,216	65	28	11	7%	8

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Net sales	13,540	14,680	15,477	17,253
Other operating income	0	0	0	0
Total income	13,540	14,680	15,477	17,253
Raw Material	1,981	2,703	2,934	3,198
Power & Fuel	3,679	3,116	3,186	3,473
Freight & Forwarding	2,802	3,203	3,459	3,770
Employee benefit expenses	771	871	912	1,003
Other Expenses	1,991	2,159	2,331	2,548
EBITDA	**2,316**	**2,628**	**2,655**	**3,260**
Other income	138	326	276	293
PBIDT	2,454	2,954	2,932	3,554
Depreciation	1,305	1,498	1,340	1,545
Interest & Fin Chg.	234	386	383	362
E/o income / (Expense)	-	-	-	-
Pre-tax profit	915	1,070	1,209	1,647
Tax provision	242	216	277	412
RPAT	673	854	932	1,235
Minority Interests	44	27	19	19
Associates	554	-	-	-
APAT after EO item	**1,035**	**827**	**913**	**1,216**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Total assets	25,543	27,749	28,676	30,015
Net Block	16,467	17,855	19,312	20,354
CWIP	1,859	2,284	2,284	2,284
Investments	587	588	588	588
Wkg. cap. (excl cash)	881	738	777	869
Cash / Bank balance	285	582	432	510
Misc. Assets	5,464	5,702	5,283	5,409
Capital employed	25,543	27,749	28,676	30,015
Equity capital	37	38	38	38
Reserves	15,591	16,359	17,065	18,188
Minority Interests	116	110	129	148
Borrowings	3,742	4,630	4,750	4,821
Def tax Liabilities	1,634	1,795	1,795	1,795
Other Liabilities and Provision	4,423	4,817	4,899	5,025

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Profit before tax	1,321	1,069	1,096	1,647
Depriciation	1,305	1,498	1,340	1,545
Interest Expenses	231	386	383	362
Non operating/ EO item	-95	-304	-276	-293
Change in W/C	-77	46	-39	-92
Income Tax	-14	-54	-277	-412
Operating Cash Flow	2,252	2,635	2,226	2,757
Capital Expenditure	-2,709	-2,827	-3,095	-2,588
Investments	329	-570	500	-
Others	87	47	276	293
Investing Cash Flow	-2,326	-2,750	-2,319	-2,295
Borrowings	-677	1,099	420	71
Interest Expenses	-297	-439	-383	-362
Dividend paid	-169	-169	-94	-94
Others	-33	-13	-	-
Financing Cash Flow	-118	48	-6	-38
Change in Cash	94	107	-150	78
Opening Cash	140	234	341	191
Closing Cash	234	341	191	269

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY23	FY24E	FY25E	FY26E
Operational Ratios				
Sales growth	20%	8%	5%	11%
OPM	17%	18%	17%	19%
Op. profit growth	-5%	13%	1%	23%
COGS / Net sales	62%	61%	62%	61%
Overheads/Net sales	20%	21%	21%	21%
Depreciation / G. block	5.3%	5.6%	4.6%	4.7%
Effective interest rate	6.3%	8.3%	8.1%	7.5%
Efficiency Ratios				
Total Asset turnover (x)	0.53	0.53	0.54	0.57
Sales/Gross block (x)	0.55	0.54	0.51	0.53
Sales/Net block(x)	0.82	0.82	0.80	0.85
Working capital/Sales (x)	0.20	0.21	0.14	0.13
Valuation Ratios				
P/BV (x)	2.34	2.07	1.98	1.86
PER (x)	36	41	43	28
EV/Ebitda (x)	16.2	13.1	13.3	10.8
EV/Sales (x)	2.8	2.3	2.3	2.0
EV/Tonne $ (x)	119	94	87	87

