kotak Institutional Equities

# India Daily

**November 25, 2024**

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# Strategy

November 25, 2024

## Voting for continuity

**BJP's impressive victory in Maharashtra in the recent elections, following its win in Haryana in October 2024, is likely to result in continuity of the central government's development agenda, notwithstanding the loss in Jharkhand. We see (1) limited overall fiscal consolidation, (2) ramp-up of central government capex in 2HFY25 and (3) near-term sentiment boost for the market, even as valuations stay rich and fundamentals weakish.**

### BJP won a sweeping victory in Maharashtra but lost Jharkhand

BJP and its allies won the Maharashtra state elections by an impressive margin, winning 233 out of the 288 seats, significantly ahead of expectations, while losing Jharkhand to the JMM-INC alliance (see Exhibits 1-2). The BJP registered a remarkable turnaround in state elections in Haryana and Maharashtra, after a weak performance in the same states in the 2024 Lok Sabha elections. The strong electoral performance of BJP in Maharashtra after its recent success in Haryana state elections should provide a boost to the central government's legislative agenda and support policy continuity.

### Focus more on execution, instead of any new reforms or stimulus

We expect the central government to continue with its approach of incremental reforms, as the bulk of the heavy lifting has been done already (see Exhibit 3). The focus of the central government is likely to be on ramping up capex, which is running significantly behind FY2025BE targets (see Exhibit 4) and finish the plethora of ongoing projects. The strong electoral performance, coupled with the lack of any major state elections in the near term (see Exhibit 5), is likely to rule out any fiscal stimulus from the center. However, while central fiscal may continue to improve, an increasing shift toward populism in states may gradually weigh on India's consolidated fiscal deficit (see Exhibit 6).

### Short-term boost to market sentiment

We expect Indian equity markets to get a short-term boost in sentiment, which may arrest the ongoing correction in the broader markets (see Exhibits 7-10). As such, retail flows, which have been the bedrock of post-Covid Indian markets, may continue to remain supportive (see Exhibits 11-12). It will be interesting to see if market activity was to see any meaningful recovery after the recent moderation in trading activity (see Exhibits 13-15).

### Valuations remain rich, fundamentals weak

We note that the valuations of the broader Indian market continue to remain at elevated levels, notwithstanding the recent derating in headline indices (see Exhibits 16-23). While aggregate earnings growth of the Nifty-50 Index remains decent, adjusted for downstream oil companies, we do not rule out further cuts to our earnings estimates (see Exhibits 24-26), given (1) the recent growth challenges, (2) weakening consumption profile, (3) elevated inflation and (4) continued disruption risks. As such, markets may continue to be tested in the coming weeks, post the likely sentiment-related near-term bump.

**Key estimates summary**

| | 2024 | 2025E | 2026E |
|---|---|---|---|
| **Nifty estimates** | | | |
| Earnings growth (%) | 20.3 | 4.8 | 16.4 |
| Nifty EPS (Rs) | 977 | 1,034 | 1,206 |
| Nifty P/E (X) | 24.5 | 23.1 | 19.8 |
| **Macro data** | | | |
| Real GDP (%) | 8.2 | 6.7 | 6.5 |
| Avg CPI inflation (%) | 5.4 | 4.9 | 4.2 |

Source: CEIC, Kotak Institutional Equities estimates

**Quick Numbers**

NDA alliance won 233 out of the 288 seats in Maharashtra and INC alliance won 56 out of the 81 seats in Jharkhand in the recent state elections

6MFY25 central government capex down 15% on a yoy basis; consolidated fiscal deficit at 7.3% in FY2025E

Nifty-50 Index is trading at 20.9X 1-year forward 'EPS'

Full sector coverage on KINSITE

Sanjeev Prasad | Anindya Bhowmik | Sunita Baldawa

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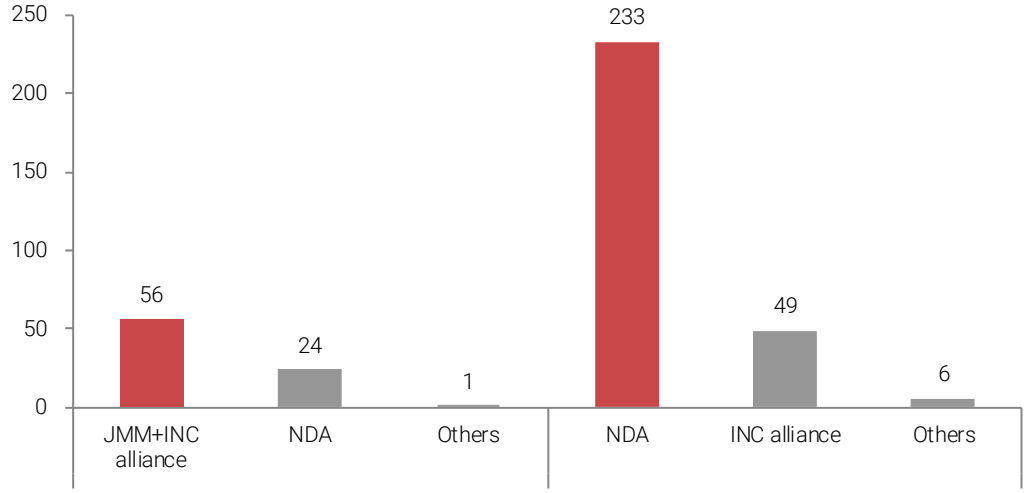
**BJP and its allies won an impressive victory in Maharashtra, while JMM-INC alliance won Jharkhand**

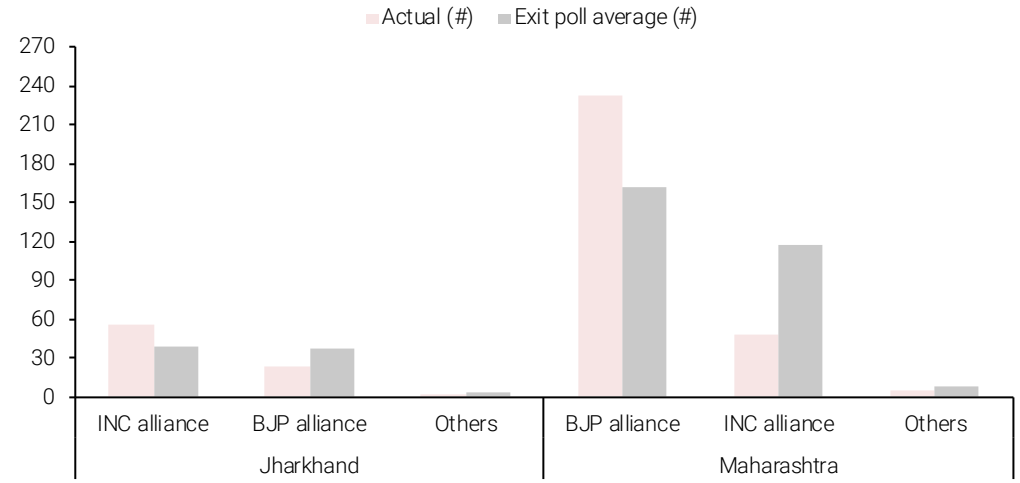
Exhibit 1: Seats won by major parties in the two assembly elections




Source: Election Commission, Kotak Institutional Equities

**BJP alliance outperformed exit poll projections in Maharashtra by a large margin**

Exhibit 2: Actual seats won versus exit poll projections, November 2024 (#)




Source: Election Commission, Media reports, Kotak Institutional Equities

## Indian government has carried out a number of supply-side reforms, most of which have achieved critical mass

### Exhibit 3: Potential reforms and schedule

| | Action | Schedule | Remarks |
|---|---|---|---|
| **(A) Fiscal** | | | |
| 1 | Auto fuel subsidies; LPG subsidy curtailment; kerosene and LPG monthly price increases | Limited progress | Government has reinstated price controls on retail prices of diesel and gasoline. Subsidies on LPG and kerosene have continued |
| 2 | Direct benefit transfer (DBT) schemes | Meaningful progress | The government implemented direct cash transfer subsidy for LPG from January 1, 2015 and for kerosene from April 1, 2016. Food and fertilizer subsidies go directly to FCI and companies |
| 3 | Divestment program, privatization and improved management of PSUs | Work-in-progress | The government consolidated 27 PSU banks into 12 PSU banks over FY2017-19 to improve their market position. It also reduced its stake in several CPSEs by selling to ETFs as well as through mergers (such as HPCL being acquired by ONGC). It had announced privatization of a few CPSEs but privatized Air India only so far. The New Public Sector Enterprise Policy of February 2021 has categorized several sectors as strategic, with the government to retain control of one or more PSUs in strategic sectors |
| 4 | Electricity subsidies, tariff increases | Work-in-progress | This is outside the central government's domain as power distribution is a state subject. However, several states have increased power tariffs over the past 3-4 years. Further power tariff increases will reduce states' subsidies and India's consolidated fiscal deficit |
| 5 | GST implementation | Complete | GST implemented on July 1, 2017. GST will likely result in higher tax-to-GDP ratio in the long term and reduce India's consolidated fiscal deficit |
| **(B) Investment** | | | |
| 1 | Approvals | Work-in-progress | Online application for forest and environment approvals started by the central government in July 2014; several other state governments have implemented similar systems. This is an executive area and thus, implementation is more important; center and states working on single window clearing mechanism (most states on-board) |
| 2 | Auction of coal and other mineral ore blocks; private sector commercial mining allowed in the case of coal | Largely complete | The amendment to Coal Mines Act and Mines and Minerals (Development and Regulation) Act have enabled the central and state governments to allocate coal and other mineral ore blocks through transparent auctions |
| 3 | Electricity distribution | Work-in-progress | Government has introduced the Electricity (Amendment) Bill, 2020 to (1) ensure better enforceability of PPAs, (2) implement DBT of subsidies, (3) have a renewable energy policy, (4) faster adoption of changes in tariffs, etc. |
| 4 | Incentives | Meaningful progress | The government has announced Rs2.6 tn worth of incentives over five years to promote domestic manufacturing under Production Linked Incentive scheme (PLI) |
| 5 | Labor reforms | Largely complete | Central government has passed four labor codes to simplify earlier labor laws, easing compliance burden on firms and allow them flexibility on hiring and retrenchment of workers. Some states have suspended certain provisions to encourage setting up of new firms |
| 6 | Land reforms | Work-in-progress | Government let the Land Acquisition Ordinance lapse in August 2015 due to political opposition to its proposed amendments to the LARR Act, 2013. |
| 7 | Market pricing of energy (oil & gas) | Limited progress | The government has (1) withdrawn pricing freedom on automobile fuels (retail diesel and gasoline) for the oil marketing companies, (2) imposed additional tax on crude oil, which limits pricing freedom for upstream oil & gas companies and (3) linked natural prices to crude oil prices with ceiling and floor, which limits pricing freedom for upstream oil & gas companies |
| 8 | Taxation | Meaningful progress | The government has implemented simpler taxation systems for both direct and indirect taxes. In the case of direct taxes, it reduced the corporate tax rate to 22% (effective from FY2020) from 30% subject to companies not availing exemptions. In the case of indirect taxes, GST will result in a simpler and transparent system |
| **(C) Banking sector** | | | |
| 1 | Financial inclusion | Largely complete | The government's 'Jan Dhan Yojna' was started in August 2014 with a target of financial inclusion for all. Over 500 mn new bank accounts have been opened under this scheme. The new accounts are already being used for saving and payments. The accounts can be used for DBT-related cash transfers |
| 2 | Restructuring of PSU banks | Largely complete | The government has completed the merger of (1) BOB, DBNK and VJBK, (2) CBK and SNDB), (3) PNB, OBC and UNTDB, (4) UNBK, ANDB and CRPBK and (5) INBK and ALBK. It has infused significant capital in the PSU banks |
| 3 | NPL situation | Largely complete | The parliament passed the insolvency and bankruptcy code (IBC) bill on May 11, 2016. Most large cases admitted to National Company Law Tribunal (NCLT) courts under IBC have seen satisfactory outcomes within reasonable time limits |
| 4 | Reduction in SLR over a period of time | Largely complete | SLR has been reduced and maintained at 18% from 25% in late-2000s; SLR used as part of LCR per Basel III guidelines |
| **(D) Governance** | | | |
| 1 | Reducing bureaucracy | Work-in-progress | The government has focused on empowering bureaucracy and streamlining decision-making |
| 2 | Corruption/black money | Meaningful progress | The Undisclosed Foreign Income and Asset (Imposition of Tax) Act, 2015 implemented from September 2015. Government progressively reducing disclosure limit on high-value transactions. Indian government cancelled high-denomination notes from circulation from November 9, 2016 and replaced them with new ones |
| 3 | Judiciary reforms | No progress | New system for appointment of judges to the Supreme Court and High Courts; bill passed in the parliament but the new system has been rejected by the Supreme Court |
| 4 | Creation of new regulators, sector super-regulators | No progress | All regulators related to communication, energy and finance can come under a sector super-regulator given large overlaps across related sectors |

Source: Kotak Institutional Equities estimates

**Government capex has been significantly below target in 1HFY25**

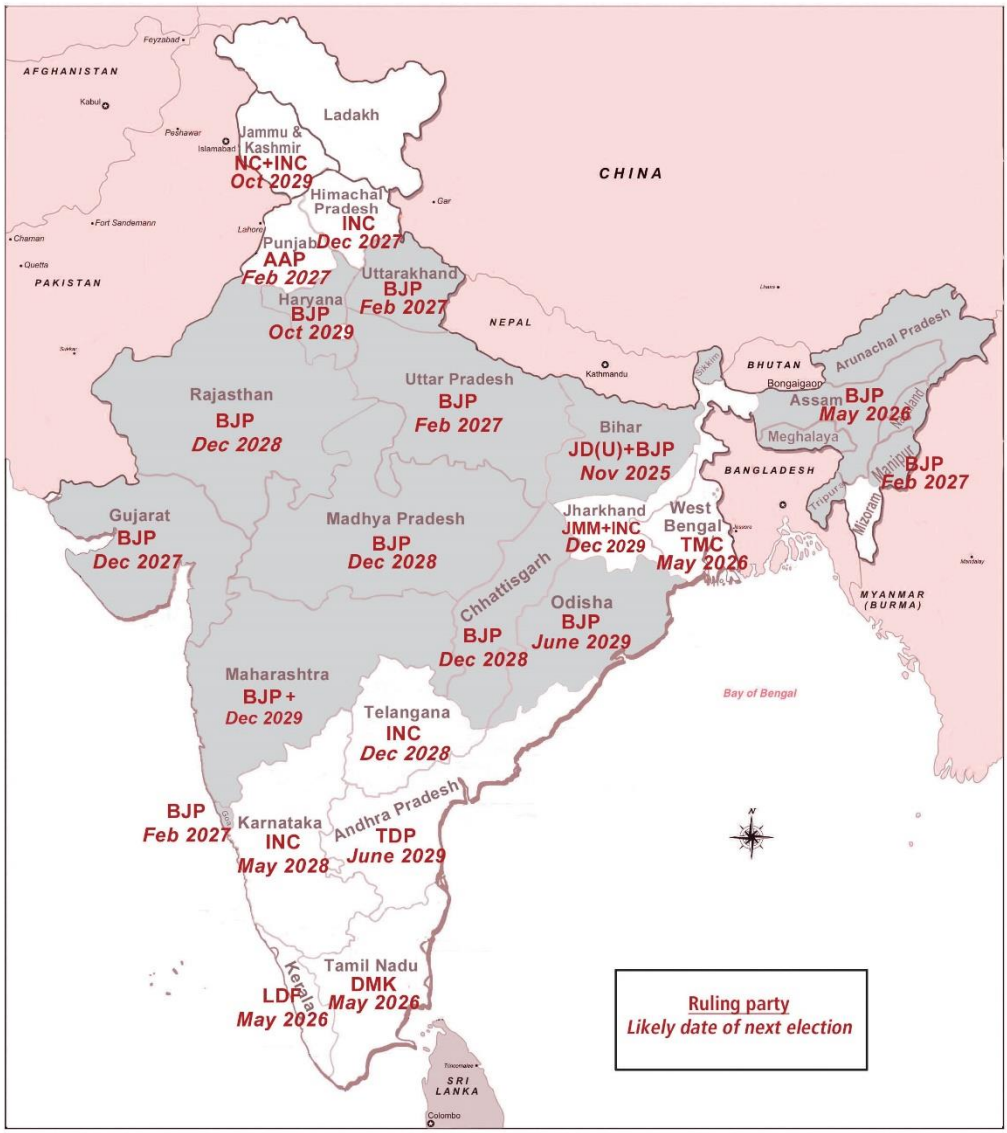
Exhibit 4: Monthly fiscal aggregates of the Indian government (Rs bn)

| | | | | Chg. (%) | | FYTD (Apr-Sep) | | Chg. (%) |
|---|---|---|---|---|---|---|---|---|
| Date | Sep-24 | Sep-23 | Aug-24 | yoy | mom | 2025 | 2024 | yoy |
| **Total receipts** | **4,198** | **3,883** | **1,938** | **8.1** | **117** | **16,370** | **14,173** | **16** |
| **Total expenditure** | **4,591** | **4,474** | **3,520** | **2.6** | **30** | **21,115** | **21,191** | **(0)** |
| Revenue expenditure | 3,452 | 3,306 | 3,123 | 4.4 | 10.5 | 16,965 | 16,285 | 4 |
| Capital expenditure | 1,140 | 1,168 | 397 | (2.4) | 187 | 4,150 | 4,906 | (15) |
| **Fiscal deficit** | **393** | **590** | **1,582** | **(33)** | **(75)** | **4,745** | **7,019** | **(32)** |
| Revenue deficit | (689) | (530) | 1,210 | 30 | (157) | 742 | 2,314 | (68) |
| Primary deficit | (755) | (578) | 860 | 31 | (188) | (405) | 2,175 | (119) |

Source: CEIC, Kotak Institutional Equities

**No major state elections till Bihar elections in November 2025**

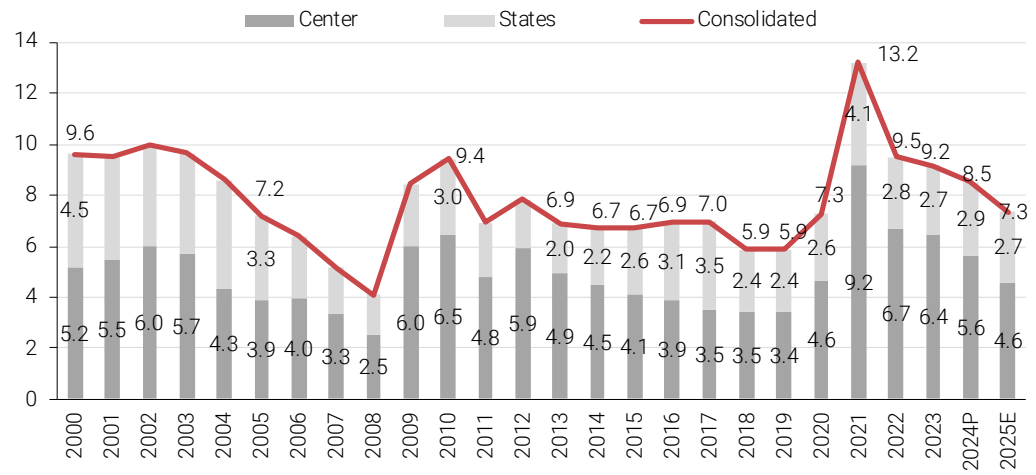
Exhibit 5: Map of India with likely date of the next assembly elections




Source: Election Commission of India, Kotak Institutional Equities

**Increasing populism in states may weaken their fiscal position**

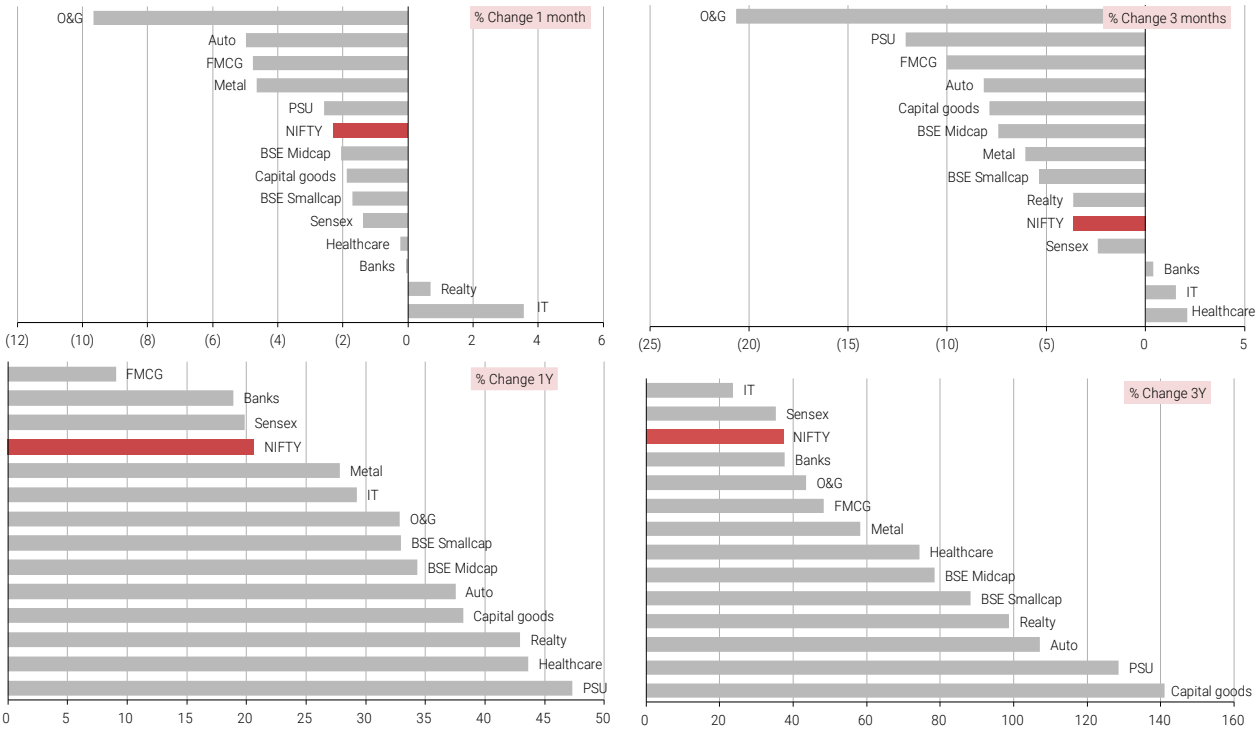
Exhibit 6: Consolidated fiscal deficit of the centre and states, March fiscal year-ends, 2000-25E




Source: Ministry of Finance, Kotak Institutional Equities estimates

**Most sectors witnessed significant declines in the past 1-3 months**

Exhibit 7: Performance of various sectors (%)




Source: Bloomberg, Kotak Institutional Equities

**Decent correction in stock prices of several large-cap. stocks; 12-month returns still quite high**

Exhibit 8: 1M, 3M, 6M, 12M and CYTD performance of stocks in Nifty-50 Index (sorted on 1M basis)

| | | | Performance (%) | | | | |
|---|---|---|---|---|---|---|---|
| | Company | GICS sector | 1M | 3M | 6M | 12M | YTD |
| | **Nifty-50 Index** | | **(2)** | **(4)** | **6** | **21** | **10** |
| 1 | IndusInd Bank | Banks | (22) | (28) | (29) | (32) | (38) |
| 2 | Adani Enterprises | Capital Goods | (21) | (28) | (29) | 3 | (22) |
| 3 | Asian Paints | Commodity Chemicals | (18) | (22) | (14) | (21) | (27) |
| 4 | Adani Ports and SEZ | Transportation | (17) | (24) | (18) | 44 | 11 |
| 5 | Britannia Industries | Consumer Staples | (15) | (17) | (8) | 3 | (9) |
| 6 | Shriram Finance | Diversified Financials | (13) | (10) | 22 | 44 | 38 |
| 7 | SBI Life Insurance | Insurance | (13) | (17) | 4 | 4 | 4 |
| 8 | NTPC | Electric Utilities | (12) | (9) | (2) | 44 | 17 |
| 9 | Coal India | Oil, Gas & Consumable Fuels | (12) | (22) | (17) | 25 | 10 |
| 10 | BPCL | Oil, Gas & Consumable Fuels | (11) | (18) | (11) | 42 | 27 |
| 11 | Trent | Retailing | (11) | (5) | 43 | 153 | 118 |
| 12 | Tata Motors | Automobiles & Components | (10) | (26) | (16) | 16 | 2 |
| 13 | Hindalco Industries | Metals & Mining | (9) | (5) | (5) | 30 | 6 |
| 14 | ONGC | Oil, Gas & Consumable Fuels | (9) | (24) | (12) | 29 | 20 |
| 15 | Dr Reddy's Laboratories | Pharmaceuticals | (9) | (13) | 3 | 7 | 5 |
| 16 | Bajaj Auto | Automobiles & Components | (9) | (4) | 8 | 65 | 39 |
| 17 | Hindustan Unilever | Consumer Staples | (8) | (12) | 4 | (3) | (8) |
| 18 | Hero Motocorp | Automobiles & Components | (7) | (10) | (4) | 41 | 16 |
| 19 | Bharti Airtel | Telecommunication Services | (7) | 6 | 16 | 62 | 52 |
| 20 | Maruti Suzuki | Automobiles & Components | (7) | (10) | (12) | 5 | 7 |
| 21 | Bajaj Finserv | Diversified Financials | (7) | (2) | 1 | (1) | (5) |
| 22 | Reliance Industries | Oil, Gas & Consumable Fuels | (6) | (16) | (13) | 6 | (2) |
| 23 | HDFC Life Insurance | Insurance | (5) | (5) | 23 | 3 | 6 |
| 24 | Tata Consumer Products | Consumer Staples | (5) | (22) | (15) | 3 | (12) |
| 25 | Tata Steel | Metals & Mining | (5) | (7) | (18) | 13 | 2 |
| 26 | Sun Pharmaceuticals | Pharmaceuticals | (5) | 3 | 17 | 49 | 43 |
| 27 | Nestle India | Consumer Staples | (4) | (12) | (9) | (8) | (15) |
| 28 | Axis Bank | Banks | (3) | (2) | 1 | 14 | 4 |
| 29 | Grasim Industries | Construction Materials | (2) | (6) | 7 | 32 | 22 |
| 30 | Cipla | Pharmaceuticals | (2) | (6) | 0 | 17 | 19 |
| 31 | ITC | Consumer Staples | (1) | (6) | 8 | 8 | 3 |
| 32 | Titan Company | Retailing | (1) | (8) | (2) | (4) | (10) |
| 33 | Kotak Mahindra Bank | Banks | (0) | (3) | 4 | 1 | (8) |
| 34 | Bajaj Finance | Diversified Financials | 0 | (1) | (1) | (6) | (9) |
| 35 | Apollo Hospitals | Health Care Services | 1 | 2 | 18 | 25 | 22 |
| 36 | ICICI Bank | Banks | 1 | 7 | 15 | 39 | 28 |
| 37 | JSW Steel | Metals & Mining | 1 | 5 | 7 | 27 | 11 |
| 38 | HDFC Bank | Banks | 2 | 7 | 20 | 15 | 2 |
| 39 | L&T | Capital Goods | 3 | (0) | 4 | 17 | 2 |
| 40 | Infosys | IT Services | 3 | 1 | 32 | 31 | 24 |
| 41 | Tech Mahindra | IT Services | 3 | 8 | 31 | 44 | 37 |
| 42 | State Bank of India | Banks | 3 | (1) | (0) | 46 | 27 |
| 43 | Bharat Electronics | Capital Goods | 3 | (8) | (1) | 98 | 52 |
| 44 | HCL Technologies | IT Services | 4 | 13 | 41 | 43 | 29 |
| 45 | Mahindra & Mahindra | Automobiles & Components | 4 | 10 | 20 | 95 | 74 |
| 46 | Power Grid | Electric Utilities | 4 | 1 | 3 | 59 | 42 |
| 47 | Wipro | IT Services | 5 | 10 | 24 | 43 | 21 |
| 48 | Eicher Motors | Automobiles & Components | 5 | 1 | 6 | 30 | 20 |
| 49 | Ultratech Cement | Construction Materials | 5 | 1 | 15 | 30 | 8 |
| 50 | TCS | IT Services | 6 | (6) | 11 | 21 | 12 |

Source: Bloomberg, Kotak Institutional Equities

## Large correction in stock prices of several mid-cap. stocks in the past 1-3 months; 12-month returns still quite high

### Exhibit 9: 1M, 3M, 6M, 12M and CYTD performance of stocks in Nifty Midcap Index (sorted on 1M basis)

| | | | Performance (%) | | | | | | | | Performance (%) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Company Name | GICS sector | 1M | 3M | 6M | 12M | YTD | | Company Name | GICS sector | 1M | 3M | 6M | 12M | YTD |
| | **Nifty Midcap 100 Index** | | **(2)** | **(7)** | **5** | **31** | **19** | | | | | | | | |
| 1 | Indraprastha Gas | Utilities | (28) | (42) | (29) | (20) | (25) | 51 | SBI Cards | Financials | (3) | (5) | (4) | (7) | (10) |
| 2 | KPIT Technologies | Information Technology | (23) | (29) | (13) | (9) | (14) | 52 | Mphasis | Information Technology | (3) | (6) | 22 | 23 | 5 |
| 3 | Tube Investments | Consumer Discretionary | (23) | (16) | (6) | (7) | (2) | 53 | SJVN | Utilities | (3) | (19) | (26) | 33 | 18 |
| 4 | Torrent Power | Utilities | (22) | (11) | 10 | 90 | 62 | 54 | Lupin | Health Care | (3) | (2) | 21 | 70 | 57 |
| 5 | Vodafone Idea | Communication Services | (21) | (59) | (51) | (51) | (58) | 55 | Poonawalla Fincorp | Financials | (2) | (12) | (22) | (2) | (19) |
| 6 | Colgate-Palmolive | Consumer Staples | (18) | (24) | 1 | 26 | 8 | 56 | Bandhan Bank | Financials | (2) | (17) | (7) | (20) | (30) |
| 7 | Aurobindo Pharma | Health Care | (16) | (20) | 0 | 16 | 13 | 57 | Oil India | Energy | (2) | (26) | 16 | 151 | 104 |
| 8 | Sundaram Finance | Financials | (15) | (5) | (7) | 31 | 20 | 58 | Godrej Properties | Real Estate | (2) | (3) | 2 | 53 | 42 |
| 9 | Bharat Dynamics | Industrials | (12) | (28) | (29) | 72 | 9 | 59 | FACT | Materials | (2) | (18) | 19 | 18 | 3 |
| 10 | Cochin Shipyard | Industrials | (11) | (37) | (20) | 141 | 92 | 60 | GMR Airports Infrastructure | Industrials | (2) | (17) | (10) | 38 | (2) |
| 11 | HPCL | Energy | (10) | (11) | 2 | 77 | 36 | 61 | MRF | Consumer Discretionary | (1) | (11) | (4) | 12 | (4) |
| 12 | Aditya Birla Capital | Financials | (10) | (16) | (17) | 9 | 12 | 62 | Astral | Industrials | (1) | (10) | (16) | (9) | (7) |
| 13 | Indus Towers | Communication Services | (10) | (24) | (3) | 77 | 66 | 63 | SRF | Materials | (1) | (15) | (6) | (7) | (13) |
| 14 | IRB Infrastructure | Industrials | (10) | (27) | (35) | 28 | 15 | 64 | Mankind Pharma | Health Care | (0) | 10 | 21 | 32 | 29 |
| 15 | Marico | Consumer Staples | (9) | (12) | (1) | 12 | 9 | 65 | Polycab India | Industrials | (0) | (3) | 1 | 25 | 21 |
| 16 | Delhivery | Industrials | (9) | (18) | (14) | (10) | (11) | 66 | Oberoi Realty | Real Estate | (0) | 12 | 9 | 41 | 35 |
| 17 | Alkem Lab | Health Care | (9) | (3) | 5 | 23 | 7 | 67 | Apollo Tyres | Consumer Discretionary | (0) | (2) | 1 | 18 | 9 |
| 18 | Exide Industries | Consumer Discretionary | (8) | (17) | (9) | 50 | 33 | 68 | Max Financial | Financials | (0) | 10 | 19 | 20 | 22 |
| 19 | Tata Technologies | Information Technology | (8) | (7) | (10) | #N/A N | (20) | 69 | IDBI Bank | Financials | (0) | (23) | (12) | 27 | 14 |
| 20 | Voltas | Industrials | (8) | (2) | 27 | 95 | 69 | 70 | IOB | Financials | 0 | (19) | (25) | 28 | 16 |
| 21 | Tata Elxsi | Information Technology | (8) | (5) | (9) | (21) | (25) | 71 | Muthoot Finance | Financials | 1 | (0) | 13 | 44 | 30 |
| 22 | Solar Industries | Materials | (7) | (4) | 1 | 50 | 49 | 72 | Supreme Industries | Materials | 1 | (18) | (17) | 12 | 0 |
| 23 | SAIL | Materials | (7) | (16) | (33) | 26 | (9) | 73 | Patanjali Foods | Consumer Staples | 1 | (6) | 28 | 33 | 14 |
| 24 | APL Apollo Tubes | Materials | (7) | 0 | (17) | (15) | (8) | 74 | Page Industries | Consumer Discretionary | 2 | 6 | 23 | 19 | 16 |
| 25 | IREDA | Financials | (7) | (28) | (2) | #N/A N | 80 | 75 | Biocon | Health Care | 2 | (7) | 8 | 40 | 33 |
| 26 | ACC | Materials | (7) | (11) | (18) | 15 | (6) | 76 | JSW Infrastructure | Industrials | 2 | (3) | 9 | 46 | 46 |
| 27 | Bharti Hexacom | Communication Services | (7) | 19 | 38 | #N/A N | #N/A N/A | 77 | NMDC | Materials | 2 | (2) | (19) | 29 | 5 |
| 28 | AU Small Finance Bank | Financials | (7) | (6) | (1) | (17) | (24) | 78 | Phoenix Mills | Real Estate | 3 | (12) | 1 | 46 | 45 |
| 29 | Container Corp. | Industrials | (7) | (20) | (27) | 5 | (8) | 79 | Dixon Technologies | Consumer Discretionary | 3 | 19 | 65 | 184 | 134 |
| 30 | HDFC AMC | Financials | (6) | (5) | 11 | 48 | 32 | 80 | Bank of India | Financials | 3 | (15) | (19) | (1) | (8) |
| 31 | Petronet LNG | Energy | (6) | (15) | 4 | 65 | 45 | 81 | HUDCO | Financials | 3 | (28) | (22) | 147 | 64 |
| 32 | Tata Chemicals | Materials | (6) | (1) | (2) | 11 | (3) | 82 | Jubilant Foodworks | Consumer Discretionary | 4 | (3) | 33 | 20 | 13 |
| 33 | Bharat Forge | Consumer Discretionary | (6) | (19) | (11) | 20 | 6 | 83 | Kalyan Jewellers | Consumer Discretionary | 5 | 18 | 77 | 112 | 100 |
| 34 | Balkrishna Industries | Consumer Discretionary | (6) | (4) | (11) | 11 | 8 | 84 | LIC Housing Finance | Financials | 5 | (10) | (6) | 35 | 15 |
| 35 | MMFSL | Financials | (6) | (16) | (1) | (4) | (5) | 85 | Ashok Leyland | Industrials | 5 | (14) | 8 | 26 | 23 |
| 36 | Cummins India | Industrials | (6) | (13) | (11) | 80 | 69 | 86 | Indian Bank | Financials | 6 | (4) | (6) | 29 | 26 |
| 37 | ABFRL | Consumer Discretionary | (6) | (8) | 2 | 34 | 29 | 87 | Oracle | Information Technology | 6 | 4 | 51 | 183 | 174 |
| 38 | IDFC First Bank | Financials | (6) | (15) | (17) | (23) | (28) | 88 | UPL | Materials | 7 | (2) | 10 | 0 | (4) |
| 39 | FSN E-Commerce | Consumer Discretionary | (5) | (19) | (5) | (1) | (3) | 89 | MRPL | Energy | 7 | (26) | (25) | 39 | 18 |
| 40 | Prestige Estates | Real Estate | (5) | (7) | 2 | 80 | 38 | 90 | NLC India | Utilities | 7 | (5) | 7 | 57 | 2 |
| 41 | Rail Vikas Nigam | Industrials | (5) | (26) | 23 | 153 | 131 | 91 | PB Fintech | Financials | 8 | 3 | 35 | 112 | 120 |
| 42 | Suzlon Energy | Industrials | (5) | (16) | 42 | 75 | 71 | 92 | Bank of Maharashtra | Financials | 8 | (16) | (22) | 21 | 17 |
| 43 | L&T Finance Holdings | Financials | (5) | (17) | (11) | (1) | (15) | 93 | Sona BLW | Consumer Discretionary | 8 | (1) | 8 | 19 | 6 |
| 44 | Hindustan Zinc | Materials | (5) | (6) | (37) | 63 | 54 | 94 | Max Healthcare | Health Care | 8 | 15 | 19 | 62 | 46 |
| 45 | PI Industries | Materials | (5) | (7) | 11 | 13 | 17 | 95 | Federal Bank | Financials | 11 | 3 | 29 | 44 | 34 |
| 46 | Escorts Kubota | Industrials | (4) | (8) | (8) | 9 | 18 | 96 | Persistent System | Information Technology | 12 | 17 | 66 | 76 | 57 |
| 47 | Yes Bank | Financials | (4) | (22) | (16) | 0 | (10) | 97 | BSE | Financials | 15 | 73 | 78 | 126 | 112 |
| 48 | Mazagon Dock | Industrials | (4) | (11) | 39 | 104 | 75 | 98 | Indian Hotels Co. | Consumer Discretionary | 22 | 24 | 39 | 92 | 82 |
| 49 | Tata Communications | Communication Services | (3) | (9) | (4) | 2 | (2) | 99 | Coforge | Information Technology | 22 | 37 | 70 | 48 | 33 |
| 50 | CG Power | Industrials | (3) | (1) | 14 | 56 | 61 | 100 | One 97 | Financials | 31 | 63 | 144 | (2) | 42 |

Source: Bloomberg, Kotak Institutional Equities

## Large correction in stock prices of several small-cap. stocks in the past 1-3 months; 12-month returns still quite high

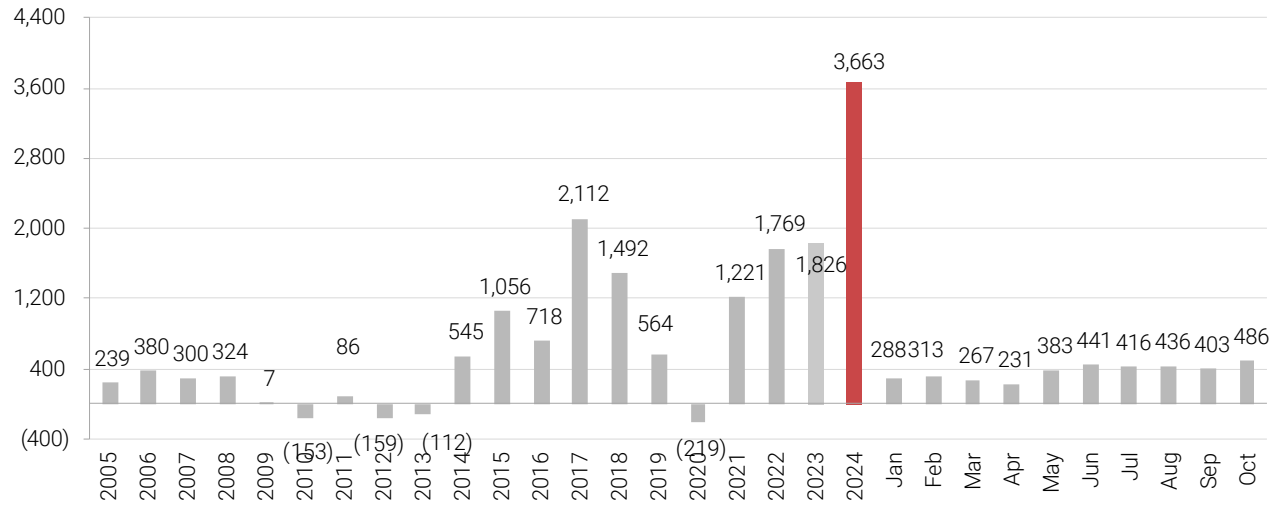
### Exhibit 10: 1M, 3M, 6M, 12M and CYTD performance of stocks in Nifty Smallcap Index (sorted on 1M basis)

| | Company Name | GICS sector | Performance (%) 1M | 3M | 6M | 12M | YTD | | Company Name | GICS sector | Performance (%) 1M | 3M | 6M | 12M | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Nifty Smallcap 100 Index** | | **(2)** | **(7)** | **5** | **30** | **17** | | | | | | | | |
| 1 | CPCL | Energy | (34) | (41) | (35) | (2) | (16) | 51 | PNB Housing | Financials | (3) | (2) | 14 | 5 | 9 |
| 2 | Five-Star Business Finance | Financials | (26) | (15) | (13) | (21) | (14) | 52 | AAVAS Financiers | Financials | (3) | (3) | 2 | 10 | 7 |
| 3 | Mahanagar Gas | Utilities | (24) | (36) | (11) | 13 | (4) | 53 | Birlasoft | Information Technology | (3) | (7) | (7) | (10) | (22) |
| 4 | Jyothy Labs | Consumer Staples | (20) | (29) | (6) | (8) | (15) | 54 | Amara Raja Energy & Mobility | Industrials | (3) | (21) | 8 | 89 | 51 |
| 5 | Sterling & Wilson | Industrials | (18) | (30) | (39) | 52 | 11 | 55 | IIFL Finance | Financials | (2) | (13) | 2 | (28) | (30) |
| 6 | JBM Auto | Consumer Discretionary | (15) | (26) | (26) | 10 | (3) | 56 | Karur Vysya Bank | Financials | (2) | (5) | 8 | 40 | 26 |
| 7 | Olectra Greentech | Industrials | (14) | (14) | (23) | 10 | 3 | 57 | Atul | Materials | (2) | (8) | 22 | 12 | 1 |
| 8 | GSPL | Utilities | (14) | (1) | 12 | 21 | 9 | 58 | HBL Power System | Industrials | (2) | (14) | 5 | 63 | 28 |
| 9 | Garden Reach | Industrials | (13) | (21) | 15 | 71 | 57 | 59 | Central Bank | Financials | (2) | (14) | (20) | 18 | 4 |
| 10 | Intellect Design | Information Technology | (13) | (28) | (21) | 1 | (15) | 60 | Brigade Enterprises | Real Estate | (1) | 4 | 0 | 62 | 33 |
| 11 | Glenmark Pharma | Health Care | (12) | (12) | 44 | 90 | 73 | 61 | Crompton Greaves Consumer | Consumer Discretionary | (1) | (15) | 1 | 36 | 26 |
| 12 | Tanla Platforms | Information Technology | (12) | (26) | (24) | (26) | (38) | 62 | Shyam Metalics & Energy | Materials | (1) | 0 | 25 | 82 | 30 |
| 13 | Finolex Cables | Industrials | (12) | (23) | (4) | 24 | 4 | 63 | NMDC Steel | Materials | (1) | (19) | (32) | 6 | (13) |
| 14 | Aarti Industries | Materials | (12) | (31) | (32) | (17) | (34) | 64 | Aadhar Housing Finance | Financials | (1) | 2 | 21 | #N/A N/ | #N/A N/ |
| 15 | GE Shipping | Energy | (12) | (21) | 6 | 36 | 11 | 65 | BEML | Industrials | 0 | (3) | (16) | 57 | 35 |
| 16 | CreditAccess Gramin | Financials | (11) | (27) | (37) | (47) | (44) | 66 | Data Pattern | Industrials | 0 | (21) | (25) | 24 | 22 |
| 17 | Hindustan Copper | Materials | (11) | (17) | (31) | 67 | (4) | 67 | Titagarh Rail System | Industrials | 1 | (22) | (12) | 13 | 5 |
| 18 | Inox Wind | Industrials | (10) | (17) | 23 | 181 | 48 | 68 | GMDC | Energy | 1 | (11) | (22) | (22) | (19) |
| 19 | Kalpataru Projects | Industrials | (10) | (10) | (8) | 75 | 58 | 69 | Tejas Networks | Information Technology | 1 | (2) | 10 | 57 | 47 |
| 20 | Jupiter Wagons | Industrials | (9) | (24) | (24) | 27 | 33 | 70 | Narayana Hrudayalaya | Health Care | 1 | 0 | 0 | 2 | 6 |
| 21 | SignatureGlobal | Real Estate | (9) | (14) | (0) | 75 | 48 | 71 | CAMS Services | Industrials | 1 | 2 | 28 | 62 | 68 |
| 22 | Indiamart | Industrials | (9) | (22) | (13) | (12) | (16) | 72 | Ramkrishna Forgings | Materials | 2 | 1 | 33 | 26 | 33 |
| 23 | Indian Energy Exchange | Financials | (9) | (17) | 6 | 14 | (3) | 73 | Natco Pharma | Health Care | 2 | (12) | 35 | 70 | 67 |
| 24 | Tata Teleservices | Communication Services | (8) | (30) | (13) | (22) | (27) | 74 | Navin Fluorine International | Materials | 3 | (0) | (1) | (8) | (14) |
| 25 | Go Digit General | Financials | (8) | (11) | 17 | #N/A N/ | #N/A N/A | 75 | J&K Bank | Financials | 4 | (15) | (27) | (14) | (23) |
| 26 | NBCC | Industrials | (8) | (26) | (10) | 103 | 64 | 76 | Raymond | Consumer Discretionary | 4 | (18) | 20 | 59 | 55 |
| 27 | Dr Lal Pathlabs | Health Care | (7) | (7) | 18 | 14 | 19 | 77 | CDSL | Financials | 5 | 6 | 42 | 79 | 69 |
| 28 | CESC | Utilities | (7) | (10) | 17 | 73 | 31 | 78 | 360 ONE | Financials | 6 | (1) | 36 | 100 | 52 |
| 29 | Bata India | Consumer Discretionary | (7) | (10) | (5) | (20) | (21) | 79 | Radico Khaitan | Consumer Staples | 6 | 31 | 35 | 61 | 39 |
| 30 | Aditya Birla Real Estate | Real Estate | (7) | 9 | 18 | 107 | 109 | 80 | Cyient | Information Technology | 6 | (8) | 3 | (1) | (21) |
| 31 | Triveni Turbine | Industrials | (7) | (10) | 18 | 66 | 62 | 81 | Piramal Enterprises | Financials | 6 | 5 | 33 | 19 | 17 |
| 32 | Happiest Minds | Information Technology | (7) | (9) | (12) | (14) | (19) | 82 | Aster DM Healthcare | Health Care | 7 | 8 | 22 | 66 | 37 |
| 33 | Railtel | Communication Services | (7) | (23) | (15) | 30 | 8 | 83 | KEC International | Industrials | 7 | 20 | 25 | 67 | 69 |
| 34 | Angel One | Financials | (6) | 3 | 3 | (9) | (23) | 84 | Affle India | Communication Services | 8 | (3) | 33 | 49 | 21 |
| 35 | IRCON International | Industrials | (6) | (29) | (33) | 13 | 9 | 85 | IFCI | Financials | 8 | (19) | (2) | 141 | 99 |
| 36 | Sonata Software | Information Technology | (6) | (12) | 6 | (16) | (26) | 86 | Kaynes Tech | Information Technology | 9 | 17 | 69 | 135 | 124 |
| 37 | Action Construction | Industrials | (6) | (7) | (19) | 47 | 48 | 87 | Manappuram Finance | Financials | 9 | (30) | (15) | (0) | (12) |
| 38 | RBL Bank | Financials | (6) | (32) | (37) | (33) | (44) | 88 | Aegis Logistics | Energy | 9 | (1) | 26 | 143 | 127 |
| 39 | Zee Entertainmen | Communication Services | (5) | (16) | (23) | (53) | (57) | 89 | BLS International | Industrials | 9 | (2) | 19 | 44 | 20 |
| 40 | RITES | Industrials | (5) | (16) | (25) | 17 | 10 | 90 | HFCL | Communication Services | 10 | (13) | 23 | 90 | 50 |
| 41 | Apar Industries | Industrials | (5) | 9 | 18 | 67 | 54 | 91 | Firstsource Solution | Industrials | 10 | 8 | 73 | 106 | 86 |
| 42 | Trident | Consumer Discretionary | (5) | (17) | (17) | (15) | (13) | 92 | Zensar Technologies | Information Technology | 11 | (8) | 17 | 35 | 19 |
| 43 | PVR Inox | Communication Services | (4) | (3) | 9 | (11) | (12) | 93 | Amber Enterprises | Consumer Discretionary | 14 | 54 | 70 | 98 | 107 |
| 44 | UCO Bank | Financials | (4) | (20) | (26) | 11 | 5 | 94 | The Ramco Cement | Materials | 14 | 14 | 22 | (3) | (7) |
| 45 | Castrol India | Materials | (4) | (27) | 3 | 48 | 11 | 95 | Laurus Labs | Health Care | 14 | 14 | 12 | 37 | 19 |
| 46 | Blue Star | Industrials | (4) | 5 | 20 | 88 | 94 | 96 | Redington | Information Technology | 15 | (7) | (8) | 22 | 10 |
| 47 | MCX | Financials | (4) | 30 | 64 | 117 | 94 | 97 | Piramal Pharma | Health Care | 16 | 33 | 70 | 110 | 80 |
| 48 | Chambal Fertilisers | Materials | (4) | (11) | 17 | 49 | 24 | 98 | National Aluminium | Materials | 17 | 50 | 30 | 181 | 95 |
| 49 | Welspun Living | Consumer Discretionary | (3) | (24) | 4 | (8) | 3 | 99 | Swan Energy | Consumer Discretionary | 21 | (15) | (3) | 36 | 15 |
| 50 | NCC | Industrials | (3) | (12) | (2) | 73 | 70 | 100 | ITI | Information Technology | 25 | (9) | (14) | 1 | (10) |

Source: Bloomberg, Kotak Institutional Equities

**Equity MFs have seen Rs3.7 tn of inflows in 10MCY24**

Exhibit 11: Net MF flows (Equity + ELSS + 70% balanced), calendar year-ends, 2005-24 (Rs bn)




Source: AMFI, Kotak Institutional Equities

**Retail investors poured have money into mid- and small-cap. in CY2023 and in thematic funds in CY2024**

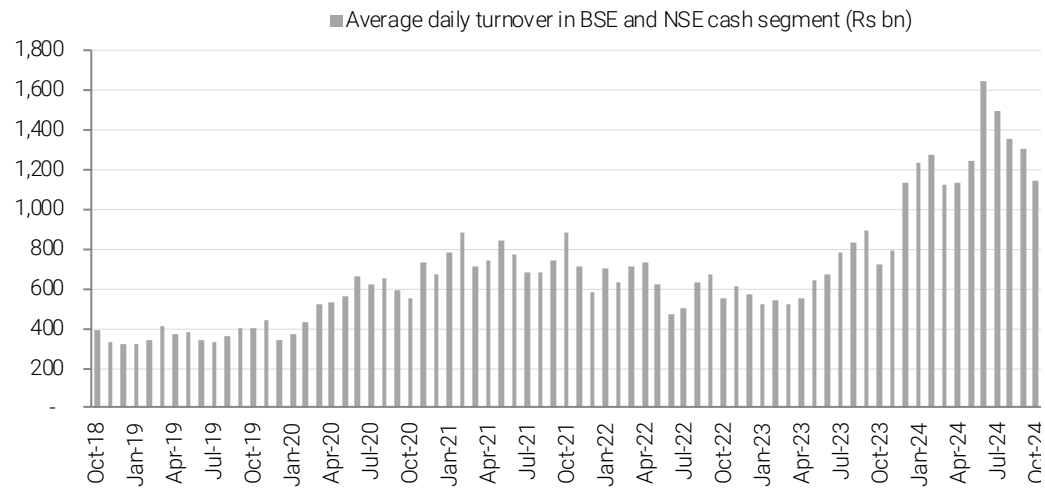
Exhibit 12: Net inflows to various categories of domestic mutual funds in India, calendar year-end, 2020-24 (Rs bn)

| | 2020 | 2021 | 2022 | 2023 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 | Jul-24 | Aug-24 | Sep-24 | Oct-24 | CYTD24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Flexi cap. fund | - | 179 | 220 | 116 | 24 | 26 | 27 | 22 | 32 | 31 | 31 | 35 | 32 | 52 | 311 |
| Large cap. fund | (24) | 29 | 137 | (30) | 13 | 9 | 21 | 4 | 7 | 10 | 7 | 26 | 18 | 35 | 149 |
| Large & mid Cap. fund | 18 | 87 | 200 | 189 | 23 | 32 | 32 | 26 | 24 | 29 | 26 | 33 | 36 | 49 | 310 |
| Mid cap. fund | 5 | 106 | 205 | 229 | 21 | 18 | 10 | 18 | 26 | 25 | 16 | 31 | 31 | 47 | 243 |
| Small cap. fund | 14 | 38 | 198 | 410 | 33 | 29 | (1) | 22 | 27 | 23 | 21 | 32 | 31 | 38 | 254 |
| Sectoral/thematic fund | 83 | 255 | 209 | 308 | 48 | 113 | 79 | 52 | 192 | 224 | 184 | 181 | 133 | 123 | 1,328 |
| Value/contra/focused | (3) | 60 | 184 | 92 | 16 | 13 | 18 | 17 | 11 | 17 | 16 | 16 | 17 | 31 | 173 |
| Dividend yield/ELSS/multi cap. fund | (3) | 213 | 258 | 300 | 40 | 28 | 39 | 29 | 28 | 48 | 71 | 28 | 47 | 45 | 403 |
| **Total** | **91** | **967** | **1,610** | **1,616** | **218** | **269** | **226** | **189** | **347** | **406** | **371** | **382** | **344** | **419** | **3,172** |

Source: AMFI, Kotak Institutional Equities

**Activity levels in cash markets have moderated in recent months**

Exhibit 13: Average daily turnover in BSE and NSE cash segment (Rs bn)




Source: Bloomberg, BSE, NSE, Kotak Institutional Equities

**Moderation in churning among mid-cap. stocks in recent months**

Exhibit 14: Delivery value/free float market cap. of top- and bottom-performing mid-cap. stocks, October 2024 (%)

| | Delivery value/free float market cap. (%) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Company Name** | **Apr-24** | **May-24** | **Jun-24** | **Jul-24** | **Aug-24** | **Sep-24** | **Oct-24** | **6M Total** |
| **Top-20 stocks on the basis of 6M performance** | | | | | | | | |
| Kalyan Jewellers | 10 | 7 | 18 | 13 | 25 | 28 | 21 | 112 |
| Rail Vikas | 17 | 31 | 32 | 46 | 30 | 9 | 8 | 157 |
| Suzlon Energy | 2 | 1 | 7 | 9 | 11 | 8 | 7 | 43 |
| Prestige Estates | 7 | 9 | 11 | 9 | 19 | 11 | 5 | 64 |
| Oil India | 10 | 9 | 11 | 13 | 23 | 11 | 8 | 75 |
| BSE | 11 | 8 | 6 | 10 | 8 | 12 | 15 | 58 |
| Oracle | 11 | 7 | 10 | 13 | 21 | 10 | 7 | 68 |
| Dixon Technologies | 7 | 8 | 8 | 10 | 16 | 8 | 10 | 61 |
| HPCL | 9 | 9 | 9 | 11 | 11 | 9 | 8 | 57 |
| Torrent Power | 4 | 17 | 3 | 4 | 4 | 4 | 4 | 36 |
| Bharat Dynamics | 19 | 28 | 30 | 30 | 12 | 9 | 8 | 117 |
| Cummins India | 4 | 7 | 8 | 6 | 7 | 4 | 4 | 35 |
| Voltas | 9 | 9 | 6 | 6 | 10 | 7 | 7 | 45 |
| BHEL | 11 | 16 | 17 | 14 | 6 | 9 | 11 | 73 |
| PB Fintech | 8 | 21 | 8 | 5 | 10 | 8 | 6 | 58 |
| Indus Towers | 26 | 27 | 115 | 39 | 18 | 23 | 13 | 235 |
| Godrej Properties | 5 | 6 | 5 | 7 | 6 | 7 | 5 | 36 |
| Mazagon Dock | 38 | 52 | 62 | 59 | 33 | 26 | 32 | 264 |
| Persistent System | 7 | 5 | 6 | 5 | 4 | 3 | 4 | 27 |
| Lupin | 4 | 6 | 6 | 6 | 8 | 6 | 4 | 37 |
| **Average** | **11** | **14** | **19** | **16** | **14** | **11** | **9** | **83** |
| **Bottom-20 stocks on the basis of 6M performance** | | | | | | | | |
| Zee Entertainment | 13 | 17 | 24 | 20 | 16 | 17 | 13 | 107 |
| IDFC First Bank | 11 | 10 | 9 | 8 | 7 | 8 | 12 | 54 |
| Bandhan Bank | 23 | 15 | 17 | 20 | 22 | 21 | 24 | 118 |
| One 97 | 8 | 29 | 22 | 21 | 28 | 29 | 28 | 157 |
| Dalmia Bharat | 8 | 5 | 9 | 10 | 9 | 5 | 4 | 43 |
| Vodafone Idea | 171 | 79 | 84 | 53 | 56 | 57 | 33 | 363 |
| APL Apollo Tubes | 3 | 5 | 6 | 5 | 4 | 4 | 5 | 30 |
| UPL | 7 | 8 | 6 | 4 | 5 | 5 | 3 | 31 |
| Bank of India | 11 | 13 | 15 | 9 | 7 | 5 | 5 | 54 |
| Delhivery | 8 | 9 | 10 | 16 | 16 | 8 | 6 | 65 |
| Poonawalla Fin | 9 | 4 | 11 | 18 | 10 | 7 | 10 | 61 |
| AU Small Finance | 9 | 9 | 8 | 5 | 5 | 7 | 3 | 37 |
| Astral | 4 | 6 | 5 | 4 | 7 | 5 | 6 | 31 |
| Piramal Enterprises | 10 | 12 | 11 | 13 | 15 | 8 | 9 | 68 |
| Tata Chemicals | 9 | 6 | 8 | 8 | 4 | 6 | 18 | 49 |
| Tata Elxsi | 5 | 5 | 4 | 4 | 9 | 5 | 4 | 30 |
| Gland Pharma | 16 | 6 | 22 | 5 | 9 | 7 | 4 | 52 |
| Page Industries | 7 | 5 | 3 | 4 | 3 | 4 | 4 | 23 |
| Tata Communications | 7 | 3 | 4 | 6 | 3 | 5 | 4 | 25 |
| Syngene International | 6 | 6 | 5 | 7 | 5 | 6 | 5 | 34 |
| **Average** | **17** | **13** | **14** | **12** | **12** | **11** | **10** | **72** |