Source: Company, Axis Research

FEDERAL BANK – BEST PLACED AMONGST MID-SIZED PEERS; ROA OF 1.4% BY FY27E

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
195

Target Price
230

Upside
18%

Key Rationale

- **Focus on improving deposit market share:** FB's strong deposit growth is attributed to the resurgence of NRE deposits after a decline over the past two quarters. Key factors driving healthy deposit accretion include branch network expansion, improved CA propositions, new product launches, digital initiatives, and adjustments to scorecards for on-ground staff. The bank remains focused on granular retail deposits, deliberately avoiding bulk deposits. Management is optimistic that this deposit growth momentum will persist, contributing to an increase in market share.
- **Growth momentum to sustain:** In Q1FY25, growth was broad-based, and FB is confident of achieving credit growth of 18-20% for FY25, aligning with deposit growth. The bank is working closely with the regulator to lift restrictions on co-branded credit cards and anticipates a resolution by Q2FY25 or early Q3FY25. Meanwhile, FB continues to pursue organic growth in credit cards and adopts a conservative approach by not aggressively pursuing growth in personal loans.
- **NIMs to increase gradually as share of high-yielding businesses improves:** Contrary to FB's management's earlier expectations of a 2-3bps margin improvement in FY25, the bank's NIMs are likely to remain stable at current levels over the next few quarters. While the bank remains committed to improving the share of higher-yielding segments in its portfolio, FB will continue to exercise caution due to the higher risk involved. Although NII growth is expected to align with credit growth, NIMs are anticipated to remain steady at 3.2% (±5bps) over FY25-27E.
- **Opex ratio to gravitate to 50% in the coming quarters:** FB expects the C-I Ratio to trend downwards towards 50% from ~53% currently, led by strong income growth, with a phased improvement of ~100bps every 2-3 quarters. Improving productivity and efficiency should drive the Opex ratio improvement even as the bank continues to invest in tech upgrades, distribution and manpower. The newer businesses have not scaled up enough and continue to have a higher C-I Ratio.
- **Outlook & Valuation:** While we believe FB remains well positioned to deliver a sustainable RoA of 1.3%, improving NIMs backed by shifting portfolio mix towards higher-yielding products would be a key enabler for the bank to deliver RoA of 1.4% and would drive the next leg of stock re-rating. We expect FB to deliver RoA/RoE of 1.3-1.4%/14-16% over FY25-27E supported by steady NIMs, gradually improving the Opex ratio and stable credit costs (~30-35bps).
- **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 (%)
FY24	8,293	5,174	3,721	15.3	114.3	1.7	1.3	0.6
FY25E	9,809	6,497	4,338	17.8	129.0	1.5	1.3	0.6
FY26E	11,662	8,029	5,285	21.7	146.7	1.3	1.3	0.5
FY27E	13,869	9,871	6,413	26.3	167.4	1.2	1.4	0.5

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E MAR	FY24	FY25E	FY26E	FY27E
Net Interest Income	**8,293**	**9,809**	**11,662**	**13,869**
Other Income	3,079	3,816	4,635	5,592
Total Income	**11,373**	**13,625**	**16,297**	**19,461**
Total Operating Exp	6,198	7,128	8,268	9,590
PPOP	**5,174**	**6,497**	**8,029**	**9,871**
Provisions & Contingencies	196	693	958	1,290
PBT	**4,978**	**5,804**	**7,071**	**8,581**
Provision for Tax	1,258	1,466	1,787	2,168
PAT	**3,721**	**4,338**	**5,285**	**6,413**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E MAR	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS				
Share Capital	487	487	487	487
Reserves	28,607	32,325	36,802	42,170
Shareholder's Funds	29,094	32,812	37,289	42,657
Total Deposits	2,52,534	3,00,326	3,55,557	4,18,849
Borrowings	18,026	24,127	29,607	35,519
Other Liabilities & Provisions	8,657	10,700	12,652	14,886
Total Liabilities	**3,08,312**	**3,67,965**	**4,35,105**	**5,11,910**
APPLICATION OF FUNDS				
Cash & Bank Balance	18,963	22,260	26,354	31,045
Investments	60,860	73,578	87,110	1,02,616
Advances	2,09,403	2,49,348	2,94,706	3,46,560
Fixed Assets & Other Assets	19,086	22,779	26,935	31,690
Total Assets	**3,08,312**	**3,67,965**	**4,35,105**	**5,11,910**

Source: Company, Axis Research

Key Ratios (%)

Y/E MAR	FY24	FY25E	FY26E	FY27E
VALUATION RATIOS				
EPS	15.3	17.8	21.7	26.3
Earnings Growth (%)	*7.4*	*16.6*	*21.8*	*21.4*
BVPS	119.5	134.6	153.0	175.4
Adj. BVPS	114.3	128.9	146.6	167.7
ROAA (%)	1.3	1.3	1.3	1.4
ROAE (%)	14.7	14.2	15.1	16.0
P/E (x)	12.8	10.9	9.0	7.4
P/ABV (x)	1.7	1.5	1.4	1.2
DPS	2.0	2.7	3.3	4.0
Dividend Yield (%)	1.0	1.3	1.6	2.0
PROFITABILITY				
NIM (%)	3.2	3.2	3.2	3.2
Cost-Income Ratio	54.5	52.3	50.7	49.3

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY24	FY25E	FY26E	FY27E
Loan Growth (%)	20.0	19.1	18.2	17.6
Deposit Growth (%)	18.3	18.9	18.4	17.8
C/D Ratio (%)	82.9	83.0	82.9	82.7
CAR	16.1	15.7	15.1	14.7
CAR Tier I	14.6	14.2	13.7	13.3
ASSET QUALITY				
Gross NPLs (%)	2.2	2.0	1.9	2.0
Net NPLs (%)	0.6	0.6	0.5	0.5
Coverage Ratio (%)	72.3	72.0	72.0	72.0
ROAA Tree				
Net Interest Income	2.9	2.9	2.9	2.9
Non-Interest Income	1.1	1.1	1.2	1.2
Operating Cost	2.2	2.1	2.1	2.0
Provisions	0.1	0.2	0.2	0.3
Tax	0.4	0.4	0.4	0.4
ROAA	1.3	1.3	1.3	1.4
Leverage (x)	11.2	10.9	11.5	11.8
ROAE	14.7	14.0	15.1	16.0

Source: Company, Axis Research

PRESTIGE ESTATES PROJECTS LTD. – GROWTH DRIVEN BY BUSINESS MODEL

Prestige Group, founded in 1986, stands as one of India's leading and most prominent real estate developers. Originating in Bangalore, where it holds a significant market share, the company has expanded its presence across several metro cities. The group has made a mark across all asset classes and with over 38 years of experience, it has completed more than 300 projects, delivering over 180 Mn sq. ft.

Industry view

Equal Weight

CMP
1,813

Target Price
2,195

Upside
21%

Key Rationale

- **Diversified Business Model:** In its residential business, Prestige holds a dominant share in the southern markets, particularly in Bengaluru, and is recognized as a major player in the MMR and NCR regions. The company plans to upscale its presence in the Pune and Hyderabad markets soon. The company is aggressively increasing its annuity portfolio with an overall Capex of Rs ~15,000 Cr, among commercial, retail, and hospitality. This strategy aims to secure cash flow in the future when the real estate cycle might not be favourable. By diversifying its portfolio, Prestige Group has mitigated future risks and is better positioned to emerge strong during challenging times.
- **Execution Supremacy –** Prestige has recorded its best-ever pre-sales of ~Rs 21,000 Cr and the highest-ever collections of Rs 11,950 Cr in FY24. The company has delivered 25 Mn sq. ft in FY24 with over 300 projects completed. In FY24, it has also managed to achieve 75% of its sales from newly launched projects at ~Rs 15,700 Cr, demonstrating its execution capability and excellence in delivering large projects. The Prestige City Hyderabad achieved sales worth Rs 3,700 Cr within 4 months of its launch. On average, the company has sold 10,068 units, which means an average of 28 units per day in FY24.
- **Robust Order Book & Pipeline of Upcoming Projects:** Currently, Prestige Estates Projects Ltd (PEPL) has a residential portfolio with 127 Mn sq. ft completed across 150 projects. Its ongoing portfolio consists of 66 Mn sq. ft distributed across 39 projects. These ongoing and completed projects are set to yield ~Rs 12,350 Cr in free cash flow. Upcoming projects include “The Prestige Southern Star” with an 8.50 Mn sq. ft deliverable, “TPC Indirapuram” with a 10.59 Mn sq. ft deliverable, and “Prestige Forest Hills in Mulund” with a 4.30 Mn sq. ft deliverable.
- The total upcoming projects have 73 Mn sq. ft deliverable, which is almost 65% of completed projects. This upcoming portfolio is set to yield Rs 27,340 Cr in free cash flow. The company’s projected launch for FY25 stands at ~Rs 59,000 Cr in revenues. In Q1FY25, the company launched 2 projects in Bengaluru covering ~2 Mn sq. ft. This showcases Prestige’s vision to scale and capitalize on the real estate up-cycle.
- **Strengthening Annuity Stream**: PEPL is on track to incur a Capex of Rs 10,000 Cr for its commercial annuity projects. These projects will start generating around Rs 3,300 Cr in cash flows by FY28. The upcoming commercial portfolio comprises 8 Mn sq. ft across 5 projects. For its retail annuity portfolio, the company plans to spend Rs 1,600 Cr in Capex, which will yield ~Rs 580 Cr in cash flows from FY28. In the hospitality segment, PEPL will reach 4,454 keys with a Capex of Rs 1,900 Cr and anticipates healthy annual revenue of Rs 2,000 Cr. This strong set of annual cash flows will make the company resistant to future risks and help lower its cost of debt. The company aims to maintain a debt-to-equity ratio of 0.9, with the current level at 0.66.
- **Outlook & Valuation**: We maintain a BUY recommendation on Prestige Estates. Our recommendation is supported by a) Diversified Business Model, b) Execution Supremacy, c) Robust Order book, and d) Strengthening annuity streams.