Source: Bloomberg, Kotak Institutional Equities

**Moderation in churning among small-cap. stocks in recent months**

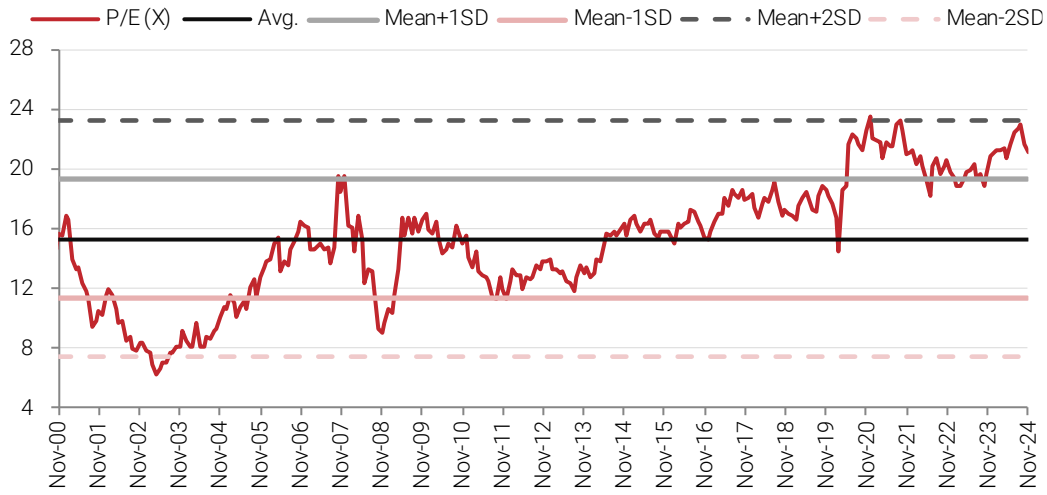
Exhibit 15: Delivery value/free float market cap. of top and bottom performing small-cap. stocks, October 2024 (%)

| | Delivery value/free float market cap. (%) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Company Name** | **Apr-24** | **May-24** | **Jun-24** | **Jul-24** | **Aug-24** | **Sep-24** | **Oct-24** | **6M Total** |
| **Top-20 stocks on the basis of 6M performance** | | | | | | | | |
| Cochin Shipyard | 33 | 42 | 40 | 40 | 25 | 18 | 2 | 167 |
| NBCC | 22 | 22 | 36 | 40 | 36 | 13 | 9 | 156 |
| Multi Commodity Exchange | 13 | 6 | 9 | 12 | 7 | 5 | 8 | 47 |
| Himadri Speciality Chemical | 3 | 5 | 7 | 8 | 9 | 9 | 6 | 44 |
| HUDCO | 24 | 31 | 29 | 41 | 17 | 14 | 9 | 143 |
| Blue Star | 5 | 4 | 3 | 4 | 4 | 5 | 3 | 23 |
| Piramal Pharma | 6 | 11 | 7 | 8 | 7 | 11 | 10 | 53 |
| CESC | 11 | 9 | 9 | 12 | 15 | 7 | 5 | 57 |
| Amara Raja Energy & Mobility | 12 | 9 | 19 | 8 | 6 | 5 | 5 | 52 |
| National Aluminium | 20 | 16 | 17 | 13 | 17 | 15 | 16 | 93 |
| Hindustan Copper | 34 | 34 | 20 | 19 | 26 | 19 | 12 | 130 |
| CDSL | 18 | 12 | 11 | 15 | 20 | 13 | 18 | 89 |
| NLC India | 21 | 23 | 26 | 41 | 12 | 16 | 7 | 125 |
| Tata Investment Corp | 1 | 0 | 4 | 3 | 6 | 4 | 5 | 23 |
| Shyam Metalics & Energy | 7 | 9 | 9 | 15 | 24 | 15 | 7 | 79 |
| Swan Energy | 14 | 17 | 18 | 22 | 13 | 10 | 9 | 89 |
| Nippon Life India AMC | 9 | 5 | 9 | 7 | 8 | 5 | 9 | 44 |
| Glenmark Pharma. | 5 | 5 | 4 | 7 | 7 | 9 | 5 | 36 |
| NCC | 11 | 12 | 16 | 13 | 10 | 7 | 6 | 63 |
| **Average** | **14** | **14** | **15** | **17** | **14** | **11** | **8** | **80** |
| **Bottom-20 stocks on the basis of 6M performance** | | | | | | | | |
| IIFL Finance | 13 | 5 | 14 | 7 | 5 | 23 | 11 | 66 |
| RBL Bank | 11 | 6 | 10 | 19 | 15 | 12 | 15 | 77 |
| Tata Tele | 7 | 4 | 7 | 39 | 18 | 8 | 6 | 82 |
| Equitas Small Finance Bank | 4 | 3 | 5 | 7 | 6 | 5 | 5 | 30 |
| Tanla Platforms | 8 | 4 | 6 | 11 | 10 | 6 | 6 | 43 |
| IDFC | 5 | 4 | 5 | 5 | 4 | 7 | 7 | 32 |
| CreditAccess Gramin | 5 | 6 | 6 | 11 | 5 | 5 | 9 | 43 |
| Navin Fluorine International | 8 | 7 | 6 | 7 | 6 | 5 | 6 | 38 |
| Happiest Minds | 4 | 4 | 39 | 12 | 9 | 8 | 8 | 80 |
| PVR Inox | 11 | 8 | 8 | 8 | 5 | 8 | 6 | 43 |
| Trident | 7 | 7 | 10 | 11 | 7 | 5 | 5 | 45 |
| Shree Renuka Sugar | 8 | 5 | 24 | 19 | 13 | 16 | 18 | 94 |
| J&K Bank | 7 | 10 | 11 | 12 | 11 | 8 | 6 | 58 |
| Indiamart | 5 | 8 | 8 | 8 | 8 | 7 | 18 | 57 |
| AAVAS Financiers | 13 | 8 | 8 | 7 | 13 | 7 | 4 | 46 |
| NMDC Steel | 15 | 8 | 6 | 7 | 4 | 4 | 3 | 32 |
| Data Pattern | 12 | 14 | 17 | 19 | 7 | 9 | 8 | 75 |
| GNFC | 8 | 7 | 24 | 18 | 11 | 12 | 8 | 80 |
| UCO Bank | 18 | 18 | 19 | 18 | 8 | 6 | 5 | 73 |
| Cyient | 8 | 7 | 5 | 13 | 7 | 5 | 3 | 41 |
| **Average** | **9** | **7** | **12** | **13** | **9** | **8** | **8** | **57** |

Source: Bloomberg, Kotak Institutional Equities

**Nifty-50 index is trading at elevated valuations, despite recent derating**

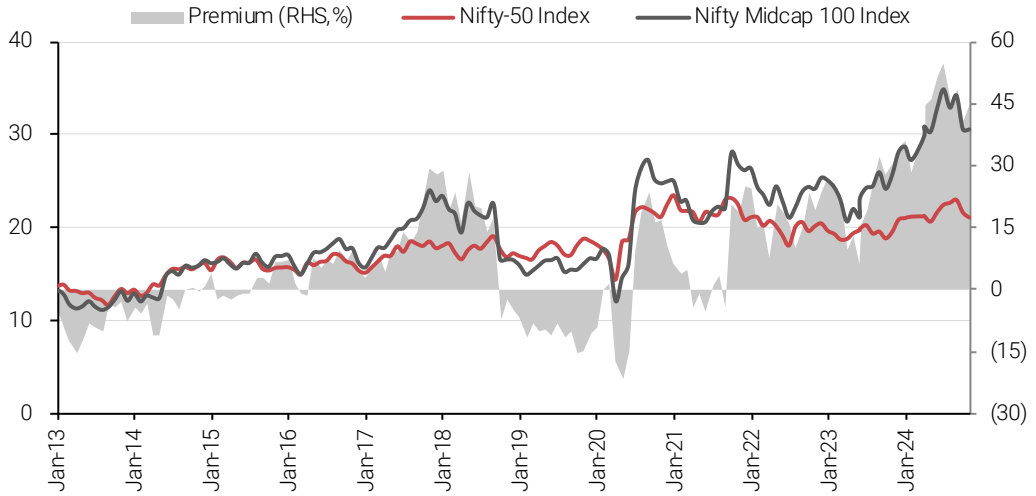
Exhibit 16: 12-m rolling forward PE of Nifty-50 Index, March fiscal year-ends, 2001-25 (X)




Source: Kotak Institutional Equities estimates

**Nifty Midcap 100 Index is trading at elevated valuations, despite recent derating**

Exhibit 17: 1-year forward P/E multiple of Nifty-50 Index and NSE Midcap 100 Index (X)




Source: Bloomberg, Kotak Institutional Equities

## Most large-cap. consumption stocks are trading at expensive valuations

Exhibit 18: 12-m forward P/E multiple of large-cap. consumption stocks in KIE universe, March fiscal year-ends, 2011-25E

| | | 12-m forward P/E multiple (X) | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Sector | Mar-11 | Mar-12 | Mar-13 | Mar-14 | Mar-15 | Mar-16 | Mar-17 | Mar-18 | Mar-19 | Mar-20 | Mar-21 | Mar-22 | Mar-23 | Mar-24 | Current |
| Bajaj Auto | Automobiles & Components | 14 | 14 | 14 | 16 | 15 | 16 | 18 | 17 | 17 | 12 | 19 | 18 | 17 | 30 | 27 |
| Eicher Motors | Automobiles & Components | 15 | 14 | 16 | 24 | 38 | 33 | 33 | 29 | 21 | 17 | 29 | 25 | 23 | 25 | 29 |
| Hero Motocorp | Automobiles & Components | 14 | 15 | 14 | 16 | 16 | 17 | 17 | 18 | 13 | 10 | 16 | 14 | 13 | 20 | 19 |
| Mahindra & Mahindra | Automobiles & Components | 14 | 14 | 14 | 15 | 19 | 18 | 20 | 19 | 15 | 9 | 20 | 18 | 16 | 21 | 28 |
| Maruti Suzuki | Automobiles & Components | 14 | 16 | 13 | 17 | 21 | 18 | 22 | 26 | 23 | 18 | 28 | 30 | 23 | 28 | 22 |
| Samvardhana Motherson | Automobiles & Components | 17 | 13 | 14 | 19 | 28 | 21 | 25 | 25 | 19 | 11 | 25 | 22 | 15 | 20 | 25 |
| TVS Motor | Automobiles & Components | 11 | 7 | 7 | 15 | 22 | 23 | 28 | 30 | 23 | 19 | 32 | 24 | 27 | 40 | 37 |
| Asian Paints | Commodity Chemicals | 23 | 27 | 33 | 36 | 38 | 38 | 45 | 44 | 51 | 48 | 64 | 65 | 54 | 48 | 51 |
| Berger Paints | Commodity Chemicals | 17 | 17 | 25 | 27 | 36 | 35 | 45 | 44 | 49 | 58 | 81 | 61 | 49 | 52 | 43 |
| Ambuja Cements | Construction Materials | 18 | 18 | 14 | 24 | 23 | 29 | 34 | 29 | 26 | 16 | 25 | 20 | 26 | 38 | 28 |
| Shree Cement | Construction Materials | NA | NA | 14 | 22 | 46 | 34 | 36 | 31 | 37 | 34 | 44 | 32 | 41 | 34 | 49 |
| UltraTech Cement | Construction Materials | 18 | 18 | 16 | 24 | 23 | 28 | 34 | 31 | 32 | 20 | 32 | 26 | 30 | 31 | 38 |
| Havells India | Consumer Durables & Apparel | 13 | 16 | 16 | 20 | 31 | 32 | 42 | 36 | 46 | 32 | 56 | 49 | 49 | 59 | 57 |
| Polycab | Consumer Durables & Apparel | NA | NA | NA | NA | NA | NA | NA | NA | NA | 13 | 22 | 31 | 30 | 39 | 44 |
| Britannia Industries | Consumer Staples | 21 | 28 | 24 | 23 | 39 | 33 | 39 | 49 | 53 | 41 | 45 | 41 | 47 | 49 | 49 |
| Colgate-Palmolive (India) | Consumer Staples | 24 | 30 | 28 | 32 | 40 | 32 | 40 | 38 | 40 | 37 | 41 | 38 | 36 | 52 | 46 |
| Dabur India | Consumer Staples | 23 | 24 | 26 | 29 | 35 | 30 | 33 | 36 | 40 | 43 | 48 | 44 | 44 | 41 | 43 |
| Godrej Consumer Products | Consumer Staples | 20 | 22 | 30 | 31 | 31 | 35 | 37 | 43 | 38 | 29 | 39 | 36 | 45 | 52 | 48 |
| Hindustan Unilever | Consumer Staples | 26 | 29 | 28 | 33 | 40 | 39 | 41 | 47 | 50 | 56 | 58 | 47 | 52 | 46 | 50 |
| Marico | Consumer Staples | 24 | 26 | 27 | 25 | 35 | 37 | 41 | 42 | 39 | 31 | 40 | 43 | 40 | 39 | 44 |
| Nestle India | Consumer Staples | 35 | 37 | 34 | 35 | 44 | 41 | 47 | 50 | 51 | 63 | 65 | 62 | 63 | 72 | 62 |
| Tata Consumer Products | Consumer Staples | 14 | 18 | 17 | 18 | 19 | 16 | 18 | 26 | 23 | 31 | 50 | 53 | 46 | 61 | 53 |
| Varun Beverages | Consumer Staples | NA | NA | NA | NA | NA | NA | 32 | 36 | 42 | 28 | 36 | 39 | 45 | 67 | 62 |
| United Spirits | Consumer Staples | 22 | 16 | 37 | 59 | 90 | 57 | 53 | 58 | 43 | 33 | 41 | 53 | 48 | 57 | 66 |
| Apollo Hospitals | Health Care Services | 25 | 29 | 30 | 31 | 43 | 41 | 40 | 41 | 43 | 33 | 59 | 54 | 50 | 61 | 56 |
| Avenue Supermarts | Retailing | NA | NA | NA | NA | NA | NA | 54 | 77 | 73 | 78 | 90 | 100 | 71 | 86 | 66 |
| Titan Company | Retailing | 30 | 28 | 25 | 28 | 33 | 31 | 41 | 56 | 54 | 44 | 68 | 75 | 57 | 74 | 65 |
| Trent | Retailing | NA | 45 | 43 | 36 | 40 | 27 | 44 | 56 | 53 | 59 | 169 | 112 | 79 | 109 | 112 |
| Pidilite Industries | Specialty Chemicals | 21 | 22 | 27 | 26 | 42 | 34 | 37 | 43 | 54 | 49 | 64 | 74 | 62 | 69 | 63 |

Source: FactSet, Kotak Institutional Equities

## Most mid-cap. consumption stocks are trading at expensive valuations

Exhibit 19: 12-m forward P/E multiple of mid-cap. consumption stocks in KIE universe, March fiscal year-ends, 2011-25E (based on consensus estimates)

| | | 12-m forward P/E multiple (X) | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Sector | Mar-11 | Mar-12 | Mar-13 | Mar-14 | Mar-15 | Mar-16 | Mar-17 | Mar-18 | Mar-19 | Mar-20 | Mar-21 | Mar-22 | Mar-23 | Mar-24 | Current |
| Balkrishna Industries | Automobiles & Components | 6 | 8 | 7 | 9 | 11 | 11 | 17 | 21 | 20 | 15 | 26 | 24 | 24 | 27 | 28 |
| Exide Industries | Automobiles & Components | 17 | 19 | 17 | 19 | 21 | 18 | 24 | 22 | 20 | 12 | 17 | 13 | 14 | 20 | 27 |
| Schaeffler India | Automobiles & Components | 11 | 14 | 12 | 17 | 31 | 27 | 31 | 29 | 30 | 25 | 35 | 37 | 42 | 41 | 45 |
| SKF | Automobiles & Components | 15 | 15 | 14 | 19 | 28 | 26 | 28 | 26 | 27 | 18 | 30 | 35 | 32 | 33 | 34 |
| Timken | Automobiles & Components | NA | NA | NA | NA | 40 | 24 | 31 | 34 | 29 | 23 | 39 | 44 | 41 | 49 | 49 |
| Indigo Paints | Commodity Chemicals | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 93 | 47 | 32 | 33 | 42 |
| Kansai Nerolac | Commodity Chemicals | 20 | 19 | 26 | 24 | 31 | 36 | 38 | 43 | 41 | 32 | 47 | 37 | 30 | 27 | 29 |
| Crompton Greaves Consumer | Consumer Durables & Apparel | NA | NA | NA | NA | NA | NA | 39 | 36 | 31 | 24 | 40 | 33 | 29 | 29 | 37 |
| Page Industries | Consumer Durables & Apparel | 24 | 26 | 26 | 36 | 58 | 46 | 48 | 59 | 54 | 40 | 64 | 72 | 53 | 51 | 63 |
| Voltas | Consumer Durables & Apparel | 14 | 13 | 9 | 20 | 24 | 23 | 28 | 31 | 32 | 23 | 44 | 51 | 41 | 49 | 51 |
| Whirlpool | Consumer Durables & Apparel | NA | 15 | 14 | 21 | 34 | 28 | 41 | 43 | 38 | 35 | 46 | 42 | 44 | 45 | 51 |
| United Breweries | Consumer Staples | 47 | 54 | 58 | 68 | 63 | 51 | 51 | 51 | 52 | 35 | 51 | 55 | 56 | 64 | 64 |
| Aster DM Healthcare | Health Care Services | NA | NA | NA | NA | NA | NA | NA | NA | 22 | 10 | 16 | 16 | 17 | 31 | 51 |
| Dr Lal Pathlabs | Health Care Services | NA | NA | NA | NA | NA | 53 | 39 | 35 | 36 | 38 | 67 | 57 | 44 | 45 | 53 |
| Max Healthcare | Health Care Services | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 35 | 34 | 34 | 51 | 57 |
| Metropolis Healthcare | Health Care Services | NA | NA | NA | NA | NA | NA | NA | NA | NA | 33 | 50 | 41 | 34 | 49 | 50 |
| Narayana Hrudayalaya | Health Care Services | NA | NA | NA | NA | NA | 136 | 47 | 44 | 37 | 34 | 39 | 39 | 26 | 31 | 30 |
| Chalet Hotels | Hotels & Restaurants | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 146 | 29 | 45 | 44 |
| Devyani International | Hotels & Restaurants | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 89 | 53 | 86 | 122 |
| Indian Hotels | Hotels & Restaurants | 26 | 23 | 39 | 48 | 66 | 67 | 47 | 51 | 54 | 28 | 100 | 70 | 40 | 51 | 58 |
| Jubilant Foodworks | Hotels & Restaurants | 36 | 48 | 41 | 40 | 54 | 52 | 54 | 58 | 48 | 45 | 75 | 58 | 51 | 69 | 107 |
| Lemon Tree Hotels | Hotels & Restaurants | NA | NA | NA | NA | NA | NA | NA | NA | 64 | 33 | NA | 173 | 39 | 36 | 38 |
| Sapphire Foods | Hotels & Restaurants | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 106 | 54 | 88 | 100 |
| Westlife Foodworld | Hotels & Restaurants | NA | NA | NA | 119 | 264 | 139 | 120 | 107 | 69 | 49 | 113 | 94 | 67 | 91 | 118 |

Source: FactSet, Kotak Institutional Equities

## Most investment stocks are trading at expensive valuations

Exhibit 20: 12-m forward P/E multiple of investment stocks in KIE universe, March fiscal year-ends, 2011-25E (based on consensus estimates)

| | | 12-m forward P/E multiple (X) | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Sector | Mar-11 | Mar-12 | Mar-13 | Mar-14 | Mar-15 | Mar-16 | Mar-17 | Mar-18 | Mar-19 | Mar-20 | Mar-21 | Mar-22 | Mar-23 | Mar-24 | Current |
| ABB | Capital Goods | 41 | 48 | 32 | 60 | 67 | 60 | 51 | 43 | 53 | 42 | 64 | 69 | 73 | 87 | 71 |
| Bharat Electronics | Capital Goods | 14 | 12 | 10 | 11 | 22 | 20 | 21 | 18 | 13 | 10 | 15 | 19 | 21 | 35 | 39 |
| BHEL | Capital Goods | 15 | 10 | 8 | 16 | 21 | 27 | 26 | 20 | 17 | 7 | 28 | 28 | 28 | 78 | 40 |
| Carborundum Universal | Capital Goods | 13 | 13 | 13 | 17 | 21 | 18 | 23 | 24 | 25 | 13 | 30 | 32 | 37 | 42 | 45 |
| Cochin Shipyard | Capital Goods | NA | NA | NA | NA | NA | NA | NA | 16 | 11 | 5 | NA | 6 | 14 | 37 | 37 |
| Cummins India | Capital Goods | 18 | 21 | 18 | 25 | 29 | 26 | 28 | 23 | 24 | 13 | 35 | 32 | 36 | 50 | 44 |
| IRB Infrastructure | Capital Goods | 13 | 12 | 7 | 7 | 13 | 12 | 11 | 8 | 6 | 4 | 8 | 26 | 17 | 32 | 28 |
| Kalpataru Projects | Capital Goods | 9 | 8 | 6 | 7 | 15 | 15 | 16 | 19 | 16 | 5 | 10 | 10 | 12 | 20 | 19 |
| KEC International | Capital Goods | 8 | 8 | 7 | 9 | 13 | 12 | 15 | 19 | 13 | 7 | 15 | 13 | 18 | 23 | 27 |
| L&T | Capital Goods | 21 | 16 | 15 | 22 | 28 | 21 | 23 | 23 | 19 | 11 | 19 | 21 | 22 | 31 | 28 |
| Siemens | Capital Goods | 28 | 28 | 29 | 53 | 75 | 50 | 50 | 37 | 37 | 30 | 52 | 52 | 59 | 76 | 77 |
| Thermax | Capital Goods | 16 | 15 | 18 | 24 | 33 | 28 | 36 | 35 | 27 | 23 | 43 | 48 | 43 | 65 | 59 |
| Amber Enterprises | Electronic Manufacturing Services | NA | NA | NA | NA | NA | NA | NA | 31 | 19 | 19 | 51 | 43 | 29 | 48 | 64 |
| Avalon Technologies | Electronic Manufacturing Services | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 36 | 67 |
| Cyient DLM | Electronic Manufacturing Services | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 49 | 37 |
| Dixon Technologies | Electronic Manufacturing Services | NA | NA | NA | NA | NA | NA | NA | 37 | 27 | 25 | 64 | 63 | 40 | 70 | 92 |
| Kaynes Technology | Electronic Manufacturing Services | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 75 | 92 |
| Syrma SGS Technology | Electronic Manufacturing Services | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 25 | 42 | 44 |

Source: FactSet, Kotak Institutional Equities

## Most outsourcing stocks are trading at higher multiples, compared to their pre-Covid levels

Exhibit 21: 12-m forward P/E multiple of outsourcing stocks in KIE universe, March fiscal year-ends, 2011-25E (based on consensus estimates)

| | | 12-m forward P/E multiple (X) | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Sector | Mar-11 | Mar-12 | Mar-13 | Mar-14 | Mar-15 | Mar-16 | Mar-17 | Mar-18 | Mar-19 | Mar-20 | Mar-21 | Mar-22 | Mar-23 | Mar-24 | Current |
| Coforge | IT Services | 6 | 7 | 7 | 9 | 9 | 10 | 9 | 15 | 16 | 13 | 29 | 32 | 22 | 30 | 44 |
| Cyient | IT Services | 10 | 8 | 8 | 11 | 14 | 12 | 12 | 17 | 14 | 5 | 16 | 18 | 16 | 25 | 24 |
| HCL Technologies | IT Services | 16 | 13 | 14 | 15 | 18 | 13 | 14 | 14 | 14 | 10 | 18 | 21 | 18 | 24 | 28 |
| Infosys | IT Services | 22 | 17 | 16 | 15 | 19 | 18 | 15 | 16 | 18 | 15 | 26 | 30 | 21 | 23 | 28 |
| KPIT Technologies | IT Services | NA | NA | NA | NA | NA | NA | NA | NA | NA | 4 | 20 | 48 | 52 | 53 | 41 |
| LTIMindtree | IT Services | NA | NA | NA | NA | NA | NA | 12 | 18 | 17 | 15 | 32 | 38 | 27 | 27 | 33 |
| L&T Technology Services | IT Services | NA | NA | NA | NA | NA | NA | 16 | 23 | 21 | 14 | 31 | 46 | 28 | 38 | 38 |
| Mphasis | IT Services | 10 | 11 | 10 | 11 | 11 | 13 | 14 | 17 | 15 | 10 | 23 | 36 | 18 | 25 | 29 |
| Persistent Systems | IT Services | 11 | 8 | 10 | 13 | 17 | 18 | 13 | 14 | 12 | 11 | 27 | 42 | 29 | 43 | 57 |
| Tata Elxsi | IT Services | NA | NA | 10 | 21 | 30 | 28 | 22 | 23 | 18 | 14 | 39 | 88 | 44 | 51 | 43 |
| TCS | IT Services | 23 | 18 | 20 | 19 | 20 | 18 | 17 | 19 | 22 | 20 | 30 | 31 | 24 | 28 | 29 |
| Tech Mahindra | IT Services | 11 | 10 | 11 | 13 | 15 | 13 | 12 | 16 | 14 | 11 | 16 | 21 | 16 | 23 | 30 |
| Wipro | IT Services | 18 | 15 | 14 | 15 | 16 | 14 | 14 | 15 | 15 | 11 | 20 | 24 | 15 | 21 | 23 |
| Aurobindo Pharma | Pharmaceuticals | 9 | 7 | 7 | 12 | 18 | 17 | 14 | 12 | 15 | 8 | 15 | 12 | 12 | 17 | 17 |
| Cipla | Pharmaceuticals | 21 | 18 | 18 | 19 | 30 | 20 | 24 | 20 | 22 | 18 | 24 | 25 | 20 | 27 | 24 |
| Divis Laboratories | Pharmaceuticals | 20 | 17 | 17 | 19 | 23 | 20 | 16 | 25 | 28 | 31 | 39 | 40 | 36 | 44 | 65 |
| Dr Reddy's Laboratories | Pharmaceuticals | 19 | 18 | 17 | 18 | 23 | 20 | 21 | 19 | 21 | 21 | 24 | 21 | 18 | 19 | 18 |
| Lupin | Pharmaceuticals | 18 | 20 | 20 | 20 | 31 | 20 | 20 | 19 | 21 | 21 | 27 | 22 | 24 | 32 | 26 |
| Mankind Pharma | Pharmaceuticals | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 41 | 43 |
| Sun Pharmaceuticals | Pharmaceuticals | 22 | 23 | 23 | 20 | 29 | 24 | 21 | 25 | 23 | 17 | 23 | 26 | 24 | 35 | 34 |
| Torrent Pharmaceuticals | Pharmaceuticals | 14 | 13 | 12 | 15 | 22 | 17 | 21 | 22 | 30 | 29 | 30 | 32 | 33 | 43 | 45 |
| SRF | Specialty Chemicals | 3 | 3 | 5 | 7 | 14 | 14 | 15 | 16 | 18 | 16 | 24 | 38 | 29 | 37 | 41 |

Source: FactSet, Kotak Institutional Equities

## Most banks are trading at reasonable valuations

Exhibit 22: 12 m forward P/B multiple of banks in KIE universe, March fiscal year ends, 2011-25E (based on consensus estimates)

| | 12-m forward P/B multiple (X) | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Mar-11 | Mar-12 | Mar-13 | Mar-14 | Mar-15 | Mar-16 | Mar-17 | Mar-18 | Mar-19 | Mar-20 | Mar-21 | Mar-22 | Mar-23 | Mar-24 | Current |
| AU Small Finance Bank | NA | NA | NA | NA | NA | NA | NA | 7.0 | 4.6 | 3.0 | 5.9 | 4.6 | 3.1 | 2.6 | 2.4 |
| Axis Bank | 2.6 | 1.8 | 1.7 | 1.6 | 2.6 | 1.8 | 2.1 | 1.9 | 2.7 | 1.1 | 1.9 | 1.9 | 1.8 | 1.9 | 1.8 |
| Bandhan Bank | NA | NA | NA | NA | NA | NA | NA | 5.2 | 4.9 | 1.7 | 2.7 | 2.6 | 1.4 | 1.2 | 1.0 |
| Bank of Baroda | 1.7 | 1.1 | 0.8 | 0.9 | 0.9 | 1.0 | 1.2 | 0.9 | 0.9 | 0.4 | 0.5 | 0.7 | 0.8 | 1.1 | 0.9 |
| Canara Bank | 1.3 | 0.9 | 0.7 | 0.5 | 0.6 | 0.5 | 0.9 | 0.9 | 1.3 | 0.2 | 0.6 | 0.6 | 0.7 | 1.2 | 0.9 |
| City Union Bank | 1.5 | 1.4 | 1.4 | 1.3 | 2.0 | 1.7 | 2.3 | 2.6 | 2.8 | 1.6 | 1.9 | 1.4 | 1.2 | 1.1 | 1.3 |
| DCB Bank | 1.3 | 1.3 | 1.0 | 1.2 | 1.9 | 1.2 | 2.2 | 1.8 | 2.0 | 0.8 | 0.9 | 0.6 | 0.7 | 0.7 | 0.7 |
| Equitas Small Finance Bank | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 1.8 | 1.4 | 1.5 | 1.6 | 1.1 |
| Federal Bank | 1.3 | 1.2 | 1.2 | 1.1 | 1.3 | 0.9 | 1.7 | 1.4 | 1.4 | 0.5 | NA | NA | NA | 1.1 | 1.4 |
| HDFC Bank | 3.8 | 3.5 | 3.5 | 3.5 | 3.6 | 3.2 | 3.8 | 3.8 | 3.8 | 2.5 | 3.6 | 3.0 | 2.8 | 2.2 | 2.5 |
| ICICI Bank | 2.2 | 1.6 | 1.7 | 1.8 | 2.1 | 1.5 | 1.8 | 1.7 | 2.3 | 1.7 | 2.5 | 2.7 | 2.7 | 2.9 | 3.0 |
| Indusind Bank | 2.8 | 2.8 | 2.5 | 2.6 | 3.8 | 2.9 | 3.7 | 4.0 | 3.4 | 0.6 | 1.6 | 1.4 | 1.3 | 1.7 | 1.0 |
| Karur Vysya Bank | 1.7 | 1.3 | 1.4 | 1.1 | 1.5 | 1.1 | 1.4 | 1.3 | 1.0 | 0.3 | 0.7 | 0.5 | 0.9 | 1.3 | 1.4 |
| Punjab National Bank | 1.6 | 1.1 | 0.7 | 0.8 | 0.7 | 0.6 | 1.0 | 0.6 | 1.0 | 0.4 | 0.5 | 0.4 | 0.6 | 1.3 | 0.9 |
| State Bank of India | 1.9 | 1.7 | 1.4 | 1.3 | 1.6 | 1.2 | 1.5 | 1.2 | 1.4 | 0.8 | 1.3 | 1.5 | 1.3 | 1.7 | 1.6 |
| Ujjivan Small Finance Bank | NA | NA | NA | NA | NA | NA | NA | NA | NA | 1.4 | 1.6 | 0.9 | 1.0 | 1.4 | 0.9 |
| Union Bank | 1.4 | 0.9 | 0.8 | 0.5 | 0.6 | 0.6 | 0.7 | 0.5 | 0.6 | 0.3 | 0.5 | 0.4 | 0.6 | 1.1 | 0.8 |

Source: FactSet, Kotak Institutional Equities

## NBFCs are trading at fair valuations

Exhibit 23: 12 m forward P/B multiple of financial stocks in KIE universe, March fiscal year ends, 2011-25E (based on consensus estimates)

| Company | Mar-11 | Mar-12 | Mar-13 | Mar-14 | Mar-15 | Mar-16 | Mar-17 | Mar-18 | Mar-19 | Mar-20 | Mar-21 | Mar-22 | Mar-23 | Mar-24 | Current |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **12-m forward P/B multiple (X)** | | | | | | | | | | | | | | | |
| Aavas Financiers | NA | NA | NA | NA | NA | NA | NA | NA | 4.7 | 3.9 | 7.0 | 6.4 | 3.4 | 2.4 | 2.7 |
| Aptus Value Housing Finance | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 5.2 | 3.1 | 3.6 | 3.3 |
| Bajaj Finance | 1.6 | 1.4 | 1.5 | 1.9 | 3.5 | 4.2 | 5.7 | 5.3 | 7.3 | 3.4 | 7.1 | 8.4 | 5.2 | 5.0 | 4.0 |
| Cholamandalam | 1.6 | 1.6 | 1.8 | 1.6 | 2.6 | 2.8 | 3.2 | 3.8 | 3.2 | 1.3 | 4.1 | 4.5 | 3.9 | 4.3 | 3.8 |
| Home First Finance | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 2.7 | 3.9 | 3.2 | 3.3 | 3.5 |
| LIC Housing Finance | 2.2 | 2.1 | 1.5 | 1.4 | 2.3 | 2.3 | 2.5 | 1.9 | 1.6 | 0.6 | 1.0 | 0.8 | 0.7 | 1.0 | 0.9 |
| Mahindra & Mahindra Financial | 2.7 | 2.0 | 2.2 | 2.5 | 2.3 | 2.2 | 2.7 | 3.1 | 2.3 | 0.8 | 1.6 | 1.2 | 1.6 | 1.7 | 1.6 |
| Muthoot Finance | NA | 1.1 | 1.3 | 1.4 | 1.5 | 1.2 | 2.1 | 1.9 | 2.4 | 1.7 | 2.7 | 2.5 | 1.6 | 2.1 | 2.5 |
| Shriram Finance | 3.0 | 1.9 | 1.8 | 1.8 | 2.4 | 2.0 | 2.0 | 2.3 | 1.7 | 0.7 | 1.6 | 1.1 | 1.0 | 1.6 | 1.8 |
| **12-m forward P/E multiple (X)** | | | | | | | | | | | | | | | |
| ABSL AMC | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 22 | 13 | 18 | 25 |
| Computer Age Management Services | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 37.4 | 34 | 29 | 35 | 42 |
| CRISIL | 20 | 27 | 22 | 31 | 41 | 37 | 33 | 36 | 25 | 22 | 34 | 45 | 40 | 50 | 50 |
| HDFC AMC | NA | NA | NA | NA | NA | NA | NA | NA | 34 | 31 | 41 | 29 | 23 | 38 | 33 |
| ICRA | 16 | 18 | 16 | 24 | 41 | 39 | 45 | 34 | 22 | 20 | 36 | 32 | 27 | 31 | 47 |
| Kfin Technologies | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 25 | 36 | 49 |
| Nippon AMC | NA | NA | NA | NA | NA | NA | NA | 25 | 24 | 24 | 34 | 26 | 17 | 27 | 30 |
| UTI AMC | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 19 | 20 | 14 | 15 | 19 |

Source: FactSet, Kotak Institutional Equities

## We expect earnings of the Nifty-50 Index to grow 5% in FY2025 and 16% in FY2026

Exhibit 24: Valuation summary of Nifty-50 sectors (full-float basis), March fiscal year-ends, 2025-27E (based on current constituents)

| | Mcap. | Adj. mcap. | Earnings growth (%) | | | P/E (X) | | | EV/EBITDA (X) | | | P/B (X) | | | Div. yield (%) | | | RoE (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (US$ bn) | (US$ bn) | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E |
| Automobiles & Components | 180 | 98 | 9.0 | 10.9 | 15.5 | 23.5 | 21.2 | 18.4 | 12.8 | 11.5 | 10.0 | 4.7 | 4.1 | 3.6 | 1.4 | 1.6 | 1.8 | 20.2 | 19.5 | 19.6 |
| Banks | 444 | 377 | 2.4 | 14.2 | 16.3 | 17.0 | 14.9 | 12.8 | – | – | – | 2.4 | 2.2 | 1.9 | 1.2 | 1.3 | 1.4 | 14.3 | 14.4 | 14.8 |
| Capital Goods | 113 | 68 | 40.2 | 18.6 | 18.7 | 33.8 | 28.5 | 24.0 | 21.1 | 17.3 | 13.2 | 5.3 | 4.4 | 3.8 | 0.6 | 0.8 | 0.9 | 15.6 | 15.5 | 15.9 |
| Commodity Chemicals | 28 | 13 | (21.5) | 9.8 | 11.6 | 55.3 | 50.4 | 45.1 | 37.4 | 34.2 | 31.2 | 11.3 | 10.2 | 9.2 | 0.9 | 1.0 | 1.2 | 20.5 | 20.2 | 20.4 |
| Construction Materials | 60 | 27 | (13.3) | 36.7 | 22.6 | 43.8 | 32.0 | 26.1 | 17.7 | 14.3 | 12.4 | 3.2 | 3.0 | 2.7 | 0.5 | 0.7 | 0.8 | 7.3 | 9.2 | 10.4 |
| Consumer Staples | 189 | 102 | 0.1 | 11.6 | 10.6 | 41.8 | 37.5 | 33.9 | 30.4 | 27.0 | 24.3 | 10.3 | 9.8 | 9.3 | 2.0 | 2.3 | 2.5 | 24.5 | 26.1 | 27.5 |
| Diversified Financials | 92 | 42 | 28.8 | 21.1 | 23.3 | 20.2 | 16.7 | 13.6 | – | – | – | 3.9 | 3.3 | 2.7 | 0.5 | 0.6 | 0.7 | 19.3 | 19.7 | 20.3 |
| Electric Utilities | 79 | 39 | 6.1 | 12.0 | 7.2 | 17.3 | 15.4 | 14.4 | 10.3 | 9.5 | 9.1 | 2.4 | 2.2 | 2.0 | 2.9 | 3.0 | 3.1 | 13.7 | 14.1 | 13.9 |
| Health Care Services | 12 | 8 | 61.1 | 39.1 | 34.1 | 69.0 | 49.6 | 37.0 | 33.5 | 26.2 | 20.5 | 12.1 | 9.9 | 8.0 | 0.2 | 0.2 | 0.2 | 17.6 | 20.1 | 21.5 |
| IT Services | 390 | 177 | 9.4 | 11.9 | 12.3 | 30.0 | 26.8 | 23.9 | 19.9 | 17.9 | 16.0 | 8.6 | 8.0 | 7.4 | 2.3 | 2.7 | 3.1 | 28.7 | 29.7 | 31.0 |
| Insurance | 35 | 17 | 21.4 | 13.7 | 11.0 | 70.6 | 62.1 | 56.0 | – | – | – | 9.3 | 8.4 | 7.7 | 0.3 | 0.3 | 0.4 | 13.1 | 13.6 | 13.7 |
| Metals & Mining | 67 | 36 | 33.8 | 47.5 | 19.5 | 19.3 | 13.1 | 10.9 | 8.6 | 7.0 | 6.2 | 1.9 | 1.7 | 1.5 | 0.9 | 1.3 | 1.6 | 9.7 | 12.8 | 13.6 |
| Oil, Gas & Consumable Fuels | 284 | 130 | (13.6) | 14.6 | 7.1 | 14.9 | 13.0 | 12.2 | 8.6 | 7.2 | 6.4 | 1.7 | 1.5 | 1.4 | 1.7 | 1.8 | 1.7 | 11.4 | 11.9 | 11.6 |
| Pharmaceuticals | 77 | 41 | 12.6 | 13.0 | 5.3 | 29.6 | 26.2 | 24.9 | 20.1 | 17.5 | 16.5 | 4.8 | 4.2 | 3.7 | 0.7 | 0.7 | 0.8 | 16.2 | 15.9 | 14.8 |
| Retailing | 63 | 34 | 28.1 | 29.2 | 28.3 | 94.1 | 72.8 | 56.7 | 61.1 | 48.6 | 38.8 | 30.5 | 22.8 | 17.2 | 0.2 | 0.3 | 0.3 | 32.4 | 31.3 | 30.2 |
| Telecommunication Services | 111 | 52 | 105.4 | 38.6 | 27.0 | 40.4 | 29.2 | 23.0 | 11.8 | 9.5 | 7.7 | 10.3 | 7.8 | 6.7 | 0.9 | 1.4 | 1.8 | 25.5 | 26.8 | 29.3 |
| Transportation | 29 | 10 | 20.1 | 25.5 | 11.3 | 22.7 | 18.1 | 16.3 | 15.6 | 12.8 | 10.6 | 3.9 | 3.3 | 2.8 | 0.6 | 0.8 | 0.8 | 17.4 | 18.4 | 17.4 |
| **Nifty-50 Index** | **2,253** | **1,272** | **4.8** | **16.4** | **14.0** | **23.5** | **20.2** | **17.7** | **14.2** | **12.2** | **10.8** | **3.6** | **3.2** | **2.9** | **1.4** | **1.6** | **1.8** | **15.3** | **15.9** | **16.2** |
| **Nifty-50 Index (ex-energy)** | **1,969** | **1,141** | **10.6** | **16.9** | **15.7** | **25.6** | **21.9** | **18.9** | **16.6** | **14.4** | **12.5** | **4.3** | **3.8** | **3.4** | **1.4** | **1.6** | **1.8** | **16.7** | **17.3** | **17.8** |
| **Nifty-50 Index (ex-banks)** | **1,810** | **894** | **5.7** | **17.2** | **13.2** | **25.9** | **22.1** | **19.5** | **14.2** | **12.2** | **10.8** | **4.1** | **3.6** | **3.3** | **1.5** | **1.7** | **1.9** | **15.7** | **16.5** | **16.7** |

Notes:
(a) We use consensus numbers for Adani Enterprises and Kotak Mahindra Bank.

Source: Bloomberg, Kotak Institutional Equities estimates

## Banks, diversified financials, IT services and metals & mining to provide bulk of the incremental profits for FY2025 of the Nifty-50 Index

Exhibit 25: Breakdown of net profits of the Nifty-50 Index across sectors, March fiscal year-ends, 2023-27E (based on current constituents)

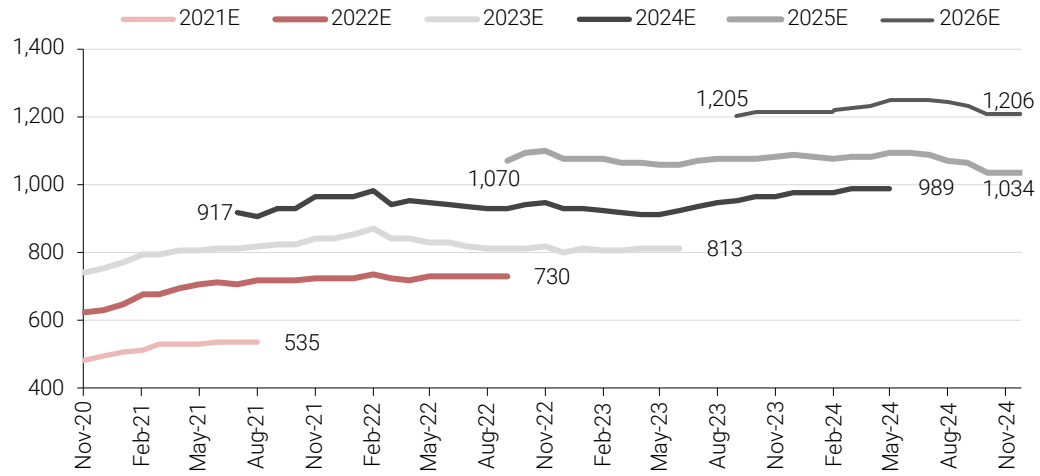
| | Net profits (Rs bn) | | | | | Contribution (%) | | | | | Incremental profits | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | 2025E | | 2026E | | 2027E | |
| | 2023 | 2024 | 2025E | 2026E | 2027E | 2023 | 2024 | 2025E | 2026E | 2027E | (Rs bn) | (%) | (Rs bn) | (%) | (Rs bn) | (%) |
| Automobiles & Components | 279 | 595 | 648 | 718 | 829 | 4 | 8 | 8 | 8 | 8 | 53 | 14 | 70 | 5 | 111 | 8 |
| Tata Motors | 7 | 200 | 209 | 253 | 317 | 0 | 3 | 3 | 3 | 3 | 9 | 2 | 44 | 3 | 64 | 5 |
| Banks | 1,860 | 2,148 | 2,201 | 2,512 | 2,922 | 29 | 28 | 27 | 27 | 27 | 52 | 14 | 312 | 23 | 409 | 31 |
| Axis Bank | 212 | 249 | 250 | 278 | 319 | 3 | 3 | 3 | 3 | 3 | 1 | 0 | 29 | 2 | 41 | 3 |
| HDFC Bank | 603 | 608 | 671 | 826 | 945 | 9 | 8 | 8 | 9 | 9 | 63 | 17 | 155 | 12 | 119 | 9 |
| ICICI Bank | 319 | 409 | 434 | 459 | 505 | 5 | 5 | 5 | 5 | 5 | 26 | 7 | 24 | 2 | 46 | 4 |
| State Bank of India | 502 | 611 | 585 | 656 | 817 | 8 | 8 | 7 | 7 | 8 | (26) | (7) | 70 | 5 | 162 | 12 |
| Capital Goods | 158 | 202 | 283 | 336 | 398 | 2 | 3 | 3 | 4 | 4 | 81 | 22 | 53 | 4 | 63 | 5 |
| Commodity Chemicals | 42 | 55 | 43 | 47 | 53 | 1 | 1 | 1 | 0 | 0 | (12) | (3) | 4 | 0 | 5 | 0 |
| Construction Materials | 120 | 132 | 115 | 157 | 193 | 2 | 2 | 1 | 2 | 2 | (18) | (5) | 42 | 3 | 36 | 3 |
| Consumer Staples | 338 | 381 | 381 | 426 | 470 | 5 | 5 | 5 | 5 | 4 | 0 | 0 | 44 | 3 | 45 | 3 |
| Diversified Financials | 239 | 298 | 384 | 465 | 573 | 4 | 4 | 5 | 5 | 5 | 86 | 23 | 81 | 6 | 108 | 8 |
| Electric Utilities | 324 | 364 | 386 | 433 | 464 | 5 | 5 | 5 | 5 | 4 | 22 | 6 | 46 | 3 | 31 | 2 |
| Health Care Services | 8 | 9 | 14 | 20 | 27 | – | – | – | – | – | 5 | 1 | 6 | 0 | 7 | 1 |
| IT Services | 975 | 1,004 | 1,098 | 1,229 | 1,380 | 15 | 13 | 14 | 13 | 13 | 94 | 26 | 131 | 10 | 151 | 11 |
| Insurance | 31 | 35 | 42 | 48 | 53 | 0 | 0 | 1 | 1 | 0 | 7 | 2 | 6 | 0 | 5 | 0 |
| Metals & Mining | 248 | 219 | 293 | 432 | 516 | 4 | 3 | 4 | 5 | 5 | 74 | 20 | 139 | 10 | 84 | 6 |
| Tata Steel | 86 | 34 | 58 | 142 | 172 | 1.3 | 0.4 | 0.7 | 1.5 | 1.6 | 25 | 7 | 84 | 6.3 | 30 | 2 |
| Oil, Gas & Consumable Fuels | 1,443 | 1,859 | 1,606 | 1,840 | 1,971 | 22 | 24 | 20 | 19 | 18 | (252) | (68) | 234 | 18 | 130 | 10 |
| BPCL | 30 | 280 | 95 | 124 | 122 | 0 | 4 | 1 | 1 | 1 | (185) | (50) | 29 | 2 | (3) | (0) |
| Coal India | 281 | 374 | 321 | 325 | 333 | 4 | 5 | 4 | 3 | 3 | (52) | (14) | 3 | 0 | 8 | 1 |
| ONGC | 465 | 509 | 502 | 548 | 552 | 7 | 7 | 6 | 6 | 5 | (7) | (2) | 46 | 3 | 4 | 0 |
| Reliance Industries | 667 | 696 | 688 | 844 | 964 | 10 | 9 | 8 | 9 | 9 | (8) | (2) | 156 | 12 | 120 | 9 |
| Pharmaceuticals | 160 | 196 | 220 | 249 | 262 | 2 | 3 | 3 | 3 | 2 | 25 | 7 | 29 | 2 | 13 | 1 |
| Retailing | 37 | 44 | 56 | 73 | 93 | 1 | 1 | 1 | 1 | 1 | 12 | 3 | 16 | 1 | 21 | 2 |
| Telecommunication Services | 90 | 113 | 232 | 322 | 409 | 1 | 1 | 3 | 3 | 4 | 119 | 32 | 90 | 7 | 87 | 7 |
| Transportation | 83 | 90 | 108 | 136 | 151 | 1 | 1 | 1 | 1 | 1 | 18 | 5 | 28 | 2 | 15 | 1 |
| **Nifty-50 Index** | **6,434** | **7,742** | **8,112** | **9,442** | **10,764** | **100** | **100** | **100** | **100** | **100** | **369** | **100** | **1,330** | **100** | **1,321** | **100** |
| **Nifty-50 change (%)** | | **20.3** | **4.8** | **16.4** | **14.0** | | | | | | | | | | | |
| **Nifty-50 Index ex-BPCL, HPCL & COAL change (%)** | **6,088** | **7,008** | **7,676** | **8,952** | **10,269** | | | | | | | | | | | |
| **Nifty-50 Index ex-BPCL, HPCL & COAL change (%)** | | **15.1** | **9.5** | **16.6** | **14.7** | | | | | | | | | | | |
| **Nifty-50 EPS (FF)** | **730** | **813** | **1,034** | **1,206** | **1,376** | | | | | | | | | | | |

Notes:
(a) We use consensus numbers for Adani Enterprises and Kotak Mahindra Bank.
(b) We exclude ONGC's ownership of HPCL for ex-HPCL computation.

Source: Kotak Institutional Equities estimates

**Our EPS estimates of the Nifty-50 Index have seen modest cuts in recent months**

Exhibit 26: Nifty-50 Index EPS estimates trend, March fiscal year-ends, 2021-26E (Rs)




Source: Kotak Institutional Equities estimates

kotak Institutional Equities

# Strategy

India

**November 25, 2024**

## Midcap Conference

**KIE's Midcap Conference took place on November 21-22 in Mumbai. On the first day, 200 representatives from 128 funds, along with 47 companies, participated in the event. More than 200 meetings also took place during the day. The second day witnessed the participation of 272 representatives across 152 funds who met 123 executives from 56 companies in about 250 meetings.**

### Companies

| | Thursday, November 21, 2024 |
|---|---|
| 1 | Action Construction Equipment |
| 2 | Aether Industries |
| 3 | Angel One |
| 4 | Aptus Value Housing Finance |
| 5 | Bajaj Electricals |
| 6 | Bandhan Bank |
| 7 | Blue Star |
| 8 | Borosil Renewables |
| 9 | BSE |
| 10 | Capital Small Finance Bank |
| 11 | CDSL |
| 12 | CEAT |
| 13 | DCB Bank |
| 14 | Dodla Dairy |
| 15 | eClerx Services Ltd |
| 16 | Federal Bank |
| 17 | Fine Organic Industries |
| 18 | Fino Payments Bank |
| 19 | Firstsource Solutions |
| 20 | Galaxy Surfactants |
| 21 | GRP |
| 22 | Inox India |
| 23 | Jana Small Finance Bank |
| 24 | Jindal Stainless |
| 25 | Karur Vysya Bank |
| 26 | KFin Technologies |
| 27 | Kirloskar Brothers |
| 28 | Medi Assist Healthcare Services |
| 29 | Mindspace Business Parks REIT |
| 30 | Newgen Software |
| 31 | Nexus Select Trust |
| 32 | Nippon Life India Asset Management |
| 33 | Nuvama Wealth |
| 34 | PCBL |
| 35 | Petronet LNG |
| 36 | Piramal Pharma |
| 37 | Protean eGov Technologies |
| 38 | Prudent Corporate Advisory Services |
| 39 | Raymond Lifestyle |
| 40 | RBL Bank |
| 41 | Route Mobile |
| 42 | SH Kelkar & Co |
| 43 | Signature Global |
| 44 | Sonata Software |
| 45 | Symphony |
| 46 | Welspun Corp. |
| 47 | Zen Technologies |

| | Friday, November 22, 2024 |
|---|---|
| 1 | 360 ONE WAM |
| 2 | Aavas Financiers |
| 3 | Aditya Birla Sun Life Asset Management Co |
| 4 | Ami Organics |
| 5 | Anupam Rasayan India |
| 6 | Apar Industries |
| 7 | APL Apollo Tubes |
| 8 | AU Small Finance Bank |
| 9 | Balrampur Chini Mills |
| 10 | BLS International |
| 11 | Blue Jet Healthcare |
| 12 | Can Fin Homes |
| 13 | CIE Automotive |
| 14 | City Union Bank |
| 15 | Computer Age Management Services |
| 16 | Concord Biotech |
| 17 | CreditAccess Grameen |
| 18 | Cyient |
| 19 | eMudhra |
| 20 | Entero Healthcare Solutions |
| 21 | Eris Lifesciences |
| 22 | Ganesha Ecosphere |
| 23 | Gujarat Gas |
| 24 | Home First Finance Company |
| 25 | IDFC First Bank |
| 26 | Indraprastha Gas |
| 27 | Intellect Design Arena |
| 28 | Juniper Hotels |
| 29 | Jupiter Life Line Hospitals |
| 30 | Karur Vysya Bank |
| 31 | Laxmi Organic Industries |
| 32 | Mahanagar Gas |
| 33 | Paras Defence and Space Technologies |
| 34 | Praj Industries |
| 35 | Prince Pipes |
| 36 | R R Kabel |
| 37 | RateGain Travel Technologies |
| 38 | Raymond |
| 39 | SAMHI Hotels |
| 40 | Satin Creditcare Network |
| 41 | SG Mart |
| 42 | Shyam Metalics |
| 43 | Sula Vineyards |
| 44 | Sunteck Realty |
| 45 | Suven Pharmaceuticals |
| 46 | Tamilnad Mercantile Bank |
| 47 | Tata Communications |
| 48 | Thyrocare Technologies |
| 49 | Tinna Rubber and Infrastructure |
| 50 | Triveni Engineering & Industries |
| 51 | Ugro Capital |
| 52 | Va Tech Wabag |
| 53 | Vishnu Chemicals |
| 54 | Waaree Renewable Technologies |
| 55 | Yes Bank |
| 56 | Zensar Technologies |

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## Companies: November 21, 2024

# Action Construction Equipment

### Key takeaways

- **Focus is on diversifying and making exposure less cyclical.** The manufacturing and logistics businesses account for ~45% of sales at present. The endeavor of the company is to further increase the share of less cyclical sectors to 55% and the lower share of the construction and infra segment (35% currently). The target is to make exports a larger 15% share (from an 8% share in FY2024). In such a context, the company has introduced products with global appeal (telehandlers) and is banking on the shift-up in emission standards for construction equipment to the levels of key overseas geographies (could lead to higher export demand). The other endeavor is to focus on the defense segment, where the company aims to build a business in material handling equipment. The market size is small and thus, it expects a 5% share to come from this segment.

- **Backhoe loader segment of interest, given low base and common customer.** The company highlighted the backhoe loader segment as being a large Rs120-130 bn market growing at single digits. This is the segment dominated by JCB and with Action Construction having an insignificant market share (~2%). It aims to use its strong positioning in the pick-up and carry cranes segment (65% market share) and related overlap to its advantage—the same customer that rents pick-up and carry cranes also rents backhoe loaders. The company shared about the failure of other players, including JCB, to establish its business in its pick-up and carry cranes business.

- **Other areas of growth include tower cranes (housing for all) and forklifts/telehandler (logistics).** Two themes that the company is positive about are housing for all and transportation in the country becoming multi-modal over term. The former will lead to a strong increase in demand for tower cranes (dominant market share) as a large quantum of houses to be constructed will require construction to happen vertically. The latter will lead to the palletization of cargo, driving growth in telehandlers (nascent in domestic) and forklifts (typically used in domestic).

- **Need to invest in more land parcels to grow much beyond Rs40 bn topline.** The current 100 acres of land is broadly 85% utilized. At 100% land utilization, 80-85% capacity utilization and some capacity boost through automation, the company can reach a topline of Rs40-45 bn. It is considering investing in another 80 acres of land parcels and may focus on developing capacities on ~20 acres of such parcel in the near term.

- **Competition primarily from MNC companies.** Key competitors now including Escorts (acquired by Kubota) are MNC companies. The same has led to reduction in price-based competition and higher focus on service (crane with break at some time and requires faster response). In such a context, the company has been able to take pricing up, driving up the margin from high single digits to healthy double-digit levels.

## Aether Industries

### Key takeaways

- **Baker Hughes contract:** The tendering process for a major oil field project with Baker Hughes has been completed by an oil PSU in India. The contract is for six products. At peak, the Baker Hughes contract is expected to generate ~Rs4 bn of revenues. The contract will be served from site-4. Revenues from this contract are expected to be Rs300-400 mn in 4QFY25, ramping up further in FY2026 and beyond. The total volumes envisaged in the agreement are in the range of 15-19.5 KTPA (across all six products combined), while the average realizations on these products will range between US$2.5-6/kg.
- **Guidance:** Management guided to ~Rs8 bn of revenues in FY2025. Gross block is expected to be Rs30 bn by FY2030.
- **Site-2 status:** The fire that impacted site-2 is expected to be operational within a month. Site-2 has six plants, of which plant-2 and plant-1 (partially) were impacted due to the fire. The site houses products such as 4-MEP and MMBC.
- **Site3++:** The company expects to enter into a contract with a big customer at this site. Management believes this can be a game-changer for the company.
- **R&D:** The company continues to focus heavily on R&D and will further ramp up its R&D function by doubling capacity within a year or so.
- **China prices:** Management expects that prices for key products to start increasing in CY2025, with the onset of the new year. According to management, it has observed that many Chinese companies are under tremendous pressure and are operating at low margins. Therefore, it is expected that it will start increasing prices in the coming year.

# Angel One

## Key takeaways

- Core market positioning. Acquire clients at a young age in the mass retail segment in non-metro locations. While they start with broking, as they graduate and mature, they will use more products on the platform. Added MF and will add credit cards, bonds and other products. It will also have its own AMC and wealth products. Idea is to acquire clients on the broking side and build the journey. Most of the customers are under 25 years old and are new to markets.

- Customer acquisition engine has been sharpened to have attractive operating margins. Acquisition is through two large methods—digital marketing-driven and referral on the direct side. It has the assisted business, given there is still a large set of population who needs assistance initially. Assisted channel comprises 20-25% of the business. Investing toward establishing a wider brand reach. Its association with IPL in 2024 (four more years to go) that will help accelerate customer acquisition across locations.

- Customer acquisition linkage to market movements. The company has not seen any impact. It remains very focused and aggressive in ensuring market share improvement.

- Impact of regulations. Impact will have to be seen. Weekly expiry on every day is a very recent phenomenon. Industry's volume growth has not been a function of weekly products but rather more customers getting added. Customers come with a certain capital and figure out opportunities available to trade. The company does not see this behavior changing materially.

- More products per customer. Active clients are nearly 50%, which is higher than the annual active rate reported by the NSE (~30-35% of the customer base). Angel will create markets for banks, as acquiring customers that Angel has is very difficult for banks. The company did Rs3.6 bn disbursements in the first quarter. The average ticket size is Rs0.10-0.15 mn with maturity close to two years. The company will be slow in building this and will carefully introduce the journey, given its engagement in other products.

  - The company has a good understanding of its customer profile. Customers at this point are not getting advice and there are no digital platforms for the affluent customer base.

- Commodities. Contributes 5% of the business and Angel is a market leader. This segment has more trading hours than equity. Unlike equities, content is far more limited in the commodities segment.

- Customer P&L. Not very different from what the SEBI has said in the report. The company is also seeing customers building equity wealth through direct equities and mutual funds. By losing money in the initial years, the customer is able to understand and participate in equities over their long financial journey that lies ahead. The customer generated wealth along with trading.

- Angel is #2 in incremental SIPs—60% is usual traders. Of the rest 40%, 10% were inactive customers who became active purely because of mutual funds.

- Customer profitability. The current LTV is 8X, which is supported by the F&O business. It does not include the impact of the F&O regulations and new charges on delivery and other revenue sources. The company believes that even 4X LTV is quite attractive as a digital platform. It believes that 8X LTV can be bettered with new products. The company will focus on investing in bringing the costs down in order to capture a larger customer segment.

- Competition. Top 4 is 8-85% in incremental additions. Higher market share concentration is favorable. The company has 22% market share in incremental demat additions. Groww is at 25% and Zerodha at 8%.

- Wealth. Expect 25% of AUM of the wealth business to come from current broking customers, who are affluent.

# Aptus Value Housing Finance

## Key takeaways

- **Brief profile of customer.** The typical customer is self-employed person in a tier-3 or 4 city with 1,000-1,200 sq. ft land on which he wants to build a house. LTV is low at 40-50% as only the construction is financed. Operates out of six states, mainly in South India; started Orissa and Maharashtra recently. Will cross Rs100 bn AUM this month. All processes from sourcing, underwriting, legal and collections are handled inhouse. Aptus has three main products (1) home loans with yield of 15%, (2) small business loans with yield of 22% and (3) quasi home loans with yield of 17-18%.

- **Low overlap with MFI.** Since the ATS of loans is higher at Rs0.8 mn and LTV is low at 40-50% the customer typically has a property of Rs1.6 mn and hence is notch or two above the MFI customer. The overlap with MFI loans is low in the core HL book. About 55% of the ~150k customers have no other loan and 20% of them have one more loan from a different lender the rest (25%) have more than 2 loans/lender associations. These loans are largely non-EMI loans like credit card, gold loan.

- **Incremental growth to be driven by TN and KA.** It takes 2-3 years to settle a new state business, hence Orissa and Maharashtra are right now in look-and-see phase. Incremental growth in the next three years will be driven by Telangana and Karnataka. The company will set up a branch every 50-60 km in Telangana and Karnataka similar to Andhra Pradesh and Tamil Nadu.

- **Multiple drivers of growth.** Aptus's loan growth will be driven by deeper penetration into existing states and moderate rise in ticket sizes (up to Rs1.0 mn form 0.8 mn currently). Improvement in productivity of employees to 4 files per month from 3 files currently will also support AUM growth. Mortgage to GDP ratio is low at 11% and shortage in housing is also significant. These factors support the strong demand for affordable housing in India.

- **Alternate channels augment.** Leads from digital marketing efforts and connectors are consolidated at head office and a dedicated credit team evaluates these loans. These alternate channels contributed to 20% of disbursements in 2QFY25.

- **BT-out rate is lower than peers.** 7.5-8.0% pre-closures on average loan book, of which only 2.5% is BT-out the rest is funded by customers own funds. The self-employed customers have lumpy cashflows and tend to prepay when they receive bulk amount from one-off events like chit fund maturing etc. BT-out are driven by both higher quantum and lower interest rate but much lower than peers.

- **Centralized credit approval.** Credit approval is centralized but the branch credit officer is to recommend a proposal based on footfalls and cash flow analysis. The proposal is approved by (1) branch manager and (2) regional credit manager. Out of 150 leads generated, only 100 are logged in by the sales team of which 85 get sanctioned and 80 get disbursed.