Key Financials (Consolidated)

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (X)	ROE (%)	Debt/Equity (%)	EV/EBITDA (X)
FY24	7,877	2,498	1,374	34.3	6.2	12.2	108.1	7.2
FY25E	11,765	2,651	713	17.8	11.9	5.7	98.2	6.1
FY26E	16,071	3,435	1,205	30.1	7	8.9	90	4.7

Source: Company, Axis Securities

Profit & Los (Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E
Net sales	7,877	11,764	16,070
Growth, %	(0.5)	4.9	3.7
Other operating income	-	-	-
Total income	7,877	11,764	16,070
Raw material expenses	(2,692)	(5,937)	(8,296)
Employee expenses	(746)	(823)	(1,125)
Other Operating expenses	(1,939)	(2,353)	(3,214)
EBITDA (Core)	**2,498**	**2,650**	**3,435**
Growth, %	2.0	0.6	3.0
Margin, %	3.2	2.3	2.1
Depreciation	(716)	(822)	(1,024)
EBIT	**1,781**	**1,828**	**2,410**
Growth, %	2.4	0.3	3.2
Margin, %	2.3	1.6	1.5
Interest paid	(1,219)	(1,031)	(1,031)
Other Income	1,548	313	376
Share of profits from associates	11.3	16.9	23.1
Pre-tax profit	**2,122**	**1,127**	**1,778**
Tax provided	(493)	(259)	(410)
Profit after tax	1,628	867	1,368
Growth, %	(254)	(155)	(163)

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

Balance Sheet (Rs Cr)

As of 31st Mar, Rs Cr	FY24	FY25E	FY26E
Cash & bank	2,558	4,643	4,825
Loans & advances	2,363	2,613	2,863
Other current assets	6,258	6,158	6,058
Investments	1,279	1,279	1,279
Gross fixed assets	11,945	15,697	19,165
Additions:	2,605	3,752	3,469
Less: Depreciation	3,329	4,158	5,204
Net fixed assets	8,616	11,539	13,961
Other Current Assets	6,258	6,158	6,058
Total assets	**23,808**	**25,063**	**26,304**
	-	-	-
Current liabilities	15,855	15,855	15,855
Provisions	739	739	739
Loan Funds	11,462	11,462	11,462
Paid-up capital	401	401	401
Reserves & surplus	10,888	11,989	13,069
Non Controlling Interest	512	666	828
Total equity & liabilities	**23,808**	**25,063**	**26,304**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Pre-tax profit	2,122	1,057	1,685
Depreciation	717	829	1,046
Changes in working capital	**-838**	**3,753**	**1,363**
Total tax paid	-416	-247	-394
Cash flow from operating activities	**1,297**	**6,106**	**4,345**
Change in Fixed Assets	-1,907	-3,752	-3,469
Interest/Dividend Received	275	318	386
Other investing activities	-	17	23
Cash flow from investing activities	**-2,548**	**-3,417**	**-3,060**
Equity raised/(repaid)	-	500	-
Proceeds from Borrowings	3,271	-	-
Dividend (incl. tax)	-60	-72	-72
Other financing activities	-26	-	-
Cash flow from financing activities	**1,969**	**-604**	**-1,104**
Net cash	718	2,085	181
Closing cash balance	**2,558**	**3,809**	**3,991**

Source: Company, Axis Research

Ratio Analysis (%)