- **Repossession is low.** The volume of repossession is low as the procedure for physical repossession of assets is long drawn. The company prefers symbolic repossession where the court grants an order for repossession. The court order is used to bring the customer to the negotiating table and persuade him to sell the property.

- **End-use is tracked.** Aptus tracks the end use of loan amount in the SBL and in 80% cases the company was able to confirm that the loan amount has been used for the specified end use. Even in the rest of the cases repayment has been prompt for most borrowers.

- **Risk of regulatory action is low.** RBI inspection and NHB audit are completed an no significant observations were made by the regulators. The interest rates are lower than most of the banned entities and hence the risk of regulatory action is low. Management maintains guidance of 30% AUM growth.

# Bajaj Electricals

## Key takeaways

- **Strategy.** The company had laid out a strategy to succeed in this decade (2020-30).
  - **Horizon-1** involved creating a new structure, systems, and processes; clean-up and strengthen the balance sheet. They demerged the EPC business into a separate company last year. Bajaj today has net cash of Rs4 bn versus debt of Rs20 bn in 2019. The company had even reached 9% EBIT margin at one point in the past.
  - **Horizon-2:** While Bajaj had an edge in terms of distribution (largest reach within the sector with >200k outlets) and customer care (best in the country), it lacked in terms of brand and products. Its brand/portfolio wasn't seen as aspirational or contemporary, as it was predominantly playing only at bottom-of-pyramid and in rural. It has partly addressed this by adding new brands and premiumizing its portfolio (Bajaj's premium mix within fans is >15% versus around 40%+ for the industry).
  - **Horizon-3:** While they were earlier targeting to transition to horizon-3 by CY2026, it might have to defer it now by a year or so.
- **Recent slowdown.** Bajaj introduced >500 SKUs in past two years, in a bid to move up the value chain, without losing its hold on the bottom-of-pyramid segment. However, its newer designs involved a 4-5% higher cost, which led to Bajaj taking some price hikes. These hikes didn't go down too well with the market and Bajaj lost market share. The company is trying to address this issue now, by bringing back products at the value price points, which they had somewhat vacated with also continuing its premiumization journey
- **Margin outlook.** The company's margins are currently under pressure due to adverse operating leverage—whereby a cost structure was created to support higher revenue CAGR, which weighed on margins. Bajaj will continue to invest on marketing/branding in order to participate at the premium end and also to reposition itself. The company has a VAVE program (value analysis value engineering), which will help it save costs over next few quarters. Management believes that margins can improve, if it is able to get growth back on track.
- **Brand positioning.** 'Bajaj' stands for 'Built for Life' and targets the mass aspirational segment. The superior product quality allows Bajaj to offer differentiated offers such as lifetime warranty on mixer blades or 10Y/6Y/4Y warranty on tank/coating/product for its water heaters. Nex stands for 'Premium Performance' brand (only in fans/coolers at present; these fans are mostly BLDC). Morphy Richards is a 'Premium Lifestyle' brand for younger consumers, with a more urban presence. Nex was introduced just 1-1.5 years back; it will need efforts/communications to scale it up as it is launched as an independent brand.
- **Distribution.** Bajaj had migrated to a program called RREP way back in 2015/2016, which was based on the principle of Theory of Constraints (TOC) wherein the company was selling based on a pull model. This helped to have a visibility on overall supply chain, and to better manage working capital/ROI of partners. The company is increasing its feet-on-street to engage more/better with the retailers. Through these, it is aiming to improve its weighted distribution reach and counter shares.
- **Consolidation** in the industry has already happened post-Covid and only the large players remain today. Lot of the smaller/unorganized players have shut shop during the pandemic. Management foresees more players exiting the business due to stricter energy efficiency norms. The industry also needs high R&D spends, which the smaller players are not able to incur.
- **Lighting business.** Bajaj's lighting business is about Rs10 bn in size, split as 60% B2B (professional lighting) and 40% B2C (LED bulbs/battens/ceiling lights/others). Bajaj is focusing on ceiling downlighters and panels more due to higher demand. Within B2B, it is predominantly in outdoor (façade/tunnel lighting) but it is improving its presence in indoor lighting as well. Bajaj's moat in lighting is not the product but the overall solution.

- **Morphy Richards.** Earlier, Morphy Richards used to enter into 5Y agreements with Bajaj but in 2022, they entered into a 15-year agreement. Bajaj's team designs the products in India. Its portfolio includes coffee machines, toasters, rice cookers, air fryers, etc. They introduced grooming products last year, which have been performing very well.
- **Innovation.** Bajaj spends about 1.6-1.7% of sales on R&D even as its peers are spending about 0.6% of sales. Bajaj used to spend about 0.4-0.5% on R&D in past. Its R&D team size has more than tripled.
- **Others.** (1) Nirlep is 'Everyday Health' brand focusing on health and nutrition, (2) Bajaj is not averse to take borrowings, if need be, (3) ability to take price hikes is difficult in segments where Bajaj is not the market leader, especially amid high competitive intensity and price sensitive consumers, (4) better electrification will improve the demand for kitchen/small appliances in future, and (5) the government is not offering any subsidies but is pushing for energy efficiency and product recycling through EPR; compliance with these put a significant cost burden on the manufacturers.

# Bandhan Bank

## Key takeaways

**Asset quality in microfinance segment**

- Asset quality situation in the microfinance segment remains evolving. The bank has guided for a credit cost of 1.8-2.0% for FY2025E. This implies that credit cost in 2HFY25E is likely to be higher than that in 1HFY25.
- The bank had put in a place a few tight credit filters over the last couple of years:
  - The bank introduced a cooling period policy beginning March 2023. Accordingly, any borrower who became ever-NPA had to wait for a period of 90 days before becoming eligible for a new loan even after repayment of all overdues. This policy was implemented in order to ensure that there is an actual increase in income levels for a delinquent borrower asking for another loan. This policy was extended to a 90-day cooling period for SMA-2 loans and 30-day cooling period for SMA-1 loans. It impacted the book for two quarters as slippages remained elevated with bad borrowers getting weeded away.
  - Also deployed a credit underwriting team which implied an independent assessment of household income by relationship managers. This was a first-in-industry implementation.
  - The bank deployed an independent recoveries team of 3,500 people for delinquent customers.
  - The bank has also put in place an analytics team. This team generates insights about which geographies and demographics are performing well. The business is consuming these insights and benefitting from it. It also provides insights to collections team.
  - Core banking system was revamped. FIS was replaced by Oracle Flexcube. Early warning signals could now be tracked on a higher frequency basis. IRAC requirements could be taken care of.
- Recent vintages of microfinance origination have begun to show an improvement. The bank has grown the microfinance book at a pace much slower than the industry in the past few years. NBFC-MFIs were growing much faster. Management indicated a strategic choice of not growing beyond a certain target level. Attendance in microfinance group meetings used to be ~85-90% before the Covid pandemic. However, it has now fallen to ~65-70%.
- 70% of the loan book comes up for renewal during 2HFY25 and, hence, the next few months are crucial. The asset quality situation does not seem uniform across the country. Risk seems to vary across certain states and pockets. Bihar and UP has a problem in a few districts while West Bengal and Assam are still comfortable.
- The bank has followed a practice of not more than 3 lenders (including Bandhan) at the time of disbursement. The bank is a sole lender in ~60% of microfinance book. The portfolio to borrowers with more than 4 lenders (including Bandhan) stood at ~5% of the microfinance portfolio. MFIN might be looking to tighten the guardrails further. While there is nothing definitive, there is discussion around limiting number of lenders to three, rather than four. Bureau scrub is fairly expensive, but management sees value in that exercise.
- Management indicated that they typically see a recovery of ~25% from NPA loans over a 2- year period. However, a majority (~75%) of it comes from the first 6 months itself.

**Loan growth**

- Management reiterated growth guidance of mid-to-high teens for FY2025E. With most of the senior management in place, management seemed confident about delivering on it.
- Oracle Flexbook offers the ability to launch new products in an accelerated manner.
- In the SEL portfolio, the bank targets customers who file GST but are still not completely bankable as they are very small business customers. Management is not looking to grow that segment actively hereon.

- **Deposit growth**. Stickiness of deposits has been quite good. Not impacted by events like the pandemic or after resignation of the erstwhile MD&CEO. However, garnering CASA deposits has remained a challenge for the industry. Management is considering various strategies to boost CASA deposits including activation of digital channels and launch of transaction banking capabilities.

- **Miscellaneous**

  - **New MD has joined few weeks back**. He is broadly aligned with the larger strategy of shift toward secured loans.

  - **As the secured mix changes, NIM might decline over the medium term.** However, non-interest income should improve modestly. While the bank currently charges processing fee and earns income from distribution of third-party products, the drivers from here will include FX, trade and transaction banking. Operating cost ratios are likely to remain elevated over the medium term as the bank is in an investment phase, but it should decline thereafter. Credit cost can be a bit high in FY2025-26E, but it is expected to decline in FY2027E. However, management is confident about delivering healthy return ratios even over the transition period.

# Blue Star

## Key takeaways

- **Room air conditioners.** The company launched its premium RACs products in 2011, and then slowly ventured into affordable-premium and affordable categories (end-2023) to cover all price points. Blue Star never compromised on the quality of the product but rather made RACs affordable via value engineering. Blue Star continues to have a strong presence in Southern India. The company then focused on expanding its distribution network in Northern India (a large market for affordable categories). Launch of various products and enhanced focus on regional sales have resulted in an improvement in market share from 13.25% in FY2023 to 13.75% in FY2024. Management aspires to achieve 15% market share by FY2026 (versus FY2025 earlier). The company will focus on product differentiation, improvement in brand image and customer experience to gain further market share. The service partners may or may not be exclusive to the company. The company benchmarks its services for RAC with LG, which is considered to be the best in class. Management commented that their prices are higher than Voltas and Lloyd. The next new energy efficiency norms will take effect in January 2026, for which the company will be fully equipped.

  - **Manufacturing.** The company produces ~600-650k units in the Himachal Pradesh facility. The Sri City facility is now fully operational and produced around ~300k units in FY2024 (the company is doubling capacity to 600k). Management stated that ~1.2 mn units will likely be manufactured in-house, with further ~20% of RAC units to be outsourced in FY2025. The captive production can go up further to 1.8 mn units, if the demand increases. The window air-conditioners, which contributes sub-10% to RAC sales, will remain outsourced. Management expects ROCEs to remain stable even as it further expands capacity.

  - **Competition.** The company stated that Voltas is the market leader in the RAC space, with 19k+ touchpoints (we note that Voltas reports its reach as 30k+ outlets) as compared to 8-9k+ touchpoints for Blue Star. Lloyd demonstrated strong execution and was very aggressive earlier, but has started to focus more on profitability of late. Management stated that finished goods imports from China have fully stopped. However, India is largely dependent on China for compressors. The company commented that large MNCs such as Daikin and LG have multiple compressor/component plants across Asia (such as in Thailand and Vietnam). The company expects the industry to remain competitive in the coming future.

  - **Margin.** The RAC industry witnessed high volume growth this year, driven by favorable seasonality (strong summer) and access to consumer financing. Earlier, most players outsourced their products, which led to discounting, impacting margins for the overall industry. With more companies producing in-house (led by PLI and BIS regulatory changes), the discounting is expected to decrease (focus on ROCE), resulting in margin improvement (at some point in the future). The company takes pricing actions based on competitor's prices, but without comprising on its profitability.

- **Exports**. Currently, exports largely consist of only commercial refrigeration and commercial air conditioning. The company is already present in the Middle East and Africa for the sale of these products. It has ventured into the US and Europe recently for the implementation of heat pump technology (typically provided by Japanese and Korean players). The local partners in the US are looking to associate with companies beyond the Chinese players, which is where Blue Star fits in (it has access to heat pump technology). The company will operate under white label in these regions. The US project is in the pilot stage, where the company is closely monitoring the regulatory environment under the Trump administration.

- **Projects business**. The company's major segments are (1) buildings, (2) factories and data centers and (3) infrastructure (metros, railways and water-related projects). Margins range between 4% and 5% for the entire industry. Blue Star does not have any fixed capital employed for EMP business. The company has set their internal upper limit at 10% (of company's total capital employed), and currently, it operates way below this level. The company engages in only those projects which meet the set criteria: (1) possibility of timely completion, (2) have decent margins, and (3) collections are likely to be received on time or if challenges persist, then get paid in advance. The company has built its expertise in this segment over the last 80+ years. The company can provide products, services, or both for a particular project. The competitors in these segments are L&T, Voltas, Kalpataru, Sterling Wilson, among others.

- **Others.** (1) Management said that it is currently not planning any expansion into other segments of the ECD industry, (2) EMS players manufacturing ACs will only have the tail brands in next 3-4 years, given that the large players are focusing on captive production, (3) at the moment, Blue Star does not expect any supply-chain challenges from non-renewals of BIS licenses of Chinese/Vietnamese vendors as it has planned purchases appropriately to take care of expected demand in this year.

## Borosil Renewables

Borosil Renewables is a leading solar glass manufacturer in India and Europe and part of the Borosil Group, a six-decade-old consumer ware, scientific and glassware manufacturer. The company has a state-of-the-art manufacturing facility spread over 100 acres in Bharuch, Gujarat with solar glass production and processing capacity of 1,000 tons per day (TPD), equivalent to ~ 6.5 GW per annum. In Oct 2022, Borosil Renewables acquired Europe's largest manufacturer of solar glass: Interfloat Group, which operates a solar glass plant with a production of 350 TPD in Tschernitz, Germany. Combined, Borosil Renewables has a total capacity of 1,350 TPD. In addition to being the largest Indian manufacturer serving 100+ customers, the company has a strong global presence with 15-20% of revenue coming from exports. Currently, majority of its international customers are based in Western Europe and Turkey with the company looking to expand its outreach to geographies such as the Americas and MENA while growing existing markets and adding new customers

### Key takeaways from interaction with management

- **High barriers to entry:** Solar glass manufacturing is a capex-intensive process, cost of setting up a 1,000 TPD plant requires total capex of ~Rs1,500 cr (Rs2.30 bn/GW). A greenfield setup of solar glass manufacturing plant requires 24 months in comparison to 18 months for a brownfield expansion. New entrants also need multiple certifications, which takes 6-9 months, further elongating time period to realize revenue post investment, making it difficult for new players to enter the market.

- **Domestic supply insufficient to meet demand:** India has a total solar glass production capacity of 2,300 TPD, which equates to 15 GW. As of today, India's solar module manufacturing capacity stands at ~80 GW, assuming a standard 50-60% utilization, total demand for solar glass is ~45 GW, 3X the size of total solar glass capacity. This highlights a massive domestic demand supply mismatch, which is being currently fulfilled by imports from China and Vietnam. With the government's push toward indigenization, existing solar glass manufacturers can potentially witness significant growth if there is a positive change in policy such as implementation of anti-dumping duties.

- **Competitive advantages:** The company has multiple moats—(1) uses in-house technology when manufacturing solar glass, which requires 1,200 kcal for producing 1 ton of glass, ~25% lower than existing Chinese technology, (2) achieved ~4% of operating margin improvement on account of economics of scale, post further capacity expansion, the company expects further 3-4% reduction in operating costs and (3) has deep relationship with all major module manufacturers, power producers.

- **Fund raise:** Borosil on June 10, 2024 had filed a draft letter of offer (DLOF) to SEBI to raise funds up to Rs4.5 bn by a rights Issue of equity shares, proceeds are proposed to be utilized mainly to reduce the debt for the Indian operations as well as at the overseas operating subsidiary. The company is in process of filing the updated draft letter of offer and will be moving forward with the issue soon.

- **Capacity expansion:** Borosil is looking to double its capacity by ~1,000 TPD. A concrete call on this will be taken post improvement of solar glass prices driven by imposition of tariffs by the Indian government. The company expects to incur ~Rs15 bn in expansion, of which 60-70% will be funded through an equity fundraise and the rest through debt.

- **Import tariffs expected soon, which will support domestic manufacturers:** Until August 2022, India had a basic custom duty of ~12% on Chinese imports, but for the past two years, there haven't been any import duties, which has severely impacted margin profiles of solar glass manufacturers and stalled capacity expansion plans. Recently, the Ministry of Finance has imposed BCD on imports of solar glass effective October 1, 2024. Additionally, the company had applied for an anti-dumping duty on China and Vietnam, and the Ministry of Commerce on November 5, 2024 recommended levy of provisional anti-dumping duty, by fixing a minimum import price for imports from China and Vietnam. If implemented, this will provide substantial relief to the industry and significantly improve profitability of solar glass manufacturers such as Borosil Renewables.

# BSE

## Key takeaways

- The BSE reiterated its positive outlook on the business. While the impact of new regulations needs to be seen, the BSE is systematically increasing its reach among various market participants to improve access to its products. While the management does not explicitly track volume market share, these efforts have led to strong growth in volumes. Management believes this is a result of market expansion rather than substitution, as volumes have grown for the entire industry.
- The impact of new regulations is tough to ascertain as the behavioral aspect is tough to predict. Bankex will move to only monthly contracts, whereas the Sensex will remain as a monthly contract. Bankex currently contributes ~20% to volumes. The Sensex will see an impact from higher order lot sizes. The company expects the overall impact to be manageable, given (1) savings in clearing costs, as it is based on the number of contracts and (2) potential gains in volumes in the Sensex.
  - Industry has seen growth in investments by market participants toward infrastructure and margin money. This is likely to get redeployed into available trading options rather than total withdrawal from the market.
- BSE's derivative market share drop in October and November is not concerning. This is as a result of the merging of expiries due to holidays. Adjusting for this, underlying trends are showing an improvement over the past few months.
- 43 stocks are available on the BSE for single stock derivatives. Growth here will likely be limited as there is much more effort toward growing the index derivatives. Liquidity and open interest remain limited in this segment.
- In cash markets, the BSE has seen an increase in market share in the past year from 5% to 7-7.5% over the past one year. There was also a directive recently for MFs regarding their transactions in stocks, which impacts volumes in blocks. There is also impact from volumes related to rebalancing trades where the BSE is not participating. However, the BSE will likely see improving trends with wider participation, going forward.
- Settlement guarantee fund. SGF is required to deal with member defaults and rarely comes into play as client margins are sufficient. The BSE's clearing market share is 5% and hence, the addition to SGF is a function of volume growth and clearing market share, among other variables. Every month both clearing houses calculate their SGF requirements. Around 75% of SGF contribution comes from clearing corporations, with exchange at 25%.
- With respect to pricing, the exchange has flexibility to price products. However, the BSE is unlikely to hike prices in the near term, after two rounds in the past one year. Sensitivity of volumes to pricing is limited. The BSE did not see any impact from price hikes along with higher cost due to STT hikes as well.
- Technology: The BSE has invested Rs2.5 bn last year, and the same level this year and the next couple of years. The current technology is provided by Deutsche Boerse, which has been highly scalable.
- Index services. BSE acquired full control of S&P Dow Jones Indices. The company has already launched 11 indices with new ETFs likely to get launched.

# Capital Small Finance Bank

## Key takeaways

- Capital SFB has transitioned from a local area bank to a Small Finance Bank, currently operating 181 branches across 5 states in North India, expanding from its initial 47 branches in 5 districts.
- The bank has focused on granular diversification in both assets and liabilities, catering primarily to the middle-income group.

**Asset quality**

- Management indicates that the NTC will not reach ~7-10%, as the majority of customers are transitioning from Public Sector Banks or private banks.

**Loan growth**

- Capital SFB has clearly identified its target market segments within the Middle-Income Group (MIG), defining the income range as ~Rs0.4-5 mn, focusing on both value and account size.
- The bank focuses on agriculture, mortgage, and MSME segments, with lending based on land under cultivation and the income generated from these agricultural activities.
- Advances are distributed as ~43% from urban and metro areas, while ~34% come from semi-urban areas.
- **Agriculture**
  - In the agriculture segment, Capital SFB targets ticket sizes ranging from ~Rs0.5 million to ~Rs2.5 million, providing facilities for both crop cultivation and financing equipment. The bank requires a comprehensive farming facility rather than just funding for a tractor, considering land and crop patterns to assess potential income generation and exposure, with a collateral coverage requirement of ~50%.
  - The bank typically expects farmers to cultivate 2-3 crops, with at least one crop being an MSP crop to ensure a stable income base.
  - The LTV ratio on agricultural land is aligned with government rates, resulting in an effective LTV of ~50%, positioning Capital SFB as the primary lender in this segment.
  - As a nodal banker, Capital SFB facilitates government payments from procurement agencies (central or state) directly to farmers, ensuring streamlined financial transactions.
  - The ATS for agricultural loans is ~Rs1.25 mn, with an interest carry of ~12.5%.
- **Mortgages**
  - Housing loans and LAP (Loan Against Property) are both targeted towards the middle-income segment.
  - The bank primarily provides housing loans on prime property that has an ownership track of a minimum of 13 years and requires valuation by two independent valuers.
  - Income is assessed through formal channels, with no surrogate assessments conducted.
- **MSME**
  - The target segment for loans has increased to ~Rs 1 million to ~Rs 20 million, up from the previous range of ~Rs1 mn to ~Rs5 mn, which is expected to be a key growth driver.
  - Capital SFB serves traders, manufacturers, and service providers, providing working capital facilities.
  - Cash flow accounts should be routed through Capital SFB, and term loans will also be managed by the bank.

- The bank requires formal documentation to assess loan needs, along with a minimum owner contribution of ~25%. Collateral must be residential or office property (such as shops, factories, or workshops), with an LTV of ~67-80%.

**Deposit growth**

- Deposits at are sticky, with a roll-over rate of ~90%. The bank offers a premium of ~45-50 bps over what large private bank pays on deposits.
- Key competition comes from PSU banks, especially in rural and semi-urban areas; Wholesale deposits constitute ~6% of the deposit book, while the best-performing banks typically have ~15-20%.
- Liabilities are composed of ~37% from rural areas and ~40% from semi-urban areas, with a ~1.16% market share in Punjab for deposits and an incremental market share of ~1.6% in the past six years.

**Net interest margin**

- An increase of ~100 bps in the CD ratio results in ~4 bps improvement to NIM for the bank.
- The impact on NIM was ~12 bps resulting from the change in penal income accounting during the last quarter.

**Operating cost**

- Capital SFB aims for contiguous expansion with a target of opening ~35 new branches every year.
- The bank employs local hiring for sourcing, with underwriting handled by a central team; each branch offers a full range of products so that customers know the bank can meet all their needs.
- There is significant competition coming from Public Sector Banks.
- NBFCs in secured lending also pose competition. The bank has optimized its cost of deposits and operating costs, allowing it to attract customers migrating to the middle-income segment who can benefit from the bank's pricing advantages, particularly in MSME or mortgage sectors.
- While private sector banks typically target amounts greater than ~Rs5 mn, Capital SFB's primary focus is on loans ranging from ~Rs1-5 mn and the bank also offers relationship managers to those borrowers.
- The bank has already invested in digital initiatives, resulting in ~87% of transactions moving to digital platforms.

# CEAT

## Key takeaways

- The company expects the volume growth to remain strong in 2HFY25E, driven by (1) double-digit growth in replacement demand across segments, (2) double-digit growth in export segment demand yoy and (3) a pickup in OEM segment demand.
- The company expects RM basket inflation to increase by 1.5-2% qoq in 3QFY25E as it is sitting on high-cost inventory due to faster delivery of 2-3 shipments of international rubber. It expects rubber prices to start cooling down from 4QFY25E. The company took a 1.75%/3.5% price hike in TBR/PCR segments, respectively, on October 1, 2024. Further, CEAT expects to offset the impact of RM inflation by taking a calibrated price increase over the next three months. The company also got RM indexation benefit of 3% in 2QFY25 from OEMs and expects another 4% benefit in 3QFY25E.
- In terms of pricing, the company is priced at a premium of 3-4% compared to the second largest player in the 2W segment, whereas it is positioned 1-2% cheaper in the TBR segment when compared to the market leader. In the PCR segment, the company's tire pricing is similar to Apollo Tyres but cheaper than Bridgestone by 8-12% over various SKUs.
- The company guided for a capex of Rs1-1.1 bn for FY2025E (Rs800 mn growth capex + Rs250 mn maintenance capex). The company has incurred a capex of Rs2.1 bn in 2QFY25 (Rs4.6 bn in 1HFY25). The company commissioned the TBR plant in Chennai in September 2024 and is planning to increase the capacity of TBR tires to 175k tires per month from 130k over the coming months. Further, it is planning to expand the capacity of agri-radial tires from 105 MT to 160 MT in the Ambernath plant to cater to the export market. The company will also add new capacities for PCR tires in Chennai plant. At the existing capacity, CEAT can achieve peak revenues of Rs150 bn.
- Capex per ton for greenfield plants in the past stood at Rs80-85 mn per ton for PCR (1.1-1.2X asset turns), Rs45 mn per ton for 2W (2X asset turns) and Rs70 mn per ton for TBR (1X asset turns). The company expects capex per ton to increase in the coming capex cycle (10% annual inflation), mainly driven by (1) the higher cost of machinery due to inflation and currency depreciation, (2) general inflation in the domestic economy and (3) modernization of plants to compete at the global level.
- The company is operating at an overall capacity utilization of 80% in 2QFY25, with 100% utilization of TBR segment capacity, whereas the Ambernath plant (agri radial) is operating at 70% of total capacity and the 2W plant is operating at 90% capacity utilization levels. However, CEAT indicated that there is adequate capacity in the 2W segment as the company can use an outsourcing partner in Hyderabad before starting a new capex to meet the demand.
- The company is targeting to improve its export mix from 20% to 25% over the coming years. Major growth drivers would be forays into the US market (TBR and PCR replacement), LATAM markets and market share gains in the EU OTR market (the company has <1% market share currently). In the farm radial segment, the company's SKU offering has increased to 600 currently from 70 in 2018.

## DCB Bank

### Key takeaways

- **Asset quality**
  - Microfinance book is showing similar stress as the industry. However, it is a small book at ~4% of overall loan mix. Management views this cycle as an opportunity to grow the gold loan book by leveraging the same customer base. The microfinance business for the bank is done entirely through BC partners. This business saw a qoq decline in 2QFY25.
  - Most of the slightly elevated slippages for the bank are coming from a part of the mortgages portfolio underwritten over the past few quarters with a higher-yield and higher LTV. The bank has taken some corrective measures in that segment now.
- **Loan growth**
  - Management expressed confidence about its ability to sustain loan growth around current level of ~20% yoy.
  - About 55% of the loan book is in mortgages which is a low engagement product. Management wants to enhance customer engagement through the overdraft product. This product can help to engage more with these SME customers. Most of the borrowers are banking solely with DCB Bank. This sole banker relationship along with the OD product offers the bank a strong visibility over the cashflows of the borrower. The bank directly competes for business from this borrower segment with NBFCs who don't have this product. Larger banks typically would not target this customer base because of the ticket size. DCB also offers an RM to these customers which a larger bank would not offer.
  - Management reiterated its plan to steadily change the loan mix within mortgages away from housing loans to business loans because of the higher yield.
  - The bank has added a few new products. For example, school finance (lending to education institutions), where the school might want to set up a new library or laboratory. It is becoming an ecosystem in itself as it offers the opportunity to acquire teachers, parents, fee collections.
  - Construction finance business is another area of focus for the bank. This might be done typically on the periphery of a city like Ahmedabad, Baroda, Bangalore or Rajkot. This business is largely to builders in the affordable housing segment. This book might grow at a pace which is similar or a bit faster than the bank's loan growth.
  - The bank recently upgraded its Finnacle system. As a result, now RMs have the ability to originate a large number of products from the mobile itself.
- **Net interest margin**
  - NIM for the bank was impacted to a certain extent during the last quarter because of:
    - Decline in share of higher-yielding microfinance loans.
    - A regulatory embargo on a co-lending partner had a regulatory embargo where the business came at a higher yield.
    - Late payment interest now comes as late payment charges which impacted NIM by ~5 bps. This shift is permanent in nature.
    - **Demand draft-based disbursals of loans**. In line with regulatory expectation, the bank now charges interest to the borrower once he has taken the demand draft rather than from the date of issuance of the demand draft.
    - **Cost of funds**. Management indicated that cost of funds seems to have peaked for the bank.
- **Operating cost**
  - Cost-assets has been elevated at 2.75% and management wants to reduce it.

## Dodla Dairy

### Key takeaways

- **Growth outlook:** Management continues to expect a 10% CAGR in volumes along with a 15% CAGR in revenues for the foreseeable future. Growth in the bottom line will be similar to that in the top line, as management plans to focus on growth rather than on profitability. It believes smaller competitors will come in, if margins expand too much. It also does not want to "kill" the customer with price hikes, and will therefore, focus on profit per liter rather than on percentage margins.

- **Expansion:** The new plant in Maharashtra will entail capex of around Rs2.2-2.3 bn and will help increase the company's volumes to 2.5 mn liters, up from 1.5-1.6 mn today. Beyond this capex, for every 100K additional liters, the company will need to add chilling centers and other supporting processing infrastructure.

- **Distribution:** Dodla Dairy has 800 of its own parlors handling around 15% of the company's volumes, while distributors account for another 50% of volumes and the rest comes from direct sales to retailers. Modern trade accounts for 5% of sales at present.

- **Value-added products (VAP):** VAP accounted for 37% of revenues in 1HFY25 versus 29% in FY2024. The surge has come because of butter and SMP (skimmed milk powder). Margins on VAP are twice those on milk. Curd and ghee are the two primary products within VAP for Dodla. Paneer is now growing as southern India is adopting more of the product. Management stated that VAP accounts for 50% of dairy industry sales globally. It sees an opportunity to add more VAPs such as probiotics. The company sees itself as an "FMCG+" business, with not just front-end distribution reach but also back-end procurement capability.

- **Geographical mix:** Karnataka accounts for 28% of revenues, AP for 37%, TN 19% and Telangana 17%. Once the company expands into Maharashtra, it will look to sell into nearby states such as Odisha.

- **Competition:** Management said the Indian consumer is typically not too sensitive about milk prices anymore. For example, the private sector sells at prices that are at least 5-8% higher than those offered by cooperatives. The south and west of India, in particular, are not sticky on prices, whereas the east is. Timely delivery is more of a concern for the consumer than pricing discounts.

  - Management expects industry consolidation over a period of time, from 11-12 leading players today (comprising around 5 leading cooperatives and 6-7 private sector companies) to around 5 over the next 5-10 years. The company sees itself as one of the eventual beneficiaries of this consolidation.

- **Capital allocation policy:** Management wants to keep 2-3 months of revenues as cash, as this gives it staying power in what is a seasonal business. It has also instituted a dividend policy, which entails paying out 20% of PAT. It is conscious about RoCE, and aims to maintain it at 23-24%, excluding cash. In the past, it has also been very successful with acquisitions, which have contributed 30-40% of the company's current overall volumes. Management aims for a 7-8 year payback period on profitable acquisitions.

- **Africa business:** The company ventured into the Africa region because of much higher margins on offer there. However, with a growing influx of entrants into this region over the years, margins have moderated, though they still remain above the levels seen in India.

# Eclerx services

## Key takeaways

- **Business overview.** Eclerx's business is broadly divided into three segments: (1) financial markets, (2) digital and (3) customer operations.
- **Competition.** In each of the three segments, Eclerx's competitors are: (1) financial markets–in-house teams and large IT companies, (2) digital–agencies, pure-play analytics companies and interactive arms of large IT services vendors, (3) customer operations–large customer experience (CX)-focused BPO services vendors.
- **Demand.** The pipeline is growing at a healthy rate. This has been aided by efforts to expand into new buying centers of existing clients (thereby de-risking the business partly) and also actively responding to more RFPs. However, the company's growth rate has been volatile in the past and management is taking measures to demonstrate sustained growth rate. This remains a work in progress.
- **Outlook.** Financial markets and customer operations segments remain strong aided by deal wins and demand tailwinds while digital business would be a tad weaker due to continued pressure on discretionary spends.
- **Deal wins and ACV.** ACV trends have been healthy in the past few quarters. However, there have been higher business roll-offs in 2QFY25, which will have an impact on 3QFY25. Reported ACV does not include contribution from CLX, as the business is highly project-based.
- **Sales refresh.** The company has invested in hiring new sales people and also has replaced a few underperformers. The sales team has been motivated to take more risks and participate in more RFPs rather than just relationship/referral-based sales. Further, it needs to strengthen relationships with senior sponsors/CXO within clients' organizations. The early results are visible in terms of growing pipeline and deal ACV. The focus is now on increasing quarterly large deal wins (>US$2 mn). The sales team has been encouraged to take risks and has confidence in delivery team to handle clients' requirements. However, there might be a few cases of slip-ups initially but would be addressed as the need arises.
- **Margins.** People-related investments are largely done. Investments will continue in tech and analytics and might be higher in 2HFY25. Marketing spends would also increase in 2HFY25. Further, there would be a few replacement hires in sales team at lower levels. Management expects EBITDA margin to remain in 24-28% range for FY2025. In the medium term, the margin evolution would depend on the level of investments that need to be maintained.
- **Pricing.** Eclerx does not play as a lowest-cost vendor. The offerings would be priced at a marginal premium to competition, but the quality of delivery and clients' comfort have aided in sustaining the premium positioning.
- **Acquisitions.** The company is interested in bolt-on acquisition in areas such as (1) Salesforce and Adobe implementation capabilities, (2) nearshore capabilities in CX, (3) KYC and (4) analytics capabilities. While the company wouldn't rule out rebadging deals in CX, it would prefer an outright acquisition for CX capabilities. The acquisitions are initially screened by the founders, but the CEO would have final call on "go-no go" decision.
- **Management remuneration.** The CEO's remuneration is linked to the following factors (1) EBITDA growth (US$ terms), (2) client concentration and (3) progression of clients through the various buckets.

# Federal Bank

## Key takeaways

- **Asset quality**. The bank's portfolio has been underwritten quite conservatively and management does not see any reason to worry as of now.
- **Long-term strategy**. Management indicated that the new MD & CEO is currently spending time to assess the strategic direction for the bank's future. More clarifications will be shared once this process is completed.
- **Non-interest income**
  - Fee income has improved as the bank has dialed up processing fees. The bank has introduced RAROC-based pricing. As a result, a lower pricing on interest rate is often accompanied by a higher processing fee.
  - Banca partners have increased as well which should support growth in distribution income.
  - The credit card business is currently being revamped in line with regulatory expectations after the embargo earlier in this year on co-branded credit cards. The bank expects the co-brand card business to resume (at least partially) over the next few months based on regulatory approvals.
  - The bank's organic credit card portfolio has been built largely on existing-to-bank customers thus far. The bank plans to begin new-to-bank organic acquisitions in the near future.
- **Miscellaneous**
  - Management indicated that building a wealth management franchise organically takes several years. Buying a franchise seems a practical alternative.
  - Management indicated that a lot of microfinance players might be up for sale and valuations also seem favorable. Management indicated that it continues to evaluate alternatives.

## Fine Organics

### Key takeaways

- **Expansion plans:** The company is investing Rs7.5 bn into a new unit (spread across 30 acres) at the SEZ in Uran (district Raigad in Navi Mumbai), but management said it is still too early to talk about potential asset turns from the unit. It is currently focused on obtaining environmental clearance, following which it will decide on the product portfolio. Only then will potential turnover become more apparent. However, it is confident of selling out the entire capacity over a period of time.
  - Management also said it is considering expansions in the US, but it is too early to tell when these might happen. A few years ago, it planned an expansion in Germany, but Covid put a stop to those plans. Then, it got an opportunity in Thailand, and is now awaiting the Thai FDA's license for one product. This time around, the reason for choosing the US over Europe is the proximity to clients. Management believes it can manage the US and India expansions together, both from financial and operational standpoints.
  - Discussing why their expansion plans in India have taken so many years to fructify, management said it rejected Dahej as an option because of pollution concerns—the company's customers would not approve a unit in that location. Dholera was a great place (with more than 100 acres of land available), but then the authorities decided to reserve the place for semiconductors and other industries. The lack of clear communication from the authorities there also delayed the company's expansion plans by more than a year.
- **M&A activity:** A couple of overseas M&A transactions pursued by the company also did not work out as the targets did not fully satisfy the company's requirements. Management said their M&A decision-making is based on factors such as the product portfolio of the target entity, its client profile, etc. There is no generic checklist of criteria that needs to be fulfilled; rather, each opportunity is assessed independently.
- **Margin outlook:** While prices of vegetable oils have risen in the recent past, management said that with long experience it has learned how to manage oil price volatility. It still guides to 18-20% EBITDA margins, even though margins are currently higher (24% in 2QFY25 as well as 1HFY25) because of higher capacity utilization and certain favorable contracts.
- **Demand scenario:** Management was fairly sanguine about the demand scenario, although it added that Europe was not doing well for some time, but has now picked up. However, the company does not have any spare capacity with it at present. Therefore, volumes will remain flat until 2027, when the Navi Mumbai expansion is expected to come on stream.
- **Impact of US tariffs:** Management believes tariffs by the US should be positive for the company's business in the long term, although it does not have any Chinese competition. Also, stricter regulations on food items (e.g., ultra-processed foods) would be good for Fine Organics. Even if palm oil use is reduced by regions such as Europe, management would like it because the company's chemistry skills are superior versus the competition; therefore, it will be able to use other raw materials. India has access to many other oils besides palm oil.

# Fino Payments Bank

## Key takeaways

- **Revenue**
  - Management indicated that operations are primarily conducted through mom-and-pop shops – 1.8 mn+ such touchpoints - utilizing micro-ATMs and AEPS, allowing transactions with debit cards from any bank and biometric authentication, respectively. This segment accounts for ~42% of their business. Except lending management claims the whole host of normal banking services like transfer, deposit, withdrawal, etc. The added advantage is that these shops operate in a much larger time daily from early morning till late nights sometimes.
  - Essentially, Fino's growth drivers are new CASA accounts and CASA renewal income.
- Small Finance Bank application:
  - In their application, management aims to pursue a Payment Bank ++ model. Management indicated that they do not intend to pursue microfinance, opting instead to follow the AUBANK model with a differentiated approach.
  - Two operational models will be utilized: network and digital. Unlike other SFBs, the company will garner deposits through merchant partnerships. Merchants currently take loans from elsewhere and then partner with the company.
  - At present, CMS-related cash must be transferred to a partner bank overnight, with the balance not exceeding Rs0.2 million.
  - Employees will be added for underwriting, risk management, and sales, alongside the need for implementing LOS and LMS systems. Capital is not deemed necessary.
  - The primary products will focus on home renovation and merchant lending.
  - Within ~3 years as an SFB, management anticipates that fee-based income will constitute ~75% and fund-based income ~25%, in contrast to traditional SFBs.
- **Deposit growth**
  - New bank accounts are opened every 10 seconds, with a focus on subscription-based accounts. All models are experiencing renewals, with an overall renewal rate of 60%, which increases significantly thereafter.
- **Net interest margin**
  - Cost of funds at 2.1-2.2%, which is primarily savings account. There is arbitrage with other SFBs to the extent of 250-300 bps.
  - Cost of funds is ~2.1-2.2% is cost of funds. Yield on G-Sec is ~7%. Hence, NIM of ~5% is the run rate.

## Firstsource Solutions

### Key takeaways

- **Organization restructuring.** The company is undertaking multiple measures to drive improved performance under the current CEO. Key highlights are (1) focus on scalable accounts with dedicated sales people, (2) increased focus on large deals (>US$5 mn ACV), which has led to increase in large deal wins from 1 per quarter to 3 on average currently, (3) amplifying the brand and increasing engagement with industry analysts, (4) investments in sales (40% increase in headcount over more than a year) and (5) infusing AI into platforms.

- **CX BPO.** A significant part of the spend was inhouse but there has been an increasing trend toward outsourcing. Enterprises are looking at vendors with offshore and nearshore capabilities to outsource processes. There can be an ask for productivity benefits, which can be achieved by leveraging AI. However, Firstsource's participation in the market has been low historically, and the business would be incremental as compared to pure-play CX BPO players.

- **Healthcare.** The company works with payers and providers in the US. The business has grown well in the recent past. Healthcare payers are seeking cost efficiencies and are now open for incremental outsourcing to offshore locations. With the acquisition of QBSS, the company now has end-to-end offering for healthcare providers.

- **Mortgage.** Management indicated that given the interest rates are likely to remain significantly higher than trough levels of CY2020-21, it might be tough to scale the business to the previous peak. A 150-200 bps lower Fed rate from the current level could spur incremental volumes in refinancing. In the past few years, the dependence on originations and monoliners has reduced, while there has been an increase in servicing and higher revenues from participating in internal processes of clients. This has also been aided by increased outsourcing by a few clients. The company has also recently launched an LLM to simplify the mortgage processes. The offering has garnered strong attention from clients. On the other hand, the company expects the new home buyers' market to grow with further cut to interest rate. However, the outcomes of macro events are not included in the company's guidance.

- **Collections.** The company's services span across first-party, third-party and legal collections. The company has a license for legal collections across all states in the US. In the past nine months, it has also invested in infusing AI into its digital collections platform.

- **BFSI.** The company continues to expect an improving growth trajectory in the vertical in FY2025.

- **CMT.** The company is positioning itself as a challenger in a vertical where most clients are mature outsourcers. The company has expanded its presence in the ANZ market and expects healthy growth momentum from the region.

- **Margin.** It has identified 25-26 areas that can be more efficient to pull margins up. FSOL has been able to maintain margins range-bound despite investments in capabilities and two rounds of wage hike over past 3-4 quarters. Targeted initiatives to improve EBIT margin by 50-75 bps on annual basis.

- **Acquisition.** Ascensos was acquired for its nearshore capabilities and also presence in quality retail clients in the UK. The business operates at high-single digit margins. Firstsource did not acquire a significant part of support functions and can extract cost synergies to drive margin expansion for the acquired business.

# Galaxy Surfactants

## Key takeaways

- **Demand scenario:** Management acknowledged that there is a slowdown in the FMCG industry. It does see downtrading by consumers amid high inflation. However, it hopes for a much better 4QFY25 in India following the good winter crop that is expected and an eventual revival in consumer demand. In the long term, it believes that it should report a CAGR of 6-8% in India. It has adequate capacities in place and expects to gain share from China in the world markets. Management also said it saw green shoots last quarter, indicating that destocking is now over.

- **AMET region (Africa, Middle East & Turkey):** Management said the company is doing very well in this region. Currencies have stabilized in troubled economies such as Turkey. The IMF is in control of reforms, and management expects that over the next 3-4 years, this region should stabilize. Both key countries for Galaxy in this region (Turkey and Egypt) have growing populations. The company has invested in specialties in Egypt and India; these investments should pay off as the European and US economies come back.

  - Galaxy Egypt exports a good amount of volumes to the US, North Africa and Europe. Egypt has trade treaties with North Africa as well as with the Mercosur countries of Latin America (China does not; it pays 20-40% duties on exports to Mercosur).

  - Galaxy has now set up a Latin American subsidiary as well, which management believes will open more doors in that region. The European subsidiary is also expected to start in the next quarter.

- **Input cost scenario:** Freight costs for transport from Asia to the West have started to come down, but are still not back at older levels.

- **Long-term strategy:** Management said it wants Galaxy to be among the top-5 companies globally in its sector. It will focus more on the beauty and wellness category to drive growth through 2030. There will also be suitable incentives provided to key employees.

## GRP Limited

### Key takeaways

- **Market leadership and potential:** GRP is the largest reclaimed rubber manufacturer in India having 75kt capacity and 20% of domestic market share for reclaimed rubber, 1/3rd share of exports from India and 1/3rd wallet share of tire companies in India and across the world. There are about 40 players in the reclaimed rubber industry in India having total capacity of 350kt producing 320kt of reclaimed rubber as of today. The second largest player—Balaji rubber—has a capacity of 60 kt while rest of them have much smaller capacities. Most of the players are based out of Tamil Nadu, Gujarat and Maharashtra. GRP expects the industry to consolidate going ahead.

- **Profitability:** GRP attributed the improvement in its profitability and margins seen recently to: (1) cost optimization measures which have been implemented over the past few years; (2) lower energy costs stemming from use of more renewable energy; (3) scaling up of nylon business and (4) income from sale of EPR credits.

- **Capex:** The company expects to spend Rs2.5 bn toward capex till Dec 2026. 50% of the capex is expected to be spent on scaling up pyrolysis and recovered carbon black manufacturing, 20% is expected to be diverted towards scaling up reclaimed rubber manufacturing while the balance 30% would be spent on nylon and plastic recycling.

- **Guidance:** Post completion of its capex plans, GRP expects to reach 3x of current volume levels for tire recycling, 1.5x of current volume levels for nylon recycling and 2.5x of current revenue levels on an overall basis. The asset turnover is expected to be around 3-4 times; EBITDA margin expected to be in mid-teens and ROCE ranging around late teens to early twenties.

- **Sourcing and logistics:** The company highlighted that logistics is a large part of waste sourcing. GRP has taken a dual approach to streamline its waste sourcing and logistics: (1) it has set up multiple facilities close to the waste generation points for freight optimization and (2) it also sourcing waste from aggregators and suppliers who semi-process it before supplying to the company.

- **Industry overview:** The company highlighted that the recycling industry is witnessing new levels of maturity as lot of push for recycling and circularity has kicked in over the last few years. This has mainly to do with India's growing focus on resource conservation and reducing import dependence. Also, changing consumer perception about recycled products being of inferior quality with the improvement in technology is also inducing brand owners to introduce more recycled products.

- **Evolution of reclaimed rubber industry in India:** GRP pointed out that India is one of the few countries that has been recycling tires since many years. India and China are the two largest suppliers of reclaimed rubber in the world. It noted that there has been a slight shift in perception as tire recycling has also become an ecology play along with an economy play from only being an economy play earlier. Currently, 20% of India's tire waste is recycled into reclaimed rubber while the remaining 80% is converted into oil via pyrolysis used as a cheaper substitute to imported oil.

- **Blending % of reclaimed rubber:** The proportion of reclaimed rubber being blended in tires differs based on nature of application of them depending on multiple factors like speed and weight of vehicle, exposure to concrete etc. The proportion is higher for 2-wheeler tires (25-30%) vs passenger car/truck/bus tires. GRP stated that adoption of reclaimed rubber blending is higher internationally.

- **Price of reclaimed rubber:** GRP pointed out that prices of reclaimed rubber have usually been around 40% of virgin rubber prices but are now trading in the range of 25%-30% of virgin rubber prices which have witnessed a jump recently.

- **Proportion of natural rubber vs synthetic rubber:** GRP stated that the proportion of natural rubber is higher than synthetic rubber in truck tires in India in the ratio of 70:30. This ratio stands at 45:55 for passenger car tires. The proportion of synthetic rubber can go up to 70% in 2-wheeler tires. Further, globally, proportion of natural rubber is lower around 42%-45% while remaining is synthetic rubber.

- **Indian tires more suited for nylon recovery:** GRP pointed out that more nylon can be recovered from Indian truck tires. This is due to the fact that Indian tires have more carbon black and less silica vs the tires which are imported specifically from the middle-east.

- **Plastic recycling:** GRP highlighted the challenges involved in implementing the EPR norms for plastic recycling fully could result in a potential delays. It further clarified that GRP is solely focused on polypropylene recycling with approvals for supply in place for large paint and lubricant companies such as Asian paints, Berger, Shell and Mobil.
- **Technology differentiation:** GRP highlighted that the technology for manufacturing crumb rubber can be easily replicated. On the other hand, it is difficult to replicate technology for polypropylene recycling. Asian paints, one of the large consumers of polypropylene for its paint containers, has only five approved suppliers for the same. The case for recovered carbon black is also similar as technology replication is difficult and there are only three companies in India for the same namely, Hi-green carbon limited, Rathi carbon and Finster carbon (JV with Birla Carbon). Pyrolysis technology can be easily replicated.
- **No mandatory norms for use of recycled rubber:** GRP pointed out that the government of India has enabled tire recycling via purchase of EPR certificates rather than mandating blending of recycled rubber in tires due to safety norms involved.

## INOX India

Inox India is a prominent manufacturer of cryogenic equipment and were one of the leading cryogenic tank manufacturers in the world. The company has a legacy of 30+ years with deep expertise across design, engineering, manufacturing and installation of equipment for cryogenic conditions. The company has built a strong suite of products across cryogenic storage tanks ranging from ship fuel storage tanks and mini terminals at ports to fuel dispensation solutions and the recently introduced stainless steel kegs. Key growth drivers include LNG segment driven by shift to LNG trucks, widening use of industrial gas and entry into stainless steel kegs market.

### Key takeaways from interaction with management

- **Market Leadership**: Inox is the market leader in cyrogenic tank manufacturing with 60%+ market domestic share, it is also gaining share in international markets. The second largest player in the domestic market is ~25% of revenues of Inox.
- **Strong entry barriers**: Cryogenic storage tanks are a very critical part and can attract significant risks in times of malfunctioning. Thus, stringent regulations are required for the design, manufacture and operation of these equipment. The regulations differ based on the applications of these tanks and area of usage. Existing players have deep relationships and dealt with regulators but it is very difficult for a new entrant to establish trust with clients of an inherently critical yet hazardous industry.
- **LNG trucks expected to observe adoption over the coming decade:** Inox India expects LNG storage tanks to be a key growth driver over the next decade on account of a strong shift toward LNG powered long range heavy duty commercial vehicles. LNG trucks can potentially reach 1 mn over the next decade indicating a 50,000-60,000 annual sales. The company believes that the shift to LNG will be propelled by (1) shift to clean energy (2) LNG offers 15-20% in saving compared to diesel and (3) 1 LNG tank can power truck for 500 km, which makes it suitable for long distance trucks compared to CNG, which offers a relatively lower capacity.
- **LNG truck storage tank a Rs50-60 bn opportunity:** LNG storage tank account of Rs 1 mn of the total cost of the truck (Rs 0.5 mn/tank). This equates to a Rs50-60 bn opportunity assuming annual sales in the range of 50-60k. Additionally, the company has capability in end-to-end setup for LNG and LCNG station, potential market size is close to Rs50 bn over next 3-5 years. Inox is very confident of capturing a large share of this opportunity on account of their deep capabilities in the space and tie-ups with leading players such as Adani.
- **Entry into the beer keg business:** The company has built a 1 mn p.a. keg facility in Savli, current production capacity is at 300,000 units. It is a state-of-the-art facility as keg manufacturing requires a very high level of cleanliness. Globally market size of kegs is 4-5 mn kegs a year, amounting to a Rs15-20 bn market. Samples of the beer keg have been sent to all major beverage players such as Heineken, Carlsberg etc., and the feedback received has been positive. Meaningful revenue contribution from the segment is expected from 3Q onwards.
- **Liquid air energy storage cryo tank:** Inox has secured a contract in liquid air energy storage strengthening its position in the global cryogenic equipment market. This order is expected to open new avenues in the rapidly growing energy storage sector.
- **Revenue and margin guidance:** The company has guided 18-20% revenue growth over the next 3 years, led by continued growth in IG, rapid expansion in LNG and beer keg segment. EBITDA margins are expected to remain close to ~20% going forward.

# Jana Small Finance Bank

## Key takeaways

- **Asset quality**
  - Jana was previously focused on urban microfinance operations until a transition to a scheduled commercial bank. The current business emphasis is on affordable housing loans and micro-LAP.
  - It has been observed through the urban microfinance model that certain group strategies may not be effective. Individual assessment-based disbursal seems like a better model and the performance during the crisis has demonstrated resilience. Hence, management remains optimistic about pursuing the microfinance business through the individual loan format, but this business comes with a higher cost structure.
  - The bank operates some parts of its business through a BC-led approach with FLDG measures in place, ensuring safety at the cost of lower profits, with FLDG covering up to ~5% of disbursal. Gross NPA in this segment remains ~1-2%.
- **Deposit growth**
  - Management indicated that the LCR is meaningfully higher than competitors. The LCR strengthens when composed of high duration and non-callable instruments, which reflects the nature of the book.
  - The CASA rate is at ~5.5%, with a target to increase the CASA proportion to 30% from the current 20%.
- **Miscellaneous**
  - The ongoing crisis seems to be an outcome of rapid growth by many microfinance lenders including even the large ones.
  - The sector remains largely unorganized, serving unorganized customers. Regulators are intensifying scrutiny of pricing to prevent exploitation of customers.

# Jindal Stainless (JSL)

## Key takeaways

- **Demand**. JSL sees no demand slowdown in the domestic market. However, trends in major export markets remain mixed. Volume guidance for FY2025E is ~10%, with improvement expected in FY2026E at ~15-20% yoy growth.
  - Traction in the US/EU markets remains low. However, low channel inventories in the EU market remains a positive.
  - Struggling demand in Germany has been a challenge, which is one of the company's largest export markets. Demand challenges in EU are an outcome of high energy costs.
  - Fresh decision making in the US is expected only post regime change.
- **Exports**. The company targets ~10-12% export mix in FY2025E. Export mix improvement will occur only in FY2026E.
- **Margins**. Guidance for FY2025E on standalone basis is ~Rs18,000/ton. Freight costs have been normalizing in 2HFY25 (versus 1HFY25).
- **End-use markets**. JSL is one of the few specialty grade stainless steel (SS) manufacturers, with presence in both nuclear grade SS and blade SS.
  - Process industry is an important end-use market for JSL with ~33% of the company's sales to the segment across various sectors (pharma, capital goods, etc.).
  - SS water tanks are the norm globally. The company expects the shift from plastic water tanks to SS tanks to happen in India as well.
  - The company estimates that ~1% of GDP loss via corrosion may be prevented by use of stainless steel. Recent regulations to use SS in coastal areas are a step in this direction.
  - Management does not want an exposure of more than 15-20% to any one industry. Total volumes sold to railways/metros is ~12-14%.
- **Renewables**. Hisar plant currently draws grid power. However, JSL plans to make this plant India's first completely green stainless steel plant in CY2025.
  - Certain SS players in Europe do not want CBAM since that would elevate costs and threaten their very survival. Europe was in fact the largest importer of NPI (nickel pig iron) in past 6 months.
- **Duty imposition**. Duty protection could lift margins in the lower end use segments (commodity grade) of the Indian SS market. The application for protection in the latest round has not been led by JSL; it has been led by smaller players.
- **Chromeni acquisition**. JSL acquisition of Chromeni steels is value accretive for JSL:
  - JSL gets access to cold rolled capacity in Mundra
  - provides adequate land (400 acre land bank) for brownfield expansion (2+ mtpa)
  - is in close proximity to the Mundra port
  - prevents any large global stainless steel player to expand in the near term (~2 years) in India
- Maintenance capex is expected to be ~Rs5 bn annually in the near term. Net debt by end of FY2025E is expected to be slightly less than Rs55 bn.

# Karur Vysya Bank

## Key takeaways

**Asset quality**

- The bank does not expect asset quality should become a problem in the future. Not getting any worrying signals from early warning signals.
  - The bank has increased focus on security and cashflows. MSME LOS is working well. Pre-LOS and post-LOS portfolio stress levels are very different. 20% only in post-LOS of pre-LOS. The MSME book tends to be a riskier one, but the bank holds ~100% collateral against these loans.
  - It has started to use predictive analytics to predict NPA using early warning signals.
  - Collection teams under RAM vertical have to be robust. Created internal and collection teams for SMA-0, SMA-1 and SMA-2. Hence, SMA 30+ has declined over the last few years.
  - The bank is now marking some accounts for an exit based on early warning signals. The intention is the reduce exposure before it becomes SMA.
  - The bank currently has ~5% FLDG on BNPL. So, it is not worried about this portfolio. This portfolio is quite profitable with a yield of 14-15%.
  - The bank has granularized its corporate exposures over the last few years. The average ticket has declined. The bank typically does not opt for the consortium unless the bank has >10% share in it.
  - The bank has reduced the exposure to NBFCs as well.
  - Management indicated that the pricing of corporate loans has remained competitive. As a result, the bank has reduced the share of AAA exposures and dialed up the proportion of the BB book modestly over the past 1-2 years.
  - With real estate as collateral, the bank is confident about recovering from its retail and MSME loans even if they turn into NPA.

**Loan growth**

- Corporate is an area with many accounts priced below 9%. With operating cost and such low pricing, it does not seem viable. As a result, the bank has let go of many of these exposures. Retail asset engines were earlier not working, but these engines are working now. We have brought a lot of competitive spirit. We thought we should not reduce RAM traction. Focus will have to remain on good quality on retail.
- Growth in MSME has been largely driven by ticket sizes. At the same time, approval rates have declined from 90% to ~45% implying better customer selection by the bank. Most of the takeovers are coming from PSU banks.
- Management indicated that it intends to maintain growth in the retail business. Growing personal loans is very easy and the bank can offer this product to tested customers. While these opportunities are available, but the timing does not look great. LAP, jewel loans and home loans will be the key focus areas within retail.
- Open market team is doing LAP business predominantly and it is being done at a faster pace than the branch banking channel resulting in a more competitive internal environment. The open market team is also able to do good business in semi-urban locations. The open market channel is largely balance transfer (95%) from other banks which is driven by better pricing or LTV.

- **BNPL business.** The bank took a higher exposure during Dussehra and Diwali last year, but brought the exposure down from those levels. Further, the bank has not been equally aggressive in the ongoing year. Hence, growth in this portfolio has moderated a bit. The end use of these funds is very clear and, hence, there is no concern around it. Management has the ability to cross-sell personal loans and credit cards to this customer base, but it does not want to do it. Typical tenor of this product is 3-6 months. Borrower-level limits are quite stringent and based on payment behavior as well as credit bureau data.
- Want to go slower in co-lending because internal engines are firing.

- **Deposit growth**. Management realized that the bank was losing relationships of SA customers to term deposit offerings from other banks in the past few years. As a result, KVB also started to push its own TD to its SA customers. There is a lot of focus on deepening relationships apart from just new relationship acquisitions.
- **Net interest margin**. The bank is focused more on LAP product than home loans, driven by the competitive environment and pricing.
- **Neo**. Earlier, the bank used to have a Neo setup of 150 people for mobilizing the LAP business. The Neo channel is now renamed as the open market channel. The bank has appointed the erstwhile head of the Neo business as the head of retail assets for the bank. He now heads the branch channel as well as the open market channel.

# Kfintech Technologies

## Key takeaways

- Kfin is progressing well in its strategic goal toward reducing the share of domestic MF over time. Currently, the MF RTA business contributes around 67% of revenues. Over the medium term, the company intends to reduce this to 55%, driven by faster growth in non-MF businesses.
- While Kfin is the smaller player in the domestic MF RTA, it has done well in winning new clients and maintaining its market share. The company has 26 out of 48 clients. Kfin has 33% market share in equity and 39% in SIP. Of the total AUM, ~60% is equity. The company earns revenue yields of 3.6 bps on a blended basis. In a steady state basis, the company can grow around 15% in this business.
- International and alternatives businesses hold strong promise over the next few years. Kfin continues to report a slew of client wins in international and domestic alternatives business. In the international business, the company has presence in Southeast Asia, with recent client wins in Malaysia, Thailand and the Philippines. The company has a proposition, which combines RTA and fund administration services.
- Domestic alternatives is another segment that has been growing at a fast pace. This is driven by deal wins over the past 12 months, especially in the fund administration space. The company is seeing good traction with its mpower product, which is part of the Hexagram company it acquired.
- The company has bigger ambition in the fund administration space with the intention to expand in western markets as well. It is evaluating potential acquisitions that will provide the required license and ready roster of clients. The company intends to optimize the acquired entity with its own tech solutions and improve margins over time.
  - The company recently announced being chosen as Aladdin Partner, which empanels it in a list of nine other large fund administrators. While client wins will materialize gradually, this progress provides greater visibility and credibility to its FA platform in global markets.
- Kfin's historical track record in acquisitions should also allay concerns of overpaying or mis-executing acquired entities. This is visible in acquisitions such as Deutsche Bank's Malaysian unit, followed by Hexagram, Sundaram BNP and Webile Technologies.
- Issuer solutions business remains well-placed to benefit from strong primary market activity as it has been able to win new IPO deals as well companies changing their vendors from smaller players to Kfin. Kfin maintains a large lead over competition in this segment.

# Kirloskar Brothers

## Key takeaways

- **Domestic business, a good play on urbanization and nuclear plant business scaling up over time**. The double-digit growth guidance for domestic is underpinned on requirements from growing urbanization (power, oil & gas, building infra, small pumps). The company also believes in the nuclear plant mix becoming more relevant over time, as coal-based power gets reduced to base load requirements over time. It envisages private sector investments through captive use plants to be the key driver of such a transition. Given the smaller size of such plants and the company's ability to offer pumps for secondary and primary circuits, KBL envisages a good future in its related line of work.

- **Domestic small pumps and industrial pumps business sold on cash-and-carry basis.** 50% of the domestic business comprises small pumps and industrial pumps. The company has a high market share in the small pumps segment, as it has control over key cost elements (foundry, design, motors). Its key competitor sells traded products and thus, has not been able to scale up profitably. This business continues to be sold on a cash-and-carry basis. In the industrial side of business, the company has been able to take elements of working capital by authorized entities having the cost of bought outs. Over time, this business too has come to operate on a cash-and-carry basis.