Y/E Mar	FY24	FY25E	FY26E
EPS (INR)	34.3	16.8	28.7
Growth, %	116.8	(51.0)	71.2
Book NAV/share (INR)	281.6	309.0	336.0
FDEPS (INR)	34.3	16.8	28.7
CEPS (INR)	52.1	37.5	54.8
CFPS (INR)	(42.3)	126.6	82.6
DPS (INR)	(1.5)	(1.5)	(1.5)
Return ratios			
Return on assets (%)	6.7	3.2	3.1
Return on equity (%)	12.2	5.4	8.6
Return on capital employed (%)	13.4	7.6	9.1
Turnover ratios			
Asset turnover (x)	0.5	0.6	0.8
Sales/Total assets (x)	0.2	0.2	0.2
Sales/Net FA (x)	0.8	1.0	1.1
Working capital/Sales (x)	1.0	0.4	0.2
Receivable days	-	-	-
Inventory days	1,119.3	1,161.0	1,199.2
Payable days	1,075.9	639.3	461.4
Working capital days	373.8	135.1	67.7
Liquidity ratios			
Current ratio (x)	1.4	1.2	1.1
Quick ratio (x)	0.5	0.3	0.2
Interest cover (x)	1.5	1.7	2.3
Net debt/Equity (%)	85.4	61.0	54.8
Valuation			
PER (x)	6.2	12.6	7.3
PEG (x) - y-o-y growth	0.1	(0.2)	0.1
Price/Book (x)	0.7	0.7	0.6
EV/Net sales (x)	2.3	1.4	1.0
EV/EBITDA (x)	7.2	6.2	4.7
EV/EBIT (x)	10.2	9.0	6.8

Source: Company, Axis Research

SANSERA ENGINEERING LTD- STRONG ORDER BOOKS; CAPEX & DIVERSIFIED PRODUCT SEGMENT TO DRIVE GROWTH

Sansera Engineering (Sansera) incorporated in 1981 and headquartered in Bengaluru, is a technology-driven manufacturer of complex and critical high-precision iron and aluminium components for automotive and non-automotive sectors. It is the largest supplier of Connecting Rods, Rocker Arms and Gear Shifter Forks for the 2W segment and the largest supplier of Connecting Rods and Rocker arms for LMV in India. With a strong presence in the high precision IC engine components, it has been able to extend its design and engineering capabilities to cater to fast-growing areas like EV, Defence, Aerospace etc. It has 17 integrated manufacturing facilities (16 in India and 1 in Sweden) and has evolved organically by supplying premium quality components to Auto ICE, Tech Agnostic, xEV and Non-Auto OEMs globally.

Industry view

Over Weight

CMP
1,500

Target Price
1,875

Upside
25%

Key Rationale

- **New Orders and Customer Additions:** Sansera boasts a healthy order book with annual peak revenues of Rs. 1,685 Cr, with 49% of orders coming from the Non-Auto and Auto Tech Agnostic & EV space (and 63% being international). The company has also added Saab and Triumph Aerospace to its customer list and is receiving heightened interest in ultra-high precision components used in semiconductor machining/ manufacturing.
- **EBITDA Margins:** With a strong order book, the management is confident of achieving 20% margins in the long term. We conservatively expect the company to deliver 17-18% margins in FY25/26E and to post EBITDA/PAT growth of ~20%/23% CAGR over FY24-26E. This growth is attributed to the sales mix shifting towards non-Auto ICE components, fungible production lines, growth in the exports business, and recovery in Sweden operations driven by improved operational efficiency
- **Annual Capex to Drive Growth:** The company incurred a capex of Rs. 340 Cr in FY24, largely towards the 4,000-ton press at Sansera Plant 11, Bidadi. With a strong order book, the planned capex for FY25 is approximately Rs. 450 Cr, with 40-45% allocated to Tech Agnostic EV and Non-Auto products. Sansera has entered into a MoU with the Karnataka government to acquire 55 acres of land for greenfield expansion
- **Capacity Expansion:** The commissioning of a 4,000-ton press is expected to begin and ramp up in H2FY25. This will support Sansera's move into the higher engine non-automotive category (18 to 20-litre engines), with components catering to customers such as Cummins, JTV, Kohler, Lieber, and CNH. During the quarter, the company signed an MoU with the Government of Karnataka for the acquisition of 55 acres of industrial land in Harohalli, Ramanagara, Bengaluru. This strategic move is part of Sansera's long-term growth and expansion plans for both automotive and non-automotive sectors
- **Valuation & Outlook:** In light of attributes such as a) Higher sales mix in Non-Auto ICE components, b) Higher International business (exports), c) Focused approach on improving margin trends, d) The company's capability to generate strong operating cash flows, and e) Capacity expansion plans, we expect Revenue, EBITDA, and PAT to grow at CAGRs of 17%, 20% and 22% respectively over FY24-26E
- **Key risks:** a) Macro Economic Uncertainty, b) Business skewed towards ICE vehicles.