- **Majority share of value addition done locally in overseas businesses.** The company is present in all key trading blocs with the US and UK being key markets (85% of international business). Across its overseas presence, 50% or more of value addition happens locally. The company has ensured such levels of value addition to counter risks linked to the world turning more protectionist. The same still leads to healthy profitability for the overseas business, given higher gross margin, a combination of customer mix and the company leveraging the supply of pumps manufactured in India. The UK is particularly seeing a big push for water infrastructure with the government targeting US$18 bn of capex spending, majority of which is toward clear-water schemes. The company is expecting a fair share in the pumps required for the clear-water infrastructure. Kirloskar Brothers is also seeing recovery in the South African market to its surprise, which historically has been quite stagnant.

- **Focus on growing the services portion**. The remote monitoring and predictive maintenance features of its IOT-enabled products are helping customers (now more than 100) reduce operating costs. The same accounts for 85% of the lifecycle cost of the pump, the remaining components being capital cost and cost of service/spares. The company also shared the importance of the design of the pumps in lowering the degradation of efficiencies of pumps over time. In such context, the launch of its lowest lifecycle cost pumps has been strong. It expects to grow its share from services over time.

- **Profitability improvement to sustain going forward.** Kirloskar Brothers have seen EBITDA margin improvement to 15.1% in 2QFY25 (450 bps improvement yoy) and a 200 bps improvement yoy for 1HFY25 at 13.7%. Management attributes the same toward the adoption of cost measures at various plants, operating leverage and softening of raw material prices, and believes to sustain the current margin level ahead. It is optimistic of growth ahead for its products, as it continues to introduce new products such as indigenously manufactured submersible turbine pumps for fuel station applications, and 13 new models for the small pump business for dewatering, solar and water transfer applications. The current order book stands healthy at ~Rs19 bn, as of 1HFY25.

# Medi Assist

## Key takeaways

- **About Medi Assist.** Medi Assist was founded by NS Raghavan in 2002, when the health insurance industry was in the nascent stage. Dr Vikram Chattwal, overseeing the healthcare businesses of the AA Group, along with Bessemer (erstwhile IDFC PE), bought the company from AA Group in 2011.

- **TPAs are skewed toward group business.** TPAs have historically preferred the group health business as it is concentrated and has higher ticket sizes. Retail policyholders' claims are more spread out and were generally handled in-house. TPAs currently service ~50% of health insurance GWP in India. Globally, this ratio is higher at 60-65%. Self-paid corporate insurance is another nascent segment which can support TPA volumes.

- **TPAs offload the less differentiated process from insurers.** Insurers have multiple roles to juggle (1) acquisition (2) underwriting (3) adjudication and (4) processing. Hence TPAs which specialize in claims processing (75% of claims are currently processed by TPAs) allowing insurers to focus on sourcing and underwriting. This assumes importance, especially given the push by regulator to swiftly process claims (within 1 hour of intimation). In addition, group policies tend to have structures and benefits that vary with level of employee, location and other factors.

- **Health insurance is a fast-growing segment**. Health insurance is the fastest-growing segment (>20% GWP growth) with highest contribution to industry GWP (>34%). Structural drivers of this high growth is that only 15% people have private insurance and 30% are covered through Ayushman Bharat. 55% of the population is not covered as of date and out-of-pocket expenses account for 50-55% of overall healthcare expenses. Healthcare inflation is also high at 8-15% further.

- **SSG has moderated for Medi Assist.** Same store premium growth has moderated to single-digits for Medi Assist from 15% earlier. This is largely due to flat volumes even as ticket sizes continue to inch up due to high medical inflation and increase in benefits.

- **Regulators concerned about volume growth.** There is a tug of war between hospitals and insurers on the cost of healthcare and quality of healthcare. The sharp rise in premiums and moderation from Covid peak have led to muted volume growth for the health insurance industry, which is cause of concern for the regulator and government. Recent circulars of IRDAI have been focused on enhancing the experience of policyholders to increase the attractiveness of the product. BIMA Sugam, BIMA Vaahan and Vistar are the trinity of new initiatives by IRDAI to increase penetration.

- **Other initiatives to clamp down on frauds.** Frauds are an issue for the entire industry, as 4% of claims paid are fraudulent. The national health claims exchange will likely help in solving this issue, but implementation will be difficult as all hospitals and insurers need to get on the same platform. There is mistrust between hospitals, insurers and policyholders. Models that combine both the roles of payer and provider are being experimented with but are in nascent stages.

- **High concentration risk.** While PSUs still contribute to 70% of revenue, the contribution of private GI and SAHIs has grown to 28% compared to 21% GWP reported by them. Top 15 customers have changed insurers 31 times in the past three years but have retained Medi Assist indicating the sticky nature of business.

- Acquired Mayfair which handles overseas healthcare for Indian companies. Currently contributes to 5% of revenues. Government scheme business contributes 10% of revenues. These are 3-5-year contracts, and hence stickier than the typical 12-month contract in private health insurance.

# Mindspace REIT

## Key takeaways

- Management highlighted that it is targeting a near 50% increase in NOI over the next four years, on an extant base of Rs20 bn on 26.4 mn sq. ft of completed area, through (1) the lease-up of 2.1 mn sq. ft of vacant area (including 0.6 mn sq. ft of vacant SEZ area), (2) average annual contractual escalations of 4-5%, (3) MTM growth in rentals, as well as (4) the completion of 4.4 mn sq. ft of under-construction assets within the REIT and 3.9 mn sq. ft of future potential (through acquisition by the REIT from the sponsor group).

- Management stated that it has demarcated 2.1 mn sq. ft of SEZ area since the government notification, of which 0.9 mn sq. ft is already leased to tenants, with healthy inquiries for the balance area. Mindspace is looking to reach 93.5% committed occupancy by March 2025 (from 90% currently) and 95-96% by CY2025-end.

- Mindspace is focused on constant upgradation of its assets (Rs 5 bn invested since 2020)–it has an average portfolio age of 10 years. It is now also offering "hospitality-like experience" at its office assets through the addition of premium clubs and lounges, as well as the availability of gyms and sports parks.

- Management is planning to add five data centers to its portfolio (at Airoli) with total leasable area of 1.7 mn sq. ft (250 MW capacity). This includes one completed asset, one under-construction asset and three assets to be developed in the future. Management believes this would help diversify the earnings, adding value to the existing portfolio. It highlighted that Mindspace had pre-leased 1.05 mn sq. ft of area at its data center in Airoli to a tenant in 2QFY25. Management stated that rentals for these data centers are ~Rs99 per sq. ft per month, in comparison to Rs65-70 per sq. ft per month for the offices in Airoli.

- The sponsor, K Raheja Corp, is building another 20 mn sq. ft of assets across MMR, Hyderabad, Pune and Chennai. These would offer an opportunity to the REIT, which could acquire them through the ROFO mechanism in the future. One of these assets - 'Altimus' at Worli (1.2 mn sq. ft, 70% leased) could generate Rs5-6 bn of rentals at 85-90% occupancy and rentals of Rs370-400/ sq. ft.

# Newgen software

## Key takeaways

- **Company evolution.** The genesis of Newgen was to develop a standardized product for document management focused on the financial service sector. Further, the company developed process automation and customer communication products. These products are now offered as Newgen ONE platform, a standardized offering with customized solutions on top of the platform to meet clients' requirements.

- **Addressable markets.** Newgen's offerings can be categorized among either of the following: (1) low-code, (2) process automation or (3) platforms. For instance, low-code platform market could be ~US$50 bn with mature markets accounting for 55%. However, the applications that are developed on the low-code platform are tough to account for given customized nature of these solutions. Applications for lending management and trade finance would be more relevant ones for Newgen.

- **Strong presence in emerging markets.** Over the years, Newgen has established its presence in India, the Middle East and South-East Asian markets as a credible player competing with global peers such as Pega, Appian, IBM Filenet, OpenText, etc. Win rates range from ~80% in India, ~50-60% in the Middle East and South East Asian markets. In mature markets, however, the win rates are more modest at ~10%.

- **GSI channel.** Newgen has limited presence in mature markets such as the US and the UK. The company has been investing to establish presence in the US over the past 7-8 years without very encouraging outcomes. While the company has been able to win new clients, most of these relationships are small with limited ability to scale materially. The company looks to partner with GSI (Global System Integrators) to win large deals with large banking and financial clients in the US. Further, it has also engaged a global management consulting firm to formulate a strategy to benefit from large addressable market in the US and the UK.

- **Pricing.** Pricing for products varies by market but is not very different from competitors. Rather than competing on price, Newgen prefers to leverage analyst recognitions as a reference point of its capabilities to win larger engagements with clients. Further, ability to understand business case and respond to RFP also would determine success.

- **Buying centers.** Large organizations have multiple business leaders who decide from a list of products that would be part of tech stack. The decentralized decision-making limits ability to effectively expand in a particular account across divisions and geographies.

- **Implementation.** The typical Implementation time frame is 8-9 months. Earlier 50-60% was license to implementation revenue but as the process becomes more complex implementation revenues will increase.

- **DSO days.** The company operates at 130-140 days receivables (incl unbilled). DSO is typically higher during implementation cycle as clients look for higher control on payments. Further, DSO would moderate marginally with increased presence in mature markets. However, the company's DSO is comparable to global peers.

- **Client churn.** The churn would be typically 5% in large customers. Most contracts are of 5-year duration. The company has been moving away from small and mid-sized banks to grow business in larger banks.

- **Reasonable potential in existing accounts and geos.** Management believes that the existing set of clients in emerging markets could enable scale up of the business up to US$500 mn over the long term and healthy growth rate and margins.

# Nexus Select Trust

## Key takeaways

- Management stated that October 2024 has seen a healthy improvement as consumption rose +18% yoy, with the onset of the festive season. It expects the momentum to sustain during 2HFY25, which should support its guidance of 9% yoy growth in overall NOI in FY2025, with an equivalent growth in distributions. The weak like-for-like growth of 2% yoy in 2QFY25 was owing to lower consumption due to heavy rains, the inauspicious Shraadh period, as well as a lack of wedding dates during the quarter.

- Management highlighted that the leasing traction remains robust across the portfolio. Nexus leased 0.22 mn sq. ft of area in 2QFY25, comprising 0.19 mn sq. ft of re-leased area (at 20% re-leasing spread), and 0.03 mn sq. ft of new leasing. Over 2HFY25/ FY2026/ 27, Nexus has area of 0.5/ 0.7/ 0.9 mn sq. ft coming up for expiry with average re-leasing spread of 20%. Occupancy for Nexus stood at 97.4% in 2QFY25.

- Nexus declared a distribution of Rs3 bn or Rs2.0/unit in 2QFY25, ~100% of the NDCF generated during the quarter. Management remained confident of achieving its guidance of Rs8.7-8.8/unit distribution in FY2025E.

- Nexus has an acquisition pipeline of 1.3 mn sq. ft of retail assets across South India (3 malls, 1 mn sq. ft) and North India (1 mall, 0.3 mn sq. ft). Of the three malls in South India, it is looking to close the acquisition of one mall (Vega City in Bengaluru) in the coming weeks; it has already raised funds for the acquisition of the same. For the balance two malls in South India, the due diligence has been completed; Nexus is awaiting regulatory approvals. For the mall in North India, the due diligence has been completed, and the documentation is underway. Management expects to close the remaining acquisitions over the coming months.

- Over the medium term, Nexus plans to more than double its retail NOI to Rs31 bn by FY2029E (from Rs14.4 bn as of FY2024), this would be aided by (1) Rs7.5 bn increase as the existing retail NOI grows at 8.5-9% CAGR, and (2) Rs9 bn increase from the acquisition of ~1.5 mn sq. ft annually, with Rs1.5 bn per annum incremental NOI growing at 8.5-9% CAGR. The acquisitions would largely by debt-funded (~70% of the acquisition consideration). Low leverage (14% LTV) is a strength of Nexus, that management expects to increase to 28-30% at the end of five years. Management also highlighted that it is open to the idea of a greenfield development, but an acquisition-driven strategy remains their core strength.

# Nippon Asset Management Company

## Key takeaways

- Nippon AMC is experiencing strong growth, with a current AUM of ~Rs5.5 tn; it is recognized as the fastest-growing AMC over 1, 2, and 3-year timeframes, and has increased its market share by ~83 bps this year to 8.29%, with equity market share at 6.96%.
- Nippon AMC has placed a higher focus on SIPs, with a systemic influx of ~Rs31-40 crore, driven by internal incentives to promote SIP sales.
- Nippon AMC's net flows as a proportion of AUM are currently at ~1-2%, which aligns with industry trends. The yields for equity funds are at ~50-58 bps, for liquid funds at ~10-12 bps, and for passive funds at ~15 bps.
- Management feels that there will not be a considerable hit in SIP flows, even if the market corrects because historical evidence suggests against it. While the Nifty corrected eight times from 2015, SIP inflows reduced only twice.
- After the halt of small-cap lump sum investments in July 2023, large and multi-cap lump sum flows now represent ~40-55% of lump sum investments, with an even distribution observed across small-cap, mid-cap, power and consumption themes.
- The portion of B30 contributes ~31% of total inflows, with incremental inflows exceeding ~40%; nearly half of new customers are from B30, characterized by lower ticket sizes and a shift toward SIPs.
- While recent reports indicated that ~60% of equity investments are now above benchmark, a decline from the previous ~85%; management believes this level is not sustainable and considers ~70-75% to be an ideal target for performance.
- The sourcing mix for Nippon AMC comprises ~25% from digital channels, ~10% from native apps, websites, and portals, while the remaining ~65% is sourced through mutual fund distributors (MFDs) and banking distributors.
- Nippon AMC has recruited ~150 new personnel, including ~50 trainees who are primarily directed toward AIF and strategy roles; the ~15% increase in costs is largely attributable to this.
- Nippon AMC has repriced distributor commission fees for 1 scheme; however, there is currently no clear inclination to apply these adjustments to other schemes.

# Nuvama Wealth

## Key takeaways

- Wealth opportunity in India is large and expanding. In the private wealth space, Nuvama caters to around 3K families. While market estimates are not available, potentially there are around 10-12K families that are served by professional wealth managers. India would probably have a current base of 30-40K families, which are potential clients for companies such as Nuvama. In India, professionally managed wealth is around 15% of assets as compared with 40% in China and 80% in the US.

- AUMs across wealth segments are compounding at the 25-30% growth rate, driven both by fresh inflows by existing clients, compounding of invested assets and client additions. The market has also seen an increase in competition, with several new players entering the fray in the past few years. This has led to heightened competition for good quality talent across firms.

- Nuvama has a strong suite of business that caters to HNI and UHNI. It is also building up its asset management unit with new funds to create a diversified product basket. Along with this, company is one of the leading players in the institutional equities and investment banking space. Lastly, its asset servicing business has also been doing well given strong volumes and new players setting up operations in India.

- Unlike a few other large players in the market, Nuvama benefits from having a captive IB/ECM, as it provides strong relationship leads for the wealth business. Management indicated that it has a ~35% success ratio in converting IB deals into the wealth business. Alternatively, about 15% of ECM revenues originates from private wealth clients, as compared with nearly zero 2-3 years ago.

- The mid-market vertical in wealth, i.e., the Rs50-250 mn segment, offers strong growth opportunities, given that historically it has been under-served by the banking channel or IFAs. Nuvama will benefit from the churning of clients and talent from the banking system. RM force for the mid-market works with a different capability set, and cost and productivity metrics compared with UHNI.
  - The mid-market vertical has also adapted well to the shift in business to trail-based revenue accrual versus upfront. Retraining RMs and a wider product basket has helped drive net inflows in this segment.

- Impact of F&O regulations on the asset servicing business is quite manageable. Around 30% of the segmental revenues has linkage to F&O, wherein 85% of volumes are in two contracts. Additionally, new client additions will offset some impact of lower volumes due to new regulations.

# PCBL

## Key takeaways

- **Carbon black industry scenario:** The world carbon black market is around 15 mn TPA in size, and important producing regions are not adding capacity. Western Europe and the US are disadvantaged by a higher cost of production versus eastern competitors, and companies there are trying to improve margins by moving to value-added products. China holds 40% of the world's nameplate capacity, but producers there have not made money in the past decade due to rising costs, especially of coal tar. One-third of Chinese capacities have actually been closed down, though industry data do not yet reflect that. Besides, Russian supplies have been impacted by sanctions, so producers there will consolidate. All of the above creates a very large opportunity for Indian companies. All leading Indian producers have added capacity in the recent past, including PCBL, Himadri, Epsilon and Continental, while Birla Carbon is also expected to. India overall has added 0.5 mn TPA capacity, yet capacity utilization rates remain high: PCBL operated at 94% utilization last year. Indonesia and Thailand have also added small capacities. India's total capacity is now 1.8-1.9 mn TPA, up from 1.3 mn TPA five years ago. The carbon black industry has been clocking a 3.5% CAGR, so 500 KTPA of incremental demand keeps getting generated every year. Capacity additions will not be adequate in this context, so management expects a continuing shortage for 5-7 years.
  - Even if China moves from using coal tar to CBFS as feedstock, their cost structure will not be superior to India's.
  - Europe is importing 0.5 mn TPA of carbon black; India's exports to Europe are minuscule in comparison, leaving a lot of scope for further growth.
- **Capacity addition:** PCBL is adding 110 KTPA of carbon black capacity after having added 150 KTPA already. It is also zeroing in on a larger greenfield facility to set up another 150 KTPA. In the next 5 years, the company's carbon black capacity will go from 770 KTPA to 1.2 mn TPA. The capex per ton of capacity added recently at the Tamil Nadu plant was Rs62-63K per ton, including a 24 MwH power facility, and steel prices have come down since then.
- **Value-added products (VAP):** Nearly 40% of PCBL's business now comes from VAP, comprising 30% from performance chemicals and 8-10% from higher-end specialty chemicals. Performance chemical's margins are 25% higher than those on regular carbon black, while those on specialty chemicals are 2.0-2.5X higher. PCBL is further moving up the value chain in all three categories—tire-grade carbon black, performance chemicals and specialty chemicals. It does 15-17 KT of vols per quarter from specialties, and aims to increase this by 10 KTPA every year. The top-3 global specialty black producers command a 70% market share; PCBL has only a single-digit market share and yet is #4, so sees huge scope for growth. It has started supplying conductive-grade battery chemicals to Ola, Exide, Amara Raja, etc.
- **Kinaltek JV for battery materials:** Kinaltek's proprietary technology gives it a cost advantage, with a cost of production of US$30-40/kg versus US$300/kg globally. The PCBL-Kinaltek JV's pilot plant will come up by April 2025; PCBL holds a 51% stake in the JV. This will be a high-margin business. PCBL has paid Kinaltek US$16 mn for the technology, and is further investing US$28 mn to set up the plant. Production capacity will be 80 TPA by April 2025, followed by a 2 KTPA commercial plant thereafter.
- **Aquapharm acquisition:** The company primarily makes water treatment chemicals, deriving 85% of its revenues from the US and Europe. Phosphonates are an ingredient in detergents, and Aquapharm has a 26% market share worldwide in these, supplying to the likes of Unilever. This year, PCBL is doing an internal transformation at Aquapharm and is expanding capacity by 30%. Management believes Aquapharm can clock a 14-15% CAGR in volumes, and margins can rise from sub-20% to 24-25%. India accounts for only 10-11% of revenues and can grow a lot more.

## Petronet LNG

### Key takeaways

- **Dahej utilization:** Dahej terminal utilization remains similar to 2Q (98% utilization in 2Q). So far, the power sector demand has not picked up for winter, but will likely increase. Also, after recent reduction in allocation for CGDs, there may be increased offtake by CGDs as well.

- **Dahej capacity expansion**: Dahej re-gas capacity expansion by 5 mmtpa to 22.5 mmtpa will complete by March 2025. Increased re-gas capacity and recent addition of two LNG tanks will increase the flexibility of the Dahej terminal. The current two jetties can handle up to 20 mmtpa imports. As the third jetty completes by 2028, the Dahej terminal can reach full utilization levels of 22.5 mmtpa.

- **Kochi terminal ramp-up:** As per PLNG, GAIL has indicated that the much delayed Kochi-Bangalore pipeline will complete by June 2025. As offtake in the Kochi-Bangalore pipeline rises, and as offtake picks up in Mangalore region, it expects Kochi terminal utilization to pick up to 40-50%. As per PLNG, once Kochi terminal utilization increase to ~50%, there will be a case to revisit Kochi terminal tariffs.

- **Qatar contract on downstream GSPAs:** There was a deadline for renewal of the existing Qatar contract further until March 2024. This is the reason that PLNG had renewed the upstream agreement with Qatar in February 2024. The new contracts will begin from 2028. As there is no deadline for concluding downstream gas supply and purchase agreement (GSPAs) with off-takers, these are taking time. The company is optimistic to conclude downstream contracts in the next 6-8 months.

- **Gopalpur terminal**: With difficult in contracting FSRUs and elevated prices, decision has been made now to have a land-based terminal at Gopalpur (earlier board approval was for FSRU). The likely capex for a 5 mmtpa terminal will be about Rs50 bn. The final investment decision will likely be taken in the next few months.

- **Dahej petchem project**: Project implementation is gathering pace. Key government and regulatory approvals such as environment clearance are in place. Site grading has begun. The key licensor etc. are being finalized in consultation with EIL. Also, it has hired 50-60 personnel for petchem projects.

  While the petchem cycles is weak, the company is optimistic on Dahej projects. The project will have additional revenue stream such as 1,200 kta ethane handling facility (~800 kta to be used by OPAL) and 300 kta additional propane imports capacity (1,200 ktap capacity versus own need of 900 kta).

  Also, ~250 kta propylene will be separately sold to a customer on cost plus basis. Also, while initial guidance is of 70:30 debt:equity, the company is optimistic that the share of debt will likely be lower.

## Piramal Pharma

### Key takeaways:

**Outlook**: 3QFY25 would be a softer quarter for PPL, as some of the 3QFY25 supplies have been booked in 2QFY25. Sales are expected to pick up in 4QFY25, as 4Q is seasonally the strongest quarter for PPL. PPL maintained its guidance of doubling revenue and tripling EBITDA in the next 5-6 years.

**CDMO business:**

- **Demand**: In FY2025E, while biotech funding has inched up yoy, it has fluctuated on a monthly basis. Due to the US BioSecure Act, supply chain diversification has led to increased customer interest.
- **Sales mix**: In terms of CDMO revenues, discovery is 4%, development is 26%, and manufacturing is 70% of the business. 20% of overall CDMO revenue comes from manufacturing of patented products and 50% of overall CDMO revenue comes from manufacturing of generic products.
- **Offerings**: PPL has an integrated services offering, across ADCs, high-potent APIs, injectables as well as oral solids, which allows it to cater to a large basket of customers.
- **ADCs**: Earlier, drugs could not target the cancer cells selectively, and destroyed both healthy and cancer cells. However, ADCs can selectively target the cancer cells. Conjugation is the most difficult part in the whole process. PPL develops mABs at Yapan Bio, Hyderabad (acquired ~33% stake). High potent drug (payload) and linker is developed in the US, while conjugation is done at Grangemouth facility in UK. The final process (fill finish) is done out of Lexington, US. PPL has developed linker capabilities in-house, and has been in conjugation since CY2006.
- **Injectables**: Injectables market has shown steady traction in the US. PPL's expansion in Lexington would enable it to capitalize on the new opportunities in sterile fill-finish facilities. It intends to complete the construction by end-FY2027E.
- **GLP-1:** Particular dosage formats are useful for GLP-1, so PPL would not have any direct but instead indirect benefits from the GLP-1 space.
- **Acquisitions**: PPL has acquired lot of capabilities in the past 10 years in the space of discovery and development. PPL has mostly acquired lab scale plants, except for 1-2 plants. These acquisitions have majorly been for adding new capabilities. PPL itself invested and expanded capacities for commercial manufacturing in these plants, as majority of these plants had discovery and development capabilities. Over the past couple of years, due to the subdued biotech funding environment, utilizations at these facilities have reduced. All the six overseas facilities have scope for brownfield expansion.
- **Profitability**: Currently, the CDMO business is operating at low double-digit EBITDA margins. As capacity utilization improves, margins are expected to touch 25% in the next 5-6 years.
- **Geographical mix:** PPL generates ~50% of its CDMO sales from the US, ~30% from Europe and the rest from other markets.
- **Primary supplier:** Typically, for majority of the commercial molecules, PPL is the primary supplier.
- **Win rate:** Win rate is 50%+, higher than the industry average. Win rate with existing customers is much higher.

**CHG business:**

- **Focus**: PPL is focusing on portfolio diversification to leverage existing customer relationships. It wants to create a portfolio of differentiated and specialty products (TAM of ~US$27 bn).
- **Profitability**: PPL expects its cost optimization and product enhancement initiatives in sourcing, manufacturing and distribution to boost margins.

- **Specialized products:** PPL will be launching Neoatricon in the next few months. Atricon is a medicine used for heart disorders. Currently, only adult dosages are available for this product. While doctors dilute the adult dosage for usage in infants, it is not prudent. Now, PPL is launching pediatric dosage in the market, which is Neoatricon.

- **Inhalation**: Inhalation portfolio has had strong traction in the US and EMs. PPL generates 66% of CHG revenues from its inhalation anesthesia portfolio, with Sevoflurane contributing to bulk of the inhalation sales. This business has low competition due to difficult-to-manufacture products, need of field force for selling to hospitals and GPOs, and also criteria for drug-device combination. This US$1 bn market has been growing at 4-5% yoy. These contracts are generally long-term contracts with hospitals. Once the company fits the vaporizer, the hospital will have no option but to use the company's drug bottle.

  - **Sevoflurane:** PPL is backward integrated in this molecule. PPL is the largest company in the US, with 43% market share in this molecule. Its market share has improved from 30% in CY2020. In the US, PPL, Abbvie and Baxter are the key players. Outside of US, PPL has less than 15% market share.

- **Capacity expansion**: PPL is putting new line for Sevoflurane in India. This will help reduce costs and the company can start targeting non-US markets. PPL will start supplies to RoW markets in FY2026E.

- **Non-inhalation portfolio:** PPL had acquired 5 branded pain injectable products from Janssen, which are sold across Europe, Japan, Africa and other non-US markets. Also, PPL had acquired 2 intrathecal products in US, which are injected in the spine, and are used for nerve related issues. These 2 intrathecal products are Baclofen and Morphine Sulphate.

**ICH business:**

- **Own brands**: PPL sells 25 brands across skincare, analgesics, women care and infant care. These products are manufactured by third parties.

- **I-range**: PPL 's i-range growth was impacted due to price cuts, mandated by regulators in 2QFY25.

- **Bayer partnership:** PPL has a distribution tie-up with Bayer Healthcare for 10 brands. This business is 40% of ICH sales. This contribution is expected to reduce over the next 5-6 years.

- **Marketing**: Marketing spending is 22% of sales, where sales are considered for only PPL's own branded products.

- **Performance**: This business has been reporting a 23-24% CAGR, and registered low single digit EBITDA margins in FY2024.

- **Profitability**: PPL wants to improve profitability of its e-commerce channel through a combination of pricing hikes, product mix augmentation. While PPL has been investing heavily to drive sales of power brands, as a % of sales, advertising and promotional expenses have come down.

**Financials:**

- **Debt:** Net debt stood at Rs42 bn as of September 2024. Net debt/EBITDA is expected to reduce to less than 1X over the next 5 years. Over the next 5-6 years, absolute debt might remain at similar levels though.

- **Capex**: PPL intends to incur bulk of the capex largely for its CDMO business. Maintenance capex would be ~US$30 mn.

- **Tax**: Tax paid is in line with tax rates with the respective jurisdictions. Tax rate is high because the profit contribution is skewed towards high-tax regime geographies. Tax rate will come down as overseas facilities start moving towards profitability, and the expected profits in these facilities start getting offset by the carried forward losses. The company expects the effective tax rate to decrease to ~30% by FY2030E.

# Protean eGov

## Key takeaways

- **Business segments.** The company has three business segments that account for most of the revenue: (1) tax services (~55% of revenue), (2) social security (~25% of revenue) and digital identity (~20% of revenue).
- **Tax services.** The company is mandated to issue PAN cards. There are three players in the domain: (1) ITD (4-5%), (2) Protean (64% market share cumulatively and on a quarterly basis, it fluctuates between 57% and 64%) and UTITSL accounting for the rest of the market. The company also offers PAN editing services. Based on, most recent PAN-Aadhaar linkage, there could be 570 mn live PAN cards out of overall 740 mn PAN cards issued. The company accrues Rs91 for PAN card issued online. Both franchisee and assisted online businesses have similar margins. Leveraging tech, the company has been able to issue new PAN cards within 10 minutes.
- **Social security.** Primarily the CRA business, and the company was the first entrant and only CRA during 2010-18. PFRDA issued perpetual licenses in CY201 to Protean, CAMS and Kfintech. However, Protean has a 97% market share among the 77 mn NPS and Atal Pension Yojana (APY) accounts. While CRA allows customer switching, the difference is not significant for subscribers as the quality of service is standardized and pricing is marginally higher for Protean. The revenue model is as follows: (1) account opening charges (Rs40 per account), (2) AMC (Rs69 per year) and (3) transaction charges (Rs3.75 per transaction). Corporate and government accounts have 12 transactions per year while no transaction fee is charged for APY accounts
- **NPS penetration.** Currently, pension penetration is roughly ~6% in India in contrast to developed countries with 70%+ penetration. The government has been nudging for increased NPS adoption. Protean has 16k corporates registered and 100% market share in B2G accounts
- **Digital identity.** This includes Aadhaar eKYC, Aadhaar authorization, e-sign and online PAN verification. Protean is among top-5 in Aadhaar verification.
- **Open digital ecosystem.** This has started with ONDC. The company is one of the founder-promoters and provides search platform for ONDC. The revenue generation is from providing the search gateway and is on a 'cost plus' basis. It has 26 buyer apps and 80 seller apps integrated. The company charges 0.5-3% of GMV for buyer-seller tech integration. The business is currently in investment mode and would have some tangible outcomes (revenues) in the next six months.

# Prudent Corporate Advisory Services

## Key takeaways

- Prudent is actively pursuing inorganic growth opportunities but is facing challenges due to the firms being higher-than-desired valuations; as a result, management plans to build cash reserves on the balance sheet for 2 years and is committed to returning excess cash to shareholders if no suitable acquisitions arise. This is true for insurance distributions also.
- Management feels that in a cycle downturn there is no lever to cut down on the costs with discretion. With staff costs at 75% fixed, there is no lever to cut on the cost front. With the RMs, cluster managers and area managers available even in the lean phases, the company has focused on acquiring new customers even in the lean phases.
- Recent corrections in the market had a marginal impact on the gross flows. Apart from the gross flows, which come from SIPs, the lump sum investments have been really strong. This indicates that retail is trying to buy in the corrections that are happening in the markets. Lump sums were higher 60% yoy and 15% over the previous month. Redemptions have also been low in recent months for the firm. Management expects the trend to continue.
- Fresh negotiations from AMCs: Few AMCs have repriced commissions downward. The impact of these schemes is around Rs60 mn (0.6% of topline). This adjustment is part of a broader initiative by AMCs to pass cost pressures to all market players, resulting in a ~8 bps decline in the firm's commissions on those specific schemes.
- Prudent is seeing a gradual influx of bank relationship managers (RMs) as clients express dissatisfaction with their current banks' service platforms; in this context, the RM becomes the sole point of contact for clients, so the firm is approaching various RMs when opportunities arise at Prudent, indicating a slow but steady progression in acquiring new talent.
- Management believes that the incentive for clients to switch from one platform to another is low from a commercial perspective; Fundzbazaar's comprehensive offerings, which include mutual funds, insurance, portfolio management services (PMS), and alternative investment funds (AIF), combined with registered NACH mandates on Prudent, create significant barriers to platform switching.
- While industry data indicates that 60% of new systematic investment plans (SIPs) are discontinued, Prudent's discontinuance rate stands at a significantly lower 30%; this favorable positioning is attributed to the active involvement of advisors who guide clients effectively, and find them effective solutions. Net addition of SIP also remains robust with higher average ticket sizes in the incrementally added SIPs.
- Prudent is expanding its product offerings with the recent launch of Loan Against Mutual Funds and the distribution of fixed deposits from small finance banks (SFBs), for which RBI guarantees are currently being negotiated; the fixed deposits will be facilitated through third-party providers who will pass on the cost after their margins. Additionally, recognizing its low current exposure in the motor sector, management is actively exploring inorganic opportunities for acquisition in this space.
- For non-resident Indians (NRIs), the effective tax rate on SIPs is relatively high; however, if a sufficient corpus is available to route investments through the Gift City, Prudent is well-positioned, as it is empaneled with AMCs offering fund of funds within this network.

# Raymond Lifestyle

## Key takeaways

- **Management commentary.** Raymond Lifestyle was demerged from Raymond a few months ago. The business generated a revenue of Rs67 bn in FY2024. The company consists of four major business segments: (a) branded textiles, (b) branded apparel, (c) garmenting and (d) the B2B shirting business. The company makes sales though EBOs, TRS, LFS and MBOs. There are also online sales. As per management, TRS is ~25%, EBOs is ~30%, online is ~10% and LFS and MBO are ~20% each. Management is focused on shifting back to a larger predominance into a market place model, where the inventory is on its books. Previously, the inventory had been sold outright to e-commerce channels, with these channels being used as a clearance channel. The company aims to achieve a 45-55 split in favor of the marketplace model, with the long-term target of a 30:70 split in favor of the marketplace model. The company has also rolled out the Raymond online website to offer an omnichannel experience.

- **Management guidance.** Management guided towards low-teens growth in the overall business with EBITDA growth in high-teens over the next 2-3 years.

- **Fabrics.** The core of the business is fabrics (the suiting and shirting business), which comprises 20-25% of the total business. Management guided toward mid-single-digit revenue growth in this business. Management highlighted the ~20% EBITDA margin in this segment.

  - As per management, the company currently has 50% share of the suiting market. Management noted that the next largest player operates in a different price range. Raymond's addressable market starts at Rs300 per meter.

  - Growth in the fabrics business will be driven by (a) premiumization of the suiting business. The company has launched an Italian collection (Regio Italia) to cater to the emerging luxury segment in India. This collection will be designed and produced in Italy. (b) The launch of ceremonial fabrics in the ethnic business and (c) expansion of the linen segment and growth of market share in the mass cotton market in the shirting business.

  - Margins in shirting are relatively lower than in suiting. Suiting consists of trousers (60-70% of the business) and jackets. Management guided towards 50-75 bps of yoy expansion in overall fabrics margins driven by premiumization, linen growth, and decline in costs.

  - Management does not have growth capex planned in suiting and shirting for the next 5 years. The capex will consist of the maintenance capex, to upgrade machines and maintain quality.

- **Branded textiles.** The branded textiles segment consists of the fabric which is sold to the end consumer. This fabric can be for suits, trousers, shirts, etc. The segment contributes to ~50% of the business in terms of revenues. It is a relatively high margin business; the EBITDA margins are 20%+. The distribution of branded textile happens from The Raymond Store (TFS) and wholesale distributors which cater to MBOs across the country.

  - The stores are a mix of franchisee-owned and company-owned, with ~5% of stores being company-owned. The Raymond Stores are present in 660 cities across India, driven by the franchise-owned stores. This would not have been possible with company-owned stores, as capex would be a constraint.

  - The inventory is franchise-owned. The products are sold to franchisees with no return policy. As per management, the stock clears out by EOSS or clearance sales to places like the Fashion Factory. Dead stocks are a very small percentage. Management is pushing franchisees to upgrade stores every six years.

  - In stores, 35-40% of the display space is given to apparels. However, these stores are better known for the fabrics. These stores also have in-house tailoring service. The income from the tailoring belongs to the franchisees.

- **Branded apparel.** Branded apparel consists of readymade garments like jeans, t-shirts, shirts, suits, jackets etc. It is the second largest business segment of the company. The business witnessed a revenue of Rs16 bn in FY2024 and low double-digit margins.

- There are four brands, (a) Park Avenue, (b) Parx, (c) Colorplus, and (d) Raymond ready-to-wear. Park avenue is the largest brand in terms of size, contributing to 40% of the segmental revenue.
- Management is focused on the growth of Park Avenue, Raymond ready-to-wear and Colorplus. These brands currently have ~300 stores (100 each). Management guided towards an increase from ~300 stores to ~900 stores in the next three years.
- Management is focused on turning Park Avenue into a youthful, casual brand. Park Avenue generated ~Rs5 bn in revenue in FY2024, of which 18-20% comes from casual wear. Management hopes to increase this to 25% in the near term.
- As per management, Raymond ready-to-wear is a low-hanging fruit, which already benefits from the brand name. It generated a revenue of Rs3.5bn in FY2024. Management guided towards 150 stores by end of FY2025 and 250 stores by end of FY2026.
- As per management, Colorplus has been a laggard and management is trying to refresh the brand. New retail identities have been rolled out and a new collection will be launched soon. Management expects this brand to start picking up. It generated revenue of ~Rs3 bn in FY2024.
- The brands are sold in EBOs, TRSs and through large format retail stores. As per management, the brands have gained shares in the large-format retail stores. Shoppers Stop, Lifestyle and Reliance are some of the important partner stores. Reliance is a value chain where Parx does very well.

- **Ethnic.** As per management, India has the biggest unbranded ethnic-wear market. Indian weddings have shifted from 2-day events to 5-day events. The ethnic segment generated revenue of ~Rs1 bn in FY2024 with healthy gross margins. The segment currently has ~130 EBOs. The company continues to invest in this segment and it will continue to expand for the next 3-4 years. Management has guided for the addition of ~100 stores in the next three years. The expansion will be franchisee-led, with a 70:30 split in favor of franchisee. The expansion will take place in tier 1, 2 and some tier 3 cities. Unlike TRS, the stock is owned by the company, even with franchises, to keep control of the inventory. Unsold stock is moved to different geographies. Management highlighted the importance of fabrics in ethnic wear, as consumers prioritize unique looks. Management has sourced fabrics from all over India. The pricing of products is similar to Manyavar.

- **Sleep wear.** As a "complete man" company, Raymond wants to provide clothes for all occasions and has entered the sleep wear category with the launch of "Sleepz by Raymond". This is Raymond's first entry into the <Rs999 segment. As per management, sleepwear in India is a largely unbranded category. Raymond wants to disrupt this market. This product will also take Raymond from a pure discretionary item to essential items. As per management, the right to win is market disruption with good quality products at affordable prices. The product will be available in mom-and-pop stores. The brand currently has 65 distributors, to be expanded to ~100 distributors. Management wants to reach ~10k outlets across the country in the next 12-80 months.

- **Innerwear.** Innerwear will be launched through Park Avenue on December 15. It will be a premium product with a similar price range as Jockey; the price range will be from Rs250 to Rs700. The products will be available in the ~150 existing Park Avenue apparel stores. As per management, this launch will complete the Park Avenue ensemble. It will also be available in The Raymond Stores.

- **Garmenting.** This segment consists of global exports of shirts, jackets, suits, catering to US, UK and SE Asia. The exported products are sold as unbranded clothes. The segment grew its revenue from ~Rs6 bn with 5-6% EBITDA margin to ~Rs11 bn with 10-11% EBITDA margin over the last three years. The segment benefitted from the China plus one strategy. Management remains optimistic on the segment given Trump's intent to increase tariffs on China. The segment is also expected to benefit from Bangladesh plus one, as the customers gradually shift away from Bangladesh. Management has guided for a medium-term revenue of Rs15-16 bn.
  - The segment currently manufactures 6.5 mn units of garments, and management guided towards an expansion to 10 mn units of garments in the medium term.

- **B2B shirting business.** The segment consists of the supply of fabrics to B2B players. It generated a revenue of Rs8-10 bn in FY024.

- **Balance sheet.** The balance sheet is bloated due to the creation of intangible assets pursuant to demerger. This non-cash transaction is not included in the calculation of key metrics like RoCE, RoE. The working capital cycle is ~75-80 days. The operational RoCE is 30%+ and RoE is 10-11%+.
- **Capex.** As per management, this year is a relatively high capex year, with capex of ~Rs2.5 bn. Management guided towards ~Rs1.5 bn of capex on a recurring basis.
- **Misc.** (a) As per management, athleisure as a category is not working in India. Companies are stuck with inventory. (b) The cash flow from operations in FY2024 was Rs5.5-6 bn. Cash balance as of March, 2024 was Rs2.25 bn.

# RBL Bank

## Key takeaways

- **Credit card portfolio**
  - In the credit card segment, the share of active cards has remained at 45-47% over the year, down from 53% prior to the pandemic. The focus remains on nurturing the existing portfolio rather than aggressively pursuing volume growth.
  - The bank's internal portfolio exhibits stable credit costs. In contrast, a large co-branded portfolio book previously operated at lower credit costs than the company's book, but has reversed in recent quarters.
  - The shift in collection responsibility resulted in a transfer of the book to the company within a few months. The company added 1,500-2,000 personnel to manage this transition, however it takes time for new staff to acclimatize to the existing portfolio.
  - The company's business rule engine has always been in-house and managed by them while they used customer data from it partners.
  - Credit cost in the credit card portfolio is expected to improve by 4QFY25 or 1QFY26.
  - Efforts are being considered to encourage higher spending, as well as to promote the use of EMIs or short-term personal loans. The growth rate in number of credit cards might slow down a bit mainly due to challenges in the Bajaj portfolio.
- Microfinance:
  - Management will conduct a review to determine how much focus to lay on this business in the future. The Joint Liability Group (JLG) model has become less effective over time, leading to the need for reassessment. There is an interest in exploring alternative approaches to conducting operations in this sector, as it serves as a valuable distribution channel for small business loans and affordable housing.
  - Management noted that rural income has been robust this year, partly due to state elections in multiple states, which has helped mitigate the decline in collection efficiencies.
  - Ex-bucket collection efficiency currently stands marginally lower than long term trends. Collection efficiency in October 2024 was marginally better than September 2024. However, collections in September were impacted by floods especially in Bihar. Collection performance has been relatively weaker in the states of Odisha and Jharkhand, while Bihar is performing in line with portfolio average. Collection efficiency is notably different for borrowers with RBL+1 lender and borrowers with RBL+2 lenders.
  - In the microfinance segment, the bank typically makes 25% provision at 90 days of delinquency followed by 25% further each after 180 days, 270 days and 360 days of delinquency. The bank might consider utilizing contingency provisions after the worst part of the ongoing crisis is behind.
- **Operating cost**
  - Management expects operating cost ratios to remain within the same range or decrease in FY2026E, with no significant investments planned for the near term.
- **Capital**
  - Management is not in a hurry to raise equity capital at this time.
  - The bank has not yet increased the risk weight on microfinance loans to 125% and this can have a modest impact on capital ratios if implemented.

# Route Mobile

## Key takeaways

- Route Mobile is a communication partner for enterprises. Its communication platform addresses multiple channels such as SMS, email, voice, chatbots and WhatsApp. Revenue is largely transaction-based and is charged on a cost-plus basis. The company caters to the end-to-end requirements of clients. For example, for ride-hailing apps, Route Mobile caters to diverse use cases such as identity verification using OTP over SMS, emailing invoices after rides and providing a chatbot facility to air grievances.
- Route Mobile works with all major hyperscalers. The company's communication platforms are typically well integrated into enterprise customers such as BFSI. Route Mobile's CPaas platforms are well integrated into core banking systems of various prominent Indian banks. Gross margins are typically higher for banks and lower for new-age enterprises. Business follows an asset light model.
- Partnership with Proximus is aiding the company's reach into developed markets. Organic efforts would have entailed high customer acquisition costs. Proximus is using its alliance ecosystem to aid entry and go-to-market with new international clients. The deal with Proximus also involves getting better profitability for Telesign. With the Proximus deal, Route Mobile has become one of the few CPaaS companies backed by telecom operators.
- Telesign's emerging market volumes that were earlier addressed by players such as Tanla are now moving through Route Mobile. The company expects a benefit of close to Rs450-500 crores, which has already started to flow. Route Mobile expects further synergies from the cross-selling of Telesign's tech stack such as the digital identity stack to Indian enterprises and cross-selling of Route Mobile's services to Telesign's international customers.
- Proximus has signed a large deal with Infosys. Owing to this deal, Infosys will also help generate certain committed CPaas revenues for Route Mobile.
- Route Mobile is trying to break into a global CRM player using the Proximus connection. Success in the endeavor can itself lead to double-digit growth in FY2026.
- CPaaS market globally is growing at 8-10%. Route Mobile can grow faster, aided by share gains facilitated by the Proximus partnership and expects to deliver a three-year revenue CAGR of 15%. The company indicated better deal flows. Headwinds due to lower demand led by sharp price increases from telecom operators and higher interest rates are in the base. Route Mobile gets 7% of its revenue from non-SMS channels and aims to increase the mix to 15% in the next three years.
- The US market is 50% of the overall market and is US$8-10 bn in size. Focus is on selling non-SMS products until Route Mobile gets direct connectivity from US telecom operators.
- Route Mobile believes that OTTs will eat into traditional contact center revenue share and not SMS.

# SH Kelkar

## Key takeaways

- **Growth opportunity:** SH Kelkar (SHK) sees a substantial growth opportunity and is expanding globally now to cater to these. While it currently sells around 10 KTPA of fragrances, this is despite the fact that it holds a wallet share of less than 1% with MNC customers in India, who comprise half of the Indian market. So, SHK can potentially sell another 10 KTPA purely by increasing wallet share with MNCs. Management suggested that it is therefore quite conceivable that the company could increase sales volumes to 25-30 KTPA within a few years.

- **Expansion plans:** SHK had 35 KTPA capacity across two plants in India. Post the rebuild of the fire-affected unit at Vashivali and further addition of another 15 KTPA to replace existing capacity at Mulund, the company will have a total of 45 KTPA within India. It also has factories in Indonesia and Europe, and will add one more in Europe and then in the US. In the next 2-3 years, all of these factories will be up and running. The company is setting up sufficient capacities to accommodate 10-12 years of growth. Indonesia capacity is 3 KTPA, Europe 5 KTPA and 1 KTPA (across two factories in Italy and the Netherlands) and the US will have another 2 KTPA. Management highlighted the need to have local offices to serve customers on a quick basis.

  - The new creative development centers in the UK and the US will be up by 4QFY25. The total operating cost (primarily comprising employee cost and other SG&A) toward these will be US$5 mn per year.

  - Management said the confidence to embark on this large expansion comes from feedback from clients post product sampling, as well as SHK's need to expand geographically and compete against MNCs. The company needs to be present across all geographies with MNC clients to avoid losing opportunities, which the Unilever contract has opened up for SHK. Also, SHK started patenting its products globally in 2008, so it has 7-8 years left to monetize these and hence, wants to quickly start doing so in large markets such as the US and Europe.

  - SHK has 25 patented products at present, reflecting the company's show of innovation. It wants to be among the top few fragrance companies worldwide, and currently ranks among the top 10-15 globally. Its business development team comprises 3-4 people in the US and 20 people in Europe.

- **Unilever contract:** Unilever and other global companies are looking to diversify suppliers. In the last 10-15 years, the global F&F (flavors & fragrances) industry has consolidated, resulting in customers having only 3-4 suppliers. So, it is now looking to diversify to new vendors. SHK is one of Unilever's six global vendors now. Unilever purchases US$1 bn worth of fragrances annually; SHK looks at 10% of that as revenue potential over the next few years. Realistically, US$30-40 mn within 1-2 years is achievable. SHK is also setting up one joint development center in Manchester with Unilever, where it is looking for first-in-world innovations—this will be a long-term engagement and a partnership between the two companies. The engagement has now gone beyond a 2 to 3-year tenure, and is now open-ended. Unilever is launching new products and also redesigning existing products, and this is where the opportunity for SHK arises. For 50-60% of Unilever's portfolio, it will look to change the product every 3-5 years.

- **Business profile:** 98% of SHK's business goes to the FMCG industry, either directly or indirectly. Industrials is only 1-2% of revenues. While there has been a slowdown in the Indian FMCG industry's growth, SHK is growing faster than the FMCG market by going deeper: a lot of growth is coming from small, medium and D2C brands. It is also gaining market share from certain competitors. It currently has an 18-20% market share in fragrances in India, and 3-4% in flavors. In global markets, SHK is a new entrant, so it is gaining share.

  - 45% of SHK's business comes from global & large accounts, 30% from mid-sized accounts, and 20% from smaller accounts. 95% of the company's business is with customers that are product-led, so there is hardly any churn. A new product launched by a customer typically grows very fast for the first 3-4 years, then matures to 3-5% growth per annum. SHK has been selling some products to customers for 70-80 years. The company is well-known for making products with timeless appeal.

- Clients don't pay for product development. End-to-end development of a product takes two years. Yet, clients ask for prototypes within 4-6 weeks, so SHK needs to keep libraries ready. It does not force clients into contracts (which account for only 5% of business); rather, it tries to become a brand partner.
- 90% of SHK's growth in 1HFY25 came from existing clients, who typically took new products. Also, there were new wins in the Middle East and Africa.

- **Competition:** There are many small companies in regional markets, with US$10-20 mn of annual revenues.

## Signature Global

### Key takeaways

- Management highlighted that the demand for residential housing remains robust in Gurugram, for the right product at the right price. Signature has already launched projects in Sector 84, Gurgaon (Twin Towers DXP) and Manesar (City of Colors), in addition to the launch of the Sohna project (Daxin) in September 2024. Management stated that all the new launches have seen strong demand, which should support its FY2025E pre-sales target of Rs100 bn (Rs59 bn pre-sales achieved in 1HFY25).

- Management highlighted that it would continue to focus on 100% ownership of projects, as opposed to joint development agreements (JDAs)/joint ventures (JVs), as it believes the financial/return dynamics makes more sense for the former. However, it remains open to any opportunistic partnerships that may come up in locations where 100% ownership is not possible. Signature would continue to replenish the sold land in a given year on a continuous basis.

- Signature completed business development of 2.9 mn sq. ft development potential in Sector 37D, Gurgaon with GDV potential of Rs40 bn in 1HFY25. The company's current portfolio stands at 50.7 mn sq. ft, comprising ongoing projects of 15.8 mn sq. ft, recently launched projects of 9.6 mn sq. ft and forthcoming projects of 25.4 mn sq. ft.

- Signature has a gross debt of ~Rs24 bn, and net debt of ~Rs14 bn as of September 2024. Management stated that it expects cash collections to pick up in 2HFY25, which should help support the reduction in net debt from the current levels. A large part of the current debt is project-backed, which would be gradually paid off as collections from the pre-sales come in, supporting the debt reduction from the current levels.

- Against the ongoing projects of 15.8 mn sq. ft, Signature has sold projects worth Rs105.4 bn, with pending receivables of Rs40.7 bn and has unsold inventory worth Rs4.7 bn. It expects to deliver these projects over FY2025 and FY2026, leading to Rs110 bn of revenue recognition over this period. Management expects the recognized EBITDA margin on these projects to be much better in comparison to the current recognized margins.

## Sonata Software

### Key takeaways

- **Microsoft business.** Sonata is one of the top 10-15 Dynamics implementation partners globally. Focus is on small-to-midsize companies. Dynamics capability was a differentiator and provided entry into customers. The business has been impacted by higher interest rates, impacting the ability of the customer base to spend. Sonata indicated increasing demand for Dynamics CRM product and fast-growing pipeline for Microsoft Fabric related deals. Fabric has the potential to be the next Dynamics for Sonata. Sonata was one of the seven launch partners for Sonata and is well positioned to benefit from growing demand for Fabric.

- **Generative AI.** Sonata believes that it is somewhat ahead of peers in generative AI. The company already has a platform, Harmony.AI, where it has use cases customized for different verticals and horizontals. The adoption of generative AI can lead to short-term pressure on volumes. But technology intensity will increase due to AI offsetting this impact.

- **Temporary slowdown in hi-tech.** Internal mandate of key hi-tech clients is to use AI and cut costs leading to the company focusing on cost effiencies and productivity increases. Sonata expects volatility in spends, which will be across other service providers as well.

- **Focus on BFSI and HLS.** 50-70% of the next US$150 mn of revenue will accrue from BFSI and HLS verticals. TMT will be the third focus vertical. From a near-term outlook perspective, hi-tech and manufacturing are witnessing greenshoots, with pickup in customer enquiries. Retail will take longer to recover. BFSI and healthcare also are exhibiting greenshoots.

- **Margin outlook.** Sonata continues to invest substantially in scaling technical teams and sales teams. Leverage from better revenue growth and offshoring of large healthcare deal will help get to 20%+ EBITDA margin in 1Q2026. Sonata believes that it can maintain steady state EBITDA margin in the low 20s consistently. Large deals usually meet company average margins. Upfront costs can lead to lower margins in the initial ramp-up of deals.

- **Growth outlook.** Growth will be better in 2H than 1H. Growth momentum will further pick up from 1QFY26.

- **Domestic business revenue growth outlook.** Sonata expects 10-12% growth in gross contribution for the domestic business in FY2025, lower than normalized growth of 15%. due to weak demand in IT industry, which contributes 30% of revenue. Sonata expects gross contribution increase to be higher in FY2026.

- **BFSI vertical.** Exposure is largely to BFS clients. The focus in BFSI is on fintech, payments, consumer and retail banking and data and analytics. Data privacy process-related IP from Quant acquisition helps get entry to banks and opens opportunities in areas of compliance, data analytics.

- **M&A.** Sonata is not desperate for inorganic growth. AI, data will be focus areas for acquisitions. Product engineering can also be a capability considered for M&A. Acquisitions need to meet multiple criteria like Quant. Acquisitions will aid the target of US$500 mn revenue in international business by FY2027.

- **CEO.** Sonata is more growth focused, sales oriented and risk taking under the current CEO. Decision-making is more decentralized. The focus on speed and agility as differentiators has increased.

- **Cash concerns.** OCF to EBITDA has reduced recently because most large deals are fixed-price projects, leading to a shift in revenue mix toward fixed price, resulting in increase in unbilled revenue. The transition will reach a steady state in FY2026. RBI procedural issue restricts Sonata's use of cash for the US subsidiary and will take a couple of more quarters to get resolved.

# Symphony

## Key takeaways

- **Industry trends.** The market size for air coolers in India is estimated at ~Rs50 bn in CY2024. The market size by volume stands at 9-10 mn units during the same period. The unorganized sector still dominates the air cooler market with a 65% share, whereas the organized sector accounts for 35%. Management anticipates the market size to double in the next 5-7 years, with the organized sector capturing a ~40% market share. The industry is expected to grow at 10-15%, with the organized sector reporting a CAGR of 13-18%. The global TAM for Symphony is Rs130 bn, with Mexico/China/Australia/US/Brazil's market size at Rs5 bn/Rs35 bn/Rs9 bn/Rs16 bn/Rs15 bn. Management commented that the overseas markets are more organized than India.

- **Growth trajectory.** The industry saw subdued retail demand in Summer 2020 and Summer 2021, impacted by Covid, leading to a historically high channel inventory. The summer of 2022 saw growth due to the spillover effect from Covid. The cooling products industry came under pressure in Summer 2023 due to unfavorable weather conditions.

- **Penetration rate.** However, the penetration rate (percentage of households) of coolers increased significantly over the past decade from 7-8% to 19% in 2024. This rate does not include the B2B space.

- **Demand environment:** The consumer preference has been shifting from metal coolers to plastic coolers in recent years. Symphony has introduced the "Air Force" range priced at Rs12-15K in plastic air coolers. The company commented that buying an air cooler is usually an impulse decision, with 100% of retail sales happening during summers. Air coolers used to have strong demand from North and West India due to dry summers, but recently the East and South have also shown good traction, driven by affordability. Demand from the Middle East is robust, driven by dry summers, where air coolers are preferred.

- **Symphony.** Symphony maintained its leadership position in the cooler segment, with a market share of ~50% over the past few years. The rural market is expected to grow due to distribution expansion and better product offerings. Symphony outperformed peers such as Kenstar, Usha and Bajaj Electricals due to higher innovations and better operating leverage. The company launched 106 products over the past 10 years, with products launched in the past five years contributing ~60%+ of the sales in FY2024. The company recently introduced 17 new SKUs for the coming summers. New product launches include Air Force, Silenzo (most silent cooler) and Maxwind, among others. The company did not raise any prices post-Covid, due to high channel inventory. It serves 60+ countries.

- **Manufacturing.** The coolers are outsourced to 13 vendors, with the specification customized according to Symphony. The company prefers OEMs where there is spare capacity and that are willing to work on marginal costing, with no minimum offtake guarantee. The quality is inspected by Symphony's team at the vendor's place. Symphony's dependence on imports is minimal (chips and controllers).

- **BLDC coolers.** Symphony was the first to launch BLDC air coolers. These coolers offer three major advantages over the previous models—better cooling, lesser noise and lower energy consumption. The initial capital cost of the air coolers is 1/5$^{th}$ of RAC, whereas the recurring cost is about one-tenth of RAC. The energy consumed by Symphony's BLDC air coolers is up to ~60% lower than conventional coolers.

- **Large space venting solutions (LSV).** Symphony acquired its expertise in this category when it acquired the Mexico subsidiary in 2009. This category has 15+ industrial products, with many installations done across warehouses, cloud kitchens, dark stores, factories and others. The segment contributes sub-10% in the standalone business and 14-15% in the consolidated revenues.

- **Distributors and advances.** Symphony sells its products through two different channels—general trade, which accounts for about 65-70% of the sales and modern trade that makes up the remaining 30-35%. In general trade, distributors pay Symphony in advance to avail distributor discounts, which are the highest in 2Q and decrease gradually over time. The company started its sales in the modern trade form, such as large-format stores and an e-commerce channel, later. The credit period for the MT channel is ~35-40 days. Management noted that the D2C channel, which used to be loss-making initially, has now the same margin profile as general trade. Most secondary sales happen during February-August.

- **International subsidiaries.** The international business accounts for one-third of the consolidated sales. The international business provides geographical diversification, access to R&D capabilities of subsidiaries and sourcing capability from China at a competitive cost. Unlike the India business, most international businesses have positive working capital investments.

- **Australia**: Climate Technologies, Australia, was acquired in July 2018. The country experienced one of the world's longest lockdowns due to the pandemic, which disrupted sales, installations and service operations. The company has taken transformation initiatives in the past two years. Phase-1 has been completed and it expects to reap benefits in the near future. Symphony reduced the leased land by renting a part of it, reduced headcount and customized products suitable for the local market, which will be margin accretive. The fixed cost has reduced from AUD15 mn to AUD8 mn. Portable coolers are manufactured in India and the rest of its portable products are manufactured in China. This subsidiary also caters to US markets.

- **China and Mexico**: The company acquired its China and Mexico subsidiaries when it was bankrupt. Symphony turned around these companies by rationalizing cost and improving operational efficiencies. For the China subsidiary, all products are locally manufactured. About 50% of total products were manufactured in India for Mexico subsidiary. As the freight costs decreases, the salience of products manufactured in India will increase to 70-80%. The Brazil subsidiary, a trading subsidiary, has sales worth Rs190 mn (from nil in 2021).

- **Water heater.** Symphony ventured into water heaters in 3QFY25 in India. Its offerings include hard water filtration and an AI-powered control panel for safety. The company believes it can be #1 in this category in the next few years. The product was launched only in the modern trade format in the select geographies. These are also outsourced to Indian OEMs.

- **Others:** Symphony's air coolers are priced at a premium of 30-50% compared with the unorganized market; however, the usable life of the company’s products is 7-8 years, although consumers replace existing coolers within 3-4 years to avail newer features.

# Welspun Corp (WCL)

## Key takeaways

- **Strategic roadmap**. WCL is expanding presence from being a line pipes player (mainly used in O&G and water pipes) to a wider presence across pipes (DI and LSAW) as well as plastic products (pipes/tanks) through Sintex.
  - The LSAW order book for exports remains healthy.
  - WCL expects US demand to further pick up post-election of the new government. The company has received two large orders for pipelines (~230 kt total) from the US in past two months alone.
- **Acquisitions**. WCL did not envisage being successful in acquiring both ABG and Sintex assets.
  - Given strong complementarity with existing asset base, focus is now on reinvigorating Sintex distributor base and brand, and enter the plastic pipes segment.
  - WCL will largely exit ABG asset in a few months. Scrap has largely been removed.
- **Capex**. WCL plans capex of ~Rs55 bn over the next 3-4 years, through a mix of internal accruals and debt. Capex for FY2025E expected at ~Rs8 bn, with ~Rs15 bn annually FY2026E onwards.
  - WCL plans to set up additional 0.35 mtpa capacity in US HFIW mill to expand capability to make pipes up to 25 inch diameter (from up to 20 inches currently).
  - Larger diameter pipes may be used for newer use cases like transportation of hydrogen, carbon capture and storage, etc.
  - WCL has divested 5% stake in Saudi associate company (manufacturing spiral pipes) for US$60 mn. Divestment proceeds and debt will be utilized for US$200 mn investment in wholly owned subsidiary in Saudi Arabia to manufacture DI/LSAW pipes with capacity of 0.25/0.35 mtpa.
  - WCL has also announced expansion in DI pipes to 0.6 mtpa (from 0.4 mtpa currently) at capex of ~Rs3 bn by 1HFY26 in India. This will be brownfield expansion via increase in CCM (centrifugal casting machine) capacity, since BF capacity of 0.5 mtpa is already available. Green field capex of 0.4 mtpa in phase 1 took Rs23 bn.
  - WCL plans to invest ~Rs23 bn in plastic pipes/tanks segment over next 3-4 years.
- **Water pipes**. The segment in India is not very profitable for the company; however, it helps in fixed cost absorption. The cream of profits comes from exports. The company does not see major external competition coming up in the next 2-3 years in DI pipes.
- **Sintex expansion**. TAM for plastic pipes is ~10X that of plastic tanks—estimated at ~Rs600 bn. The TAM is expected to double by FY2030, which is the main rationale for WCL's plans to enter the water pipes segment.
  - WCL will focus on OPVC segment. It has tied up with an exclusive technology partner for the same.
  - The initial capacities will come up in Chhattisgarh/Madhya Pradesh.
  - WCL plans to focus on the buildings, industrials, infra segments for water pipes. It does not plan meaningful exposure for agriculture.
- The new capacities in the US/Saudi may serve as hubs for other geographies in the region.
- Net debt/EBITDA for March 2025E is expected at ~Rs10/17 bn, which should keep leverage under control.

## Zen Technologies

Zen Technologies is among select few companies that operate in the defense training and simulation and counter-unmanned arial systems segments. The company has indigenous design, development and manufacturing capabilities, its proprietary training platform architecture is key and integral part of the value proposition, which has allowed it to build a strong domestic and international presence. The company primarily has three product lines—(1) training and simulation—this consists of (a) live ranges; (b) live simulation; (c) virtual and constructive simulation; and (d) operational equipment; (2) counter-drone systems—this consists of six sub-components: (a) RF based drone detector (RFDD); (b) radar detection; (c) video-based drone identification and tracking; (d) data fusion and command center; (e) drone RF jammer; and (f) hard kill interface and (3) autonomous weapons and surveillance system.

The company is in a very high growth stage growing at CAGR of ~100% in terms of revenue from operations over FY2021-24E. As of September 30, 2024, the company's order book stands at Rs9.57 bn, ~1X of revenue run-rate.

### Key takeaways from interaction with management

- **IP player in India defense ecosystem:** Zen Technologies is at the forefront of India defense R&D, with a 30-year legacy of developing training and simulation products. To date, the company has filed 159 patents globally and currently boasts of 40+ product portfolio.
- **Asset light operating model:** R&D and engineering are done in-house, but asset-heavy part of the business—component manufacturing—is outsourced. Final assembly is also done by Zen along with post sales customer support. The company offers warranty of 2 years post which they receive AMC contract that ranges 8-11% of equipment price.
- **Robust growth outlook:** The company has guided on achieving revenue of Rs9 bn in FY2025, with expected CAGR of 50% over next 3 years driven by large order pipeline. The long-term view is to get into various other simulation segments, and offer training and simulation to Navy and Air Force, with an aim to become the leading player as Zen currently is in the Army. Additionally, the company wants to become a global player with a one-stop solution for all anti-drone solutions.
- **Expect to see strong order inflow in 3Q and 4Q:** Order inflow has been weak in the first half, with the current order book at Rs9.57 bn, but order inflow is expected to pick up 3Q onwards. The company has an order pipeline of Rs35 bn, with Rs12 bn expected to come in by end of FY2025, which will be executable next year.
- **QIP proceeds to be used for acquisitions:** Recently, raised Rs10 bn through QIP, part of the proceeds will be deployed on acquisitions with a size of Rs1-3 bn, although the company might go for larger acquisitions if it makes strategic sense.
- **Expansion into international market**: The company has had a presence in the US, but they haven't yet done any sales in the region. But now with the changing political landscape, the strategy is to double down on US with focus on the North American and South American markets. Focus is to export simulation products and anti-drone systems, with greater emphasis on training and simulation given the company's deep capabilities in the space.
- **Strong demand for anti-drone system**: The acquisition of AI Turing done in early 2024 is doing very well. AI Turing, remote control weapon station, is quickly becoming a sought-after equipment in various armies. The company estimates that both AI Turing, remote control weapons and surveillance system have a TAM of US$1 bn.
- **No change in margin guidance despite weakness in 2Q:** Operating margin has seen a decline of 7% qoq and 1% yoy driven by changing product mix. As customer requirements are changing, the company has accommodated their request, which has led to a short-term margin hit but the focus is on delivering world class product and client satisfaction that will help the business in the long run. Despite the recent dip, the company aims to achieve 35% EBITDA and 25% PAT margin for FY2025.

## Companies: November 22, 2024

# 360 One

### Key takeaways

- 360 One is developing into a well-rounded wealth franchise and has progressively added new pieces to the business since its founding over 15 years ago. These include asset management, lending, advisory and its recent foray into HNI (mid-market) and global businesses. Over the past few years, the share of transaction business has been rising due to buoyant markets. On a steady state basis, the company intends to maintain an 80/20 level in terms of breakup between ARR and TBR.

- Globally, the UHNI wealth business has moved toward advisory with clients willing to pay fees in exchange for fair and full alignment of interests. While India is still a nascent market, the top end of the pyramid has been shifting toward advisory-based engagement. 360 One has been one of the pioneers in the segment and has nearly Rs550 advisory AUM.

- AMC business. 360 One is the largest domestic AIF player. Rs400 bn in AIFs, of which 70% is equity and balance 30% is credit/real estate/others. The company has Rs300 bn PMS AUM, which is largely six institutional mandates—ranging from US$250-500 mn invested in public equities.

- Outlook on flows. AMC outflows have reduced and would further reduce in the next few quarters. Bulk of the distributions from older PE funds came up in FY2024-25, which has exerted pressure on net flows in the AMC business. The company is in the last stage of completing the planned distributions from the initial set of alternate funds raised in FY2016-17. It has been able to raise good quantum across two private funds on equity and credit side with nearly Rs50 of commitments.

- Lending. 70 bn AUM. No asset quality issues (not even stage-2). This book has zero acquisition costs as existing RMs source this business.

- Yields. The company is not seeing dilution in yields across product segments. Movement in yields is likely to be a function of the asset mix—for example, lower growth in AIF AUM, and higher growth in advisory or institutional mandates. The company expects yields to improve over 2Q levels.

- Cost-income. The company believes 43-45% is the optimum level. The recent period has seen higher investments toward new initiatives and hiring in existing businesses. The company will reach 43-45% CIR in the next 3-4 years.

- HNI/mid-market. The company is taking a measured approach to build this and not looking to incur high expenses. The company is tapping into referrals from the UHNI business to add the initial base of clients. The company has developed capabilities to create assisted and self-directed journeys for this client segment. The company has recruited 8-10 RMs for HNI and re-assignments from UHNI to HNI. There is no differentiation in the products that will be offered. However, the ticket size thresholds will be lower.

- Global. Currently, it has a team of 6-7 people, including 3 that joined as part of the founding team. The outbound opportunity comes from US$250K per person per year. Earlier, it had a tie-up with Bank of Singapore, which was helping with international products. The new team is also helping get large institutional mandates. GIFT City is also allowing some flexibility to move money, especially for promoter families.

- ET Money. The third-largest direct code distributor in India. Overall, the customer base in 1 mn, of which there is a base of 80,000 fee-paying customers. Monetization plans for ET Money exist through the broking and lending activities. The founding team will still continue to run the business out of Delhi. Only the backend activities will get integrated to get cost synergies. The company is burning about Rs25-30 mn a month.

- Investment banking. There have always been pros and cons of having an IB business. The company held a view that having an IB business could potentially conflict with wealth and asset management business. However, given the recent primary activity, players with IB have seen the benefit of having client access.

# Aavas Financiers

## Key takeaways

- **Lower share of low-cost NHB sanctions drives PLR hike.** The PLR was hiked by 35 bps in October to offset the impact of the MCLR hike with banks and lower share of NHB borrowings. Sanction from NHB would typically be split 70:30 in favor of affordable scheme, but in FY2024, the sanction was reverse, with on 30% coming from the affordable scheme (low cost of ~5-6%). This will likely revert back in FY2025E post consultations of HFCs with NHB.

- **Interest rate risk is sufficiently hedged.** Bank borrowings are at 8.7% and are on largely on floating rate linked to MCLR (20% to 3-6 month and 50% to 1-year) or EBLR (30%). 68% of assets are linked to PLR similar to the liability side (70% floating), hence the interest rate risk is sufficiently hedged.
  - In an event of rate cut, 50% of borrowings will be repriced in 1-2 quarters and as the company is not forced to pass on the benefit to borrowers, NIM will likely remain stable.

- **BT-outs remain contained.** Higher inhouse sourcing and in-house predictive model on BT-outs help Aavas in maintaining lower BT-out ratio. In cases where the borrower requires top-up, Aavas has been able to retain most borrowers. BT-out competition is largely from Banks like ICICI, AU SFB and SBI leading to 5.2% BT-out in 2QY25 (0.4-0.5% monthly run rate). The banks are offering 200 bps lower rate to customers whose income profile has improved. Aavas does not offer interest rate below 11% even to retain customers with good repayment track record.

- **Positive outlook on PMAY offtake.** PMAY will likely increase stickiness of customers as the disbursements is spread over five years. The BT-outs in this portfolio may be lower than the company average of 5-6%. More positive on driving this segment as the customers will be sticky, Aavas has tied up with local bodies and state governments to drive this business. In Karnataka, Aavas is funding 400 units in a new project launched by the state government.

- **AUM growth to pick up.** AUM growth rate is at 20% due to internal challenges such as management transition and tech transformation. This will likely inch up to >20% in 2HFY25E and 25% in the medium term. Management is targeting 2X AUM growth by FY2027E.

- **Attrition rate has moderated.** Attrition rate was high in Rajasthan in FY2024 due to change in management and aggressive poaching from peers who were awaiting IPO/listing. This has moderated in 1HFY25 especially at the senior and supervisory levels.

- **Earlier CBO focused on high ticket size business.** The shift in focus toward high ticket sizes was driven by earlier CBO who came from bank. With the appointment of CBO who experience working with NBFCs the organization is shifting its focus back to low-ticket sizes and the impact will be visible by March 2025. Resultantly incremental and book yields will likely converge in FY2026E.

- **Collections are improving.** Rajasthan witnessed high rainfall leading to dip in collections in 2QFY25, and collections have improved in October, leading to a decline in 1+dpd to 3.8% from 4.0% in 2QFY25. The delinquencies are similar across both LAP and home loans. Bureau scrub of borrowers is underway to check for default with other lenders and overleverage.

- **Profitability to improve.** Cost ratios will decline by 30 bps every year for the next three years, leading to 2.7% cost-to-AAUM by FY2027E. This will be driven by an increase in efficiency as the new tech stack goes live. ROA guidance of 3.2-3.3% in FY2025E and 3.3-3.5% in FY2026E. The improvement in ROA will likely be driven by improvement in cost ratios and moderate expansion of spreads due to rate cuts.

# ABSL AMC

## Key takeaways

- New fund launches. The company sees scope to have new funds in the sectoral category. The company has hired a fund manager to grow the SMID category and expects stronger growth in these categories.
- Fund performance. Over 50% of AUM is in the first two quartiles on 6M performance and nearly 70% of AUM in 1Y returns.
- Equity flows. Sectoral, thematic and flexi along with arbitrage funds are attracting a higher share of net flows. 45% of new SIPs are from B-30 locations.
- Debt funds. The company has strong positioning in the debt funds category, with a ~10% market share. The company has reached AMC-level limits for some corporate treasuries, which makes it tougher to increase market share. The company is now focusing on moving beyond top-8 locations and reaching out to entities in the next 20 cities. The company has a good product bouquet in the fixed income category. The company has launched target maturity funds to capture the expected decline in yields.
- Yields. Equity yields will continue to decline due to telescopic pricing. The company has been working toward growing the alternate funds. Effort is to maintain blended yields with dilution in equity yields offset by higher yields in alternatives and mix shift in debt funds toward higher duration funds. Commissions. ABSL is not planning to rationalize commissions for distributors in the near term.
- ABSL sees strong opportunity in alternate categories. Alternate funds yield 90-100 bps for new GIFTY City funds, which can help maintain margins. ABSL will tap into the Sunlife relationship to grow its institutional mandate business. Will maintain 41-42 bps on blended basis. Launching feeder funds. Alt funds can reach 15% of AUM (target and not a guidance).

# Ami Organics

## Key takeaways

- **Business overview:**
  - Ami started operations in 2004 supplying pharma intermediates to originators, but due to long timelines associated with this line of activity, it expanded into intermediates for pharma generics in 2007. It also does pharma CDMO now. 45-50% of its revenues in the pharma intermediates business come from generics, another 45-50% from originators, and 5% from CDMO as of last year. Pharma intermediates account for 80% of company revenues.
  - In March 2021, Ami acquired Gujarat Organics, which makes specialty chemicals such as parabens and methyl salicylate that go into the pharma, personal care and polymers end-uses. Also, two electrolyte additives were launched in 2022 (vinylene carbonate [VC] and fluoroethylene carbonate [FEC]); this business is about to take off with the signing of a supply contract with one of the largest North American EV producers. The third vertical in specialty chemicals is the semiconductor space, where Ami has forayed via the acquisition of Baba Fine Chemicals. Baba's products find application in photolithography in chip manufacturing.
  - The company has four manufacturing sites, of which three are in Gujarat (at Sachin, Ankleshwar and Jhagadia) and the fourth in Noida (the Baba site). Ami is USFDA approved since 2016, despite being only an intermediates manufacturer, and underwent its second inspection in 2020. It is also certified by PMDA (Japan) in 2020. On the ESG front, it is among a small minority of companies that are EcoVadis Gold certified.
- **Fermion contract:** Ami supplied the original development material in 2010 to the originator during clinical trials. Post 2020, the API (darolutamide) picked up very well. This is a prostate cancer drug and acts as an anti-androgen. Fermion ran out of capacity amid growing demand, so it outsourced the manufacturing of advanced intermediates to Ami. In 2023, Fermion awarded Ami with business to supply two advanced intermediates, and subsequently the precursors to these as well—in total, there are five intermediates involved under the 10-year supply agreement. The patent for darolutamide expires in 2035. No other supplier worldwide supplies the advanced intermediates as of today. In the future, Fermion may develop some other vendors, but generally the originator sources 80% of requirement from the first source. Fermion has assured Ami of business representing 60%+ of Fermion's requirement. The scale of opportunity is so large that the revenues from this single project could equal Ami's entire revenues for FY2024. Ami has enough capacity to meet this demand, but not more than this without further capex. The end-product (darolutamide), meanwhile, continues to exceed growth expectations.
  - Ami has now also developed two basic intermediates that it is currently sourcing from Fermion's approved supplier. The benefits of this backward integration will begin from 4QFY25.
- **Electrolyte additives:** The plant is expected to be ready by 4QFY25, and has been set up with Rs1 bn of capex for 2 KTPA of capacity each for VC & FEC. Ami targets a 20% IRR on this project. EBITDA margins are seen in the range of 15-17%. Ami will supply the additives to a cell manufacturer based in South Korea, though the agreement is with the auto OEM in the US. This business should see a quick ramp-up from FY2026, with 35-40% capacity utilization next year itself. The price is seen around US$8/kg, close to the Chinese price.
  - Beyond VC and FEC, Ami has developed eight more additives as of date and has a few more in its pipeline. It is currently supplying samples of these to prospective customers.
  - Once the Indian market for battery chemicals matures, Ami will supply into that market as well.

- **Competitive advantages:**
  - Pharma intermediates: Ami is the only company with a sizeable pharma intermediates business in India that does make any APIs and yet has FDA approval.
    - Originator business: Every year, Ami gets 10-15 projects. The company has over 500 commercialized molecules already invoiced to customers. Whenever the APIs made from these molecules progress beyond the clinical trials phases, Ami stands to win business to supply the intermediates.
    - Generic business: Ami develops the intermediates even before the API is launched by the originator. For example, for apixaban and rivaroxaban, Ami developed intermediates way back in 2011 and on-boarded 40 API customers who filed using Ami's raw material. So, Ami is typically the first mover in pharma generics. The company claims to have growth visibility until 2045. Even when the generics makers approve a second or third source of supply, they have to use Ami's route of synthesis unless they want to refile.
    - CDMO business: The only big contract Ami currently has is from Fermion. Now, it is in talks with other originators also. It has already worked with originators such as Novartis, Sanofi, Takeda and Boehringer for over a decade. But now, Ami has a new, modern facility at Ankleshwar that gives its CDMO prospects a boost. In CDMO, the customer provides the product and technology, so Ami does not select products here. The company's strengths are its production technology, scalability, quality assurance (QA), etc. Even its batch records are maintained in digital form—a cutting-edge QA process. Ami is finalizing one more CDMO agreement with a European customer, and three more contracts may start from 1QFY26.

- **Competitors:** Lianhe (China) and FIS (Italy) have a somewhat similar business model, though no one is identical to Ami. Chinese competition is not hurting the company much but is hurting its generics customers a lot. Hence, they asked Ami to reduce ASPs, so the company's margins were impacted in September last year, but are slowly coming back as raw material prices have stabilized. Ami's standalone gross margins have improved in the past two quarters.

- **Outlook:** Over the next 3-5 years, the pharma intermediates business will continue to grow at a 30-35% CAGR, but Ami will also be known for its specialty chemicals business, comprising semiconductor chemicals, battery chemicals, as well as other products under development. Strategically, Ami will not venture into making final APIs—it will restrict itself until only the n-1 stage, as it does not want to compete with its customers. The pharma intermediates business will remain 70% of revenues, as CDMO is ramping up well. FY2026 EBITDA margins are targeted at 23.5%, and are then expected to further expand in FY2027. The CDMO business last year accounted for 5% of pharma revenues, this year will jump to 25%, and next year to 33-37%. No major capex needs to be incurred next year as adequate capacities are in place for now.

## Anupam Rasayan

### Key takeaways

- **Growth outlook:** Of the 45% yoy decline in revenues in 2QFY25, 10-15 ppt was attributable to pricing and the remainder to lower volumes. However, management expects 2HFY25 to be better than 1HFY25 and 2HFY24. It expects customers to order more starting 1QCY25, as it will be a fresh year with new budgets. Also, there have already been two years of industry downturn by this point. FY2025 revenues will be lower than the levels seen in FY2024, but not by much.

- **Capex and working capital:** The company will deploy Rs6.7 bn of capex fully by 1QFY26, and thereafter will incur only maintenance capex, which is much lower than Rs1 bn annually. Working capital has peaked and will fall. Term debt of Rs2.5-3 bn will be fully paid down, leaving the company with total debt of Rs10 bn. The equity warrant proceeds will also come in by 1QFY26. Overall, management believes cash generation will exceed PAT in FY2026.

- **Other takeaways:**

  - The share of revenues from the pharma industry has grown from 2% to 20%, offsetting the decline in agrochemicals from 70% to 51%.

  - 15% of revenues today come from products that include at least one fluorination step.

  - Patented products account for one-third of revenues, while originators account for 70%+.

  - The company has not seen much increase in Chinese competition for its products, though there may have been some change in wallet allocation by customers toward Chinese suppliers given the low prices being offered by producers there.

# Apar Industries

## Key takeaways

- **Cable and wires.** Apar acquired Uniflex cables in 2008 for Rs1 bn, which had the capability to produce optical and power cables. This segment clocked Rs38.5 bn of the revenue in FY2024. Apar has a leadership position in wires used in windmill towers (~65-70%) and has a healthy market share in solar (~25-30%) and railways (~20-25%) as well. The company has introduced covered conductors for forested and snowy areas. It is now focused on expanding its reach in the domestic distribution channel (to participate more in the industrial and housing segments). Its current capacity utilization is 85-90%. The new facility will enable Apar to reach Rs100 bn in revenues, with capacity for cables up to 220 kV. The plant will be completed by FY2026/27.
  - **Domestic**. Management stated that the Indian W&C market size is ~Rs750 bn, with a 30% share of wires. The category is expected to witness robust growth in the future, driven by the doubling of the electricity capacity to 500 GW+ by 2030. Within this category, the salience of renewables is expected to double. Apar is the largest domestic player in renewables in India. The company is present in premium wire and expects robust demand in the domestic market. It is expanding distribution channels for cables to have 50 distributors across the country.
  - **E-beam**. Apar introduced e-beam wires in 2012, which are halogen-free and have a life cycle of 50 years. Initially, it was meant to be used for nuclear reactors; lately it is being used for tall buildings (the National Building Code has mandated the use of zero halogen wires in high-rise buildings in India). Polycab and RR Kabel have entered into this category recently. Management stated that Finolex Cables is likely to introduce e-beam wires soon.
  - **Exports**. Exports, which accounted for 29% of sales in 2QFY25 (versus 44.5% in 2QFY24), declined 28% due to higher freight costs, increased competition from China in non-US markets, and increased delivery time due to closure of the Red Sea channel. The main focus for the company would be the US and LATAM after India.
    - **US**. The company commented that the W&C market size in the US is estimated at $50 bn, with half of it dependent on imports. The US now levies ~55% (cumulative) tariffs on Chinese aluminum conductors and cables, effective from September 1, 2024. The import duty on Indian aluminum conductors and cables is ~5%. Hence, the main competitors for Apar Industries are Korean players and local manufacturers in the US. The company will see a dip in exports in FY2025E, but it remains optimistic on US exports, driven by higher product quality and better lead time of 3-4 months (6 weeks production time and 8 weeks of delivery time). The local players have a far higher lead time of ~10-12 months due to capacity constraints. Moreover, the local manufacturer does not have capacities for solar wires. Apar has the highest number of UL certificates from India for the sale of cables in the US.
    - **Middle East**. Apar has low presence in the Middle East. The existing local competition and stringent regulations are the key deterrents. Saudi Arabia is quite protective of its business environment and expects foreign players to set up plants locally. Moreover, management stated that the margins in the Middle East are lower than in other geographies.
  - **Guidance**. The company expects 25% revenue CAGR and 10-12% EBIT margin in the medium term. Exports mix could be about 40% in the MT.
- **Specialty oil and transformer.** The growing demand for electricity will double the demand for transformers. Transformer oil contributes ~1/3rd to this segment's sales for Apar. The company has a leadership position globally in transformer oil and decent market share in lubricants.
- **Conductors**. This is the largest segment for Apar, contributing ~50% to its turnover. It started this business by selling conventional conductors, back in 1958. The company ventured into making turnkey solutions and HTLS conductors, which have 3X higher current-carrying capacity than the conventional conductors. Reconductoring is preferred over a greenfield product, as the former is more cost-efficient and does not have any RoW issues. Apar is the market leader (>50% share) in turnkey solutions, which includes uprate and upgrade with HTLS, fiberization of T&D network and MVCC-based solutions. The company holds >50%/~15-20% market shares in premium/conventional conductors. Due to intense competition and geopolitical tensions, the company has guided for Rs28.5k for EBITDA per MT in the medium term (despite higher profitability at present).
- **Others**. The overall revenue contribution from the US has reduced from 15-16% earlier to 12% in FY2024 and 8-9% in the past few months. The US's contribution to Apar's cable revenues is still 25%.

## APL Apollo Tubes (APL)

### Key takeaways

- **Margins**. Deterioration in 2QFY25 margins was led by a sharp decline in steel prices. Back-to-back declines for 6+ months is a rarity, which led to inventory losses in 1HFY25.
  - Higher commodity grade mix for APL contributed to higher EBITDA in 2QFY25; these sales were not at the cost of lower value-added grades.
- **Scale**. APL is one of the largest steel consumers in India, with a share of ~3% of the total output. Of the total cost, ~80% is steel cost.
- **Volumes**. The company expects 10% qoq volume growth in 3Q/4QFY25. Total volumes for FY2025/26/27E projected to be 3.2/4.0/5.0 mn tons.
- **Mix/margins**. Commodity grade to be ~35-40% of total volumes in the long term. Value-added grades sold in a very wide range of ~Rs4,000-20,000/ton, with blended realizations of ~Rs5,000-6,000/ton.
  - Commodity-grade realizations in India are much lower at ~Rs2,000/ton due to competition from sponge iron tubes. These realizations are much higher for Dubai, given the lack of competing alternatives.
  - Better fixed asset cost absorption (employee costs/SG&A costs) at higher volumes should lead to margin improvement over FY2025-27E.
  - The company had to incentivize dealers in a low-demand scenario in 2QFY25, impacting margins. These have largely been reversed in 3QFY25E.
- **Macro**. The current macro environment in India is mixed, with pockets of the slowdown compensated by robust growth in other segments.
  - There are signs of a slowdown in the rural housing, warehousing segment, water/educational infra and aero segments.
  - Demand in commercial real estate, healthcare and urban housing seems to be more resilient.
- **Steel prices**. APL expects domestic HRC prices to remain under downward pressure, as more crude steel capacity comes online. Around 10 mtpa capacity has come online since December 2023, but associated volumes are yet to fully hit the markets due to the ongoing ramp-up.
- **Market mix**. The HR tubes and sponge iron tubes markets are each ~5 mn ton markets currently. Reduction in HRC prices has reduced the price gap between the two segments and should lead to a higher share of HR tubes in the near to medium term.
- Inventory dumping in steel is not possible due to its commoditized nature.
- Capacity utilization in the new Raipur plant is likely to improve to ~65% in 2HFY25 (versus ~53% currently).
- **Working capital**. APL has adopted a cash-and-carry model for dealers' after March 2020, which reduced receivable days from 20+ to ~5 days. The same model exists currently.
- **Competitive advantage**. APL's moat is the minimization of steel wastage in processing. While RoCEs in the industry seem high, EBITDA margins in this business are low (~6-7%), making it hard for any player to succeed.
- **Market making**. APL is in conversations with different customers (including hospitals, railways and airports) for the substitution of RCC with steel tubes in their structures.
  - APL also helps these customers, with designs for transition to building solutions using steel tubes.
  - There is a saving of ~33% in terms of construction time with steel tubes.
  - APL is also attempting to penetrate the residential real estate construction segment with its solutions.
  - APL also has end-to-end solutions for solar trackers, but is constrained by higher associated costs for OEMs, when using trackers versus fixed mount systems.
- **East market**. Plants in Siliguri and Gorakhpur are expected to be operational within the next 18 months. These will give it access to the eastern market in India, which is the only region where it is not the leader in the HRC structural tubes segment.

# AU Small Finance Bank

## Key takeaways

- **Asset quality in microfinance**
  - Management will consider if the bank should opt for the CGFMU cover in the microfinance business. This typically costs ~1.75% as premium.
  - Credit cost in the microfinance business is likely to be higher in 2HFY25 purely based on forward flows. It is possible that 1HFY26E might see higher-than-usual level of credit cost.
  - The bank has created a separate vertical for microfinance collections.
  - The industry is considering a modification to MFIN guardrails, but nothing has been finalized upon yet. The alternatives being considered include: limiting the number of microfinance lenders to three (instead of four earlier) and limiting unsecured retail exposure of the woman (including non-microfinance loans as well) to Rs0.2 mn.
  - The bank does not give any other loans (consumer durables or 2-wheeler loans) to the microfinance borrower. No individual loans or personal loans have been given to the microfinance borrower. The bank has followed a practice of only one microfinance loan per borrower.
  - Further, the bank has not lent to any borrower who is in any stage of delinquency (0+) at the credit bureau level.
  - A substantial portion of Fincare's microfinance loan book comes from AP, Telangana and Karnataka – states which are performing better than industry average.
  - Currently, the bank does not carry any buffer provisions (beyond the mandated standard asset provisions) on the SMA book in microfinance.
  - Management reiterated its view that the performance of AU's microfinance loan book will remain in the top quartile of the industry given the processes and underwriting followed in this business by the bank. In management's view, industry players can report a credit cost of 7-10% for FY2025E in microfinance.
- **Loan growth**
  - Management indicated that the microfinance business is likely to shrink a bit in the near term for the industry as well as the bank on account of the implementation of the MFIN guardrails. The company will look to optimize this book based on the ability to generate SMF and based on the coverage from CGFMU.
  - Management indicated that the momentum in the SBL business seems to be quite strong at this point and this book is still a fairly large proportion of overall loan mix.
  - Management reiterated its expectation of asset quality improvement in the secured asset segments of vehicle finance and SBL. However, this remains contingent on the performance over the next few months.
- **Operating cost**. Management indicated that it will try to keep operating cost under check with an attempt to limit the cost-income ratio to 60%.
- **Other income**. Management expects healthy trends on non-interest income to continue over the near-to-medium term.

# Blue Jet Healthcare

## Key takeaways

**Contrast media:**

- **Outlook:** Blue Jet expects demand in contrast media to stabilize from 4QFY25.
- **2QFY25 sales impact:** Similar to 1QFY25, sales in 2QFY25 were also impacted by extended timelines of shipment, primarily due to the Red Sea crisis. The times for shipments have gone up from 30-35 days to 55-60 days due to the crisis. Blue Jet does not recognize sales from these shipments, until they reach the client. Hence, there would be some spillover of sales to 3QFY25.
- **Pricing trends:** In contrast media, there has not been any significant price erosion.
- **Iodinated molecule (Iodized ABA HCl):** Blue Jet is supplying validation batches and expects to start commercial supplies from 4QFY25. Although, there is a supply agreement in place, a formal Purchase Order (PO) is yet to be issued.
- **Gadolinium NCE (Gadopiclenol):** Blue Jet has started validation batches for this molecule and expects the additional capacity to support the increased demand from 2HFY25.
- **Industry:** Iodinated products are ~75% of the contrast media market.

**PI&APIs:**

- **Outlook:** Blue Jet expects a substantial uptick in volumes in 3QFY25, led by the new capacity coming online.
- **New opportunities:** Bluejet had been looking at 10-15 high-conviction opportunities for future growth, of which two are currently commercial, but the scale is suboptimal right now.
- **Cardiovascular intermediate (Bempedoic Acid):**
  - **Competition:** Blue Jet believes this would be a blockbuster product. The product is patent-protected until CY2032 and it does not expect any threat from competition for the next 3-4 years. The product is currently the first-line of treatment for patients with statin intolerance and will be competing with statins.
  - **Threat from GLP-1 drugs:** In addition to GLP-1s not being the first line of treatment, most are also injectables. Blue Jet does not expect any change in its projections from this molecule due to traction in GLP-1 drugs.
  - **Capacity utilization:** With the capacity coming online in 2QFY25, Blue Jet expects to operate at optimal utilizations in 2HFY25 and cater to the increased customer demand. It already has a PO in place.

**Artificial sweeteners:** Blue Jet is increasingly getting out of the spot market and vying to increase wallet share with FMCG customers. 70% of this business is based on contracts, and rest is spot market business.

**Capex plans:**

- **Guidance:** Blue Jet has retained its guidance of incurring Rs2 bn capex in FY2025E.
- **120 kL capacity expansion:** Blue Jet commissioned additional capacity of 120 kL at Unit-II, Ambernath, in 2QFY25, and intends to use it primarily for manufacturing the cardiovascular intermediate product. It also intends to use this capacity for contrast media products. Blue Jet incurred total capex of Rs900 mn for this capacity addition.
- **80 kL capacity expansion:** Blue Jet plans to operationalize 80 kL of incremental capacity at Unit II, Ambernath from 1QFY26, dedicated for its Gadolinium-based NCE in the MRI space (Gadopiclenol).
- **Unit III:** Blue Jet remains on track to commence capacities in FY2026E.

**R&D and chemistry:**

- **New talent:** Over the past year, Blue Jet has strengthened its R&D team, as well. It expects to add more scientists due to increased demand in the PI&APIs segment.
- **New chemistry platforms:** Blue Jet has added multiple new chemistry platforms, including pyrophoric chemistry, iodination enzymatic platform and a platform, which is dealing with amino acid derivatives.
- **Enzymatic chemistry:** Enzymatic chemistry is significantly more efficient than regular chemistry processes. A lot of chiral selection is involved in enzymatic chemistry. Generation of effluents in enzymatic chemistry is also 50 times lower than in a regular chemistry process. It is also more cost-effective than a regular chemistry process. Blue Jet has filed a couple of patents in this space, and plans to evaluate this process for multiple other products, as well.

**Financials:**

- **Gross margin:** Bluejet expects gross margins to remain in the range of 53-55%, over the near term.
- **Cash & cash equivalents:** Rs3.2 bn, as of September 2024.

## Can Fin Homes

### Key takeaways

- **Maintains growth guidance of 13-14%.** Management continues to guide for disbursements growth of 13-14% for FY2025E despite a muted 6% growth in 1HFY25. As per management, the weakness was largely due to state-specific issues in Telangana and Karnataka that contribute to 50-55% of disbursements. While disbursements are expected to normalize in Karnataka by 3QFY25E, Telangana may take more time to normalize (down 40% yoy in 2QFY25).

- **Demand to remain muted in Telangana.** Newly formed government has setup a division (HYDRA) to protect govt assets and water bodies. HYDRA has demolished constructions with valid permits, alleging encroachment and corruption by previous officials. This uncertainty has led to subdued demand in the state, which is likely to sustain for some time.

- **Transient factors affect Karnataka disbursements.** In Karnataka, the government has passed the burden of digitization of land records onto property owners by mandating e-khata for property registrations. While this has delayed disbursements, trends in sanctions are strong and growth should normalize by December 2024.

- **New direct channel to augment.** Can Fin has setup an in-house sales team of 30-35 people to source loans from both open market and approved project finance channels. This team will likely contribute to 6-10% of disbursements in FY2025E inching up to 20% over the medium term. DSAs currently contribute to 80% of disbursements this share is likely to moderate to 70%.

- **IT transformation underway.** Can Fin homes has updated its IT systems to enable integration with external modules like CRM and LMS. Barring digital onboarding and e-signing of contracts the entire loan journey is now digitized. Various integrations such as Karza for income verification and BBPS for payments have been implemented. Another RFP for major IT transformation has been floated which is expected to cost Rs2.5-3.0 bn in capex and Rs200-250 mn of additional operating expenses.

- **Expand footprint in north and west.** Can Fin plans to open 15 new branches in FY2025 (7% of opening branch count). These branches will expand footprint of the company in northern and western parts of India and help in diversifying the portfolio. Currently, 72% of the portfolio is originated from South India.

- **Change in organizational structure.** Can Fin has introduced six zonal offices to drive business and improve the local knowledge within the organization. Earlier branches reported directly to HQ, limiting the opportunities for specialized learning based on local challenges. Credit review monitoring has been set up to aid in underwriting. Branch manager has approval authority until Rs3.5 mn and Zonal office can sanction up to Rs8.5 mn and the rest flows to the credit committee.

- **Low rejection rates at Can Fin.** Rejection rates are low with 90% of logins getting sanctioned and 90% of sanctions are disbursed. Since DSAs source most of the business they have already vetted the application. Similarly, TAT is low at 3 days. BT-out rate is moderate at 4.5% despite high share of DSA sourcing.

## CIE Automotive

### Key takeaways

- The company expects the outlook in the European passenger vehicle market to remain muted in the near term. The company indicated the Metalcastello business revenues declined yoy and have reached a monthly run-rate of EUR4.5 mn (from a peak of EUR6.5 mn) in 3QCY24 and the company expects Metalcastello business to recover from 2HCY25E after the elections and stabilization of the new government. In the European region, Renault-Nissan, VW group and Daimler are the largest customers for the company.
- The company continues to focus on readjusting the operations, reflecting the current operations and slowdown in Europe business by cutting down on temporary employees and reducing the extra time. The company expects to maintain its EBTIDA margin at 15-16% during the weak demand environment.
- CIE Automotive highlighted that the decision to exclude the sunroof business (CIE Golde, Pune) into the listed entity of CIE India was driven by the parent company, i.e. CIE Spain. The key rationale for not merging the businesses was due to CIE India being a Tier-II supplier, whereas the sunroof business is a Tier-I business, which requires a lot of R&D investments. There is centralized R &D happening for the sunroof business; the sunroof business in different countries is operated independently based on the decision taken by the parent company.
- The company is actively seeking for inorganic growth opportunities in India. The acquisition would be in its current line of business and that business should have a path to reach 20% RoI.
- In EVs, requirement of products manufactured through iron casting and forging will go down whereas products manufactured through stamping and aluminum casting will go up.
- In the domestic business, the company has grown in line with the industry over the past few quarters. One of the reasons is slower-than-expected/delay of new order ramp-ups, which includes Stellantis and Tata Motors Curvv EV.
- Over the medium term, the company aspires to outpace weighted average growth of the industry by 5-7% and reach EBITDA margin of 17.5-19% in the India business.

## City Union Bank

### Key takeaways

- **Asset quality**
  - The bank has experienced negative net slippages over the last 4 quarters. This trend of negative net slippages is expected to continue for the next 3-4 weeks.
- **Loan growth**
  - Management is quite optimistic about growth in the low-to-mid teens over the next few quarters.
  - The bank's focus will remain on MSME and secured retail loans. Overall unsecured lending is limited to no more than ~2% of the total portfolio.
  - Within retail, the bank is quite keen on sourcing NTB customers, but not NTC customers.
  - Within retail, the bank's focus areas will be LAP followed by Housing Loans. Affordable Housing and micro-LAP products are primarily for borrowers in Tier-3 and Tier-4 cities.
- **Housing loans**. City Union Bank practices credit underwriting for home loans without third-party sourcing; all home loan sourcing is conducted through branches, supported by strong tie-ups with reputed builders.
- **Loan against property**
  - LAP business is 100% DSA-led in the north and west regions of the country. While only ~10% is DSA-sourced in the South.
  - LAP activities in Delhi and Mumbai are expected to become more active moving forward.
- **Affordable housing and micro-LAP**
  - Employees at the branches will handle the underwriting for Affordable Housing Loans (AHL) and MicroLAP. Underwriting processes involve collaboration with credit bureaus to develop scorecards, with underwriting conducted at a central hub and final decisions communicated to customers.
  - The ticket size for Affordable Housing Loans (AHL) and Micro Loan Against Property (MicroLAP) ranges from ~Rs1.5-2.0 mn, with a preference against loans below ~Rs1 mn.
- **MSME**
  - The bank's IT transformation for MSME has significantly improved turnaround times. The aspiration is to provide meticulous service, especially since MSME customers expect prompt assistance.
  - The bank has a distinct strategy tailored specifically for MSME customers. For SME loans, the bank has established 26 hubs, processing loans below ~Rs30 mn at the hub level; loans exceeding this amount are escalated to the administrative office. Earlier all applications were routed through admin office which took 2-3 weeks. How, the processing hub takes additional documents to seek clarity from the borrower if needed. This yields in-principle sanction within 2-3 days.
  - Government guarantee schemes for MSMEs are not viewed as significant collateral, and the yields from such loans are expected to be sub-optimal.
  - The entire MSME loan portfolio is sourced through bank branches. Performance in Gujarat and Rajasthan is exceptional, while the bank aims to improve its operations in the northern regions. The bank sees enormous opportunities in the southern market itself.
- **Gold loans**
  - The LTV ratio for Gold loans is maintained between ~65% and ~67%.
  - The bank does not offer loan renewals to gold loan customers in any delinquency bucket.

- **Corporate loans**. In the NBFC sector, the bank engages with entities rated AAA, AA, and BBB. The bank is deliberately staying away from Microfinance Institutions (MFI).
- **Deposit growth**. For any rate cuts, the bank anticipates a timeline of ~3-4 quarters to reprice its liabilities. Retail deposits are currently not growing granularly, while other types of deposits are experiencing growth.
- **Net interest margin**
  - Looking to keep NIM closer to current levels. The LCR stands at ~114%, with a target of maintaining this figure, as it can go down to ~105% in the near term after the implementation of the new norms. Target LDR for the bank is 83-85% target.
  - 25 bps cut in benchmark interest rate results in 5-7 bps impact on yield on loans.
- **Miscellaneous**.
  - The average age of branch staff is ~28 years.

## Computer Age Management Services

### Key takeaways

- CAMS remains well entrenched in the MF ecosystem. The company has been able to win a large share of new mandates. However, new client wins are unlikely to contribute meaningfully to company revenues. Nearly 85% of MF revenues come from AUM-based fees. Of the rest, 10% are linked to transactions, which results in high dependence on AUM growth of large clients.
- The new mutual fund asset class could be a promising growth driver over the long term. The new products are likely to operate under the MF format and hence, likely to attract flows due to favorable tax treatment. Expense ratio rules are yet to be ascertained.
- Alternatives continues to grow at a fast pace. CAMS has a 50% market share of the outsourced market. Most of the large fund houses carry out RTA work in-house. CAMS services some of the largest alternate players in India. Alternatives is a fragmented industry where CAMS services around 200 out of the 1,000 odd funds. The company believes higher compliance requirements will lead to more funds outsourcing non-core activities.
- Payments is another fast-growing business. The business started as ancillary to MFs but has expanded into non-MF businesses such as insurance premiums and loan EMIs. The company has also acquired non-MF RTA clients. The company will focus on enterprise customers and enter sectors like education.
- On the insurance repository business, CAMS has onboarded four insurance companies in Bima Central. CAMS has onboarded close to 10 mn policies in the e-insurance accounts. More number of policies is a good harbinger for future revenues from annual charges and transaction charges. Platform is the first player to achieve digital lien marking for the insurance business. The company has a 35% market share. It believes eIA will take off in a big way, as major insurance companies push for greater adoptions.
- KYC registry business is one of the fastest-growing business. While the company has been operating for 10 years, it reenvisaged the business with the '10-min KYC' product, which attracts a lot of business due to a fast turnaround.
- Non-MF margins have reached an 18% margin as compared with <10% and is on track to reach 25%, given most investments have already happened and incremental revenues are margin accretive.
- Strategically, the company will focus on adjacent areas for existing business rather than venturing into new segments. Potential M&A will be in the payments and insure-tech businesses.
    - International presence has a lot of requirements such as regulations, local business development, understanding of regulations and willingness operate negative margins. The company believes it has enough on its plate with 6-7 businesses. Current businesses take a lot of bandwidth, money and talent, and offer excellent growth opportunities for a long time. The company does not want to be a fringe player in any business.
- Cloud transitioning in partnership with Google is happening in a measured way. Costs will get amortized as the components get deployed. Overall net spends will be around Rs1 bn spread over four years. The company does not expect this to have a big impact on margins.

## Concord Biotech

### Key takeaways:

**2HFY25 outlook:** 2HFY25 will be better than 1HFY25. Gross margins will improve in 2HFY25 due to a higher API sales mix.

**Long-term guidance:** Concord retained its long-term guidance of growing sales at 25% CAGR over the long term. Concord expects formulations sales mix to remain at ~20% over the long term.

**APIs:**

- **Outlook:** Concord expects external API sales to grow in low double-digits in FY2025E.
- **New products:** Concord is optimistic about new launches in oncology and anti-fungal therapies. The majority of the customers added in the past year have been added for these therapies. Concord expects validation and commercial supplies for these customers to start soon. Most of the anti-infective and anti-fungal products will be launched from Limbasi. Concord has already supplied some qualification samples, and is on the verge of supplying some validation batches for these products. Concord expects to commercialize these products in the coming quarters.
- **Pipeline:** Concord expects to launch 8-10 new products over the next 3-5 years. Market size for these APIs would be ~US$1 bn. Concord expects to launch 2-3 products every year. In addition to these 8-10 products, Concord is working on a few other APIs as well. Initially, these new products will be supplied to domestic markets, followed by EMs and regulated markets.
- **Market share:** Concord's market share varies across products, but usually ranges from 20-45%. Anti-fungal and anti-infectives market shares are in low single double digits. Concord is targeting customers to capture the balance market share, given its strength in pricing and securing regulatory approvals.
- **Immunosuppressants:** Immunosuppressant APIs have also done well in LatAM. The immunosuppressants market is growing at ~10% yoy, and Concord remains optimistic about the growth outlook in this segment.
- **Competition:** Most of the competition in Concord's products is from Europe and South East Asia. Concord does not see significant competition from China. There is no pricing pressure in Concord's product portfolio due to limited competition. Globally, there are only a handful of companies posing competition. Concord is competing with companies like Teva and Curia (erstwhile AMRI) in Europe. Conversely, Concord would be competing with names like CCSB in Southeast Asia. The Danish company, Xellia, is a competitor of Concord for a one or two new products it is developing.
- **Fermentation versus Synthetic APIs**: Fermentation based APIs could be ~30-40% cheaper than synthetic APIs, in terms of commercial production.

**Formulations:**

- **Outlook:** Concord expects to generate closer to 20% of FY2025E sales from formulations.
- **Sales trend:** There is lumpiness in formulations too, similar to APIs. Most of the products are via tenders and supplied to hospitals and government.
- **Exports:** Exports market is growing faster than the domestic market.
- **Domestic:** Products in therapies of critical care, nephrology and rheumatology have done well in the domestic market.
- **Valthera:** The injectables facility at Valthera is expected to commercialize in February 2025. Initially, the facility was expected to be commercialized by September/October 2024. However, Concord is conducting media fill studies. Also, there has been a slight delay in approval from the domestic authorities as Concord's team is being more cautious.

- **Customers:** Concord is supplying to large corporate hospitals, mid-corporate hospitals, nursing homes and government authorities in the Indian market. Margin profile is different for government supplies versus private hospitals.
- **Field force:** Concord has a team of 175 MRs for the domestic market.

**CDMO:** Concord is receiving a growing number of enquiries, and has submitted multiple RFQs. Global companies are looking at reducing dependency on China. Concord has ample capacity for supplying fermentation and semi-synthetic APIs.

**Dholka:** There is no US FDA inspection scheduled for Dholka as yet.

**Reactor capacity:** Concord has 1,250 m3 of reactor capacity.

**Sterile products:** Concord expects to start supplies for sterile bulk APIs and injectables in FY2026E.

**M&A:** Concord is open to inorganic opportunities, particularly in areas adjacent to fermentation.

## CreditAccess Grameen

### Key takeaways

- **Asset quality**
  - The ongoing crisis in the microfinance industry has been led by higher growth post regulatory relaxations. This growth has been led primarily by lending to existing-to-microfinance borrowers, rather than through the acquisition of new borrowers. Even CreditAccess Grameen relied primarily on existing-to-microfinance borrowers when it expanded into new states over the past few years.
  - The asset quality performance of the company's loan book has been broadly similar to industry in the states of Uttar Pradesh (UP) and Bihar, while it has been better than industry in most other states. Management indicated that the forward flow rate from the current bucket to delinquency bucket was broadly flat month-on-month in October 2024.
  - Management believes that the industry needs to explore ways to handhold borrowers out of their over-indebtedness without posing a risk to credit culture and without excessively impacting the viability of the microfinance business. Management indicated that the company is considering ways to help borrowers out of the crisis.
  - Borrower leverage assessment: Management indicated that the company uses Voter ID as the predominant document for borrower identification. The credit bureau is not allowed to store Aadhaar number of a borrower due to legal/ regulatory reasons and that poses a challenge to accurate assessment of household leverage.
  - Management reiterated that a large part of the credit cost impact from the ongoing microfinance crisis is likely to get captured within FY2025E itself with limited spillover into FY2026E.
- **Loan growth**
  - MFIN guardrails: Most microfinance lenders seem to have implemented the MFIN guardrails in their disbursement process over the past few months. As a consequence, disbursements have declined sharply in the past few months and the microfinance industry loan book has shrunk over the same period. A majority of microfinance loans come up for renewal during the second half of a fiscal year. As a consequence, the implementation of MFIN guardrails might further impact business momentum over 2HFY25.
  - There are several borrowers of the company who are currently regular on their repayments, but will nevertheless become ineligible for fresh loans because of the MFIN guardrails. Management indicated that the company might consider offering retail loans (predominantly unsecured) to such borrowers based on a re-assessment of their household income and repayment track record.
  - **Management will take another look at its growth guidance for FY2025E if required over the next quarter.**

# Cyient

## Key takeaways

- **Some improvement in growth in the near term.** The company expects continued growth momentum in the December 2024 quarter. The company indicated better conversion of order intake to growth in the near term. While the subsequent quarter also appears promising, better visibility is yet to emerge. However, macro factors might influence client decisions, given 50% of the revenues are capex-plays. The company remains cautiously prudent on macro factors.

- **Connectivity.** The company aspires to revive the vertical toward FY2023 peak revenues. The medium-term outlook looks promising, given the ~50% wireline penetration in the US and ~50-60% penetration in Europe. The network optimization would take some time to play out. The company plans to invest in the vertical to enhance presence and capabilities in select areas.

- **Sustainability.** Over the past two years, most spends have been in energy security rather than energy transition. There were a lot of fossil fuel-fired plants in Europe. Capex spends in this vertical have been for energy security rather than energy transition. The company's acquisition of Citec aided in expanding its footprint in Europe and participate in energy transition initiatives of clients. Cyient expects most of the incremental demand for energy to be met through conventional sources. However, the company remains optimistic about being able to meet clients' needs regardless of the evolution of demand in either direction. Cyient plans to strengthen capabilities in areas such as digital twins, which might take more time to develop organically. The seasonal weakness in the September quarter is an annual phenomenon in Finland, Norway, Germany and others, and a large deal ramp-up had offset the impact in 2QFY24. However, during this quarter, the impact was more pronounced due to a weaker macro. Equipment and other infrastructure for the subsidiary are in place and would be transitioned without incurring significant additional capex.

- **Aerospace.** Large aircraft OEMs are going through issues related to safety, which has also impacted the supply chain. The industry has been impacted due to (1) issues at a few large suppliers and (2) lack of availability of quality talent after Covid. This presents an opportunity for vendors such as Cyient to address the evolving needs of clients. While this would gradually translate into better growth eventually, there could be some volatility in the near term due to transient issues. An additional opportunity would emerge from new platform development, as the useful life of existing platforms would end by CY2033-35 and would take nearly a decade to develop.

- **Order intake.** The decline in order intake was partly driven by a large work order being awarded in multiple tranches by clients due to macro uncertainties. This trend was first started by clients in the communications vertical, but is now a broad-based phenomenon. Cyient remains confident that the metric would improve with the shift in the macro, given the depth of its relationships.

- **Cyient Semiconductor.** The company aspires to scale the business to US$500 mn in the next 10 years. The company has partnerships with boutique fabs in Europe and the US to scale the business. The company has enough capital for inorganic and working capital requirements.

- **Return ratios.** The company indicated that margins and RoCE of transportation, connectivity and sustainability segments are comparable. New growth areas might be marginally lower due to ongoing investments to scale up each vertical (hitech, automotive and health & medical devices).

- **Guidance.** The company expects the DET segment revenues to remain flat in FY2025E and expects to pull up the EBIT margin to ~16% by the March 2025 quarter.

# eMudhra

## Key takeaways

- **emSigner.** Initially it was rolled out as a general-purpose product. Over time it became more specialized for banking and has been modified to enable easy integration with core banking platforms.
- **Two lines of businesses.** The first line of business is Digital Signature which was initially issued for individuals and now can be issue for websites, IoT devices etc. The other line of business involves other solutions such as SecurePass, emSigner and CERTInext. The company was initially dependent on digital signature business but over time the second line of business has expanded. Digital signature or trust services comprises of ~20% of revenue currently.
- **Revenue outlook.** eMudhra expects annual revenue of ~Rs5 bn in FY2025. Indian business revenue is expected to be around Rs2-2.2 bn.
- **Competition.** The company is well positioned globally. eMudhra enjoys 2-3X realization in global markets compared to domestic, along with benign competitive intensity. DocuSign and Adobe are key competitors. eMudhra competes on price with global players who mostly tend to be from the US. eMudhra does not have significant competition in the cyber security space.
- **Pricing in trust services.** Realization in trust services prices reduced because of pressure from partners to cut prices. eMudhra has changed its pricing and collects payments from customers directly following new mandates from the IT Ministry from July 15, 2024. Most customers buy digital certificates through partners who charge a commission of 40-50% which impacts net realization for eMudhra. Digital signature volume has significantly gone down because of two factors- (1) earlier any tax audit case required digital signature- now only corporate tax audit need digital signature. This led to 30% reduction in market size and (2) reduction in channel inventory led to another 10% reduction in market size. Volume reduction has been offset by higher pricing. Trust business in India may grow 10-15% yoy.
- **E-signature market.** Net realization is very poor in Aadhaar based e-signature because Protean has reduced prices. eMudhra is not keen on the e-signature market.
- **Differentiation with peers.** (1) Adobe and DocuSign offer only public cloud-based solutions while eMudhra offers on-prem and private cloud also, (2) eMudhra is flexible on the pricing aspect and (3) solutions are not general purpose but have vertical specific features.
- **emSigner.** The solution has revenue of Rs600-650 mn. Customers include large enterprises and many small SME clients.
- **Growth philosophy.** eMudhra does not want to scale up aggressively. Focus is to always run profitably and grow 25-30% yoy. The company will not blitz scale by ramping up heavily on sales and using paid lead generation entities. The company wants to maintain 18% PAT margin levels. Margins in 1HFY25 were impacted by acquisition-related charges.
- **SecurePass.** Serves the identity and authentication market. Focus till now has been on the Indian market with no significant competition. The business generates revenue of Rs 250-300 mn per annum. eMudhra sells to government departments, banks and other enterprises.
- **CERTInext.** Certificate discovery and replacement solution based on public key infrastructure. Competing with players such as Nexus, DigiCert and Entrust.

# Entero Healthcare Solutions

## Key takeaways

**Outlook**: Entero's internal target for organic growth is to deliver at least ~2X of market growth rate. It remains committed to expand its operating margins, where the key levers are better product mix in terms of product and service level offerings, procurement efficiencies, and operating leverage. Entero is committed to deliver sequential improvement in these metrics. Entero is aiming to reach ~4% EBITDA margin in FY2025E.

**Reach:** Entero has a pan-India presence through its 95 warehouses in 43 cities and 485 districts across 20 states and Union Territories. It has been actively working to deepen its market presence across Tier-2/3 cities, thereby unlocking new growth opportunities and increasing its wallet share in other underserved regions.

**Industry**: ~8% of the Indian distribution market is with the large organized players, and the rest is with the smaller distributors.

**Inorganic expansion:**

- **Philosophy**: Entero is continuously evaluating M&A opportunities that enhance its geographic reach or expand its product and service offerings. Entero has built a good pipeline of potential targets.
- **Acquisitions in FY2025E**: In FY2025E, Entero has completed nine acquisitions, which add collectively Rs7.5 bn in annualized revenue in FY2024, and has added new product categories like diagnostic, consumable, and equipment, medical devices, etc., and added newer geographies as well. Also, Entero has signed binding MOUs with two entities in Kerala and Haryana, which has been disclosed recently. Thus, Entero is on course to achieve Rs10 bn of annualized revenue from inorganic forays.
- **Valuation of acquisitions**: Valuation multiples have not expanded. Entero is still doing acquisitions at 5-8X EV/EBITDA multiples.
- **Medical devices**: Entero acquired a pan-India supplier (hospital and lab-based majorly) of medical devices recently. This is the first acquisition it did in this space. Entero believes it has a lot of synergy with its existing business. Entero would be keen on doing more of such acquisitions in future.
- **Target in acquisitions**: Entero is trying to fill gaps with every acquisition, either it is a region or it is a product. With Peerless Biotech, a device company, Entero was looking to close out the gap in the device sector. On the region front, Entero did acquisitions in Trivandrum, Khammam, Ujjain and Bijapur, as it had no presence in these regions.
- **EBITDA margins**: Entero is not pursuing any opportunity, which is EBITDA margin dilutive.

**Offerings**: Entero will continue to add more product categories like specialty pharma, medical devices, IVD equipment, surgical consumables, etc., to truly become a one-stop-shop procurement partner for its customers. Entero will continue to expand its service offerings in terms of more value-added services such as marketing, promotion for healthcare brands, Health Edge, etc.

**Cashflow generation:** There are two levers (margins and working capital) to turn from a negative operating cash flow to positive operating cash flow. On both these things, there is an improvement in 2QFY25. The margins have improved from 2.8% in 1QFY25 to 3.3% in 2QFY25, which meant more internal accrual. Working capital cycle has also reduced from 68 days to 65 days. Therefore, OCF in 2QFY25 was much higher than in 1QFY25. Entero will continue to work on that margin expansion and reduction in the working capital cycle. Both these combined together will give a positive operating cash flow.

**Quick commerce:** Entero is in discussions with Quick commerce companies.

**Trade generics:** Trade generics is currently low in Entero's sales. This business is picking up in the market.

**Retailers**: From ~65k retailers in FY2024, Entero is now selling to ~80k retailers by end-1HFY25.

**Sales mix**: ~10% of revenues are coming from non-pharmaceutical products. This includes products like coronary stents, implants, other medical devices, diagnostic equipment and surgical items.

# Eris Lifesciences

## Key takeaways

**Guidance for FY2025E:**

- **Consolidated sales:** Revenue of Rs30 bn with 35% EBITDA margin.
- **Domestic formulations:** Revenue of Rs26 bn with 36% EBITDA margin.
- **Swiss Parenterals:** Rs3.3 bn, with 35% EBITDA margin.
- **Capex:** Rs1-1.2 bn.

**Segmental outlook:** Base business is expected to grow at a CAGR of 12%, while dermatology and critical care business is expected to grow at a CAGR of 25% over the next 4 years. Base business is operating at ~41% EBITDA margins. Critical care EBITDA margins will improve to 30%, led by new product launches from Swiss Parenterals.

**Domestic branded formulations:**

- **Base business:** Most of the new launches in FY2024 were concentrated in 1H, whereas in FY2025E, the new launches are concentrated in 2H. As per Eris, the base business is tracking 9-10% yoy growth for FY2025 based on 1HFY25 run rate (excluding new product pipeline).
- **2HFY25:** 2HFY25 will be 'new-launch heavy' with several 'first-in-the-market' approvals in hand.
- **Injectables:** The business is currently doing ~Rs70 mn a month. Integration is still work in progress. This business will develop scale in FY2026E.
- **GLP-1:** Supply is restrained for Liraglutide as of now. GLP-1s will not cannibalize oral solids, but can cannibalize insulins.
- **Insulin:** Eris expects the insulin business to grow in high-teens over the next two years. However, there might be a risk to this quantum due to supply constraints.
- **Field force:** Eris does not expect any substantial MR addition over the near term.

**Ahmedabad plant:** The company is steadily ramping up production at this facility. Oral solid exports from this facility are expected in FY2026E.

**In-house production:** Eris has now achieved 30% in-house derma production, up from 2% in 4QFY24. This led to 300 bps gross margin expansion in derma over 1HFY25.

**Synergy benefits from Biocon integration:**

- **PCPM:** PCPM improved from Rs540k to Rs710k.
- **Insulin:** Insulin business has been deriving significant tailwind from Eris' credibility with specialists, which has been built over the past 15+ years.

**Swiss parentals:**

- **Additional responsibility:** The R&D team now handles 170+ projects versus 80 projects pre-deal.
- **EU-CDMO:** Launched EU-CDMO (injectable) business. Eris is now the only EU-approved Indian injectable player with the entire suite of injectable dosage forms. This comes with lower price sensitivity and higher customer stickiness. This will start contributing from FY2026E.

**Levim partnership:** Eris is looking at strategic partnership with Levim Lifetech. Levim has developed and commercialized Liraglutide, Streptokinase & Pegaspargase from basic stages. Eris will invest Rs540 mn for a 30% stake. The rest 70% is with the promoters. This deal will give Eris an end-to-end presence in Biologics. Levim has 3 commercial APIs: Liraglutide, Streptokinase & Pegaspargase. Levim has some RoW approvals. Eris expects to increase investments in Levim as soon as new milestones are achieved.

**CDMO:** Eris has started CDMO business for a few European customers for sterile injectables. Eris is catering to companies with plant shutdowns in Europe.

**Net debt:** Rs25 bn.

**Tax rate**: ETR will be 25/23% in 2025/2026E.

## Ganesha Ecosphere

### Key takeaways

- **Business profile:** Ganesha provides circular economy solutions via recycling PET bottles since last 30 years and has a manufacturing capacity of 100k tons for recycled polyester staple fiber (RPSF) at the standalone level. It has further ventured to PET to PET bottle recycling business via setting up its subsidiaries, Ganesha Ecopet and Ganesh Ecotech. The company supplies its recycled PET (rPET) solutions under the brand GoRewise, which stands for Go Recycle Wisely.

- **Recycling technology evolution:** The company pointed out that polyester technology has evolved a lot over the last few years from producing inferior quality fibers to now being at par with virgin fiber.

- **Current and potential market size for rPET:** The current consumption of PET packaging is 1.4 mn tons, with a current market size of rPET to be around 80k tons p.a. This is expected to increase to 0.4mn tons (30% of 1.4 mn tons) in FY2026. The market for PET packaging is expected to see a CAGR of 12-13% in the next three years, resulting in expected rPET demand of ~1-1.2 mn tons in FY2029 at 60% blending mandate. Ganesha expects to see another 0.2mn tons of rPET capacity coming onstream in the next two years, including capacities being established by other players such as Indo Rama and 30-40 fiber producers as well.