Key Financials (Standalone)

Y/E Mar	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	ROCE (%)	ROE (%)	EV/EBIDTA (x)
FY23A	2,346	385	148	27.7	26.9	13.93%	13.34%	12.20
FY24A	2,811	480	188	34.8	29.2	16.05%	14.77%	13.18
FY25E	3,318	584	227	41.8	35.9	17.09%	15.51%	15.20
FY26E	3,850	704	318	58.4	25.7	19.98%	18.44%	12.42

Source: Company, Axis Securities Research

Profit & Loss (Rs Cr)

Y/E Mar	FY23A	FY24A	FY25E	FY26E
Net sales	2,346	2,811	3,318	3,850
Raw materials	1,017	1,218	1,410	1,632
Staff costs	318	380	448	512
Other expenses	626	734	876	1,001
Total expenses	196	233	273	315
EBITDA	385	480	584	704
Depreciation	130	149	195	217
EBIT	255	330	388	487
Other income	10	2	3	3
Interest expense	62	77	80	62
Share of Profit/loss from associates	-	1	-	-
Exceptional (expenses)/income	-	-	-	-
Profit before tax	203	256	311	429
Tax expense	55	69	84	112
Adjusted PAT	-	-	-	-
Reported PAT	148	188	227	318
No. of shares	52.7	53.8	53.8	53.8
Reported EPS (Rs/share)	27.7	34.8	41.8	58.4

Source: Company, Axis Securities Research

Balance Sheet (Rs Cr)

Y/E Mar	FY23A	FY24A	FY25E	FY26E
Equity Share Capital	11	11	11	11
Reserves and Surplus	1157	1337	1546	1844
Non-Controlling Interest	14	16	18	21
Total Shareholders Funds	**1182**	**1363**	**1575**	**1876**
NON-CURRENT LIABILITIES				
Long Term Borrowings	263	252	172	52
Long Term Finance/Lease Liabilities	82	80	80	80
Long Term Provisions	3	3	3	3
Defered Tax Liabilities	69	69	69	69
Other LT liabilities	49	50	50	50
Total Non-Current Liabilities	**466**	**453**	**373**	**253**
CURRENT LIABILITIES				
Short Term Borrowings	449	550	550	550
Short Term Lease Liabilities	10	10	10	10
Trade Payables	293	356	436	506
Other Current Liabilities	64	61	61	61
Total Current Liabilities	**815**	**977**	**1057**	**1127**
Total Capital And Liabilities	**2463**	**2793**	**3005**	**3256**
ASSETS				
NON-CURRENT ASSETS				
Net Tangible Assets	1269	1463	1507	1530
Financial Assets	39	71	71	71
Other Non-Current Assets	40	54	54	54
Total Non-Current Assets	**1548**	**1793**	**1898**	**1981**
CURRENT ASSETS				
Inventories	371	419	491	570
Current Investments	1	1	1	1
Trade Receivables	433	462	527	612
Cash And Cash Equivalents	62	63	33	38
Other CurrentAssets	48	54	54	54
Total Current Assets	**914**	**1000**	**1107**	**1275**
TOTAL ASSETS	**2463**	**2793**	**3005**	**3256**

Source: Company, Axis Securities Research

Cash Flow (Rs Cr)

Y/E Mar	FY23A	FY24A	FY25E	FY26E
Cash flows from operating activities				
Profit before tax for the year	203	256	311	429
Finance costs	62	77	80	62
Depreciation and amortisation	130	149	195	217
Others	-56	-69	-84	-112
Cash Flow From operation before changes in WC	339	414	503	596
Change in operating assets and liabilities	-82	-40	-56	-93
Net cash generated by operating activities	**256**	**374**	**447**	**503**
Cash flows from investing activities				
Capex	-242	-339	-300	-300
Investments	-1	-31	-	-
Others	2	1	-	-
Net cash (used in)/generated by investing activities	**-241**	**-368**	**-300**	**-300**
Cash flows from financing activities				
Change in borrowing	60	80	-80	-120
Interest on borrowings	-56	-74	-80	-62
Other	-	-	-	-
Dividends paid(-)	-11	-13	-16	-16
Net cash used in financing activities	**-6**	**-8**	**-176**	**-198**
Net increase/ (decrease) in cash and cash equivalents (A+B+C)	**94**	**-20**	**-298**	**52**
CCE at the beginning of the year	38	50	49	19
Effect of exchange differences on translation of foreign currency cash and cash equivalents	2	1	-	-
CCE at the end of the year	**496**	**486**	**189**	**241**