- **rPET value chain:** The first step in the rPET value chain begins with the kabadiwalla collecting waste from source at Rs 25-30/kg which is then sold to the aggregators at Rs 30-35/kg at the next step. The aggregators sort the plastic waste to identify and separate the PET bottles, compress it into bales and then sell it to the company at Rs 40-50/kg. This baled PET waste is then converted into granules at a conversion rate of 70-72% in a two-step process including washing and cleaning. The conversion rate is higher at 77-78% in the case of RPSF. These rPET granules are currently being sold by the company at Rs 110-112/kg while the current rate of virgin PET granules is at Rs 90-100/kg.

- **Capacity ramp-up and expansion—Warangal and Odisha:** Ganesha stated that all the three manufacturing lines at its Warangal plant having total capacity of 42k tons are up and running as of today with all the approvals in place. The company alluded to commercializing another 45k ton of greenfield capacity, with a capex of Rs4.5 bn by March 2026 at Odisha. The company has finalized the land and orders for machinery has been placed. It is aiming to achieve 24-25% EBITDA margins for the plant. It further stated that it takes 3-4 months for a new plant to reach optimal capacity utilization level.

- **Technology differentiation:** The company stated that it currently holds 95% market share for rPET in the country on the back of the robust process and design structure embedded in its operations. The first stage of its manufacturing process—washing and cleaning—is the main differentiator, which has been specifically designed to clean Indian waste after completing two years of rigorous R&D by the company. The wash line comprises of 40-50 different equipments for which there are only four USFDA and EFSA approved suppliers—Starlinger, Erema, NGR and Coperian—in the world. These machineries currently have 16-18 months of lag time for their supply.

- **Brand connect:** Ganesha highlighted that it is currently working with ten large global brands and 25-30 convertors who convert granules into bottles for these brands. Coke and Pepsi are its largest customers, which will be forming ~50% of the expected rPET demand of 0.4mn tons in FY2026.

- Ganesha highlighted that the bottles made from 100% rPET can be recycled 6-7 times, while bottles made from 50:50 mix of virgin PET and rPET can be recycled infinitely. However, the company doesn't recommend mixing the two as their uniform mixing warrants additional capex for installation of industrial blenders.

- **Environmental footprint of rPET:** The environmental footprint of rPET is lower than virgin PET to the extent of 70% energy savings and 65% less emissions as well as lower water footprint as well.

- Ganesha clarified that there is no linkage between prices of virgin polymer and recycled polymer due to difference in raw material being used. While virgin polymer is derived from crude oil, recycled polymer uses plastic waste as raw material.

- **Plans for RPSF and textile business:** The company alluded that it is not planning for any capacity expansion in its RPSF business as of now. While it acknowledged that its textile business has remained under pressure over the past few years due to lackluster market dynamics, Ganesha is planning to scale up textile waste recycling business and create more functional textiles.
- **Responsible recycling:** The company highlighted that it is very careful about the environmental footprint of its recycled product offerings. Its water consumption is 1/5$^{th}$ of the general industry's benchmark water consumption. 97% of its water consumption is recycled water while the remaining 3% is freshwater consumption. Water is mainly used in the first stage of recycling process of washing and cleaning with a very small amount being used for cooling in the second stage of conversion.
- **Working capital days:** Ganesha stated that its working capital cycle usually lasts 45-50 days.
- **PWM regulations:** Ganesha briefly discussed the impending Plastic Waste Management (PWM) regulations, which mandate using 30% recycled PET in FY2026 which will progressively increase to 60% rPET in FY2029.
- **Penalty for PWM non-compliance:** The company stated that the penalty for non-compliance with PWM rules will be Rs 5/kg initially for the first year which increases to Rs 10/kg and Rs 20/kg for the second and third year, after which the consent to operate will get cancelled. The compensation will be refunded to the companies in a staggered manner in case the shortfall in EPR obligations is complied with within three years.

## Gujarat Gas

### Key takeaways

- **APM allocation cut impact lower**: Over the two cuts, Gujarat Gas's APM allocation has been cut by nearly 0.8 mmscmd. However, it had already sourced 0.5 mmscmd of NWG gas, when the first auctions happened in September (before the APM cut in October). Thus, the need for sourcing LNG to make up for the cut is lower, and spot LNG usage has been minimal. Due to a lower effective VAT of 6% for Gujarat (versus 15% outside Gujarat), the NWG prices are lower for GGAS (versus IGL/MGL). Due to a relatively lower share of CNG in the overall mix (versus IGL/MGL), for GGAS, its ability to cross-subsidize is higher. According to GGAS, a price increase of Rs2-3/kg on CNG will neutralize the impact of APM gas reduction.

- **CNG margins**: The company is expecting to maintain similar margins once Rs 2-3/kg price hike is taken in CNG. Gujarat CNG has a differential of Rs20 over petrol and diesel; hence, a price hike would not be difficult. Volumes are expected to remain similar after a price hike.

- **Morbi**: Currently, Morbi demand for gas is ~7.5 mmscmd. Of this, natural gas volumes are ~3.5 mmscmd, and the rest is being met by propane. With currently elevated prices of spot LNG, natural gas volumes are expected to be in the range of 3.5-4.5 mmscmd in the near term. For the ceramic industry, as such while higher qoq, the demand has been weaker due to shipping-related issues (blockages on travel to Europe due to geopolitical issues) and container transport rates being high. Current propane prices are cheaper by Rs1/scm.

  According to GGAS, its ability to compete with propane will significantly increase after the restructuring of GSPC Group, and as the current ~3 mmscmd relatively expensive contract with Shell (~13.8% slope to oil prices) gets replaced by a relatively cheaper one (~12.5% slope) from June 2025.

- **Ex-Morbi I&C:** There is nearly 2-2.5 mmscmd gas is I&C volumes in areas such as Dholera, Ahmedabad rural, and Dadar and Nagar Haveli. In these areas, growth remains robust, and there is lesser competition from alternate fuels.

- **GSPC trading business**: Currently, apart from volume sold to GGL, GSPL has a 5-7 mmscmd trading volume. This does not include the volume sold to power companies, as it is seasonal. In 1Q, driven by ~6 mmscmd higher volumes, overall volumes were nearly 16 mmscmd. With reported EBITDA of Rs7.5 bn, the realized trading margins were ~US$1.6/mmbtu.

- **CNG expansion plan**: The company is very focused on expanding the CNG station network. 125 CNG station franchisee agreements to be signed in the first phase (construction to begin in December). This will lead to an additional 0.5-1.0 mmscmd of volume.

- **Merger update**: The company has got approval from BSE. NSE approval is expected to come by end-November. After that, the company will apply for the SEBI and MCA approval. The entire merger process is expected to be completed by July 2025.

- **Inorganic growth**: The company will have a cash balance of Rs35 bn after the merger. All three entities have no net debt; this creates an opportunity for the acquisition of smaller CGDs. The valuation of these smaller CGDs will also decline, after the recent APM allocation cuts and it makes this a very lucrative option.

- **GSPC tariff issue**: As the appellate tribunal does not have a Member (Gas), GSPL has filed an appeal against PNGRB's tariff order in the Delhi High Court. The company believes that it has strong arguments for getting a stay on the tariff order. These include the regulator not conducting an open house after the company submitted the actual data for the previous two years, the regulator taking its own assumption of volumes and forecasts (based on submission for unified tariff) and not taking company's projections, and the tariff order being issued, despite PNGRB not being a Member (Legal), among others.

  Apart from taking it up legally, the company is also engaging with the regulator to bring in reforms on tariff determination. The key suggestion is that according to Section 21 of the PNGRB Act, the efficiency should be awarded. GSPL's contention is that in the current tariff mechanism, entities do not get any benefit if pipeline utilizations are higher than 75%, and are treated on par with pipelines that have lower utilization. This encourages inefficient investment in pipelines.

## Home First Finance

### Key takeaways

- **PMAY subsidy to be launched by 4QFY25E.** PMAY subsidy will be disbursed over five years; hence, BT-outs will likely reduce and the max subsidy is capped at Rs0.18 mn. The Ministry of Housing and NHB have taken keen interest in the sector and are pushing for growth. Earlier, a lot of the loans were ineligible due to poor documentation, i.e., gram panchayat patta.

- **No regulatory concerns.** The RBI has concern in segments with high interest rates, no clear end-use like top up loans and anti-customer products such as cheque disbursals. Home First does not violate any of these norms and hence is not concerned of regulatory action. The RBI has completed its audit and had only procedural observations nothing material to the business. There has been no discussion on growth targets.

  - The RBI has scrutinized the treasury, customer service, loan classification, provisions, procedural issues. The regulator pings for data on portfolio (70-100 datapoints) on monthly basis and analyses it regularly.

- **Focused spends in IT.** Incremental IT infrastructure is targeted on account aggregator integration, analysis of calls made to branches and storage of documents in inhouse system. Rs200 mn is spent Home First on IT systems annually, in addition to Rs200 mn spent on salaries of IT personnel.

- **Focused on core home loan segment.** Will remain a housing-focused company. LAP will remain at 15-20%. Does not plan to extend into any new product as it is difficult to build scale due to 60% restriction on assets (i.e., home loan book needs to be >60% of assets for HFCs). Co-lending may pick up to 10% of the AUM since it is an adjacent segment.

- **Nascent states to drive growth.** Expanding into Rajasthan, MP, UP and UK. The next target is to reach Rs300 bn AUM by FY2029. To reach this, the company has set up a cluster structure for better management. The company plans to raise capital post FY2026E.

- **Entrenched connector network.** While competition in the connector space is increasing most peers manage the network through the branch staff. Home First manages the connector leads through app and has centralized control on this channel hence is better placed to retain the network. Active connectors ratio is low at 10-20% hence the demand on these connectors is also low.

- **No overlap with MFI.** 85% of customers have a bureau score and hence have an existing or previous loan. Home First does not see any increase in over leverage in borrowers based on bureau scrub. There is no overall with the MFI segment.

- **Data-backed verification of underwriting process.** Underwriting has improved as the data collected in field visit is verified through digital databases. While the data is available, the insight from this data is generated by experience. Years of evaluation of customers without income proof has generated proprietary insight within Home First, on which data point is of high relevance to borrower based on his occupation, location, age and other parameters.

- **BT-outs at 6.7%.** BT-out risk is high in customers whose profile has improved as their formal income has increased or a family member gets employed. For the rest of the customers, banks are reluctant to lend to even those with a good repayment history.

# IDFC First Bank

## Key takeaways

- **Asset quality in microfinance**
  - Incremental loan disbursements to microfinance are being guaranteed under the CGTMSE scheme, which provides coverage for loans. Every March, the portfolio is crystallized and monitored. Overall losses on the insured portfolio should be less than ~15% to enable claims from the central government. For CGFMU recovery, if the claims are crystallized by March 2025, the bank plans to submit the claims by September 2025, with the recovery expected to impact FY2027E significantly. Out of the book, the bank can claim coverage for ~70% of the portfolio, with an additional cost of ~1.65% for loans with a duration of ~2 years, and ~2% for longer-term loans, such as those extending to ~3 years.
  - MFIN guardrails have been strictly implemented for all incremental loans. Management feels that there is an element of lack of willingness to pay in addition to the squeeze in terms of working capital that has happened due to union elections, heat wave and flood impact in certain states.
  - Management feels that collection efficiency has not deteriorated drastically but still the stress is rather an operational issue in collections. The MFI loan book has seen stress because the collecting personnel face shut doors because multiple lenders are knocking on the doors when the delinquencies rise.
  - IDFC has been one of the most conservative players in the market, with ~99.2% of stage 2 loans provided for and 100% provisions for loans that are beyond 120 days past due.
  - Microfinance segment was growing as fast as 25% in Q4FY24, while 20-21% is the expected growth when the situation normalizes.
- **Loan growth**
  - Disbursements in October have dropped and is guided to stabilize by the end of the year.
  - While MFI meets PSL requirements and thus fulfills a mandate indirectly from the regulator, the imposition of restrictions on MFI must be viewed in terms of balance.
  - IDFC First Bank is confident in its two-wheeler loan segment, with an increase in credit costs remaining within comfortable levels due to the high yields on these loans. The bank has forged partnerships with various players, such as Ather, to drive growth in its two-wheeler loan book, which, along with used cars, represents the largest portion of its vehicle finance portfolio.
- **Deposit growth**
  - Deposit sourcing at IDFC primarily relies on branches, which are the main channels for attracting deposits.
  - RMs are significantly more efficient, handling ~4 times the ticket size compared to digital channels. While digital channels supplement deposit sourcing, they typically involve very low ticket sizes. The "Add Money" feature is facilitating monthly transfers, primarily consisting of SA funds.
  - Mid corporate segment is rising and the demand is across industries. The bank is mainly catering to AA/A bonds.
- **Capital**
  - The company might consider an equity capital raise in the next fiscal year, but it would depend on various other factors including pricing and market environment.

# Indraprastha Gas

## Key takeaways

- **APM allocation cut:** While gradual allocation cuts were expected, the sharp back-to-back cuts over the past two months have surprised CGDs. The industry was not prepared for such large cuts, and it is difficult to source gas at such short notice. Immediate price hikes to pass on all cost impacts are also not prudent/possible.

- **CGDs do not expect further APM cuts until March 2025:** CGDs (IGL, MGL and Gujarat Gas) do not expect a further sharp reduction in APM volume until end-FY2025. With nearly 7 mmscmd of APM gas being classified as new well gas (NWG), nearly 15% of APM is already classified as NWG. According to CGDs, only about 7.5% APM volumes are to be reduced annually, as per the DGH formula. As 7 mmscmd is nearly 15% (two-year equivalent cuts) of ONGC's APM production in April 2023, CGDs believe a further reduction will happen only after March 2025.

- **CNG segment needs to be ready for no-APM gas:** With the recent cuts, the share of APM for the CNG segment has declined to 35-40%; this will keep declining, going forward. According to IGL, due to the combination of APM volume decline and rising CGD consumption, the share of APM gas will further decline. The CNG segment will need to get competitive for no APM allocation soon.

- **Cost increases sharp, margins very low currently:** As per IGL, current ~9 mmscmd volumes, now it is getting ~3.2 mmscmd APM gas. It has ~3.3 mmscmd HPHT/LNG. Remaining ~2.5 mmscmd is being sourced from domestic auctions on IGX, tender purchases and spot LNG purchases. Currently, most gas on-spot purchases are available only at US$13-14/mmbtu. Overall, IGL's gas costs have increased Rs5.0-5.5/scm after two cuts and EBITDA margins have declined to just Rs1.0-1.5/scm since November 16.

- **No clarity on price increase:** To fully pass on the impact of cost increase, the required price increase is nearly ~Rs9/kg. While there is a need to take a price increase soon (several CGDs, including MGL, have taken price increases of Rs2.0-2.5/kg), IGL seemed non-committal on price increases. As per IGL, the decision to increase prices is relatively easier, but this can impact demand. So, the current effort is to look at optimizing costs. We believe that following its peers, IGL will also take a Rs2-3/kg hike soon.

- **Likely to tie up cheaper LT gas**: As per IGL, it is under advanced discussions to tie up more LT contracts both linked to HH and oil-linked. It expects these new contracts to be competitive with current NWG. Due to the impact of a 15% VAT, the effective price of NWG is nearly US$10.5/mmbtu (base price of US$9/mmbtu).

- **Tax relief:** To mitigate the impact of recent cost increases, IGL expects the government to announce a tax relief. The near-term measures could include relief on Gujarat VAT and/or excise duty reduction on CNG. It also expects the government may bring gas in GST soon.

- **Margin guidance**: The reduced allocation of APM gas will impact the profitability of IGL in 2HFY25. However, as it is able to reduce gas costs and take requisite price hikes, IGL expects EBITDA margins to recover to Rs7/scm by 1QFY2026. The company maintains an LT margin guidance of ~Rs7/scm.

- **Industry consolidation**: The company expects that while larger players such as IGL can withstand the impact of recent cost increases, smaller/new players will struggle, and may go slow on further investments. This may lead to more industry consolidation either (1) by M&A activity or (2) if the regulator cancels the licenses for non-performers and issues fresh bids for those areas.

- **Capex plans:** IGL retained the capex guidance of Rs16-17 bn in FY2025E. 1HFY25 capex was Rs5 bn. Majority of capital expenditure will be focused on new CNG stations and pipelines.

## Intellect Design Arena

### Key takeaways

- **Healthy long-term demand outlook.** Demand outlook is healthy from a long-term perspective. Overall transformation spend on technology by BFSI companies is increasing. Banks will realize that cutting change the bank initiatives will not be good in the long run. Intellect already has achieved product market fit.
- **AI.** Intellect is a BFSI AI company, with focus on operational efficiency. The company leads with Purple Fabric, an enterprise AI platform for operational transformation in regulated industries. Guardrails and traceability are in-built in the platform. Enterprises can build use cases on top of the platform tailored to industry-specific functions.
- **Pipeline and deal flow.** Pipeline is strong. Current revenue growth slowdown is due to slowdown in contract closures because deals have to get approved by multiple stakeholders. The funnel size keeps on increasing across all regions.
- **Partnership strategy is in early stages.** Started winning deals with GSIs. Intellect has set up a partnership organization to engage with GSI consultants. Clients tend to trust solutions recommended by incumbent GSIs.
- **Region-wise commentary.** In North America, Intellect is winning new insurance contracts. These tend to be all subscription deals; hence the revenue gets recorded over a period of time. In Canada demand is healthy for Intellect's DEP (digital experience platform). Intellect is targeting US for consumer banking products. Intellect has strong refereceability in Europe. The Middle East continues to do well. Intellect has created a good presence in Eastern Europe in the last few years. North America is a stronghold for Intellect's AI business. Intellect has strong reference clients for transaction banking business in India and to an extent for consumer banking as well. Intellect is performing well in core banking and lending deals in Asia.
- **Better revenue mix.** Macro and geopolitical situation has impacted signings of destiny deals leading to revenue shortfall compared to expectations. Geopolitical tensions remain even now. To mitigate risk, the company is working on having a better mix of revenue from destiny deals and run-rate business.
- **DSO.** Significant receivables from GEM program are yet to be collected. CEO change at GEM is also leading to some delays. Excluding GEM Intellect is targeting DSO of 100. Intellect takes quarter annualized revenue for DSO calculation. Revenue shortfall contributed to increased DSO in the previous quarter.
- **Temenos and OFSS.** Hindenburg allegations did not impact customer perception of Temenos significantly. Temenos's strategy is to go only after license deals and leave services to partners. Focus is less on on-premises licenses and more on subscriptions. Intellect focuses on making products technically superior to Temenos. OFSS has invested well in the last few years and have improved their products.
- **Product segments.** Intellect has organized business into three segments: (1) transaction banking, (2) consumer banking and (3) AI. Transaction banking is the largest segment followed by consumer banking.
- **Pricing model.** Pricing model depends on clients' needs. For example, North American insurance market has always been a subscription-based market. Larger clients irrespective of the market usually tend to prefer license-based deals.
- **Core banking.** Intellect has always been in the top 3 in vendor evaluation exercise of clients. In the US banks are still running on COBOL based core banking systems. Some banks are following hollowing the core strategy where core is used just as a system of record. Transactions are moved out of the core and kept in separate systems. Intellect already has products that cater to many of these sub-segments. Companies in Eastern Europe and APAC want to change the core. Demand for core replacement will pick up strongly in India post a couple of years.

- **Competition.** Most of their announcements are upgrade deals. Intellect is winning against competition and gaining share. In the last six months, Intellect has replaced Temenos in two locations in Africa.
- **Shift from public cloud.** Cloud becomes expensive when transaction volumes are high. Banks are shifting workloads from public cloud to on-prem or to private cloud in select instances to for cost effective operations.
- **Pricing model.** Historically, sales were based on perpetual licenses. Now term licenses are mostly sold for a term period of 3-5 years. Separate contracts are signed for license, implementation and AMC. Insurance is always based on subscription basis. License revenue is booked upfront. Lifetime value of subscription model is higher than license model.
- **SaaS revenue.** Intellect expects revenue from SaaS model to double in the next 18 months, aided by North America insurance deals.
- **Clients.** Intellect has 7 out of top 10 banks in almost all regions as clients. Cross-selling will be key to mine accounts.

# Juniper Hotels

## Key takeaways

- Management believes that the long-term structural tailwinds for the hospitality sector remain intact. It stated that the demand continues to outpace supply in every major hotel market across the country. The air traffic movement has already recovered in Mumbai and Bengaluru markets, with the other cities expected to follow suit. Foreign tourist arrivals have improved, but are yet to recover to pre-pandemic levels, which should offer a further impetus to hospitality demand in India.

- Management stated that it follows a cluster-based approach to active asset management, which enables faster decision making and implementation. Some of its recent cost saving initiatives include: (1) central procurement of consumables leading to Rs12 mn of annual savings, and (2) open-access signings for Hyatt Regency Lucknow and Grand Hyatt Mumbai, leading to annual saving of Rs40 mn.

- Juniper Hotels was refurbishing its Grand Hyatt Hotel in Mumbai, which impacted the overall portfolio performance. With the completion of the refurbishment of rooms at the Grand Hyatt in Mumbai, as well as the addition of new MICE space (49,655 sq. ft), it expects margins for the hotel to expand (towards 50%) going forward, aided by 7-8% CAGR in ARR over FY2024-26E. This should aid the overall portfolio performance.

- Management stated that the company has a strong balance sheet, aided by the IPO issuance. Net debt as of September 2024 stood at Rs5 bn. Post September 2024, Juniper has raised another Rs2.8 bn debt for acquisition, taking the overall net debt to ~Rs8 bn. It also has Rs11 bn of total business losses and unabsorbed depreciation, which would provide a tad shield against future profits.

- Juniper Hotels has recently announced the acquisition of a big-box brownfield hotel asset situated near the Bengaluru airport. The asset has a capacity of 220-rooms built over 6.5 acres of land, designed to be a 5-star hotel property. Juniper has the potential to add more rooms here in the future. The asset was acquired through a cash buyout transaction totaling Rs3.2 bn; the asset is expected to be operational by 2HFY26. Management highlighted that the comparable market ARR is in the range of Rs12-20k/ day.

- The recent Bangalore acquisition has taken the total keys to 2,115. Management expects to add another 1,120 keys to its portfolio over the next 2-3 years. Juniper Hotels has a three-pronged growth strategy: (1) existing portfolio enhancements, which includes addition of F&B outlets/ MICE area at existing hotels as well as the addition of incremental rooms at the recently acquired Bangalore hotel, (2) inorganic expansion, which includes ROFO to Juniper from the Saraf assets as well as any other acquisitions, and (3) greenfield developments (company owns land in Mumbai, adjacent to the Grand Hyatt, as well as small land parcels in Guwahati and Thiruvanathapuram).

## Jupiter Life Line Hospitals

### Key takeaways

**Thane:**

- **Outlook:** Thane has a total population of ~3 mn and there is enough headroom for growth.
- **ARPOB:** ARPOB for the Thane hospital is ~Rs60k/day.
- **Occupancy:** Jupiter can achieve occupancies of 70%+ in the Thane hospital over the longer term.
- **Corporate costs:** All corporate costs are accounted under the Thane hospital.

**Pune:**

- **Outlook:** Jupiter has completed the capex at this facility and plans to operationalize the remaining 30 beds in FY2025E. It has no further expansion planned.
- **ARPOB:** In Pune, Jupiter has signed rate revision contracts with insurance companies (single digit revisions), which would enable better ARPOBs and margins.
- **Occupancy:** Currently, the hospital is operating at ~60% occupancy. Jupiter aims to achieve 70% occupancy in the next two years.
- **Insurance mix:** Two-thirds of total patients are covered under insurance at the Pune hospital.

**Indore:**

- **Outlook:** Growth on existing beds would be driven by price hikes, higher occupancies and case mix augmentation. Jupiter expects Indore to reach optimal levels of EBITDA margins within a couple of years.
- **Occupancy:** Currently, the Indore hospital is operating at ~56% occupancy. Jupiter will add more beds, once occupancy reaches 60-65% levels.
- **Insurance mix:** In Indore, Jupiter has completed empanelment with insurance companies. One-third of the total patients are covered under insurance at the Indore hospital.

**Dombivli:** Jupiter has finished excavation and has just started construction for the project. It plans to incur a total capex of ~Rs5 bn for a total of 500 capacity beds. Jupiter plans to commence this hospital in 2HFY26. Jupiter will be starting with 200-250 beds and will gradually add beds. As per Jupiter, no other hospital is coming up in the region. Jupiter expects to achieve EBITDA break-even in two years of operations. It expects to incur an EBITDA loss of Rs250-300 mn in its first year of operations.

**Expansion plan:** In the next five years, Jupiter plans to build more hospitals and increase its capacity to 2,500+ beds. It prefers greenfield projects, having hospitals with bed capacity ranging between 300-500 beds. Most of the expansion would be focused in Western India, namely Maharashtra and Gujarat. Jupiter is also evaluating land in Pune and actively looking for options in Mumbai and Gujarat.

**Hub and spoke model:** As per Jupiter, spokes are incomplete facilities, and hence the company has not decided to follow the hub and spoke model.

**EBITDA margin ramp-up:** The hospital turns EBITDA break-even by the second year of operations. In the third year, EBITDA margin moves to single digits and then to double digits in the next year.

**Cash and insurance mix:** Within Jupiter's patient population, there is significantly high insurance penetration. Most of its patients have health insurance, self-paid or employer-paid. Insurance patients form the bulk of Jupiter's payor mix. Pune and Thane have higher levels of insurance. In comparison, the percentage of insured patients in Indore is much lower.

**Scheme patient mix:** Scheme patients contribute only 1% to Jupiter's hospitals. Jupiter does not have empanelment with government schemes in the communities where its hospitals are located. It has not taken any free or subsidized land from the government, which would otherwise put an obligation to treat a certain scheme patient count.

**Availability of medical talent:** In terms of availability of clinical talent, Pune ranks better than Indore. Nevertheless, Indore also has great doctors available locally for super-specialized cases. Earlier, Indore did not have great healthcare infrastructure, which led to the city not being available to attract quality doctors.

**Doctor payouts**: Jupiter has different payout models, including fixed and fixed+variable for doctors. Some of these doctors also have their own practices outside the hospital.

**Maintenance capex:** Annual maintenance capex for equipment ranges between 5-10% of the capital cost of procurement.

**M&A:** Jupiter continues to evaluate M&A opportunities.

# Laxmi Organics

## Key takeaways

- **Company background:** The company started out producing acetic acid from ethanol, which is available in abundance in Maharashtra. Thereafter, the company started manufacturing ethyl acetate to move toward value addition. It acquired the diketene assets of Clariant in Thane in 2010 and relocated those to Mahad. Currently, it has 50+ products in its portfolio. In June 2019, the company acquired the assets of Miteni, an Italy-based manufacturer of organic fluorospecialties and electrochemical fluorination with a view to foray into the fluorospecialty chemical business. Also, in 2021, it acquired a neighboring acetaldehyde plant.

- **Essentials business:** The business comprises acetyl intermediates products. Management acknowledges that this is a commodity business, but highlights that it has delivered a 20%+ RoCE over a complete cycle. This business requires economies of scale and a low-cost position.

  - EBITDA margins for the business are expected to sustain in the range of 8-12%, while asset turns are seen at 3-5X. EBITDA margins stood at 4% in FY2024 due to weak spreads. Management expects margins to improve as spreads improve and the company introduces newer, higher-margin products in its portfolio.

  - The company buys ethanol from the US owing to the higher purity of the product from that region.

  - Capacity utilization stands at 80-85% in the essentials business.

- **Specialties business:** The business comprises the diketenes chain and fluoro-intermediates. The company is among the top five globally in diketene products. Company revenues are split in the ratio 65:35 in favor of the essentials business whereas EBITDA is split in the ratio 65:35 in favor of the specialty business.

  - EBITDA margins in this business are expected to be 20-25%, while asset turns are expected to be 1-2X.

  - Electrochemical fluorination (ECF): 3M was the leader in this line of chemistry, but it is exiting the business, though not divesting its technology or assets. Miteni set up their ECF unit 20-30 years ago. Compared with conventional fluorination, ECF reduces the number of steps and side-products.

  - The company is focusing on only fluoro-intermediates, which represent 10% of the US$25 bn overall fluorine opportunity. The company does not intend to manufacture fluoropolymers, fluoro-surfactants or refrigerant gases.

- **Miteni assets:** The fluorochemicals project has experienced cost and time overruns as Laxmi was unable to perform adequate due diligence on the assets being acquired during Covid. In addition, environmental costs and logistics costs also ended up being higher than anticipated. The total capex on the project is now seen at Rs5.5 bn, while peak annual revenues will be only around Rs2 bn. However, the company can invest another Rs4 bn in the land parcel in Lote at above-company EBITDA margins, and this should help site economics improve over a period of time.

  - Management acknowledges that it is still learning the intricacies of the ECF chemistry, but has recruited senior talent from leading fluorine companies, including SRF, NFIL and GFL.

  - The company has received positive feedback on product samples supplied to 16 out of 20 customers. This leads them to believe that revenues from the fluorine business in 4QFY25 could be 10-15% of peak levels, thereafter rising to 40-60% of peak in FY2026 and then optimal levels in FY2027. However, even by FY2028, the fluorine business will contribute only Rs2 bn of revenues—a minor proportion of the Rs60 bn in company revenues targeted by then. Targeted end-uses are agrochemicals, pharma, coatings, and emerging areas such as semiconductors and generative AI.

- **Capex:** The company will incur capex of Rs11 bn over FY2024-28, split evenly between the essentials and specialties businesses.
  - Of this, Rs7.1 bn will be incurred on the Dahej site. Within this, Rs4.5 bn will go toward doubling capacity for diketene derivatives, which will help the company get to a top-3 position globally. Still, its top two competitors (both Chinese producers) will still be twice the company's size in diketene derivatives even after the expansion. Also at Dahej, Rs2.5 bn will be spent on the essentials business—to expand the capacities of acetaldehyde and acetic anhydride, and set up an n-butyl acetate line.
  - The company will also expand ethyl acetate capacity by 70 KTPA and add capacity for n-propyl acetate. Rs1.2 bn of capex will be on debottlenecking activities.
  - The first wave of Dahej projects will be commissioned in 1QFY26. The company already has long-term contracts with downstream customers for essentials. Thereafter, most of the Rs7.1 bn capex will be on stream during 2HFY26.
- **KPIs:** All key senior management personnel have been assigned EBITDA, CFO & RoCE targets.
- **Other takeaways:**
  - 40-50% of the specialties business is based on contracts.
  - Capacity utilization in specialties is above 80%.

# Mahanagar Gas

## Key takeaways

- **APM allocation cut:** Similar to IGL, MGL was surprised by the sharp back-to-back cuts over the past two months, which has also surprised CGDs overall. The industry was not prepared for such large cuts, and it is difficult to source gas at such a short notice. Also, immediate price hikes to pass on all cost impacts are also not prudent/possible. As per MGL, now an understanding has been reached with the government/GAIL for some advance intimation of such large cuts, so the industry is prepared. As per MGL, before the November cut, such an advanced intimation of the cut was given, yet the large 18-20% cut surprised them.

- **No further cuts until March 2025:** CGDs (IGL, MGL and Gujarat Gas) do not expect further sharp reduction in APM volume until end-FY2025. With nearly 7 mmscmd of APM gas being classified as NWG (new well gas), nearly 15% of APM is already classified as NWG (new well gas). According to CGDs, only about 7.5% APM volumes are to be reduced annually, as per DGH formula. As 7 mmscmd is nearly 15% (two-year equivalent cuts) of ONGC's APM production in April 2023, CGDs believe further reduction will happen only after March 2025.

- **Relief measures:** As per MGL, the CGD industry is seeking several relief measures. These include:

  1) Highest priority to CGDs for allocation of NWG, similar to the highest priority on APM/HPHT gas for CGDs. It expects all NWG (except that allocated to OPAL) to be allocated to CGDs.

  2) CGDs are suggesting that a 20% premium for NWG should be on the price cap of US$6.5/mmbtu. This would result in NWG price of US$7.8/mmbtu versus the current US$9/mmbtu based on a 12% slope.

  3) Relief on Gujarat VAT rate. However, compared with IGL, the benefit for MGL would be lower, as bulk of APM purchases are from Maharashtra.

  4) Excise duty reduction on CNG and/or inclusion of gas in GST.

- **Sourcing:** As per MGL, for its overall 4 mmscmd volumes (including I&C), it has domestic gas availability of ~2 mmscmd (1.0 mmscmd for CNG; 0.5 mmscmd for domestic PNG). In addition, it has contracts for 0.5 mmscmd HPHT gas and nearly 1.4 mmscmd of LT LNG (mix of HH and oil linked). It had some headroom (0.3-0.4 mmscmd) in its LNG contracts. After 0.9 mmscmd reduction via two APM cuts, it is now taking the entire 1.4 mmscmd of contracted LNG, and has a shortfall of 0.5-0.6/mmscmd. It is currently making up for this shortfall with spot purchases on IGX or spot LNG purchases, but is looking to tie up more LT LNG soon.

- **Costs ups by Rs4.5-5/scm; margins to be weak in 2H:** As per MGL, due to APM cuts, its gas costs have increased by Rs4.5-5/scm. This requires a CNG price increase of ~Rs7/kg. Near-term focus will be to optimize gas costs, before deciding on further price increases. Historically, MGL has had the highest margins across major CGD players. For CNG to be a commercially lucrative fuel option, it should be 10% cheaper than diesel and 30% cheaper than petrol. This will be an important factor in deciding future price hikes. Similar to IGL, MGL expects margins to be weak in 2H, but will likely recover in FY2026E.

- **Volume:** The focus for MGL would be to maintain and increase volume, even if it comes at slightly lower margins. FY2025E volumes are expected to grow by 11-12%. FY2026E volume growth to be ~9%.

- **Expansion plans:** MGL will add another 50 CNG stations in this financial year. 2-3 LNG stations will also be added by March 2025 (18-20 LNG stations in the next four years). MGL is open to acquire smaller CGD players, as the valuation would be lucrative, as industry distress increases after APM allocation cuts.

## Paras Defence

Paras Defence & Space Technologies offers a wide range of products and solutions for defense and space applications. With a focus on the defense and space sector, Paras has two main verticals, namely Optics & Optronic Systems and Defence Engineering (comprising Defence Electronics, EMP Protection Solutions and Heavy Engineering). With over 40+ years of sustained business growth in defense and space engineering, Paras is involved in technologies for rockets and missiles, space and space research, naval systems, land and armored vehicles, electronic warfare and surveillance, and electromagnetic shielding, to name a few. Along with this, through its subsidiaries, Paras is involved in technologies such as drones, RF and microwave, anti-drone systems, EO/IR systems for avionic platforms and quantum communication, among others.

### Key takeaways

- **Optics and optronics systems**: Paras started with optical components and today it is the only company in India that manufactures optical components for space. It has three main focus areas for the optics and optronics segment, which are (1) submarine periscope, (2) hyper spectral imaging system for space, (3) red dot reflex sight (India's leading point and shoot device—for which it has got a Rs3 bn+ order from L&T) and (4) electro-optical/infra-red (EO/IR) systems.
- **Submarine periscope:** Paras delivered one periscope in 1QFY25 (each periscope is worth Rs300 mn and the company expects to deliver six such periscopes worth Rs1.8 bn in FY2025). Each submarine requires two periscopes. With India having 20 submarines and additional ones in the pipeline, there is a potential for orders worth 80 periscopes, including new and refurbished ones. Refurbishment costs are 80% of the cost of a new periscope. In addition to periscopes, Paras is also focused on adding ESM radars to the periscope, which has a potential to add Rs100-150 mn to each order. Paras is in talks with Mitsubishi to supply the submarine periscopes to them. Overall, periscopes will have a net margin of 25-30%, with EBITDA margins being higher.
- **Space segment:** Space currently forms ~10% of the order book versus ~50% of the order book during IPO time and the company expects a rebound in the space segment over the coming quarters. The hyperspectral imaging camera is one of the key products that the company supplies to the space sector and an order could be ~Rs200 mn in size.
- **Defense engineering:** The defense engineering vertical for Paras contains three main focus areas—(1) defense electronics, (2) EMP protection solutions and (3) heavy engineering. With defense engineering, one of the areas of growth is for the Saras Aircraft, which is being manufactured by Hindustan Aeronautics where Paras supplies an avionic suite. India is expected to manufacture 133 (3 + 15 + 115) aircraft and Paras' contribution is ~Rs200 mn per aircraft. The second focus area is electronic magnetic pulse protection solutions, where Paras is the only company in the space and has an order funnel of Rs 3.5 bn currently.
- **Anti-drone systems:** Through its subsidiary, Paras Anti Drone Systems, Paras Defence is looking to gain a foothold in anti-drone systems, with an aim to be a leader by 2026-27. Paras is spending Rs30-40 mn every year on R&D; its R&D team comprises engineers and PhDs. The focus area is to build cutting-edge technology, including radars, software-defined radios, phased arrays and advanced antennas. The company expects the potential order funnel for anti-drones to reach US$500 mn+ in the next few years.
- **Guidance and growth outlook:** Paras aims to achieve revenue growth of 40-50% over the medium term and slightly better profitability compared with previous years. The company has maintained that it aims to have an order book of ~2X its revenues. Among newer areas of growth, the anti-drone systems, additional wallet share in the space segment and quantum technologies will be the key focus areas for Paras. In the longer term, the company expects the revenue mix to be 60:40—optics: defense engineering.

# Praj Industries

## Key takeaways

- **10% of global ethanol production technology base is based on Praj's offering.** With 1,000+ references across the world, 4+ manufacturing locations in India, 1,800+ employees including 90+ scientists, Praj Industries is a specialized player offering bio energy solutions, hi purity solutions, along with engineering modularized offerings in critical process equipment and skids, and industrial offerings of process equipment in the brewery industry. Praj's current revenue mix is dominated by its bio energy offering at 70%, which includes 1G ethanol capacities for ethanol blending of petrol and basic ethanol demand.

- **Guidance of 3X revenue and 5X operating profit by FY2030 intact.** Praj is expecting to triple its revenue by the end of the decade, driven by (1) a low-carbon ethanol opportunity in the US, which is seeing a demand for ethanol for SAF production through the ATJ route, (2) compressed bio gas to see increasing adoption ahead with the company's plants in the country running and generating output as per customer guarantees, (3) SAF offering to pick up pace with countries globally aligning blending targets and (4) renewable chemicals reaching commercialization stage, expected to fructify from FY2027. The company expects to see an improving profitability ahead with a guidance of 5X operating profit and wants to maintain its domestic and international mix of 50:50 by FY2030.

- **New manufacturing plant in Mangalore to provide modularized solutions in ETCA offerings.** The company has undertaken new plant commissioning in Mangalore, which is expected to cater to the Energy, Transition and Climate Action (ETCA) demand in the EU region. The company is seeing a traction of US$250-300 bn investments by energy majors to achieve a lower carbon footprint, going forward. The company's offerings in the same include modularized solutions for green/blue hydrogen demand, which can reduce the site activity drastically, thereby reducing the timeline and costs significantly. The offerings in the segment are expected to be margin accretive for the company. It also intends to provide modular offerings in its ZLD business, going forward.

- **Big corporate announcements on CBG plans make light for the path ahead toward higher adoption.** The company speaks of its recent corporate announcement by Reliance to invest around Rs650 bn in Andhra Pradesh for 500 plants in the next five years, which provides pipeline visibility for players such as Praj in the CBG space. The same reflects the government's commitment through its SATAT scheme, which speaks of installing 5,000 CBG plants in the country. While the success of CBG adoption depends on key variables such as achieving feedstock visibility, infrastructure for CBG off-take and plant stability, which can provide consistent returns for customers to invest more, Praj is confident in its product offerings where it has already achieved stable IRRs for its customers to the tune of 15-18%. The same is expected to improve further as the unit economics get better with scale and replicating the company's current success (press mud) across feedstocks such as rice straw, Napier grass and cotton waste.

  Ethanol, on the other hand, is expected to happen on a large base, while the government is in discussion with NITI AAYOG to increase current blending targets of 20% to 25%. Praj opines that bio diesel may still face headwinds, going forward, to achieve blending consistency with ethanol.

- **SAF to see increasing demand going forward with countries focusing on achieving net zero carbon.** Praj is expecting to see its ATJ offering in SAF, which uses ethanol as input for SAF production, to be a key commercial technology along with HEFA technology that may see input constraints for higher capacities. Key economies such as the US and EU already have SAF blending targets in place to achieve 10%/6% blending by CY2028, while India has an indicative blending target of 2% by FY2028. While the current US election outcome places some uncertainty in the aspirations of US, Praj is expecting the aspirations for SAF to continue, unless there are extreme outcomes taking place.

# R Kabel Industries

## Key takeaways

- **Cable and wires.** The company set up its first wire and cables manufacturing unit in Silvassa, Gujarat and imported machinery from Europe. Prior to this, the company produced winding wires and catered to the B2B segment. In 2011, the company established another manufacturing plant in Vadodara. RR Kabel's revenue salience of wires and cables is 70% and 30%, respectively. The current capacity utilization of cables and wires are 90%+ and 65-70%, respectively.
  - **Domestic.** Management anticipates the industry to grow at 2X GDP growth rate, i.e., at 14% on a CAGR basis, with cables/wires growing at 16%/12%. The market share of unorganized sector is ~30% in wire. The implementation of GST, demonetization and Covid helped organized sector to gain share from the unorganized sector. Due to capacity constraints in RR's cables business, its waiting period is ~25-30 days, restricting the company to command premium on its products. The company got its certifications for 66kV cables this year and bagged orders from Punjab and Gujarat state government. The company is looking to expand its market share in HV/MV cables by expanding the cables categories of 132 kV and 220kV. They are not planning to foray into EHV segment for now. Best-in-class product quality and innovation drove its market standing to #4 position in recent years. The company claims it is #1 in GJ and has strong presence in MH, MP and RJ. The company commented that Polycab has strong presence in MH, whereas Finolex is strong in AP/KA and Havells' in North India. RR Kabel has 9%+ market share in 15 states today (versus 6 states pre-pandemic). The company is mostly present in Tier-2/3 cities than metro/tier-1 cities.
  - **Exports.** Exports mix stands at about 28% of the C&W revenues, with a wires/cables mix of 70/30, though wire is a lesser margin product in international geographies. Management noted that exports have seen some normalization in 3QTD with partial reduction in freight time. Europe contributes ~50-55% to its export revenue, followed by the UAE (30-35%) and the US (~10%). RR Kabel is present in 1,450 counters out of the 2,800 total counters in the UAE. The company is 100% ROHS and REACH compliant and has 42 certifications (for Waghodia unit) in cables and wires. The company claims there is no major Chinese competition in Europe due to quality concerns. About 90% of the products sold in exports are under RR Kabel brand.
  - **Margins.** Management believes 10.5-11% EBIT margins are sustainable for the industry. The company expects 2H margins at ~8-8.5% *('worst on margin front, is likely behind for now')*, resulting in 7.5% margin for FY2025E. The domestic wires deliver the highest EBIT margins, followed by exports cables, domestic cables and export wires. The company expects the margins in domestic cables to improve on the account of better operating leverage after completion of the new facility.
  - **Initiatives.** The company engages with 454k+ electricians. It also maintains a digital database about each retailer and their end-users. The electricians have 4 layers: Platinum, Gold, Silver and Bronze. To improve the connect with electricians, the company provides scholarship for education of Rs10k for electricians' children. They also conduct RR Kabel Nukkad, where they educate the electricians about RR Kabel's products and provide refreshments.
- **FMEG.** Fans/lighting/appliances and switches contribute ~45%/40%/15% to RR's FMEG sales. This category contributes ~12% to the sales, growing at ~20%. The gross margins improved by 150 bps to ~25% in 1H. The company expects to reach EBITDA break-even by June-2025E (with Rs11-12 bn ARR). The expected turnover for FY2025 is Rs10 bn, but due to higher A&P spends (~3% of sales), the company won't be able to reach EBITDA breakeven in FY2025. The company manufactures ~1/3rd in-house. RR has different RTM for FMEG and W&C. The salience of premium/BLDC fans is 18-20%. The company defines premium/mass-premium/economy fans with price range Rs3k+/Rs2-3k/<Rs2k. The company has three manufacturing facilities for FMEG: Bangalore, Roorkee and Himachal Pradesh.

- **Others**.
  - **A&P** spend for RR is ~1.5% of sales, with average A&P spends across industry is ~0.8% of sales.
  - **Capex.** The current capex of Rs5 bn (incurred over FY2024/25E) will double the capacity of cables and increase the wires' capacity by 25% till Mar-25E. RR plans to start work on new capex plans in FY2026E. Management commented that the new capacity by all industry players will cumulatively only increase industry capacity by 40% (higher capex inflation leading to lower asset turns).
  - The total working capital days is ~60-65 days, with debtor days of 37 days, inventory days of 65 days and payable days at 27-28 days.
  - The company introduced low smoke zero halogen wires, (produces ~4% of the smoke generated by PVC coated wires). These are sold at 10% premium.

# RateGain Travel Technologies

## Key takeaways

- **Overview.** RateGain is focused on developing an integrated tech stack to enable hotels to acquire, engage and interact with their guests. The business started off with DaaS products (rate parity and optima). The company has gradually expanded capabilities across the distribution and martech segments, primarily driven by acquisitions.
- **Demand.** Travel demand has moderated after a robust uptick over the past 2-3 years. The company indicated weakness in the US, also driven by some uncertainty due to elections in the geography. It expects a gradual improvement in the next few quarters. Business travel is inching back to pre-pandemic levels, with a stronger focus on cost control, presenting an opportunity for competitive intelligence offerings. Large hotel chains are looking to expand into newer markets and reach new travelers, providing an opportunity for new travel aggregators to streamline B2B distribution.
- **Pricing.** There are a lot of pricing discussions underway as clients are tightening their budgets due to the normalization of demand. RateGain offers great value to clients, but is now focused on offering better products at a similar price, rather than outright discounting. In addition, it is focused on increasing the attach rate for clients.
- **DaaS.** The company offers price parity and pricing intelligence products for hotel, OTA and car rental clients. The data is acquired primarily by crawling and scraping websites, and in a few cases, from existing API integration with clients. RateGain has SLAs with each customer to provide accurate data, which is the company's key value proposition.
- **Organic growth.** The DaaS segment has been completely scaled up by organic investments. It has also invested in building a connectivity platform for small and mid-market hotels to distribute availability, rates and inventory (ARI) data. The company has recently launched a booking engine as part of its RevMax platform (uno).
- **Adara.** The company indicated that the performance of Adara over the past 18 months has been better than expected. Adara added 89 clients during the quarter. The business is now clocking US$48-49 mn revenue run-rate in 2QFY25 and 18% EBITDA margin.
- **Acquisition.** RateGain is evaluating multiple acquisition targets, with discussions at various stages of maturity. The company is considering targets that can add a beachhead in a certain area.
- **Margins.** The DaaS and distribution businesses are higher-margin businesses, while MarTech has relatively lower margins. The company aspires to increase EBITDA margins progressively to 25% over the medium term.

## Raymond Realty

### Key takeaways

- Management highlighted that it has achieved Rs11.7 bn of pre-sales in 1HFY25, against Rs22.5 bn pre-sales in FY2024. It expects the momentum to pick-up in 2HFY25, which would allow it to deliver healthy 20-25% yoy growth in pre-sales for full-year FY2025.
- Going forward, management is targeting 20% pre-sales CAGR over the next few years. It would target 20% EBITDA margin, and 20% blended IRR on its projects.
- Raymond has added four new projects with Rs90 bn of GDV over the past few quarters through the JDA route. It plans to launch these four projects over the next 12 months. It would continue to focus on new project additions through the joint development route only, as it would continually replenish the sold area on an ongoing basis.
- Management has also started exploring the Pune market, and would look to add new projects there. Raymond is exploring locations in the central part of Pune, as opposed to any fringe locations. It would focus on premium projects with pricing in the range of Rs13-15k per sq. ft (on carpet area).
- The company expects to achieve Rs12-15 bn of annual pre-sales from Thane on an ongoing basis. Going forward, it expects the share of non-Thane projects in pre-sales to gradually increase as it launches more projects in new locations.
- Management believes that the demand environment for residential real estate remains robust and pricing is stable in its key micro-markets. It expects the strong demand to sustain at least over the next 2-3 years.
- Raymond is looking to demerge the real estate business into a separate listed entity, while the current entity would house the engineering business. The engineering business has three verticals: (1) aerospace and defense, (2) auto and EV components and (3) steel files and tools & hardware. While the aerospace business has seen some weakness recently owing to issues faced by Boeing leading to delays in orders, management expects a recovery in the coming months. It expects the overall engineering business to deliver 15% revenue CAGR and 20% EBITDA CAGR over the next 4-5 years, with ROCEs of 20-25%.

## SAMHI Hotels

### Key takeaways

- Management stated that it is planning to add 165 keys across (1) Kolkata–111 keys at the greenfield Holiday Inn Express and (2) Bengaluru–54 additional keys at its existing Holiday Inn Express in Whitefield, as well as re-open the 137 keys at Caspia Pro in Greater Noida (rebranded as Holiday Inn Express) in 3QFY25.
- Beyond these, management plans to add (1) 22 keys at the Hyatt Regency, Pune in FY2026, (2) 54 keys at the Sheraton Hyderabad in FY2026 and (3) 86 keys at the Fairfield by Marriott in Sriperumbudur, Chennai in FY2027.
- SAMHI recently acquired a 142-key operational hotel in Bengaluru, with an adjacent land parcel where it would develop a 220-key upper-upscale hotel, for an EV of Rs2 bn, which was funded through internal accruals. The renovation/rebranding of the existing hotel would entail a capex of Rs700 mn (to be spent in the next six quarters), while the new development would cost Rs2.7-2.8 bn, to be completed by FY2029.
- SAMHI has also entered into a long-term variable lease agreement for a completed office building (270k sq. ft built-up area) at Hitec City, Hyderabad. It plans to convert this into an upper-upscale hotel with 170 keys, with limited upfront capital requirement. The hotel would have 2-3 F&B outlets and some meeting space as well. The overall capex for the renovation/rebranding would be Rs1.8-1.9 bn; management expects to commission this hotel in 6-8 quarters (in 1HFY27).
- SAMHI is also working to refurbish/rebrand 468 keys. Apart from the 137 keys at the rebranded hotel at Greater Noida (Caspia Pro rebranded to Holiday Inn Express), SAMHI is also working on refurbishing keys at its existing hotels—Four Points by Sheraton at Pune (217 keys) and Four Points by Sheraton at Jaipur (114 keys) in the next two years, which would continue to aid earnings growth.
- SAMHI's finance costs were steady in 2QFY25 at Rs562 mn ((-)51% yoy, +1% qoq), aided by a reduction in interest rate to 9.5% (10.8% in 2QFY24 and 9.7% in 1QFY25). The net debt, as of September 2024, increased to Rs18.8 bn (+5% yoy, +1% qoq). With the recent acquisitions (Bangalore and Hyderabad land agreement) and the incremental capex, the net debt would increase slightly, however the larger (balance) capex contribution would come from internal accruals. Management now expects the net debt/EBITDA to be at 4.5X by FY2025. It is also working on recycling certain non-core assets, which should help reduce the net debt/EBITDA to 3.7X eventually.
- Management has stated that it plans to grow its inventory by 10-15% annually over the medium term. The current additions would cover the growth pipeline for the next three years, and it would continue to look at other greenfield/acquisition opportunities, especially focusing on the long-term lease model, as opposed to outright acquisitions. It plans to increase the number of keys under the variable lease model to 25% over the next few years (from 13% currently, excluding the proposed Hyderabad hotel).

## Satin Creditcare Network

### Key takeaways

- **Loan growth**. Loan growth has the potential to recover to ~20% yoy in FY2026E.
- **Asset quality**
  - The collection efficiency is expected to remain at ~97% for the rest of the year. Some additional stress is anticipated in 3QFY25, but the overall credit cost is projected to remain below ~5%.
  - The bank has not extended any loans to delinquent customers over the past 3 years.
  - In November, the overall performance is improving; except for Orissa, the bank is performing better than the industry in most regions.
  - There are ~1,100 people handling collections, currently at ~5.85% efficiency, aiming to reduce this to ~5.5%.
  - Territory managers are now assigned to handle ~15-18 branches, providing more control and oversight with visits ~twice a week, compared to Regional Managers who managed visits only ~once or twice a month, affecting the case load on field officers.
  - The company keeps tweaking incentives for collection efficiency, offering up to ~50% incentives on recoveries in select deep delinquency buckets.
- **Equity capital**. In management's view, the company does not see a need to raise equity capital in the near-to-medium term.

## Shyam Metalics & Energy (SMEL)

- **Strategy.** SMEL starts small in any segment, before scaling up its performance. It expects to follow the same template in the new aluminum and stainless steel ventures. The company is in transition from being a single metal player to a multi-metal player.
  - New ventures are usually allocated less than 10% of the total net worth of the company, and have a hurdle IRR of 18%+, with projected sales/EBITDA of Rs80/5 bn over the next 10 years.
  - The company has evaluated and rejected any plans for entering primary aluminum production. It plans to make battery foils and backward integrate into scrap based on FRP to feed foil capacity.
  - Mittal Corp's acquisition marked SMEL's foray into stainless steel (SS). It intends to cater primarily to the 200/400 series SS, which is less nickel intensive (unlike the 300 series).
  - SMEL expects SS scrap to be more expensive and will expand into primary production. The company expects to be the second-largest organized SS player in the country over the medium term.
- **Guidance.** SMEL expects the EBITDA run-rate of Rs40 bn+ annually FY2028E onward after the completion of all announced capex projects.
- **Public listing**. The company did not have an implicit need for IPO proceeds. It was done to enhance visibility for end-customers and potential employees.
- **Locational advantage**. The company's location at West Bengal/Odisha provides it with ample sources of coal (for power plants) along with iron ore (largely through OMC). Most end-products (70%) are sold within the 500 km vicinity of its plants.
- **Margin levers.** SMEL has spent ~Rs4.5 bn to acquire rakes/wagons under the Indian Railways' own your wagons scheme. Railway transportation costs are ~30% lower versus road transportation.
  - SMEL expects value-added products to be ~75-80% of the total product mix by FY2028E (~48% in FY2024).
  - The company plans to enter underserved niches to capture market share in newer segments. For example, it plans to enter the color coated (CC) market with 0.12 mm thickness sheets (versus 0.22 mm sheets for other players) to cater to the value-conscious northeastern market.
  - SMEL is expanding its captive power plant (CPP) capacity from ~380 MW to ~600 MW after expansions, which would contribute to ~80% of total power requirements. Cost of grid power in West Bengal/Odisha is ~Rs6.5/4.6 per unit compared with CPP cost of ~Rs2.5 per unit of electricity.
- **Capex.** The company announced phased multi-year capex of ~Rs100 bn in FY2021. Until date, nearly half has been spent, with balance to be spent by FY2027E.
  - Capex guidance for FY2025/26/27E is in the range of ~Rs20/20/10 bn. Aluminum/stainless steel capex is estimated at ~Rs8/13 bn.
- **Net debt**. The company follows the policy of growth capex mainly through internal accruals/equity with debt mainly used for working capital requirements. Net cash with the company is ~Rs20 bn+. Even after announced expansion plans, management expects the net cash position to continue.

# Sula Vineyards

## Key takeaways

- **Demand outlook.** Sula's subdued growth over the past few quarters was attributed to (1) the current slowdown in urban markets—impacted Sula as it is the market leader and as wine is more of an urban phenomenon, (2) deep discounting from competitors—impacted the trade and market placements for Sula (weak offtakes); this is seen as an unsustainable practice and is evident from the latest quarterly results of Fratelli Wines, which is seeing some stress on its balance sheet, (3) DTC channel sales impacted partly as wine tourism is seeing some challenges due to infra-related issues and (4) weak growth in Maharashtra (multiple state-specific issues). Sula thinks the current slowdown is not structural in nature, and expects the growth to come back once these challenges subside.

- **Near-term growth outlook**. Sula thinks 3Q (peak quarter) growth could be subdued amidst ongoing challenges and due to some impact due to recent Maharashtra elections. States such as Telangana are showing a good uptick.

- **Market share trends.** Sula captures market share trends from corporations that span across 10 states. These states contribute to ~50% of Sula's topline (balance 50% comes through the traditional distributor model) and better reflect the overall industry dynamics. According to corporation data, Sula's market share in elite and premium wines last year is at ~60%. Over the past two quarters, they have gained market share by 400-500 bps (to ~64-65% share), as the second-largest player (Fratelli wines) witnessed decline in sales for the past two quarters. Sula managed to gain share across most of the corporations, except in Maharashtra, where the share has been stable.

- **Margin outlook.** Sula's margins in 1H (26.7%) were impacted by (1) weak state mix (high growth in non-MH and KA states); (2) high S&M expenses (up 48% yoy) due to (a) strong efforts to expand the wine category beyond core markets and structure in these markets demand high marketing costs, (b) focus on trade marketing activities aimed at boosting consumption during the festive seasons, (c) heightened S&D intensity as a response to competitor actions (seen as unsustainable practice) and (d) increase in costs related to increase in tastings; These elevated S&M spends are expected to normalize in the coming quarters, and (3) weak operating leverage. They believe that a 31% EBITDA margin in FY2024 is a peak level, and expect the margins to normalize going ahead, as some above-mentioned factors will continue to play out (state mix + marketing spends). It guided 27-28% EBITDA margins for the medium term and find these levels to be optimal in the current circumstances (near term could be stressed by additional 100-200 bps due to muted growth trends).

- **State-wise margins.** Core markets (MH and KA) have 28-29% operating margins, while other states, on blended basis, have 400-500 bps lower margins than core markets. The higher margin in core states is due to low taxes and favorable policies (WIPS).

- **Competition from import brands.** Import brands account for 20-25% of the overall wine industry volumes. The imported brands market size is roughly at Rs5 bn, out of the total Rs20 bn Indian wine market. Among the imported brands, Jacob Creek is the largest brand and contributes to ~Rs3 bn of the Rs5 bn imported brands market. Most of these import brands operate at Rs2,500+ per bottle price point and Sula's most premium wine costs Rs2,100 per bottle. Hence, these import brands do not exactly compete with Sula's portfolio. However, Sula is competing with these brands with their RASA range (Rs1,800+). So, the focus is on driving the penetration of this price point wines before looking at launching SKUs at high price points. Management thinks Rs4-5K per bottle price point wines market is very niche, and LMVH that operates in this range has negligible volumes in India. So, the Indian wine market is still a price-sensitive market and the sweet spot lies at Rs800-1,500 per bottle.

- **Jacob Creek's status**. Sula attributed the strong salience of Jacob Creek's among import brands to the distribution strength of Pernod Ricard. JC has been riding on the back of Pernod's Whisky portfolio, thereby reaching most possible wine-selling outlets (25-30K outlets versus Sula's 28K outlet reach) and designing suitable trade schemes to place wine in these outlets. As a result, they are more prominent even in the HoReCa channels (difficult channel to place for Sula). The sale of Pernod's wine portfolio to a new owner might strip it of the distribution moat and favorable trade schemes that JC has been enjoying, and will place it on same footing as any other import brand. According to management, the last consignment of Jacob Creek's from Australia was received three months ago.

- **Popular and economy portfolio updates.** Sula has been losing out on market share in this segment due to the ongoing deep discounting trends. Most popular wine volumes come from MH and KA, and the presence in market beyond these two states is negligible. Sula is trying to defocus on this segment from both back-end and front-end operations. On back-end, it is setting up a dedicated ~2 mn cellar capacity with low cost (Rs80 per bottle; Elite and premium costs at Rs120 per bottle). On the front-end, it is deploying a super-stockist model, which involves the new super-stockist to purchase it from Sula, and it would independently handle the sales and distribution. Sula deployed this model in Pune, Mumbai and Thane, and plans to implement it all across MH by the end of the year. This would free up the team's bandwidth and help them to focus more on the elite and premium portfolios.

- **Telangana market updates.** TG market has seen strong growth in recent times (50%+ yoy growth in 2Q) due to the strong category development initiatives that were implemented. TG is more of elite and premium wines market for Sula (95% share). Sula is positive on TG growth outlook for the coming quarters and anticipates TG to surpass KA by the end of this year on its current trajectory. However, Telangana is a low-margin market for Sula, as the state attracts 70% VAT (versus nil/4% in KA/MH).

- **RM sourcing.** Sula procures wine grapes from farmers by entering into long-term contracts (10-12 years). This provides an advantage in terms of crop visibility, quality and price escalation predictability. Wine grapes are more lucrative compared to table grapes (~3X returns) and the farmer community which it enter into an agreement with are usually well-off. ~95% of Sula's procurement happens through this contract farming.

- **High debt levels.** The debt levels of Sula were slightly elevated in 1H due to higher working capital requirements, which were prompted by high receivables from Telangana. This issue is now resolved as payments from Telangana are now in time (earlier there was almost a year delay). Some part of the elevated working capital was also attributed to high inventory, which was due to high expectations in the beginning of the year. This will be moderated in the next cycle.

## Sunteck Realty

### Key takeaways

- Sunteck Realty has seen an improvement in the overall pre-sales trajectory, aided by better traction at the BKC project. It has ~Rs10 bn of inventory at BKC, which it expects to liquidate in the next three years.
- Management highlighted that it expects to launch new towers at ODC, Vasai, Mira Road and Kalyan (combined GDV of Rs30 bn) in 2HFY25E, which should help support its pre-sales growth guidance of 30-35% for FY2025E. It had recently launched a new tower at Naigaon (Sunteck Ultra World Maxx), which contributed Rs0.5 bn of pre-sales in 2QFY25.
- These upcoming launches would be followed by the launches at Nepean Sea Road, Bandra and Dubai (combined GDV of Rs125 bn) in FY2026.
- Management highlighted that it now has Rs380 bn of unsold inventory across its existing projects (already launched and new phases at BKC, ODC, Naigaon, Vasai, Mira Road and Kalyan) and yet to be launched projects (Nepean Sea Road, Dubai and Bandra). It has Rs10-12 bn of completed inventory (largely at BKC). Sunteck is targeting to increase the GDV further to Rs520 bn over the next two years, through the addition of projects at Borivali, incremental area at Nepean Sea Road, and other micro-markets in South Mumbai and Western Suburbs.
- Sunteck is also exploring new redevelopment projects in MMR (South Mumbai and premium suburbs), which would be added to its pipeline in the coming years. It would focus on relatively larger projects, as opposed to smaller redevelopment projects.
- Management highlighted that Sunteck's balance sheet remains strong (net cash), which would help in future business development. An improved collection trajectory over the coming quarters should further strengthen the net cash position.
- Sunteck has leased two assets – "Sunteck Icon" and "Sunteck BKC51" for tenures of 29 years each, at a starting rental of Rs300 per sq. ft per month (on carpet area). We highlight that both these assets are on a JDA basis, which entitle Sunteck to 55-56% share of the earnings. The two assets would aggregate to annual rentals of ~Rs400 mn (Sunteck's share, with 4% built-in annual escalations), and an ~EBITDA of Rs350 mn at 85% EBITDA margin.

# Suven Pharma

## Key takeaways

**Outlook:** Suven continues to expect growth in 2HFY25, with the pace of growth to pick up in FY2026E. On a platform level, Suven expects yoy growth in FY2025E. Suven reiterated its target to double combined business over the next 5 years, with M&A acting as a growth accelerator.

**Demand:** RFQ inflow grew by 2.2X of 1HFY24 in 1HFY25, with a healthy mix of lateral projects, tech-led projects, and a broader set of customers. Suven experienced increased in-person audits at key sites.

**New appointment:** Suven has appointed Vivek Sharma as the new Chairman.

**BioSecure Act:** Companies are looking to de-risk their supply chain away from China. Suven believes the opportunity will be there for Indian companies across the whole CRDMO value chain.

**M&A:** Suven will continue to evaluate inorganic opportunities. Suven will add assets that will add capabilities, which are difficult to build organically.

**Pharma CDMO:**

- **Pipeline:** Phase III pipeline has been expanded by one new product. Also, one Phase III read-out has been positive. This product is present in one of the fastest-growing therapies. Suven has 7 Phase III products, covering 12 intermediates.
- **ADC:** Two commercial products continue to grow strong with the therapy expansion and market registrations. Suven has received RFQs from a large Pharma customer for an ADC product and is currently under evaluation. New orders received from newly onboarded customers are tracking well. Within ADCs, payload is the strength for Suven.

**APIs:** Suven plans to add 7-8 molecules to its portfolio in FY2025E.

**Oligonucleotides:**

- **Status**: Sapala business has been consolidated from 11th July onwards. One pipeline product has received orphan drug status. Investments in cGMP facility are underway as planned.
- **Japan**: Sapala has a strong legacy in Japan, and this provides potential to leverage for Japan expansion.

**Cohance:**

- **Outlook:** Cohance is back on the growth track. Cohance expects both businesses to grow yoy in FY2025E.
- **Delay in shipments:** Some shipments have been delayed to 2HFY25, due to longer days of transit.
- **Projects:** One Phase III project has received USFDA approval, and this has moved to the commercial stage.
- **ADC:** ADC business is expected to grow yoy in FY2025E, with shipment schedules largely towards 2HFY25.

# Tata Communications (TCOM)

## Key takeaways

- **Order book**. The order book has improved ~25% yoy in 2QFY25, led by the international business. The India order book is also up healthy double digits.
- **Divestment of non-core assets.** TCOM plans to focus on growth in select verticals to achieve its stated guidance on sales/margins.
  - Strategic review of non-core assets/subsidiaries has been initiated, with internal teams working to close key impediments in divestment. The company's margins have been impacted in recent quarters due to one-time costs associated with this asset review.
  - It has initiated the sale of its Chennai land parcel, with an estimated sale value of ~Rs8 bn.
  - The company's ATM business has been sold to Transaction Solutions International (India) (TSI), a company majority-owned by Australia's digital payments and financial services provider Findi.
  - The transaction value is ~Rs3.3 bn, with additional amounts linked to interchange rate adjustments. The transaction is expected to be consummated by 4QFY25 after approvals, including RBI approvals.
- **Focused execution.** Improvement in the Digital Platform and Services (DPS) vertical through scale and new product development would form the bedrock for the company's margin expansion. Margins in the vertical are currently a drag (negative single digits) on overall margins.
  - In the near term, there is healthy demand for cloud AI solutions and the company aims to democratize access to AI infrastructure through its Nvidia partnership.
  - Analytics and edge cloud solutions for manufacturing companies are a key growth pillar.
  - TCOM seeks profitable niches in the enterprise cloud segment. Focus on custom solutions.
- **CPaaS.** The scale-up of solutions through Kaleyra in key geographies such as APAC/the Middle East will enhance margins in the segment (currently negligible margins).
  - CPaaS is a 10-12% margin business globally. TCOM's GTM strategy would be key for segment ramp-up and breakeven.
  - The slowdown in the startup segment has impacted CPaaS revenues.
  - India is a tough market since telecom companies are also venturing into CPaaS business, a phenomenon not seen globally.
  - Consumer spending revival in the US will be a key tailwind for the segment (~50% CPaaS revenues from the geography; balance split equally between Europe/India).
- **Margin guidance.** TCOM maintained its earlier guidance and expects margins to inch up to 20% for FY2025E and 23-25% by FY2027E. The company has moved to milestone-based resource allocation internally to prioritize focus on key growth segments.
- **Data center stake**. The data center associate plans to invest ~US$3.2 bn over the next five years through a mix of debt and equity. At the current juncture, TCOM plans to maintain a 26% stake in its data center associate, but the stake will also be a part of the strategic review process.
- TCOM expects the normalization of working capital to aid FCF in 2HFY25.
- The company has received certain contracts within the TATA Group.

# Thyrocare Technologies

## Key takeaways

**Growth levers**: Thyrocare aims to grow on the back of three pillars, namely customer success, network expansion and an expanded test menu offering.

- **Customer experience:** The focus is to ensure accurate, timely and affordable diagnostic services through quality control, robust data management and customer support. With advanced technology and streamlined processes, Thyrocare aims to enhance customer satisfaction.
- **Network expansion:** Thyrocare is deepening its presence across India by going deep into the country with its franchise network and through acquisitions as well. Also, on the partnership side, Thyrocare is expanding its footprint, going deep into the PPMC in the insurance business.
- **Test menu:** Thyrocare is introducing a wider range of specialized tests and health packages for its partners using targeted marketing to drive adoption and increase value for both partners and its customers.

**Pricing model:** In FY2023, Thyrocare's discount structure was 'one size fits all', but now it is a slab-based pricing model, which was implemented in May 2023.

**Quality control:** 28 out of 30 labs are now NABL accredited. Currently, 96% of Thyrocare's total sample load is processed in NABL Labs, a significant achievement considering only 2% of pathology labs nationwide hold this accreditation. To validate its commitment to quality, Thyrocare conducted an independent study published in the International Journal of Advanced Research, Ideas and Innovations in Technology. The findings revealed that 9 out of 10 doctors trust Thyrocare reports and confidently recommend its services to their patients.

**Branded offerings:** Aarogyam remains Thyrocare's flagship brand in the preventive healthcare segment, but now it has two more brands, Jaanch and Her Check. Jaanch is targeted towards lifestyle challenges to better understand one's health.

**Polo Labs:** Thyrocare has completed the acquisition of Polo Labs on 29 July, 2024. Polo Labs is a pathology diagnostic company based out of Punjab with a wide presence in Punjab, Haryana and Himachal. This allows it to expand its footprint in North India.

**Vimta Labs:** Thyrocare has signed a business transfer agreement to acquire the clinical diagnostics business of Vimta Labs on August 30, 2024. Vimta's Clinical Diagnostics division, with its established presence in Telangana and Andhra Pradesh, offers an excellent opportunity to further strengthen Thyrocare's presence in South India. This transaction was successfully closed on October 11, 2024.

**Think Health:** With the acquisition of Think Health, Thyrocare has strengthened its offering for the insurance segment with the additional capability of ECG at home. This allows it to give its insurance partners a one-stop solution for blood and ECG testing and further deepen its presence in the pre-policy medical checkup and annual health checkup business.

**Fill rate:** More than 70-80% of the test menu is catered to in Thyrocare's regional labs, compared to 30% fill rate of other national players.

**B2B:** The partnership business did phenomenally well in 2QFY25, and grew as the company onboarded new clients in Health tech segments and continues to grow its existing accounts.

**B2G:** Thyrocare continues to execute TB projects in the states of Gujarat and Maharashtra. In Tanzania, since going live in March 2024 and processing its first sample in April, Thyrocare has successfully partnered with over 50 health care facilities in Dares Salaam. Thyrocare aims to continuously collaborate with major hospitals ensuring they have access to comprehensive diagnostic services.

**Industry**: The pathology diagnostic industry is growing in the early mid-teens.

**Sales mix:** ~65% of the business is coming from franchisees. PharmEasy contributes to ~10% of sales, and the remaining ~25% business is partnerships like corporates, health tech and health insurance. Insurance is the fastest-growing segment, and contributes ~8% of sales.

# Tinna Rubber and Infrastructure

## Key takeaways

- **Company background:** Tinna is a 60+-year-old company, with 45 years of experience in tire recycling. It was a mono-product company until 2012, producing crumb rubber modifier. The 2008 slowdown in the economy prompted backward integration by the company through the setting up of four tire recycling plants in 2012. Currently, it has six tire recycling plants, out of which five plants are in India—one in Panipat, two in Palghar, one in Haldia and one in Chennai—Gummidipoondi and one plant in Oman. In India, three of its plants are located near ports to facilitate the import of waste tires and to re-export finished products.

- **Business segments:** Tinna has four key business segments: (1) The infrastructure segment comprising crumb rubber and crumb rubber modified bitumen (CRMB) as key offerings and forming 52% of FY2024 revenues, (2) the industrial segment comprising micronized rubber powder and reclaimed rubber and forming 25% of FY2024 revenues, (3) the steel segment comprises steel abrasives and scrap derived from bead wire used in tires and forms 13% of FY2024 revenues and (4) the consumer segment with applications in producing rubber mats, turf automotive parts, gym tiles and others, contributed 10% of FY2024 revenues.

- **Capacity:** Currently, the company has one of the largest tire recycling capacities of 150 ktons; out of which, 90 ktons is for Truck and Bus Radial tires (TBR) and remaining 60 ktons is for Passenger Car Radial (PCR) tires.

- **Market share:** Tinna highlighted that it currently holds a ~65% market share in crumb rubber modified bitumen (CRMB) and ~80% market share in micronized rubber powder (MRP).

- **Competitive landscape:** The company stated that while there are more than 100 tire recyclers in the country, only around 30 players can make mesh crumb rubber that meets global quality standards, out of which only five players have pan-India presence.

- **Revenues:** Tinna had a topline of Rs3.6 bn in FY2024 and Rs2.5 bn in 1HFY25. The company expects to clock in revenues of Rs5.00-5.25 bn in FY2025.

- **Vision 2027:** Tinna aims to increase its plant locations from six to 10 plants, achieve 25%+ revenue CAGR to increase to Rs9 bn and 33%+ profitability growth, 18% EBITDA margin and reach 30%+ RoCE level by 2027.

- **Capex:** Tinna had initially planned to spend Rs480 mn toward capex in FY2025, but now expects it to not exceed Rs450 mn. Until 1HFY25, Rs330 mn has been spent, while Rs40 mn has been further committed for ongoing work.

- **Outside India expansion:** Tinna has invested US$1.5 mn to set up its 15k tons capacity at Oman. It stated that Oman produced 45 ktons of tire waste annually. The company intends to set up a plant in Saudi Arabia.

- **QIP:** Tinna alluded to undertaking a QIP of Rs1.5 bn for capitalizing on a growth opportunity spotted by the company in the recycling space.

- **Product pricing and raw material costing:** The company's products are priced in the range of Rs 25/kg to Rs 55/kg, with the average selling price for 2QFY25 being Rs 35/kg. Tinna stated that it sources waste tires at Rs 15/kg, while labor and power are the two main costs for recycling them. Another variable element is the recovery from the sale of steel (by product), which forms ~25% of a tire and currently realization is ~Rs 38/kg.

- **Superior margin versus peers:** The company highlighted that product mix is the key differentiator in terms of generating superior margins. The management highlighted that MRP has higher margins and the company has recently doubled its capacity to 10,000 MTPA. The other high-margin product is CRMB.

- **Regulatory push for CRMB:** Tinna highlighted that the government's push for using CRMB in laying down roads is driven by the fact that India is a net importer of bitumen, as of today. While the country consumes 8.0-8.5 mn tons of bitumen every year, it produces only 5.0-5.5 mn tons, with the rest being imported from outside India. Currently, any highway expressway more than 50 MSA needs to have bitumen, this may drop to 20-30 MSA in the future.
- **EPR credits:** The company has recorded income of Rs85 mn from the sale of EPR credits in 2QFY25. While the price of these EPR credits traded at Rs2/kg on average in FY2024, the government has now finalized the environmental compensation at the rate of Rs8.5/kg and has set a floor price of Rs2.5/kg.
- **Renewable energy:** Tinna highlighted that its solar plants operating in Wada and Varle in Maharashtra led to monthly savings of Rs1.0-1.5 mn. Of the company's power requirements, 40% is currently being fulfilled by these plants.

## Triveni Engineering: November 22, 2024

### Key takeaways

- **Sugar and ethanol segments:** Under the Modi government, the classic 7-year sugar cycle has ended. Triveni's sugar realizations have risen every year for the past few years. Also, the ethanol industry will grow from Rs800 bn today to Rs1.5 tn by the end of this decade. India did 14.5% ethanol blending last year, and next year's target is 18%. By 2025-26, the target could be 20%.
  - Management awaits three key decisions once elections are over—(1) an ethanol price increase, which should allow the company to revert close to historical margins, (2) a revision in sugar MSP (minimum selling price) and (3) possibly a decision to allow the export of sugar.
  - Maharashtra sugar prices are down to abysmal lows. Traditionally, the difference between sugar prices in Maharashtra and Uttar Pradesh was around Rs2-2.5/kg, equal to the transport cost from Maharashtra to UP. For Triveni, the delta was higher: around Rs3-3.5/kg. But today, the gap is as high as Rs4.5/kg.
  - FY2026 looks good for sugar biz from an output perspective. Both crush and recovery rates should be higher yoy.
  - Ethanol profits are down due to restrictions on the conversion of sugar to ethanol and price revision for ethanol produced from maize. Looking ahead, ethanol producers have now been given the flexibility to change product mix depending on prices and also change the raw material mix. This is great for producers, as it takes only a 10% difference in capex to set up a multi-feed plant.
  - India's maize yields are 3t/ha (tons per hectare) versus 11-12t/ha in the US and 9t/ha in China. The Indian government has unveiled two new maize seeds in the recent past, and these could increase the country's yields to 4-4.5t within the next 1-2 years. Maize prices have fallen from Rs27 to Rs26/kg; Triveni makes traditional margins (as from rice) at Rs23/kg. It is now very clear that maize is the route for ethanol blending in the future.
  - 2QFY25 is always weaker from a profitability perspective due to loading of off-season expenses, but then 3Q is better.
- **Power transmission segment:** This is Triveni's smallest business but makes 40%+ margins. Triveni has a 95%+ market share in India. There are five notable global players in a US$1 bn market, of which 40% comprises OEM sales and 60% aftermarket. Triveni had a 25-year license agreement (with Lufkin Industries) that ended in January 2023. Since then, exports are Triveni's new canvas. The company aims to declare itself the most efficient gearbox maker in the world. It claims to be 30% cheaper than the US and Europe on a landed cost basis. Triveni is incurring capex worth Rs3.6 bn in this business, doubling its assets. Rs1.8 bn of this capex is already done, and the balance will be incurred over the next year. Part of this capex has gone toward defense applications. After this capacity expansion, the company can exceed revenues of Rs5 bn from only the gears business.
  - Triveni will grow aggressively in this segment while maintaining margins, which are higher in exports and the aftermarket. It will also take a relook at its costs.
  - Gearboxes can account for 5-40% of the cost of the final product to which they are connected. However, European suppliers have been struggling to meet timelines due to environmental issues and other constraints. This presents a big opportunity for Triveni.
  - In the longer term, this segment will be spun out of Triveni.
- **Water Solutions segment:** This segment comprises mostly government customers. The company prefers these as it is well-funded and is avoiding the private sector business. The margin profile here in a best-case scenario is 7-11% pre-tax. This is a very working capital-intensive business. However, the value of projects tendered is large (running into hundreds of billions of rupees). Profitability will improve upon operating leverage.
- **Uses of free cash flow:** The company generated Rs41 bn of cash over the past 5 years, of which 30% was used for capex, 38% was returned to shareholders (via dividends and buybacks), and 32% is kept within the company for growth projects.

# Ugro Capital

## Key takeaways

- **Brief history.** Sachinder Nath founded Ugro Capital based on SPAC concept in 2018 and acquired Chokane Securities which was a listed NBFC with a net worth of Rs400 mn. The company raised capital of Rs9.55 bn in June 2018 from TPG, ADV partners, PAG and Samena, diluting the share of founder to 3%. Ugro further raised capital of Rs3.4 bn in May 2023 and Rs5.1 bn in compulsory convertible debentures and Rs7.5 bn in warrants raised in June 2024.

- **Huge credit gap in MSME sector.** Credit gap in MSME sector is high at Rs92 tn, up from Rs53 tn in 2018, making it attractive for NBFCs such as Ugro. MSMEs were unlendable for banks as their transactions were mostly in cash, leading to weak formal income proofs. With the implementation of GST, underwriting is now based on actual cash flows of a business derived from GST, bank and bureau data.

- **Targeted approach on sectors and states.** The company has identified nine sectors of the total 117 sectors in MSME. The target market accounts for about 50% of the credit gap. Key states for MSME loans are Karnataka, Maharashtra, Delhi, Gujarat and Tamil Nadu, where Ugro has set up its footprint.

- **High focus on tech and data science.** Urgo has specialized technology and data science teams to increase productivity and improve decision-making. A team of 200 people located in Delhi work on improving processes, reducing TAT and costs. In addition, Ugro has hired a large team from top colleges in India to develop proprietary underwriting model. The model was built over FY2021-22, based on data acquired form CRIF Highmark and deployed in FY2023. The model uses bank account statements, GST data and bureau data to score customers within 30 minutes and classify them into letter grades.

- **Focus on off-book to increase leverage.** NBFCs have weak liability franchise and it is difficult to increase leverage without strong parentage. Hence, Ugro adopted an off-book approach with co-lending, co-origination and direct assignment partnerships to increase leverage. On-book leverage is currently at 2.7X, and management is comfortable increasing it to 4.0-4.5X. The company will likely not raise capital for the next two years.

- **Prime business contributes to 60% of AUM.** Prime customers in top 25 cities account for ~60% of the AUM. These customers are offered both secured (27%) and unsecured (33%) loans. Secured loans (LAP) have an ATS of Rs7.2 mn, with an yield of 14% and tenure of 11 yrs. Unsecured loans have an ATS of Rs1.8 mn with yield of 19% (tenure of 3 years). ~33% of the unsecured loans are guaranteed under CGTMSE scheme and the company targets to increase coverage to 80%. GNPLs in the unsecured business are high at ~5% (~1% in secured), leading to higher credit costs of 2% (0.3% in secured). The prime business is sourced primarily through DSAs.

- **Micro Lap is at 11% of AUM.** Micro LAP targets self-employed customers in tier 2 and 3 cities have an ATS of Rs0.9 mn and yield of 21%. The sourcing is driven primarily by inhouse staff operating out of 210 branches. Sourcing, credit and collections are organized as separate verticals and collections are entirely digital.

- **Also finances purchase of machinery.** Ecosystem financing includes financing of machinery through OEMs, the product has low credit cost of 0.5%. Loans have an ATS of Rs3.5 mn, yield of 15% and contributes to 14% of AUM. Ugro typically finances solar roof top units, molding machines, lathe machines and CNC machines.

- **Small-ticket unsecured loans are sourced through fintech.** The portfolio acquired through digital partnerships is covered by FLDG agreements up to 10-15%. These loans have an ATS of Rs0.4 mn, yield of 15% and contribute to 12% of AUM.

# VA Tech Wabag

## Key takeaways

- **A pure play water technology company focused on engineering and procurement of the projects.** VA Tech Wabag is a 100-year-old engineering company with a pure play in providing comprehensive water solutions that include drinking water, waste water, desalination, ZLD, effluent treatment, recycle and reuse, sludge treatment, energy recovery and other key solutions that can enable efficient water management. The company boasts of its focus on providing turnkey solutions (not consultancy) in engineering and procurement, where its value addition is majorly in achieving process efficiencies through a high-quality plant design to achieve lower energy consumption and procurement of equipment and raw material and engineering of process equipment to the highest standards. Wabag's superior capabilities in the sector are reflected in its 125+ IP rights developed in-house and execution of 6,500+ plants worldwide.

  Beyond EP, the construction part of the EPC projects is typically outsourced as a consortium or financial partnerships (unlike contract basis) based on performance, enabling the company to remain asset light. The company also expresses that not shying away from technology partnerships, which can enable better solutions for its customers worldwide. Wabag also offers operations and maintenance solutions, which contribute 19% to the revenue mix and 41% to the order book, as of 1HFY25. The company opines the same to reflect a better margin by 500 bps compared with its EP offering.

- **Industrial orders contribute 33% to the revenue mix, as of 1HFY25.** The company caters to demand in the municipal and industrial demand, with the prior making up to 67% of the revenue mix and 85% of the order book, as of 1HFY25. Wabag maintains a healthy revenue mix of 54:46 in domestic and international, enabling the company to tap into demand across various geographies. Wabag's focus on municipal projects is more toward those that are funded/backed by the federal government, or through a letter of credit or backed through multilateral agencies such as Asian Development Bank and World Bank Group, which can limit the inherent municipal risk of delays and non-payment. The company believes that its technology is valued more in industrial projects, which are negotiated rather than on L1 basis and the same sees a higher margin compared with municipal projects, which typically see a slightly slower pace in execution by eight months (36 months for industrial).

- **Revenue guidance of 15-20% CAGR over the next 3-5 years intact.** Wabag speaks of a staggeringly high TAM for its water solutions in an economy, which is unorganized and seeing an increase in water-stressed areas requiring a circular economy, going forward. Apart from the constant demand for desalination by oil and gas, and petrochemical refineries, the company sees demand for clean water increasing with urbanization (smart cities) picking up pace rapidly.

  Wabag also expresses the need for change in the way India thinks about its one-time water usage as the country continues to see extreme weather conditions and water shortage. The company opines that rather than using water only one time by chasing desalination (for water usage), which is the extreme form of water solution requiring high energy for reverse osmosis (40,000 TDS), it is much easier to undertake sewage treatment (4,000 TDS) that requires much less energy and enables water circularity. The goal is to enable sewage treatment, recycling and re-use that can reduce water intensity per capita.

- **Performance guarantees play a key role in maintaining higher growth and sustainable margin profile.** Wabag speaks of performance guarantees in place for the projects it is part of, which play a key role in the sustenance of profitability ahead. The same can be to the quantum of 5-10% of project costs, as loss in the event of non-compliance. In projects where 50-70% of operating costs involved are for electricity requirements, output generated per unit of input energy plays a key role in delivering performance guarantees for customers.

# Vishnu Chemicals

## Key takeaways

- **South Africa acquisition:** 70% of chrome ore comes from South Africa. Vishnu (VCL) was buying chromium concentrate but now has acquired a mine in that country. As per the agreement, VCL is paying US$10 mn for the mine and the processing plant on a debt-free, cash-free basis. The mine holds 10 mn tons of chrome ore reserves, while VCL's requirements are only 100 KTPA at present. Chrome ore comprises nearly 45% of VCL's cost today, and prices have been firm, so the acquisition improves VCL's competitiveness.
  - Under South African law, 26% of the mine has to be owned by a South African native. VCL has identified a local partner for this purpose, but the deal is yet to be struck. The acquisition gives VCL 100% ownership of the plant and 74% of the mine.
  - 40 mn TPA of chrome is mined today, and volumes have been steadily growing over the years. Average prices over the past several years have been around US$270/t, while the current spot price is US$350/t. World chromium reserves are around 500 mn tons, of which 40 mn TPA is being mined. However, deeper mining can increase known reserves.
- **Capex:** VCL plans to incur Rs2 bn of capex for FY2026, helping it expand across chromium chemical products. It is also developing another product with a capex outlay of Rs0.5-0.75 bn. FY2025 capex will be lower (Rs0.7 bn excluding the Jayansree acquisition).
- The company targets a 25% pre-tax RoCE on all M&A transactions.

## Waaree Renewable Technologies

Waaree Renewable Technologies Limited (WRTL), a subsidiary of Waaree Energies, spearheads the solar EPC segment for the group. It is one of the fastest-growing players in the solar EPC space, registering a CAGR of 100%+ over FY2022-24. The company's solutions include setting up ground mount, rooftop and floating solar projects across the country for government and private power producers.

Key EPC achievements include (1) a 1.82 GW project commissioned, (2) 1.7 GW under construction, (3) 50 MW+ rooftop projects executed and (4) 587 MW+ of the O&M portfolio.

### Key takeaways from interaction with management

- **Industry outlook**: Driven by the government's push toward the rapid adoption of solar energy and supportive policies, India's EPC services market is projected to grow ~23% from Rs 708 bn in FY2024 to Rs 1,705 bn in FY2028E. Similarly, the O&M market is also expected to grow at 22-23% from Rs 5.8 bn to 25.5 bn over FY2023-30E.
- **Growth strategy**: The company follows a two-pronged growth strategy—(1) higher growth in the EPC segment by securing more EPC contracts in the domestic and international markets, leveraging Waaree's ecosystem from module to implementation to win clients and (2) expansion in O&M markets through offering differentiated O&M services such as drone thermography, strong analytics and predictions, and third-party O&M opportunities.
- **WRTL's moat**: The company has an advantage over peers due to (1) comprehensive solar EPC offerings with end-to-end capabilities, (2) ability to execute complex and scaled projects, (3) a marquee customer base, (4) strong parentage and (5) larger order book and strong execution.
- **Strong order book and pipeline**: As of September 2024, the order book stood at 1.7 GW, translating to ~Rs27 bn, which will be executable over the next 9-12 months. The order pipeline is ~17.8 GW; with an expected win ratio of 20%, WRTL can potentially win 3-4 GW of EPC orders.
- **New businesses**: Apart from the standard solar EPC contracts, the company expects new tenders to come in for RTC, hybrid, battery energy storage system, pump storage system, floating solar and rooftop, which can significantly boost the company's financial performance.
- **Revenue projection:** In 1HFY25, WRTL executed ~700 MW of the order book, generating Rs 7.6 bn in revenues. In 2HFY25, the company is hopeful of executing 1.2-1.3 GW of EPC contracts, which will translate into revenue of ~Rs 13-14 bn. Combined, the full-year revenue can potentially surpass ~Rs20 bn, which would be ~130% growth yoy.
- **Margin guidance:** Historically, WRTL has reported 20%+ EBITDA margins, significantly higher than peers. Management attributes this difference to the company's superior execution, but going forward, the company believes EBITDA margins would be in the double digits on a sustainable basis, almost near 15% levels.

# Yes Bank

## Key takeaways

- **Turnaround of the bank**
  - Following the crisis period, Yes Bank has made significant improvements across various parameters, completely weeding out low-rated, high-yielding corporate lending.
  - CASA deposits fell to ~26% and RoA dipped to -7.1%, but the bank has since improved RoA to ~0.5%. RoA guidance is now at 1% for 2027E.
  - Ratings have improved notably from a previous low of D back to A+, reflecting the bank's effective recovery and rehabilitation efforts.
  - Yes Bank has not pursued an increase in unsecured retail lending. The proportion of credit cards, MFI, and Personal Loans at Yes Bank is significantly lower compared to its competitors.
  - Management has made considerable progress in turnaround efforts related to deposit mobilization, with total deposits increasing from ~Rs1.7 tn to ~Rs2.7 tn.
- **Net interest margin**
  - Management has noted that the yield on advances is comparable to large private banks, distinguishing it from the trend observed in mid-sized private banks. Management identified two key levers to improve yield: increasing pricing and shifting the loan mix, as well as a decline in RIDF deposits.
  - The bank has shifted from higher-yield corporate exposures to retail loans, which have been constructed in a conservative manner; this increase in the share of retail loans is expected to drive loan yields closer to ~10.5-11.0%, excluding the impact of the current rate cycle.
  - Management reported an inability to meet PSL targets for FY2021-22-23, resulting in a ~70 bps drag on NII as a percentage of assets due to negative impacts from Rural Infrastructure Development Fund deposits aimed at compensating for the PSL shortfall. Out of a total balance sheet of ~Rs1 tn, RIDF deposits amount to ~Rs440 bn, representing ~11% of assets. The drag from these deposits is attributed to a yield of ~5-5.5% against the cost of raising these funds. However, it is projected that by FY2027, RIDF deposits will decrease to ~5% of assets, resulting in an anticipated ~40-45 bps benefit to yield.
- **Operating cost**
  - Right-sizing of the organization was deprioritized during the reconstruction period, resulting in staff costs being slightly higher than peers; the bank is currently undertaking initiatives such as process automation to address this.
  - Most banks allocate ~9-10% of their total expenditures to technology, focusing on building, running, and governing categories of tech spends, with potential to reduce operating costs.
  - Sequential operating expense growth has been the lowest for Yes Bank, and management aims to reduce the cost-to-income ratio meaningfully by FY2027E.
  - The cost-assets ratio at 2.5 is largely in line with other banks.
- **Miscellaneous**
  - Management notes that ~72% of Yes Bank's branches are located in urban and metropolitan areas, which limits the distribution channels available to increase yields in rural and semi-urban (RUSU) markets.
  - Management indicates that there was no PSL shortfall at any segment or overall level in FY2024, with the exception of the NCF segment; however, the shortfall in NCF was also removed in the first quarter of FY2025.

kotak Institutional Equities

# State Bank of India (SBIN)

Banks

**BUY**

CMP(₹): **816** Fair Value(₹): **975** Sector View: **Attractive** NIFTY-50: **23,907** **November 25, 2024**

## Steady and resolute

**We hosted Mr C.S. Shetty, Chairman, and team with investors. The key takeaways are: (1) asset quality of the loan book continues to hold up well with no concerns in portfolio; (2) loan growth is likely to remain steady at these levels while the franchise is able to raise the required quantum of deposits comfortably; (3) looking to deliver NIM at these levels; and (4) focus would continue to strengthen the institution that would enable them to deliver consistent and best-in-class results. We keep our views and Fair Value unchanged (Rs975). Maintain BUY.**

### Internals look comfortable despite various forms of external risks

Key takeaways: (1) **Fewer concerns about asset quality**. The bank is less worried about slippages or credit costs in the near term. All portfolios (large corporate, SME, retail and agriculture) are holding up well. The personal loan portfolio, which has been an area of concern for investors, has delivered as per its expectations, highlighting that the execution is different to its peers and a lot more conservative. Looking to keep credit costs at the lower end in the near term. (2) **Focus on delivering steady growth and stable NIM**. Management articulated that the loan growth is a lot more diversified than before (seeing demand from the corporate sector) and the competitive environment is comfortable to deliver industry-average growth while maintaining NIM closer to current levels. Deposit mobilization is tracking balance sheet requirements and management is of the opinion that the institution is capable of raising granular deposits comfortably. Investments continue to ease operational bottlenecks to improve customer satisfaction (liabilities as well as asset side). (3) The bank would continue to see areas to improve the cost structure, which includes working with its subsidiary (SBOSS). It has made investments in training and monitoring its employees, making it easier to identify talent.

### Continue to strengthen the institution to deliver consistent returns

Management articulated that the work that is being done to strengthen the institution has enabled them to deliver consistent results. The bank would build on its strategy (diversified growth) focusing on capturing the cash-flow value chain. This would help in maintaining its market share. There is still a lot of opportunity to expand its business potential with its own customer base. On the other hand, more tools to monitor risk and focus on training employees would help in achieving healthy risk-adjusted growth for the bank.

### Maintain BUY: keeping the thesis intact

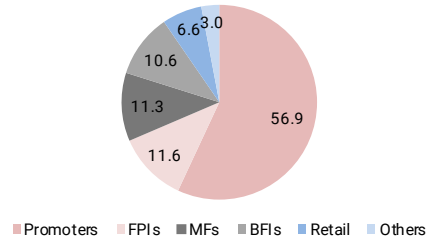
We maintain BUY with a FV of Rs975 (unchanged), valuing the bank at 1.5X (adj.) book and 9X September FY2026 EPS for RoEs of ~15%. We come back from our interactions with an underlying view that SBI is still in a very comfortable position to deliver on growth and profitability ratios. Our earnings are probably conservative compared with what management is aspiring to deliver (NIM, cost-structure and risk). This implies that the scope for upgrades is probably the highest among the frontline banks, including private banks.

**Company data and valuation summary**

**Stock data**

| | |
|---|---|
| CMP(Rs)/FV(Rs)/Rating | 816/975/BUY |
| 52-week range (Rs) (high-low) | 912-555 |
| Mcap (bn) (Rs/US$) | 7,283/86.2 |
| ADTV-3M (mn) (Rs/US$) | 12,873/152.4 |

**Shareholding pattern (%)**




| Price performance (%) | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | 3 | (1) | 46 |
| Rel. to Nifty | 6 | 3 | 25 |
| Rel. to MSCI India | 8 | 7 | 23 |

| Forecasts/Valuations | 2025E | 2026E | 2027E |
|---|---|---|---|
| EPS (Rs) | 65.6 | 73.5 | 91.6 |
| EPS growth (%) | (4.2) | 12.0 | 24.7 |
| P/E (X) | 12.4 | 11.1 | 8.9 |
| P/B (X) | 1.9 | 1.7 | 1.4 |
| BVPS (Rs) | 434.1 | 492.4 | 564.3 |
| RoE (%) | 14.6 | 14.6 | 16.1 |
| Div. yield (%) | 1.8 | 1.9 | 2.0 |
| NII (Rs bn) | 1,693 | 1,944 | 2,185 |
| PPOP (Rs bn) | 963 | 1,145 | 1,370 |
| Net profits (Rs bn) | 585 | 656 | 817 |

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

*Prices in this report are based on the market close of November 22, 2024*

Full sector coverage on KINSITE

M B Mahesh, CFA | Nischint Chawathe | Ashlesh Sonje, CFA | Abhijeet Sakhare | Varun Palacharla

Nikhil Suresh

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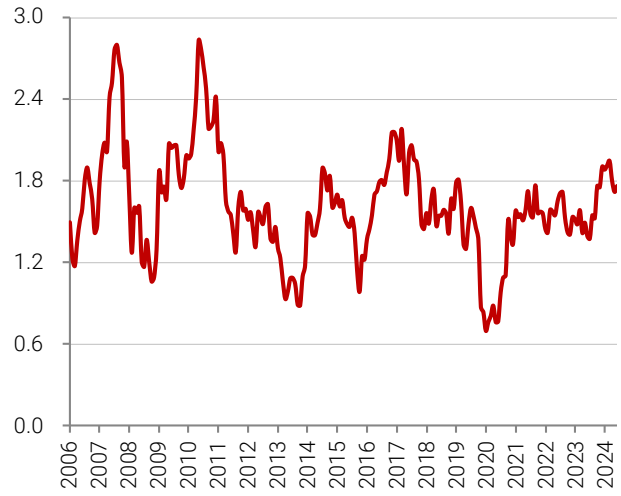
Exhibit 1: SBI forecasts and valuation, March fiscal year-ends

| | Net int. income (Rs bn) | PAT (Rs bn) | EPS (Rs) | PER (X) | ABVPS (core) (Rs) | APBR (core) (X) | RoE (%) |
|---|---|---|---|---|---|---|---|
| 2016 | 569 | 100 | 12.8 | 63.7 | 121 | 5.2 | 7.3 |
| 2017 | 619 | 105 | 13.1 | 62.1 | 130 | 4.8 | 6.3 |
| 2018 | 749 | (65) | (7.3) | (111.2) | 126 | 5.0 | (3.2) |
| 2019 | 883 | 9 | 1.0 | 844.7 | 159 | 3.9 | 0.4 |
| 2020 | 981 | 145 | 16.2 | 50.3 | 176 | 3.5 | 6.4 |
| 2021 | 1,107 | 204 | 22.9 | 35.7 | 207 | 3.0 | 8.4 |
| 2022 | 1,207 | 317 | 35.5 | 23.0 | 243 | 2.6 | 11.9 |
| 2023 | 1,448 | 502 | 56.3 | 14.5 | 296 | 2.1 | 16.5 |
| 2024 | 1,599 | 611 | 68.4 | 11.9 | 353 | 1.8 | 17.3 |
| 2025E | 1,693 | 585 | 65.6 | 12.4 | 410 | 1.5 | 14.6 |
| 2026E | 1,944 | 656 | 73.5 | 11.1 | 469 | 1.3 | 14.6 |
| 2027E | 2,185 | 817 | 91.6 | 8.9 | 541 | 1.2 | 16.1 |

Source: Company, Kotak Institutional Equities estimates

**SBI is trading at 1.4X one-year forward adj. P/B**

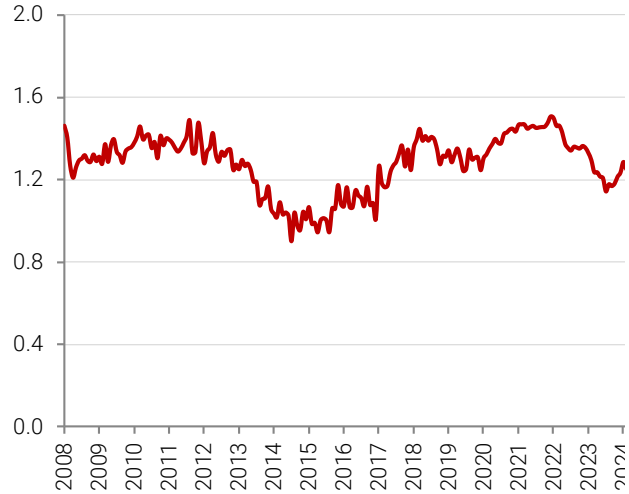
Exhibit 2: Rolling 1-year forward APBR (consolidated) (X)




Source: Bloomberg, Company, Kotak Institutional Equities estimates

**SBI is trading at a ~30% premium to public peers**

Exhibit 3: PBR premium to public banks (X)




Source: Company, Kotak Institutional Equities estimates

Exhibit 4: SBI SoTP valuation based on FY2026E BVPS/EPS

| | SBI holding (%) | Value FY2025 (Rs mn) | Value per share FY2026 (Rs) | Methodology adopted |
|---|---|---|---|---|
| **SBI** | | | **690** | Residual income model |
| **Non banking subsidiaries and investments** | | | | |
| SBI Life | 55% | 697,000 | 78 | 2.2X FY2026E EV; 15% HoldCo discount |
| SBI MF | 62% | 338,900 | 38 | 25X FY2026E PAT; 20% HoldCo discount |
| SBI Cards | 69% | 447,700 | 50 | Based on RGM FV; 15% HoldCo discount |
| NSE | 8% | 98,000 | 11 | 15X FY2026E PAT; 20% HoldCo discount |
| UTI MF | 10% | 110,613 | 12 | Based on RGM FV; 15% HoldCo discount |
| SBI Caps | 100% | 48,000 | 5 | 10X FY2026E PAT; 20% HoldCo discount |
| **Non-bank subsidiaries** | | | **190** | |
| **Total value** | | | **880** | |

Source: Company, Kotak Institutional Equities estimates

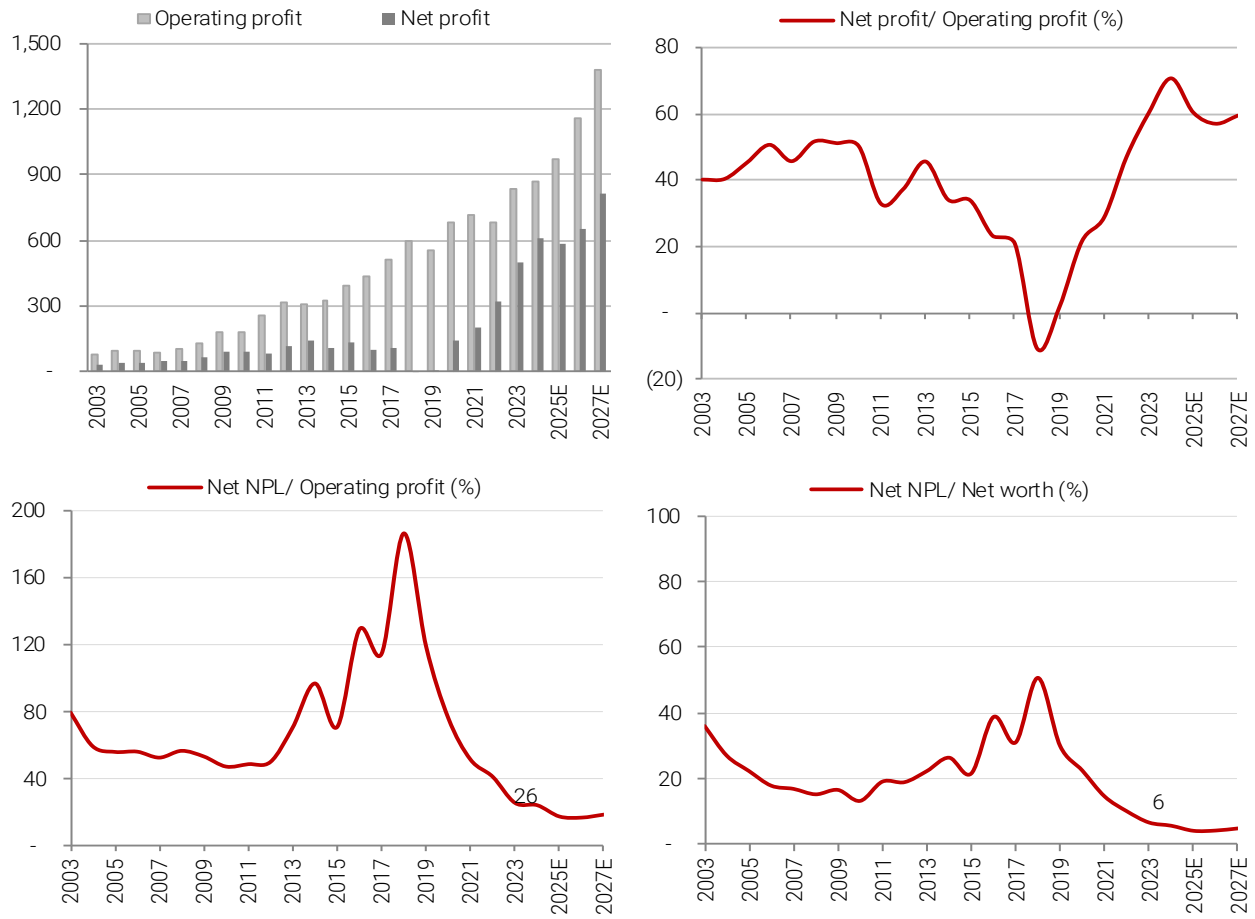
Exhibit 5: SBI SOTP valuation based on FY2027E BVPS/ EPS

| | SBI holding (%) | Value FY2026 (Rs mn) | Value per share FY2026 (Rs) | Methodology adopted |
|---|---|---|---|---|
| **SBI** | | | **780** | Residual income model |
| **Non banking subsidiaries and investments** | | | | |
| SBI Life | 55% | 819,800 | 92 | Based on Appraisal Value; 15% HoldCo discount |
| SBI MF | 62% | 389,700 | 44 | 25X FY2027E PAT; 20% HoldCo discount |
| SBI Cards | 69% | 503,300 | 56 | Based on RGM FV; 15% HoldCo discount |
| NSE | 8% | 117,600 | 13 | 15X FY2026E PAT; 20% HoldCo discount |
| UTI MF | 10% | 121,822 | 14 | Based on RGM FV; 15% HoldCo discount |
| SBI Caps | 100% | 57,600 | 6 | 10X FY2027E PAT; 20% HoldCo discount |
| **Non-bank subsidiaries** | | | **230** | |
| **Total value** | | | **1,010** | |

Source: Company, Kotak Institutional Equities estimates

**Conversion of operating profits to net profit has improved**

Exhibit 6: Profitability, asset quality and capital metrics, March fiscal year-ends (Rs bn)




Source: Company, Kotak Institutional Equities estimates

Exhibit 7: SBI – estimate changes, March fiscal year-ends

| | New estimates | | | Old estimates | | | % change | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E |
| Net interest income | 1,693 | 1,944 | 2,185 | 1,722 | 1,964 | 2,191 | (1.7) | (1.0) | (0.3) |
| Loan growth | 11.9 | 12.1 | 12.1 | 11.9 | 12.1 | 12.1 | 0 bps | 0 bps | 0 bps |
| **NIM (%)** | **2.8** | **2.9** | **2.8** | **2.8** | **2.9** | **2.8** | **-3 bps** | **1 bps** | **4 bps** |
| Loan loss provisions | 177 | 264 | 271 | 196 | 264 | 271 | (10.0) | - | - |
| Other income | 483 | 480 | 533 | 445 | 493 | 548 | 8.5 | (2.8) | (2.8) |
| Fee income | 295 | 331 | 370 | 309 | 347 | 388 | (4.5) | (4.5) | (4.5) |
| Treasury income | 85 | 35 | 35 | 35 | 35 | 35 | 142.9 | - | - |
| Operating expenses | 1,203 | 1,268 | 1,338 | 1,234 | 1,301 | 1,372 | (2.5) | (2.5) | (2.5) |
| Employee expenses | 698 | 726 | 754 | 721 | 750 | 779 | (3.2) | (3.2) | (3.2) |
| PBT | 787 | 881 | 1,099 | 754 | 910 | 1,114 | 4.3 | (3.2) | (1.4) |
| Tax | 201 | 226 | 281 | 193 | 233 | 285 | 4.3 | (3.2) | (1.4) |
| **Net profit** | **585** | **656** | **817** | **561** | **677** | **829** | **4.3** | **(3.2)** | **(1.4)** |
| PBT - treasury+LLP | 888 | 1,120 | 1,345 | 926 | 1,149 | 1,360 | (4.0) | (2.5) | (1.1) |
| EPS (Rs) | 65.6 | 73.5 | 91.6 | 62.9 | 75.9 | 92.9 | 4.3 | (3.2) | (1.4) |
| **Adj. BVPS (Rs)** | **434** | **492** | **564** | **430** | **490** | **563** | **1.0** | **0.4** | **0.2** |
| **RoA (%)** | **0.9** | **0.9** | **1.0** | **0.9** | **0.9** | **1.0** | **4 bps** | **-2 bps** | **0 bps** |
| RoE (%) | 14.6 | 14.6 | 16.1 | 14.1 | 15.2 | 16.3 | 56 bps | -53 bps | -22 bps |
| Gross NPA (%) | 2.0 | 2.0 | 2.1 | 2.1 | 2.1 | 2.2 | -8 bps | -7 bps | -6 bps |
| Slippage ratio (%) | 1.2 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | -40 bps | 0 bps | 0 bps |
| **Credit cost (%)** | **0.5** | **0.6** | **0.6** | **0.5** | **0.6** | **0.6** | **-5 bps** | **0 bps** | **0 bps** |
| Cost-income ratio (%) | 55 | 52 | 49 | 57 | 53 | 50 | -164 bps | -58 bps | -84 bps |

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: SBI – key growth rates and financial ratios, March fiscal year-ends (%)

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025E | 2026E | 2027E |
|---|---|---|---|---|---|---|---|---|---|---|
| **Growth rates (%)** | | | | | | | | | | |
| Net loan | 23.2 | 13.0 | 6.4 | 5.3 | 11.6 | 17.0 | 15.8 | 11.9 | 12.1 | 12.1 |
| Total Asset | 27.7 | 6.5 | 7.3 | 14.8 | 10.0 | 10.6 | 12.0 | 11.8 | 12.9 | 13.0 |
| Deposits | 32.4 | 7.6 | 11.3 | 13.6 | 10.1 | 9.2 | 11.1 | 11.9 | 13.1 | 13.1 |
| Current | 24.8 | 8.3 | 10.4 | 26.1 | (3.5) | 8.1 | 0.2 | 13.7 | 14.9 | 14.9 |
| Savings | 33.6 | 7.7 | 10.5 | 14.8 | 10.3 | 4.0 | 4.6 | 12.2 | 13.5 | 13.5 |
| Fixed | 32.6 | 7.4 | 12.0 | 11.2 | 11.8 | 12.8 | 16.5 | 11.5 | 12.7 | 12.7 |
| Net interest income | 21.0 | 18.0 | 11.0 | 12.9 | 9.0 | 20.0 | 10.4 | 5.9 | 14.8 | 12.4 |
| Loan loss provisions | 93.0 | (18.8) | (23.1) | (25.9) | (39.5) | (21.3) | (44.6) | 116.0 | 49.3 | 2.8 |
| Total other income | 25.8 | (17.5) | 23.0 | (3.8) | (6.7) | (9.7) | 41.1 | (6.6) | (0.6) | 11.1 |
| Net fee income | 41.3 | 1.3 | 1.8 | (0.9) | 4.5 | 6.8 | 7.2 | 5.0 | 12.0 | 12.0 |
| Net capital gains | 14.4 | (91.7) | 738.4 | (29.7) | (46.6) | (142.0) | (973.9) | (28.2) | (59—) | — |
| Net exchange gains | 4.0 | (13.2) | 16.7 | (4.2) | 44.4 | 51.9 | (67.5) | 25.0 | 12.0 | 12.0 |
| Operating expenses | 29.0 | 16.3 | 7.9 | 9.9 | 13.0 | 4.7 | 27.7 | (3.7) | 5.5 | 5.5 |
| Employee expenses | 25.3 | 23.7 | 11.4 | 11.4 | 13.0 | (0.5) | 36.7 | (10.9) | 4.0 | 3.9 |
| **Key ratios (%)** | | | | | | | | | | |
| Yield on average earning assets | 7.8 | 7.4 | 7.4 | 6.9 | 6.3 | 6.9 | 7.8 | 7.7 | 7.6 | 7.4 |
| Yield on average loans | 8.1 | 7.8 | 8.0 | 7.2 | 6.6 | 7.5 | 8.3 | 8.4 | 8.3 | 8.1 |
| Yield on average investments | 7.9 | 7.5 | 6.9 | 6.8 | 6.1 | 6.4 | 6.8 | 6.6 | 6.3 | 6.2 |
| Average cost of funds | 5.3 | 4.8 | 4.6 | 4.0 | 3.6 | 4.0 | 4.9 | 5.0 | 4.9 | 4.8 |
| Interest on deposits | 5.7 | 5.0 | 4.8 | 4.1 | 3.7 | 3.8 | 4.7 | 4.9 | 4.8 | 4.7 |
| Difference | 2.5 | 2.6 | 2.8 | 2.9 | 2.7 | 2.9 | 2.9 | 2.7 | 2.7 | 2.7 |
| **Net interest income/earning assets** | **2.6** | **2.7** | **2.8** | **2.9** | **2.8** | **3.0** | **3.0** | **2.8** | **2.9** | **2.8** |
| New provisions/average net loans | 3.8 | 2.6 | 1.9 | 1.3 | 0.7 | 0.5 | 0.2 | 0.5 | 0.6 | 0.6 |
| Interest income/total income | 62.7 | 70.6 | 68.4 | 71.8 | 74.8 | 79.8 | 75.6 | 77.8 | 80.2 | 80.4 |
| Fee income to total income | 19.3 | 18.6 | 16.6 | 15.3 | 15.2 | 14.5 | 13.3 | 13.6 | 13.6 | 13.6 |
| Operating expenses/total income | 50.2 | 55.7 | 52.5 | 53.6 | 57.9 | 53.9 | 59.0 | 55.3 | 52.3 | 49.2 |
| Tax rate | 57.8 | 46.4 | 42.2 | 25.9 | 27.1 | 25.3 | 25.3 | 25.6 | 25.6 | 25.6 |
| Dividend payout ratio | — | — | — | 17.5 | 20.0 | 20.1 | 20.0 | 22.4 | 21.4 | 18.2 |
| Share of deposits | | | | | | | | | | |
| Current | 7.0 | 7.1 | 7.0 | 7.8 | 6.8 | 6.8 | 6.1 | 6.2 | 6.3 | 6.4 |
| Fixed | 55.5 | 55.4 | 55.8 | 54.6 | 55.5 | 57.3 | 60.1 | 59.9 | 59.7 | 59.5 |
| Savings | 37.5 | 37.5 | 37.2 | 37.6 | 37.7 | 35.9 | 33.8 | 33.9 | 34.0 | 34.1 |
| Loans-to-deposit ratio | 71.5 | 75.1 | 71.7 | 66.5 | 67.5 | 72.3 | 75.3 | 75.3 | 74.7 | 74.0 |
| Equity/assets (EoY) | 6.3 | 6.0 | 5.9 | 5.6 | 5.6 | 5.9 | 6.1 | 6.1 | 6.1 | 6.1 |
| **Asset quality trends (%)** | | | | | | | | | | |
| Gross NPL (%) | 10.9 | 7.5 | 6.1 | 5.0 | 4.0 | 2.8 | 2.2 | 2.0 | 2.0 | 2.1 |
| Net NPL (%) | 5.7 | 3.0 | 2.2 | 1.5 | 1.0 | 0.7 | 0.6 | 0.4 | 0.4 | 0.5 |
| Slippages (%) | 9.1 | 1.7 | 2.3 | 1.2 | 1.0 | 0.7 | 0.6 | 1.2 | 1.6 | 1.6 |
| Provision coverage (%, ex write-off) | 50.4 | 61.9 | 65.2 | 70.9 | 75.0 | 76.4 | 75.0 | 79.6 | 79.4 | 77.0 |
| **Dupont analysis (%)** | | | | | | | | | | |
| Net interest income | 2.4 | 2.5 | 2.6 | 2.6 | 2.5 | 2.8 | 2.7 | 2.6 | 2.6 | 2.6 |
| Loan loss provisions | 2.2 | 1.5 | 1.1 | 0.7 | 0.4 | 0.3 | 0.1 | 0.3 | 0.4 | 0.3 |
| Net other income | 1.4 | 1.0 | 1.2 | 1.0 | 0.9 | 0.7 | 0.9 | 0.7 | 0.7 | 0.6 |
| Operating expenses | 1.9 | 2.0 | 2.0 | 2.2 | 2.0 | 1.9 | 2.1 | 1.8 | 1.7 | 1.6 |
| Invt. depreciation | 0.3 | (0.0) | 0.0 | 0.1 | 0.1 | 0.0 | (0.0) | 0.0 | 0.0 | 0.0 |
| (1- tax rate) | 42.2 | 53.6 | 57.8 | 74.1 | 72.9 | 74.7 | 74.7 | 74.4 | 74.4 | 74.4 |
| RoA | (0.2) | 0.0 | 0.4 | 0.5 | 0.7 | 1.0 | 1.0 | 0.9 | 0.9 | 1.0 |
| Average assets/average equity | 15.1 | 16.2 | 16.9 | 17.5 | 17.8 | 17.3 | 16.6 | 16.4 | 16.4 | 16.4 |
| RoE | (3.2) | 0.4 | 6.4 | 8.4 | 11.9 | 16.5 | 17.3 | 14.6 | 14.6 | 16.1 |

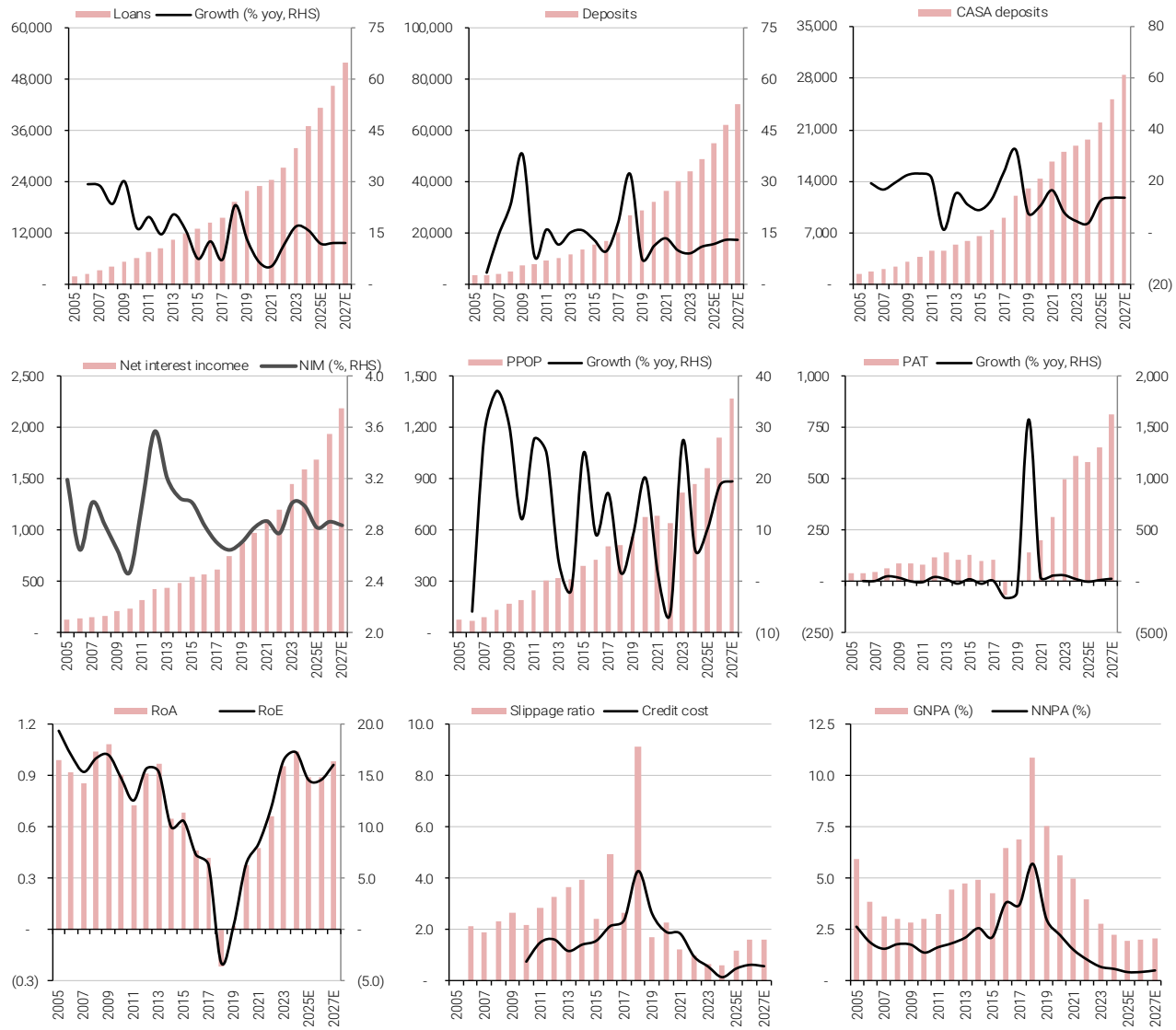
Source: Company, Kotak Institutional Equities estimates

Exhibit 9: SBI – key financials, March fiscal year-ends (Rs mn)

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025E | 2026E | 2027E |
|---|---|---|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | | | | |
| Total interest income | 2,205 | 2,429 | 2,573 | 2,652 | 2,755 | 3,321 | 4,151 | 4,639 | 5,133 | 5,720 |
| Loans | 1,414 | 1,616 | 1,797 | 1,714 | 1,718 | 2,214 | 2,880 | 3,308 | 3,630 | 3,986 |
| Investments | 703 | 744 | 682 | 798 | 849 | 959 | 1,086 | 1,153 | 1,289 | 1,483 |
| Total interest expense | 1,456 | 1,545 | 1,592 | 1,544 | 1,547 | 1,873 | 2,553 | 2,945 | 3,189 | 3,534 |
| Net interest income | 749 | 883 | 981 | 1,107 | 1,207 | 1,448 | 1,599 | 1,693 | 1,944 | 2,185 |
| Loan loss provisions | 671 | 545 | 419 | 310 | 188 | 148 | 82 | 177 | 264 | 271 |
| Net interest income (after prov.) | 78 | 339 | 562 | 797 | 1,019 | 1,301 | 1,517 | 1,517 | 1,680 | 1,914 |
| Other income | 446 | 368 | 452 | 435 | 406 | 366 | 517 | 483 | 480 | 533 |
| Net fee income | 230 | 233 | 237 | 235 | 246 | 262 | 281 | 295 | 331 | 370 |
| Net capital gains | 123 | 10 | 86 | 60 | 32 | (14) | 118 | 85 | 35 | 35 |
| Net exchange gains | 25 | 22 | 25 | 24 | 35 | 53 | 17 | 21 | 24 | 27 |
| Operating expenses | 599 | 697 | 752 | 827 | 934 | 977 | 1,249 | 1,203 | 1,268 | 1,338 |
| Employee expenses | 332 | 411 | 457 | 509 | 576 | 573 | 783 | 698 | 726 | 754 |
| Depreciation on investments | 81 | (8) | 5 | 30 | 34 | 15 | (6) | 10 | 10 | 10 |
| Other Provisions | (1) | 1 | 6 | 100 | 22 | 2 | (27) | - | - | - |
| Pretax income | (155) | 16 | 251 | 275 | 434 | 672 | 818 | 787 | 881 | 1,099 |
| Tax provisions | (90) | 7 | 106 | 71 | 117 | 170 | 207 | 201 | 226 | 281 |
| **Net Profit** | **(65)** | **9** | **145** | **204** | **317** | **502** | **611** | **585** | **656** | **817** |
| % growth | (162.5) | (113.2) | 1,580.3 | 40.9 | 55.2 | 58.6 | 21.6 | (4.2) | 12.0 | 24.7 |
| PBT - Treasury + Provisions | 472 | 544 | 596 | 655 | 647 | 851 | 749 | 888 | 1,120 | 1,345 |
| % growth | 17.7 | 15.3 | 9.5 | 10.0 | (1.3) | 31.6 | (12.0) | 18.6 | 26.1 | 20.0 |
| **Balance sheet** | | | | | | | | | | |
| Cash and bank balance | 1,919 | 2,225 | 2,511 | 3,430 | 3,946 | 3,079 | 3,108 | 3,391 | 3,738 | 4,135 |
| Cash | 155 | 188 | 201 | 234 | 217 | 214 | 184 | 221 | 265 | 318 |
| Balance with RBI | 1,349 | 1,582 | 1,466 | 1,898 | 2,361 | 2,257 | 2,067 | 2,313 | 2,617 | 2,960 |
| Balance with banks | 17 | 47 | — | — | — | — | — | — | — | — |
| Net value of investments | 10,610 | 9,670 | 10,470 | 13,517 | 14,814 | 15,704 | 16,713 | 19,027 | 22,217 | 25,992 |
| Govt. and other securities | 8,484 | 7,619 | 8,033 | 10,553 | 11,622 | 12,383 | 13,657 | 15,971 | 19,161 | 22,936 |
| Shares | 105 | 99 | 82 | 80 | 124 | 141 | 72 | 72 | 72 | 72 |
| Debentures and bonds | 780 | 849 | 1,024 | 2,089 | 2,158 | 2,134 | 1,776 | 1,776 | 1,776 | 1,776 |
| Net loans and advances | 19,349 | 21,859 | 23,253 | 24,495 | 27,340 | 31,993 | 37,040 | 41,446 | 46,465 | 52,092 |
| Fixed assets | 400 | 392 | 384 | 384 | 377 | 424 | 426 | 417 | 406 | 394 |
| Other assets | 2,270 | 2,663 | 2,896 | 3,518 | 3,399 | 3,971 | 4,510 | 4,825 | 5,163 | 5,525 |
| **Total assets** | **34,548** | **36,809** | **39,514** | **45,344** | **49,876** | **55,170** | **61,797** | **69,105** | **77,989** | **88,137** |
| | | | | | | | | | | |
| Deposits | 27,063 | 29,114 | 32,416 | 36,813 | 40,515 | 44,238 | 49,161 | 55,008 | 62,226 | 70,390 |
| Current | 1,902 | 2,059 | 2,273 | 2,867 | 2,767 | 2,990 | 2,996 | 3,407 | 3,916 | 4,501 |
| Fixed | 15,024 | 16,138 | 18,079 | 20,100 | 22,480 | 25,363 | 29,547 | 32,951 | 37,150 | 41,883 |
| Savings | 10,138 | 10,918 | 12,064 | 13,846 | 15,269 | 15,884 | 16,618 | 18,650 | 21,159 | 24,006 |
| Borrowings and bills payable | 3,888 | 4,269 | 3,415 | 4,350 | 4,595 | 5,205 | 6,132 | 6,729 | 7,409 | 8,183 |
| Other liabilities | 1,405 | 1,217 | 1,363 | 1,643 | 1,965 | 2,451 | 2,731 | 3,141 | 3,612 | 4,154 |
| **Total liabilities** | **32,356** | **34,600** | **37,194** | **42,806** | **47,075** | **51,894** | **58,024** | **64,879** | **73,247** | **82,727** |
| **Total shareholders' equity** | **2,191** | **2,209** | **2,320** | **2,539** | **2,801** | **3,276** | **3,772** | **4,226** | **4,742** | **5,410** |

Source: Company, Kotak Institutional Equities estimates

## Exhibit 10: State Bank of India – Summary of metrics, March fiscal year-ends




Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

# ESG
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Sector View: NIFTY-50: **23,907**

**November 25, 2024**

## COP29: Progressing slowly but a long road ahead

**COP29 sealed the climate finance deal to mobilize US$300 bn p.a. to the developing nations by 2035 while operationalizing the loss and damage fund and the global carbon market. A lot more responsibility now falls on the shoulders of COP30 on laying down a roadmap to mobilize US$1.3 tn p.a. of climate finance by 2035 and enable more ambitious NDCs.**

### Climate finance target increased to US$300 bn; LDF fully operationalized

COP29 agreed to a NCQG of providing at least ~US$300 bn p.a. by 2035 to developing country parties for climate action, with developed countries "taking the lead" in contributing this money. The NCQG is three times the previous goal of US$100 bn/year by the 2020 goal (delivered only in 2022) (see Exhibit 1). However, it falls short of the US$1 tn/US$ 1.3 tn p.a. required by the developing nations by 2030/2035 for climate change mitigation and adaptation. The multilateral development banks (MDBs) have announced a climate finance contribution of US$120 bn p.a. by 2030 for LMICs (see Exhibit 2). Further, it has been agreed to prepare a consultation report “Baku to Belém Roadmap to 1.3T” for scaling up climate finance for developing countries to meet the US$1.3 tn p.a. requirement by COP30. COP29 also operationalized the Loss and Damage Fund fully to start financing projects in 2025. The total pledged finance for the fund exceeds US$730 mn till date.