Source: Axis Securities Research

Ratio Analysis (%)

Key Ratios	FY23A	FY24A	FY25E	FY26E
Valuation Ratios				
PER	26.9	29.2	35.9	25.7
P/BV (x)	3.3	4.0	5.1	4.3
EV/Ebitda (x)	12.2	13.2	15.2	12.4
EV/Sales (x)	2.00	2.25	2.67	2.27
Dividend Yield %	0.33%	0.29%	0.20%	0.20%
Return Ratios				
ROE	13.34%	14.77%	15.51%	18.44%
ROCE	13.93%	16.05%	17.09%	19.98%
ROIC	18.43%	21.20%	22.66%	25.99%
Leverage Ratios				
Debt / equity (x)	0.72	0.69	0.55	0.40
Net debt/ Equity (x)	0.63	0.61	0.49	0.35
Net debt/Ebitda (x)	1.93	1.72	1.33	0.93
Operational Ratios				
Sales growth (% YoY)	17.9%	19.8%	18.0%	16.0%
EBITDA growth (% YoY)	15.3%	24.7%	21.6%	20.7%
Net Profit growth (% YoY)	12.5%	26.4%	21.2%	39.7%
EBITDA Margin %	16.40%	17.07%	17.59%	18.30%
Net profit Margin %	6.32%	6.67%	6.85%	8.25%
Efficiency Ratios				
Total Asset turnover (x)	1.00	1.07	1.14	1.23
Sales/Net block(x)	1.98	2.06	2.23	2.54

Source: Axis Securities 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
851

Target Price
950

Upside
12%

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**	**5,590**	**6,596**
Other operating income	0	0	0	0
Total income	4,203	4,879	5,590	6,596
Cost of materials consumed	2,784	3,170	3,611	4,274
Civil construction cost	457	550	635	706
Contribution (%)	*22.9%*	*23.8%*	*24.0%*	*24.5%*
Other Expenses	365	455	526	627
Operating Profit	**597**	**704**	**817**	**989**
Other income	30	28	32	33
PBIDT	**627**	**732**	**850**	**1,022**
Depreciation	155	168	191	224
Interest & Fin Chg.	99	124	146	155
Pre-tax profit	**374**	**441**	**513**	**643**
Tax provision	99	112	128	161
PAT	274	329	385	482

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Total assets	**4,356**	**4,708**	**5,335**	**5,924**
Net Block	925	971	1180	1206
CWIP	107	111	111	111
Investments	1	1	1	1
Wkg. cap. (excl cash)	1128	1394	1643	2021
Cash / Bank balance	377	504	401	449
Other assets	1818	1726	1998	2135
Capital employed	**4,356**	**4,708**	**5,335**	**5,924**
Equity capital	38	38	38	38
Reserves	2302	2604	2959	3411
Minority Interests	0	0	0	0
Borrowings	516	576	576	576
Other Liabilities	1500	1490	1762	1899

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
PBT	374	441	513	643
Depreciation	155	168	191	224
Interest Expense	99	124	146	155
Changes in Working Capital	-323	-250	-249	-378
Others	-30	-26	-32	-33
Tax Paid	-92	-120	-128	-161
Net Cash from Operations	**183**	**337**	**441**	**450**
Capex	-218	-218	-400	-250
Others	32	25	32	33
Net Cash from Investing	**(186)**	**(193)**	**(368)**	**(217)**
Interest Expense	-96	-124	-146	-155
Others	53	19	-30	-30
Net Cash from Financing	**(43)**	**(105)**	**(176)**	**(185)**
Net Change in Cash	**(46)**	**38**	**(103)**	**48**
Opening cash	86	65	103	0
Closing cash	**40**	**103**	**0**	**48**

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	51	64
Book value per share (Rs)	309	349	396	456
DPS (Rs)	3.0	3.5	4.0	4.0

Source: Company, Axis Research

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