### Global carbon market to be a reality soon

Countries at COP29 agreed on the final building blocks for Article 6 of the Paris Agreement, which will: 1) make country-to-country trading and a carbon crediting mechanism fully operational; and 2) potentially reduce the cost of implementing NDCs by US$250 bn p.a. While article 6.2 provides clarity on how countries will authorize the trade of carbon credits and how registries tracking this will operate, article 6.4 will set up a global carbon market overseen by the Supervisory Body (SB; see Exhibit 3). The SB has been handed a long 2025 to-do list by parties and will be accountable to them. With this, it is expected that the financial flows from compliant carbon markets could reach US$1 tn p.a. by 2050, aiding fulfilment of NCQG.

### More ambitious NDCs awaited; renewable energy and efficiency remain in focus

Progress on establishing 1.5°C-aligned NDCs, based on the findings from the First Global Stocktake (GST) report and Biennial Enhanced Transparency Reports (BTRs), remains a key thing to watch out for as they become due next year (see Exhibit 4). COP29 saw the UK and Brazil announcing more ambitious NDCs among others (see Exhibit 5). 13 countries have also submitted their first BTRs. We expect new NDCs to commit to tripling renewable energy to reach 11.2 TW and doubling energy intensity improvement rate to 4% through 2030 to align with the 1.5°C pathway (see Exhibits 6-7). While India is yet to file its BTR and updated NDCs, we expect them to be on similar lines. This will benefit multiple players in the renewable energy and energy efficiency space (see Exhibit 8).

**Quick Numbers**

COP29 sets climate finance target of US$300 bn p.a. by 2035

Global carbon market to reduce cost of implementing national climate plans by US$250 bn p.a.

Financial flows from compliant carbon markets could reach US$1 tn p.a. by 2050

**Related Research**

→ ESG: COP29 to play a pivotal role in
→ ESG: COP28: Initial headway, some hiccups,
→ ESG: COP28: Oriented toward climate

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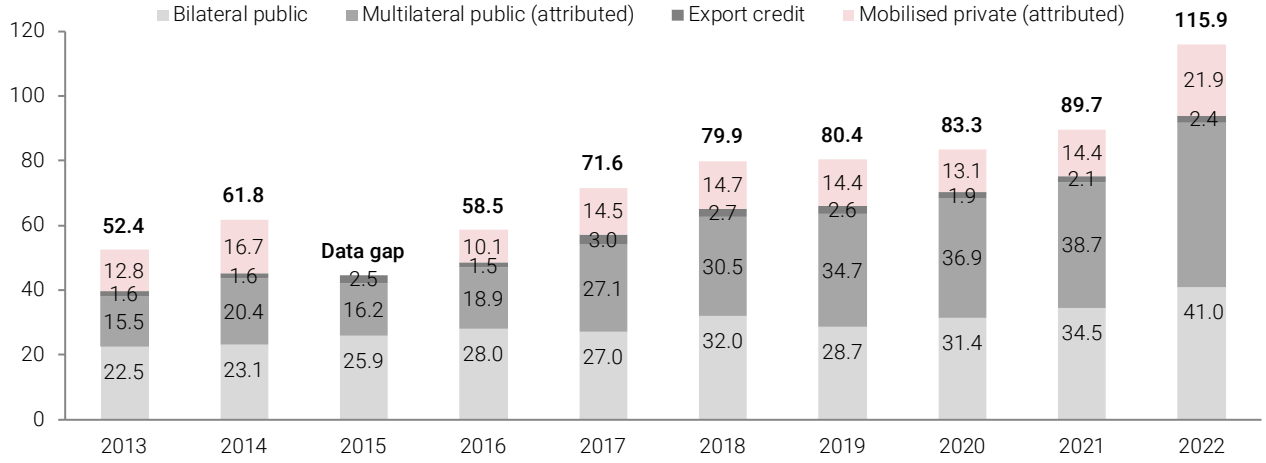
**Climate finance provided by developed parties exceeded the US$100 bn goal for the first time in 2022**

Exhibit 1: Climate finance provided and mobilized, calendar year-ends, 2013-22 (US$ bn)




Notes:

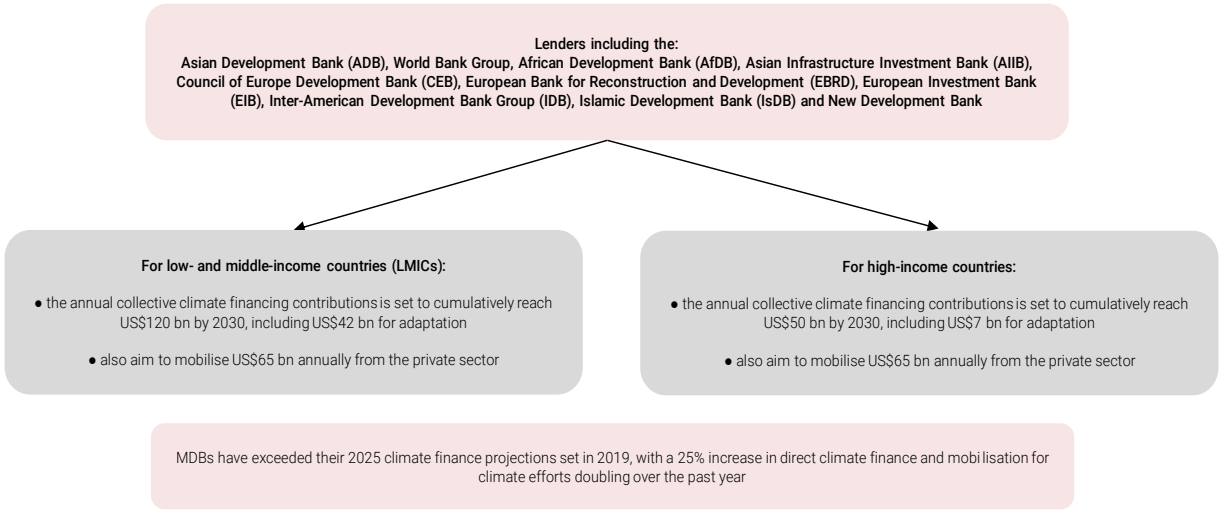
(1) The sum of components may not add up in the total due to rounding

(2) Due to the gap in time series in 2015 and the implementation of enhanced measurement methods, grand totals in 2016-22 and in 2013-14 are not directly comparable.

Source: OECD (2024), Kotak Institutional Equities

**MDBs announce total climate finance contribution of US$170 bn p.a. for LMICs and high-income countries by 2030**

Exhibit 2: Estimates of climate finance to be provided by MDBs by 2030 and their progress on the same




Source: UNFCCC, Kotak Institutional Equities

**The supervisory body is responsible for setting up the global carbon market under Article 6.4 of the Paris agreement**

Exhibit 3: Structure and composition of Supervisory body set up under Article 6.4 of Paris agreement

The Article 6.4 mechanism has a **Supervisory Body** tasked with developing and supervising the requirements and processes needed to operationalize the mechanism. This includes developing and/or approving methodologies, registering activities, accrediting third-party verification bodies, and managing the Article 6.4 Registry

- The Supervisory Body is composed of 12 members from Parties to the Paris Agreement.

- Members are selected along the following criteria:
(a) Two members from each of the five United Nations regional groups;
(b) One member from the least developed countries;
(c) One member from small island developing States.

Source: UNFCCC, Kotak Institutional Equities

**GST will prompt countries to file more ambitious NDCs in 2025 to achieve Paris Climate Agreement goals**

Exhibit 4: Follow-up activities to the first global stocktake

**First Global Stocktake 2023**
Implement responses to the GST outcomes to increase ambition of Parties and non-Party stakeholders

**Biennial Transparency Report (2024)**
First BTR ( report that captures information on their progress in implementing the different aspects of the Paris Agreement) due in 2024

**NDCs (2024-25)**
In 2024, countries will start preparing their next NDCs, taking into account outcomes of the first GST; NDCs to be communicated in the first quarter of 2025

**Adaptations communications (2025)**
Next adapatation communications, as part of NDCs, national communications, BTRs , NAPs or stand-alone; In 2025, revised guidance on adaptation communications

Source: UNFCCC, Kotak Institutional Equities

**Many countries committed to delivering on the goals of the Paris Agreement via their NDCs at COP29**

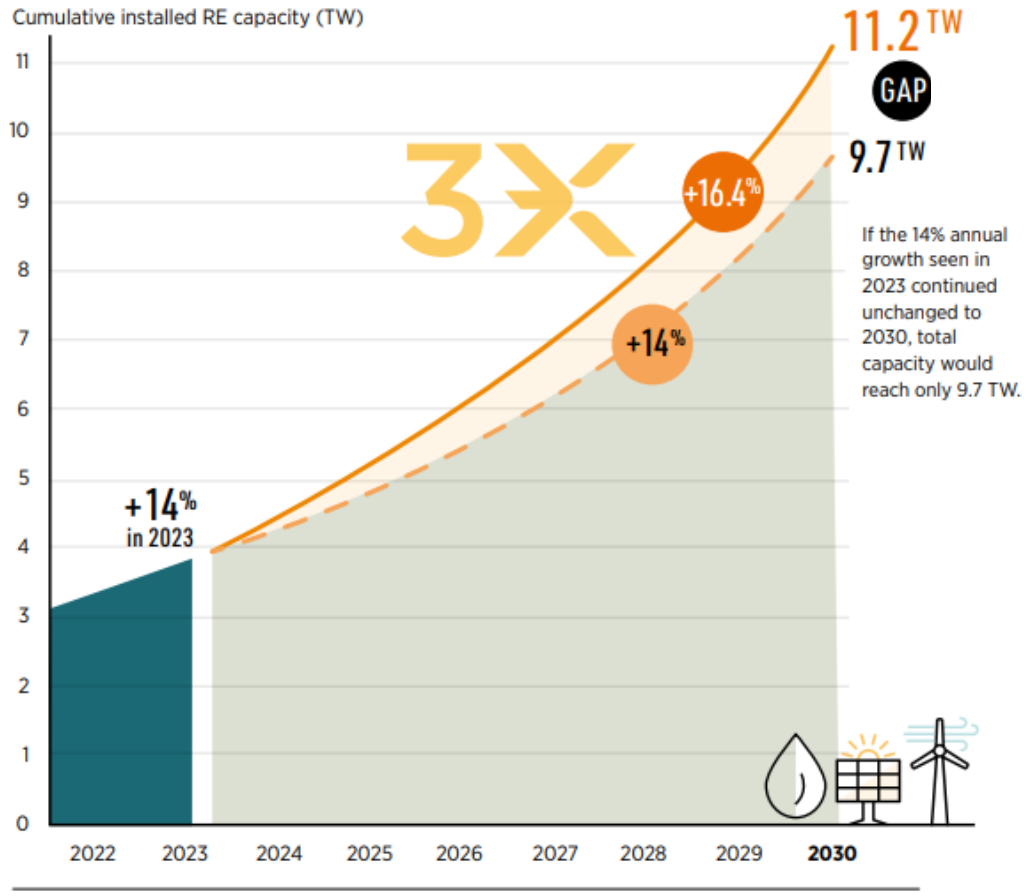
Exhibit 5: Progress on announcement of more ambitious NDCs at COP29

| |
|---|
| The United Kingdom, Brazil and the United Arab Emirates have announced 2035 NDC targets that set a high bar for ambition |
| The GZERO countries of Bhutan, Madagascar, Panama and Suriname have already achieved net zero greenhouse gas emissions |
| Canada, Chile, the European Union, Georgia, Mexico, Norway and Switzerland aim to submit next NDCs that are:<br>● consistent with the IPCC emissions trajectories and the global stocktake call for deep, rapid, and sustained reductions in greenhouse gas emissions in line with 1.5°C<br>● absolute, economy-wide reduction targets covering all greenhouse gases, sectors, and categories; and<br>● aligned with steep and credible emissions reductions toward their respective mid-century net zero goals, consistent with a linear or steeper trajectory |

Source: European Commission, Kotak Institutional Equities

**Global annual renewable power capacity addition at 16.4% CAGR through 2030 must to meet 1.5°C goal**

Exhibit 6: Cumulative installed renewable energy capacity, Calendar year ends, 2022-30 (TW)




Source: IRENA, Kotak Institutional Equities

**Annual energy intensity improvement rate of at least 4% is needed through to 2030 to meet 1.5°C goal**

Exhibit 7: Key metrics of global energy efficiency and electrification of end-use consumption by 2030

| Energy efficiency | Recent years | Pathway to 1.5 °C - 2030 |
|---|---|---|
| Energy intensity improvement rate (%) | 2%[a] | 4%[b] |
| Building renovation rate (% stock/year) | 1%[c] | 2% |

| Electrification of end-use consumption | Recent years | 2030 |
|---|---|---|
| Electrification rate in total final energy consumption (%) | 23%[d] | 30% |
| Electric and plug-in hybrid light passenger vehicles stock (mn) | 40[e] | 360 |
| Heat pumps in buildings (GW) | 1,280[f] | 8,937 |
| Heat pumps in industry and in DH systems (GW) | no data/negligible[g] | 434 |

Notes:

(a) Energy intensity improvement achieved in 2022

(b) Average annual improvement rate required between 2023 and 2030

(c) Estimated percentage of renovated buildings in the global stock in 2021

(d) 2022 value, IEA World Energy Statistics & Balances (IEA, 2024b)

(e) 2023 value (IEA, 2024c)

(f) 2023 value estimated from (IEA, 2021, 2024d)

(g) No database of industrial heat pumps is available today (Schlosser et al., 2020). They are assumed to have a negligible share of the total final energy consumption in industrial process heat supply (Agora Energiewende, 2023)

Source: IRENA, Kotak Institutional Equities

**Multiple players are expected to benefit from the uptake of renewable energy and energy efficiency in India**

Exhibit 8: List of potential beneficiaries in renewable energy and energy efficiency in India

| | | |
|---|---|---|
| Power generation | Wind power equipments | Inox Wind, Suzlon |
| | Solar PV module manufacturers | Adani Infrastructure, Alpex solar, AMPIN Solar One, Avaada Ventures Private, FS India Solar Ventures, Grew Energy, Indosol Solar, Insolation energy, JSW Renewable Technologies, Premier Energies, Reliance New Energy Solar, ReNew Solar (Shakti Four), Shirdi Sai Electricals, Solex energy, TP Solar, Vikram Solar Limited, Waaree Energies, Websol Energy |
| | EPC | Sterling and Wilson renewable energy, Waaree renewable technologies |
| | Asset owners | Adani Green, JSW energy, NHPC, NTPC, SJVN, Tata Power |
| | Supply chain equipments | Borosil renewables |
| Transmission & Distribution | EPC | Jyoti structures, Kalpataru Power, KEC |
| | Transformers | ABB, GE T&D, Hitachi energy, Siemens, TRIL, Voltamp |
| | Switchgear | Schneider Electric Infrastructure |
| | Asset owners | Adani transmission, Powergrid |
| Storage | Battery storage | Acme, Blupine, NTPC, O2 Power, ReNew, Tata Power, |
| | PHS | Adani Green Energy, Greenko, JSW, Tata Power |
| EVs | EV manufacturers | Ampere, Ather, Bajaj, Hero, M&M, MG, Ola, Tata, TVS |
| | Component suppliers | Amara Raja (chargers), Nidec, Schaeffler India, Sedemac, Sona Comstar, Tata Power (chargers), Uno Minda, Varroc, |
| | Battery manufacturers | Under ACC battery PLI scheme: Ola Electric, Rajesh Exports, Reliance Outside ACC battery PLI scheme: Amara Raja Batteries, Amperex Technology, Exide Industries, Manikaran Power, Munoth Industies, Tata Chemicals,TDS Lithium-Ion Battery Gujarat Pvt Ltd (a JV among Toshiba Corporation, DENSO Corporation and Suzuki Motor Corporation) |
| Battery chemicals | Chemical companies | Ami Organics, Aether industries, Balaji Amines, GHCL, Gujarat Fluorochemicals, Himadri Speciality Chemical, Neogen Chemicals, PCBL, Pondy Oxides and Chemicals, Tata Chemicals, Tatva Chintan Pharma, |
| Energy efficiency | Industries- Motors, drives, robots, sensors, automation and control systems | ABB, Siemens |
| | Buildings- Building Management system, retrofits | ABB, Siemens |
| | Freight transportation- Rail logistics, 3PL | Concor, Gateway Dsitriparks, Mahindra Logistics |

Source: Kotak Institutional Equities

kotak Institutional Equities

# ESG
India

Sector View: NIFTY-50: **23,907**

**November 23, 2024**

## UPL: Annual report analysis FY2024

**UPL's FY2024 annual report highlights 1) weak operating performance, with EBITDA declining 55% yoy to Rs45.4 bn in a challenging business environment; 2) FCF post interest turning negative at (-)Rs35.4 bn; 3) deleveraging remaining a priority, as adj. net debt to equity stood at 1.5X and adj. net debt to EBITDA at 8.4X ; 4) receivables o/s of Rs10.3 bn from the Brazilian associate, whose net worth turned negative due to losses; 5) contingent liability increasing to Rs35.6 bn from Rs22.3bn in FY2023 due to income tax disputes; and 6) intangibles remaining high at Rs312.1 bn, 1.3X of adj. net worth.**

### Operating performance deteriorates in a challenging business environment

UPL's EBITDA declined 55% yoy to Rs45.4 bn as revenues declined ~20% yoy to Rs431 bn and EBITDA margins declined 850 bps to 10.5% in FY2024 (see Exhibit 1). The high channel inventory and the sharp decline in product prices led to an industry-wide decline in the sale of crop protection products into the distribution market by 11% in CY2023 (see Exhibit 3). The EBIDTA margin decline was primarily led by the liquidation of higher-cost inventory, increased rebates and operating deleverage. Exchange losses recognized in the income statement remained elevated for the third consecutive year and rose to Rs12.9 bn in FY2024 (FY2023: Rs7.8 bn), part of which is on account of the steep depreciation in the Argentinian peso.

### FCF post interest turns negative; CCC rises but remains lower than peers

The earnings to cash-flow conversion declined to 65% (FY2023: 88%) as the cash conversion cycle increased to 90 days (FY2023: 73 days). This, coupled with the weak operating performance and rising interest costs, led to FCF post interest turning negative at (-)Rs35.4 bn. We note that UPL's cash conversion cycle remained one of the lowest among the domestic and global peers, primarily on account of higher payable and lower receivable days. This, we believe, is due to the sale of receivables and payables with financing element, which, in our view, supports lower working capital/reported debt.

### Deleveraging remains a priority

Reported net debt of UPL increased to Rs216 bn in FY2024 (FY2023: Rs164 bn). However, with the reduced (absolute) working capital requirements, adjusted for perpetual bonds and the sale of receivables and payables with the financing element, we estimate adjusted net debt at Rs380 bn, down from Rs408 bn in FY2023. Adjusted net debt to equity stood at 1.5X (FY2023:1.5X), while adjusted net debt to EBITDA stood at 8.4X (FY2023: 4.0X). Deleveraging remains as a foremost priority for UPL. In line with this, it has recently announced 1) a rights issue of up to Rs33.8 bn and 2) raising US$350 mn from PE fund for 12.5% stake (including US$250 mn secondary sale) in Advanta.

### Associate incurs losses; investment written off; Rs10 bn receivable o/s

In FY2024, revenue and receivables outstanding from Sinova, an associate, stood at Rs4.1 bn and Rs10.3 bn, respectively. It incurred losses in FY2024. UPL has written off the entire value of investments of Rs2.5 bn in the company.

**Quick Numbers**

1) FCF post interest turned negative at (-)Rs35.4 bn in FY2024
2) As at FY2024, adj. net debt to EBITDA stood at 8.4X
3) Contingent liability increased to Rs35.6 bn in FY2024 due to rising income tax disputes

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### Tax rates low, contingent liabilities rise

The company's contingent liabilities have increased to Rs35.6 bn, 14.4% of net worth (FY2023: Rs22.8 bn) in FY2024, primarily due to income tax disputes. The Income tax authorities have made various transfer pricing and corporate tax adjustments, leading to them. Over FY2020-24, the effective tax rate of the company has remained in the range of 10-22%. This is primarily on account of the profits for the UPL getting generated in jurisdictions, which have nil/ lower tax rates than India.

### Intangibles high; annual review does not suggest any impairment

Intangibles including goodwill remain high at Rs312.1 bn, 1.3X of adj. net-worth. ~65% of these intangibles comprise of goodwill pertaining to various geographical cash generating units (CGUs) and are annually tested for impairment. During the recent review, the discount rate assumptions were lowered in the range of 100-200 bps in all geographies except ROW CGUs; while the growth assumptions for all geographies were increased by 3-5% (see Exhibit 28). Management believes that any reasonable change in assumption would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the related CGU.

### Operating performance deteriorates in a challenging operating environment

- UPL's revenue declined 20% yoy to Rs431 bn in FY2024 in a challenging operating environment. The high channel inventory and the sharply reduced product prices led to an industry-wide decline in the sale of crop protection products into the distribution market by 11% in CY2023 (see Exhibit 3). The growers' crop protection market remained relatively more stable and fell only by 1% yoy in CY2023 due to lower product prices, which have partially offset by higher volume growth (see Exhibit 2).
- Geographically, the revenue decline remained broad-based (except ROW) for UPL. The decline was sharper in North America (down 55% yoy), led by destocking of key AIs, and rebates, while in LatAm, India and Europe, revenues declined 21%, 16% and 10%, respectively (see Exhibit 6).
- UPL's gross margins declined 590 bps to 43.2% in FY2024, while EBITDA margins fell 850 bps to 10.5% on account of operating deleverage. Management has highlighted that the contribution impact of Rs32.6 bn in FY2024 is on account of the transitionary impact of the liquidation of high-cost inventory and higher rebates. Adjusted for this, the reported contribution and EBITDA margins are in line with the last year.
- The company is restructuring the business and adapt to the market realities by right-sizing the organization and making it future-ready through innovation, improving the share of differentiated and sustainable products (see Exhibit 7).
- Advanta Enterprises' (seed business) performance remained a silver lining. It delivered a healthy 17% yoy revenue growth to Rs41.5 bn on the back of higher volume (up 9% yoy) growth and favorable product mix (led 6% pricing growth). EBITDA grew higher (up 19% yoy) to Rs10.7 bn on controlled R&D costs and fixed overheads (see Exhibit 8).
- On the outlook front, management believes that the market will continue to remain price competitive with new Chinese entrants. The global crop protection (sell into distribution) market is poised for a modest recovery in CY2024, with steady low-single digit growth expected in the second half of the year as channel inventories normalize. However, destocking pressures and high channel inventory levels are anticipated to weigh on market performance in the first half of CY2024, particularly in regions such as India, where the high channel inventory is expected to be a headwind for the year.
- UPL adjusted the coupon on its perpetual subordinated capital securities of Rs1.4 bn, in the reserves. This is in line with the accounting practice under Ind-AS. However, to derive the net earnings available for equity shareholders, the same needs to be adjusted as a part of the finance costs.

**UPL's 2024 revenue and profitability declined in challenging operating environment**

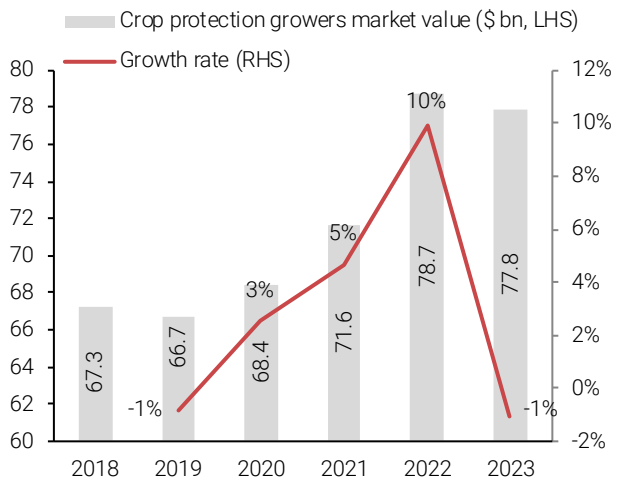
Exhibit 1: Summary financial, March fiscal year-ends, 2020-24, (Rs bn)

| | 2020 | % | 2021 | % | 2022 | % | 2023 | % | 2024 | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue from operations | 357.6 | 100.0 | 386.9 | 100.0 | 462.4 | 100.0 | 535.8 | 100.0 | 431.0 | 100.0 |
| Raw materials consumed | (187.4) | (52.4) | (191.0) | (49.4) | (220.7) | (47.7) | (272.8) | (50.9) | (244.9) | (56.8) |
| Gross margin | 170.1 | 47.6 | 196.0 | 50.6 | 241.7 | 52.3 | 263.0 | 49.1 | 186.0 | 43.2 |
| Operating and administrative expenses | (68.5) | (19.2) | (75.3) | (19.5) | (100.2) | (21.7) | (110.4) | (20.6) | (93.8) | (21.8) |
| Personnel cost | (33.9) | (9.5) | (37.1) | (9.6) | (46.2) | (10.0) | (50.6) | (9.4) | (46.8) | (10.9) |
| EBITDA | 67.7 | 18.9 | 83.5 | 21.6 | 95.3 | 20.6 | 102.0 | 19.0 | 45.4 | 10.5 |
| Depreciation | (20.1) | (5.6) | (21.7) | (5.6) | (23.6) | (5.1) | (25.5) | (4.8) | (27.6) | (6.4) |
| EBIT | 47.6 | 13.3 | 61.8 | 16.0 | 71.7 | 15.5 | 76.5 | 14.3 | 17.8 | 4.1 |
| Financial charges | (14.8) | (4.1) | (20.6) | (5.3) | (23.0) | (5.0) | (29.6) | (5.5) | (38.5) | (8.9) |
| EBT | 32.8 | 9.2 | 41.2 | 10.6 | 48.8 | 10.5 | 46.9 | 8.7 | (20.8) | (4.8) |
| Other income | 1.0 | 0.3 | 2.6 | 0.7 | 2.8 | 0.6 | 4.8 | 0.9 | 4.8 | 1.1 |
| PBT (before exceptional items) | 33.8 | 9.5 | 43.8 | 11.3 | 51.6 | 11.2 | 51.6 | 9.6 | (15.9) | (3.7) |
| Exceptional Items/prior period items | (6.2) | (1.7) | (2.4) | (0.6) | (3.2) | (0.7) | (1.7) | (0.3) | (2.5) | (0.6) |
| PBT | 27.6 | 7.7 | 41.4 | 10.7 | 48.3 | 10.4 | 49.9 | 9.3 | (18.5) | (4.3) |
| Tax | (5.9) | (1.6) | (6.9) | (1.8) | (5.3) | (1.1) | (7.4) | (1.4) | 2.1 | 0.5 |
| PAT | 21.8 | 6.1 | 34.5 | 8.9 | 43.0 | 9.3 | 42.6 | 7.9 | (16.4) | (3.8) |
| Profit from associates | 0.0 | 0.0 | 0.4 | 0.1 | 1.3 | 0.3 | 1.6 | 0.3 | (2.4) | (0.6) |
| Less: minority Interest | 4.0 | 1.1 | 6.2 | 1.6 | (8.1) | (1.8) | (8.4) | (1.6) | 6.8 | 1.6 |
| Profit available for owners | 17.8 | 5.0 | 28.7 | 7.4 | 36.3 | 7.8 | 35.7 | 6.7 | (12.0) | (2.8) |

Source: Company, Kotak Institutional Equities

**Growers crop protection market declined slightly in 2024 due to lower product prices, partially offset by volume growth**

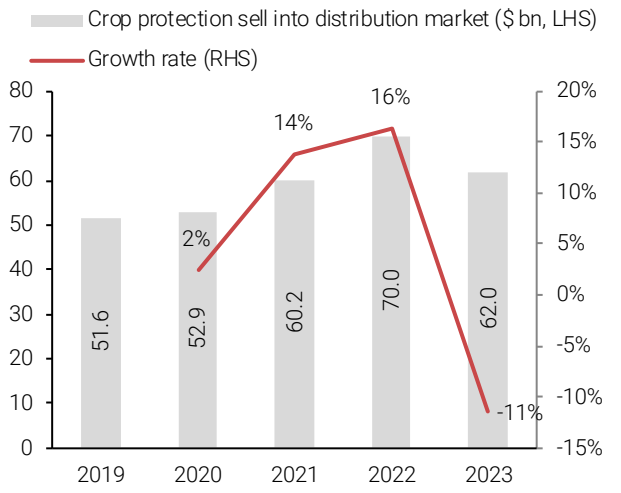
Exhibit 2: Crop protection growers market value, Calendar year-ends, 2018-23 ($ bn)




Source: Company, S&P Global, Kotak Institutional Equities

**High channel inventory and sharply reduced product prices led to a decline in manufacturers revenue in CY2023**

Exhibit 3: Crop protection sell into distribution market, Calendar year-ends, 2019-23, ($ bn)



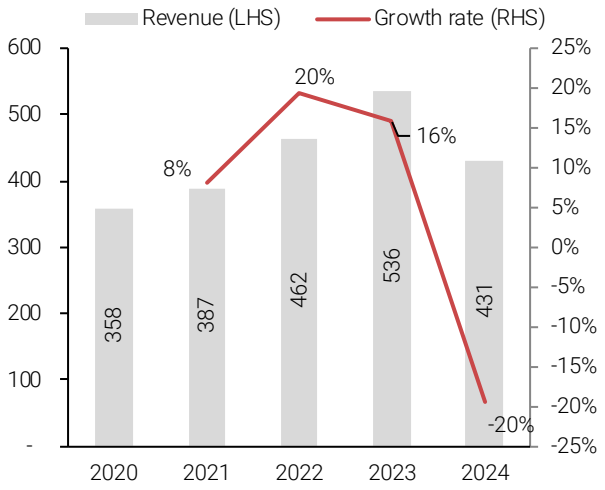

Note:

(a) Total includes Syngenta, Bayer Crop Science, BASF, Corteva, UPL, FMC, ADAMA and Sumitomo Chemicals

Source: Company, AgbioInvestor, Kotak Institutional Equities

**UPL's revenue declined 20% yoy in 2024**

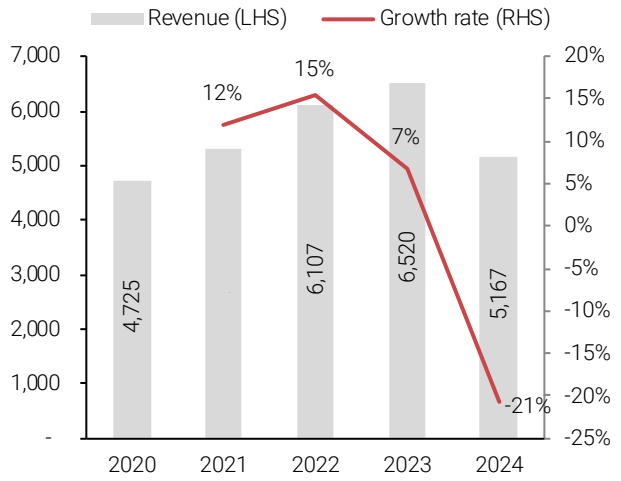
Exhibit 4: UPL's revenue and growth rate, March fiscal year-ends, 2020-24, (Rs bn)




Source: Company, Kotak Institutional Equities

**UPL's US$ terms revenue decline was higher due to Rs depreciation versus US$**

Exhibit 5: UPL's revenue and growth rate, March fiscal year-ends, 2020-24, (US$ mn)




Note:

(a) We have used the year-end USD/Rs exchange rates for the purpose of conversion of revenues

Source: Company, Kotak Institutional Equities

**Latin America continues to be the largest geography**

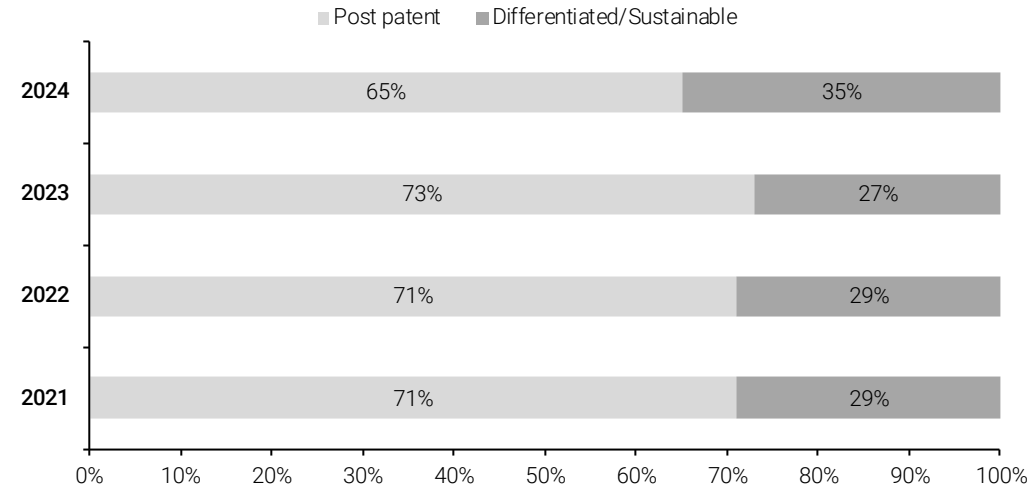
Exhibit 6: Segmental revenue by geography, March fiscal year-ends, 2020-24

| | 2020 | | 2021 | | 2022 | | 2023 | | 2024 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Rs bn | % | Rs bn | % | Rs bn | % | Rs bn | % | Rs bn | % |
| India | 38.3 | 10.7 | 46.8 | 12.1 | 56.9 | 12.3 | 65.4 | 12.2 | 55.0 | 12.8 |
| Europe | 57.1 | 16.0 | 64.2 | 16.6 | 68.9 | 14.9 | 73.2 | 13.7 | 66.1 | 15.3 |
| North America | 56.5 | 15.8 | 56.9 | 14.7 | 78.1 | 16.9 | 87.4 | 16.3 | 38.9 | 9.0 |
| Latin America | 137.6 | 38.5 | 148.6 | 38.4 | 180.4 | 39.0 | 219.8 | 41.0 | 172.5 | 40.0 |
| ROW | 68.2 | 19.1 | 70.4 | 18.2 | 78.1 | 16.9 | 90.0 | 16.8 | 98.4 | 22.8 |
| **Total** | **357.7** | **100.0** | **387.0** | **100.0** | **462.4** | **100.0** | **535.8** | **100.0** | **431.0** | **100.0** |

Source: Company, Kotak Institutional Equities

**Share of revenues from differentiated/sustainable products rises in 2024**

Exhibit 7: Segment revenue share, March fiscal year-ends, 2021-24




Source: Company, Kotak Institutional Equities

**Advanta registered 19% EBITDA growth yoy**

Exhibit 8: Advanta enterprises summary financials, March fiscal year-ends, 2023-24, (Rs bn)

| | 2023 | | 2024 | |
|---|---|---|---|---|
| | Rs bn | % | Rs bn | % |
| Revenue | 35.6 | 100.0 | 41.5 | 100.0 |
| EBITDA | 9.0 | 25.2 | 10.7 | 25.7 |

Source: Company, Kotak Institutional Equities

## Exchange losses rise and continued to impact earnings

- Exchange losses recognized in the income statement on receivables/payables increased to Rs9.8 bn (FY2023: Rs9.6 bn), a part of which are on account of steep depreciation of the Argentinian peso in FY2024. We note that exchange losses pertaining to these have increased steeply since FY2022, details on the currencies due to which these have increased have not been highlighted in the annual report.
- The exchange losses pertaining to borrowings (included as a part of finance cost have also increased to Rs3.1 bn in FY2024 (FY2023: a gain of Rs 1.8bn). We note that ~84% of the reported debt as of end-FY2024 is US dollar-denominated.

**Exchange losses recognized in the income statement have increased since 2022**

Exhibit 9: Exchange losses recognized in the income statement, March fiscal year-ends, 2020-24, (Rs bn)

| ` | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| Exchange losses on trade receivable and payables | 3.3 | 2.1 | 6.4 | 9.6 | 9.8 |
| Exchange losses included in finance cost | (1.6) | 1.6 | 3.5 | (1.9) | 3.1 |
| **Total exchange losses** | **1.7** | **3.7** | **9.9** | **7.8** | **12.9** |
| PBT | 27.6 | 41.4 | 48.3 | 49.9 | (18.5) |
| **Exchange losses as % of PBT** | **6.2** | **8.8** | **20.4** | **15.6** | **NM** |

Source: Company, Kotak Institutional Equities

### Exceptional losses recognized on restructuring of business

- UPL reported an exceptional cost of Rs2.5bn in FY2024 (FY2023: Rs1.7 bn). This primarily pertains to expenses incurred toward restructuring, severance pay, and legal and professional cost pertaining to various subsidiaries. We note that due to geographically diversified business and litigation-prone nature of the business, the company has continued to recognize exceptional expenses over the years.

**Restructuring of business led to recognition of exceptional losses in 2024**

Exhibit 10: Exceptional losses recognized in the income statement, March fiscal year-ends, 2020-2024, (Rs bn)

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| Restructuring/reorganization cost | 2.1 | 3.2 | 0.9 | 0.5 | 2.0 |
| Acquisition cost | 0.6 | — | — | — | — |
| Litigation cost/(write-back) | 3.5 | (0.9) | 0.8 | 0.6 | 0.2 |
| Loss due to fire | — | 0.2 | 1.5 | 0.7 | 0.3 |
| Others | — | — | — | — | — |
| Total exceptional items | 6.2 | 2.4 | 3.2 | 1.7 | 2.5 |
| PBT before exceptional item | 33.8 | 43.8 | 51.6 | 51.6 | (15.9) |
| % of PBT (before exceptional items) | 18.4% | 5.4% | 6.3% | 3.3% | NM |

Source: Company, Kotak Institutional Equities

### Tax rates lower than statutory rate in India; contingent liability w.r.t. income tax rises in 2024

- Over FY2020-24, the effective tax rate of the company has remained in the range of 10-22%. This is primarily on account of profits for the UPL getting generated in jurisdiction which have nil/lower tax rates than India (see Exhibit 11).
- The company's contingent liabilities have increased to Rs35.6 bn, 14.4% of adj, net worth (FY2023: Rs22.8 bn) in FY2024, primarily due to income tax disputes. The income tax authorities have made various transfer pricing and corporate tax adjustments, leading to these. The company has preferred an appeal against the addition and disallowances that are pending for disposal. Nature of addition – includes transfer pricing adjustment, disallowance u/s. 14A, deprecation on intangible assets and various other disallowances.
- Cumulatively, over FY2020-24, UPL has (net) unrecognized deferred tax asset on carry forward losses of Rs8.5 bn.

**Lower/nil tax rates in some jurisdiction has led to lower effective tax rate; DTA unrecognized**

Exhibit 11: Tax reconciliation statement, March fiscal year-ends, 2020-24, (Rs bn)

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| Accounting profit before income tax | 27.6 | 41.8 | 49.7 | 51.5 | (20.9) |
| India's statutory income tax rate | 34.94% | 34.94% | 25.17% | 25.17% | 25.17% |
| Tax at India's statutory rate | 9.7 | 14.6 | 12.5 | 13.0 | (5.3) |
| Profit taxable at higher/lower/nil tax rates in certain jurisdictions | (6.7) | (2.1) | (5.6) | (5.7) | (0.6) |
| Additional deduction on expenditure on research and development | (0.2) | 0.0 | (0.1) | (0.1) | 0.1 |
| Adjustment of tax relating to previous years | 0.1 | (0.9) | 0.0 | (0.9) | (0.1) |
| Other tax credits and allowances | (0.7) | (1.9) | | | |
| Income exempt for tax purpose | (4.2) | (18.6) | (0.7) | (1.6) | (1.7) |
| Impact of change in tax rates | (0.0) | 0.0 | (1.1) | | |
| Utilization of previously unrecognized tax losses | (0.1) | 0.1 | (2.3) | (0.4) | (2.3) |
| Share of results of associates and joint ventures | (0.2) | — | (0.5) | (0.4) | 0.6 |
| Other non-deductible expenses | 6.6 | 10.1 | 2.7 | 1.9 | 1.8 |
| Unrecognized deferred tax asset on carry forward losses | 1.4 | 4.7 | 0.3 | 1.2 | 5.9 |
| Others | 0.1 | 0.9 | 0.1 | 0.4 | (0.5) |
| Income tax expense reported in P&L | 5.9 | 6.9 | 5.3 | 7.4 | (2.1) |
| Effective tax rate | 21.2% | 16.4% | 10.6% | 14.3% | 10.0% |

Source: Company, Kotak Institutional Equities

**Contingent liability pertaining to income tax disputes rises in 2024**

Exhibit 12: Contingent liabilities, March fiscal year-ends, 2020-24, (Rs bn)

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| **Guarantees** | | | | | |
| - Guarantees given by the Group on behalf of third parties | 0.7 | 0.7 | 8.6 | 6.0 | 6.4 |
| | | | | | |
| **Tax Contingencies** | | | | | |
| - Disputed Excise Duty / Service Tax Liability (excluding interest) | 1.9 | 1.9 | 1.9 | 3.2 | 2.4 |
| - Disputed Income-tax Liability (excluding interest) | 0.4 | 0.4 | 0.4 | 3.0 | 17.6 |
| - Disputed Sales-tax Liability | 0.2 | 0.3 | 0.3 | 0.1 | 1.3 |
| - Disputed Custom duty Liability | 0.2 | 0.2 | 0.2 | 1.1 | 1.2 |
| - Disputed Fiscal Penalty for cancellation of licenses | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| | | | | | |
| **Amount in respect of other claims** | | | | | |
| - Claims payable to growers | 0.2 | 0.2 | 0.2 | 0.4 | 0.1 |
| - Other Claims (claims related to contractual and other disputes) | 0.4 | 0.8 | 0.7 | 8.6 | 6.4 |
| - Claims against the Group not acknowledged as debts | 0.0 | | | 0.1 | 0.0 |
| **Total** | **4.3** | **4.8** | **12.7** | **22.8** | **35.6** |
| **% of adjusted net-worth** | **2.7** | **2.7** | **5.9** | **8.5** | **14.4** |

Source: Company, Kotak Institutional Equities

### FCF post interest turns negative

- FCF post interest turned negative to Rs35.4 bn in FY2024 (FY2023: Rs31.2 bn), primarily on account of weak operating performance, increase in the cash conversion cycle and rising finance costs (see Exhibit 13).
- Earnings to cash flow conversion declined to 65% (FY2023: 88%; see Exhibit 14), as the cash conversion cycle increased to 90 days (FY2023: 73 days) on rising receivable and inventory days, partially offset by an increase in the payable days. The increase in receivable days was partially on account of lower sale of receivable (discounting), adjusted for which the increase in the cash conversion cycle was by 11days to 161 in FY2024 (see Exhibit 15).

**FCF post interest turns negative on weak operating performance and rising finance costs**

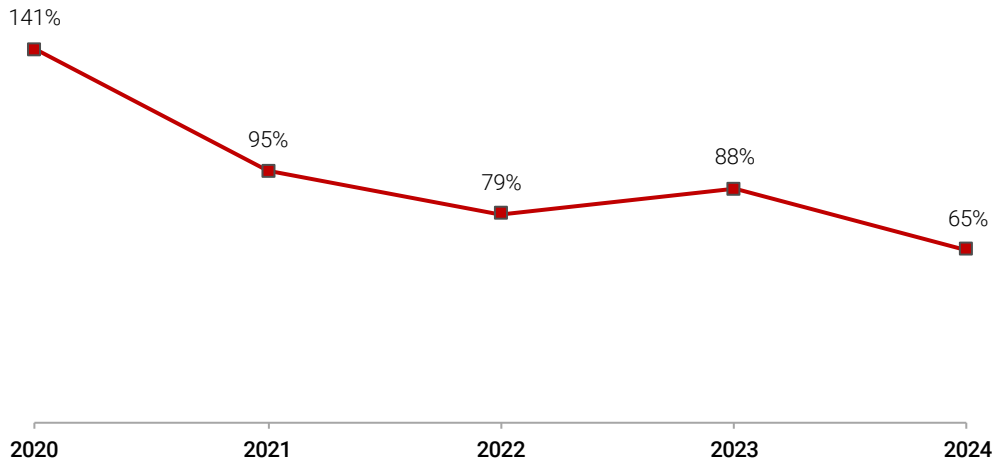
Exhibit 13: Free cash flow post interest, March fiscal year-ends, 2020-24, (Rs bn)

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| PBT | 27.6 | 41.8 | 49.7 | 51.5 | (20.9) |
| Add: Non-cash adjustments | 23.1 | 21.7 | 23.4 | 27.2 | 29.2 |
| Add: Non-operating adjustments | 14.3 | 18.0 | 19.6 | 25.1 | 34.0 |
| Less: direct taxes paid | (8.2) | (7.3) | (10.0) | (12.6) | (11.4) |
| Operating profit before w/cap changes | 56.9 | 74.3 | 82.6 | 91.2 | 30.9 |
| Inventories | 13.6 | (15.2) | (35.9) | (9.0) | 12.1 |
| Trade receivables | (3.1) | (6.3) | (30.9) | (21.2) | 14.9 |
| Other current assets | (0.6) | (4.9) | (8.5) | (0.6) | 1.9 |
| Loans and advances | 0.2 | 3.8 | — | — | — |
| Trade payables | 1.2 | 20.4 | 39.3 | 1.4 | (26.2) |
| Long term and short term provisions | (0.3) | (1.4) | (1.0) | 0.2 | (0.3) |
| Current liabilities and provisions | 19.7 | 1.5 | 19.4 | 15.5 | (15.1) |
| Cash flow from operations | 87.4 | 72.1 | 65.0 | 77.5 | 18.2 |
| Less: finance cost | (16.5) | (16.6) | (19.4) | (23.5) | (34.1) |
| Cash generated from operations post interest | 70.9 | 55.6 | 45.6 | 54.1 | (15.8) |
| Less: capital expenditure | (19.4) | (20.7) | (26.8) | (22.9) | (19.5) |
| Less: business acquisitions | (8.6) | (1.8) | (1.3) | — | — |
| Free cash flow post interest and acquisitions | 43.0 | 33.1 | 17.5 | 31.2 | (35.4) |

Source: Company, Kotak Institutional Equities

**Earnings to cash flow conversion continue to decline**

Exhibit 14: Pretax CFO/EBITDA; March fiscal year-ends, 2020-24




Source: Company, Kotak Institutional Equities

## High payables/sale of receivable lead to lowest CCC among peers

- UPL's reported cash conversion cycle remains one of the lowest among the domestic and global peers (see Exhibit 16-17). This is primarily on account of lower receivables and higher payable days.
- UPL's finance cost includes unwinding of interest on trade payables of Rs4.5 bn (see Exhibit 18), we believe these support lower working capital/reported debt. We estimate that the payables with the financing arrangements as of end-FY2024 stood at Rs50.3 bn (FY2023: Rs99.6 bn)

**Cash conversion cycle increases on rising inventory and receivable days**

Exhibit 15: Cash conversion cycle, March fiscal year-ends, 2020-24, (Days)

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| Inventory days | 80 | 89 | 103 | 95 | 108 |
| Receivable days | 123 | 123 | 121 | 125 | 139 |
| Advances from customers | 14 | 15 | 21 | 27 | 24 |
| Payable days | 104 | 118 | 131 | 120 | 133 |
| **Reported CCC** | **85** | **79** | **72** | **73** | **90** |
| Sale of receivables | 72 | 72 | 103 | 78 | 71 |
| **Adjusted CCC** | **157** | **151** | **175** | **151** | **161** |

Note:

(a) Cash conversion cycle is calculated on sales basis using year-end numbers

Source: Company, Kotak Institutional Equities

**UPL's reported cash conversion cycle remains better than domestic peers led by higher payable days**

Exhibit 16: Cash conversion cycle of UPL and domestic peer companies, March fiscal year-ends, 2023-24

| | UPL | | Rallis | | Bayer Cropscience | | Dhanuka | |
|---|---|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 |
| Inventory | 95 | 108 | 98 | 111 | 128 | 111 | 75 | 72 |
| Trade Receivables | 125 | 139 | 61 | 80 | 69 | 69 | 61 | 70 |
| Advance to suppliers | - | - | 2 | 2 | 2 | 3 | 1 | 2 |
| Advances from customers | 27 | 24 | 13 | 24 | 7 | 14 | 2 | 3 |
| Trade Payables | 120 | 133 | 72 | 83 | 62 | 43 | 38 | 36 |
| **Cash conversion cycle** | **73** | **90** | **75** | **87** | **131** | **125** | **97** | **105** |
| Sale of receivables | 78 | 71 | - | - | - | - | - | - |
| **Adjusted cash conversion cycle** | **151** | **161** | **75** | **87** | **131** | **125** | **97** | **105** |

Note:

(a) Cash conversion cycle is calculated on sales basis using year-end numbers

Source: Company, Kotak Institutional Equities

**Global peers reported CCC higher than UPL on lower payable/ higher receivable days**

Exhibit 17: Cash conversion cycle of global peer companies, Calendar year-ends, 2022-23

| | Adama | | FMC | | Nufarm | |
|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 |
| Inventory | 165 | 146 | 104 | 140 | 155 | 154 |
| Trade Receivables | 91 | 94 | 182 | 220 | 49 | 66 |
| Advance to suppliers | 3 | 3 | 8 | 8 | 3 | 4 |
| Advances from customers | 9 | 6 | 43 | 39 | 12 | 10 |
| Trade Payables | 81 | 60 | 79 | 49 | 113 | 73 |
| **Cash conversion cycle** | **170** | **177** | **172** | **280** | **81** | **141** |
| Sale of receivables | 39 | 38 | 10 | 25 | — | — |
| **Adjusted cash conversion cycle** | **210** | **215** | **182** | **305** | **81** | **141** |

Note:

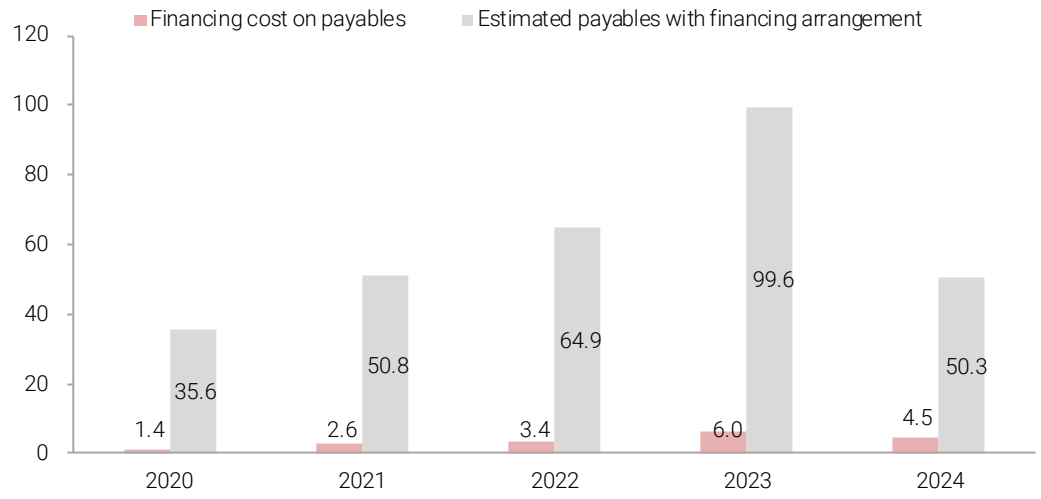
(a) Cash conversion cycle is calculated on sales basis using year-end numbers

(b) Nufarm's financials are Sept ended

Source: Company, Kotak Institutional Equities

**Cost related to financing element on trade payables declines in 2024**

Exhibit 18: Financing cost on payables & estimated payables with financing arrangement, March fiscal year-ends, 2020-24, (Rs bn)




Note:

(a) We have estimated the payables with financing arrangements by grossing up finance cost on payables with the borrowing cost (calculated) for the respective year

Source: Company, Kotak Institutional Equities

## Receivables from associate remains long due; provisioning on higher outstanding receivables declines

- The group has a 39% interest in Sinova Inovacoes Agricolas S.A. (Sinova, an associate company), which is involved in the business of retail sales and commercial representation of crop protection chemical and seeds in Brazil. UPL had invested additional Rs1.6 bn in Sinova in FY2023, taking the overall carrying value of equity investment in the company to Rs2.5 bn as of end-FY2023. During FY2024, Sinova incurred losses and since UPL's share of losses in Sinova exceeded the carrying value, the entire value of investments in Sinova was written down (see Exhibit 19). UPL supplies goods to Sinova (FY2024; Rs 4.1 bn ; FY2023: Rs8.7 bn) and receivables due from Sinova stood Rs10.3 bn as of end-FY2024 (FY2023: Rs8.0 bn; see Exhibit 20).

- Impairment recognized on receivables have broadly remained in the range of 0.15-0.24% of revenues over FY2020-24, except in FY2022. We note that the provisioning made (in % terms) on higher aged receivables (more than 60 days overdue) have reduced in FY2024.

**Sinova incurred losses in FY2024; carrying value of investments in associate reduces to nil**

Exhibit 19: Financial summary of Sinova Inovacoes Agricolas, March fiscal year-ends 2020-24, (Rs bn)

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| UPL's Interest in company | 45% | 45% | 45% | 39% | 39% |
| Revenue | 19.8 | 23.7 | 41.7 | 71.8 | 70.7 |
| PAT | (0.1) | — | 0.8 | 1.6 | (9.7) |
| Carrying amount (restricting share of loss from associate to Nil) | — | — | 0.2 | 2.5 | — |

Source: Company, Kotak Institutional Equities

**Receivables from Sinova stood at Rs 10.3bn in FY2024 end**

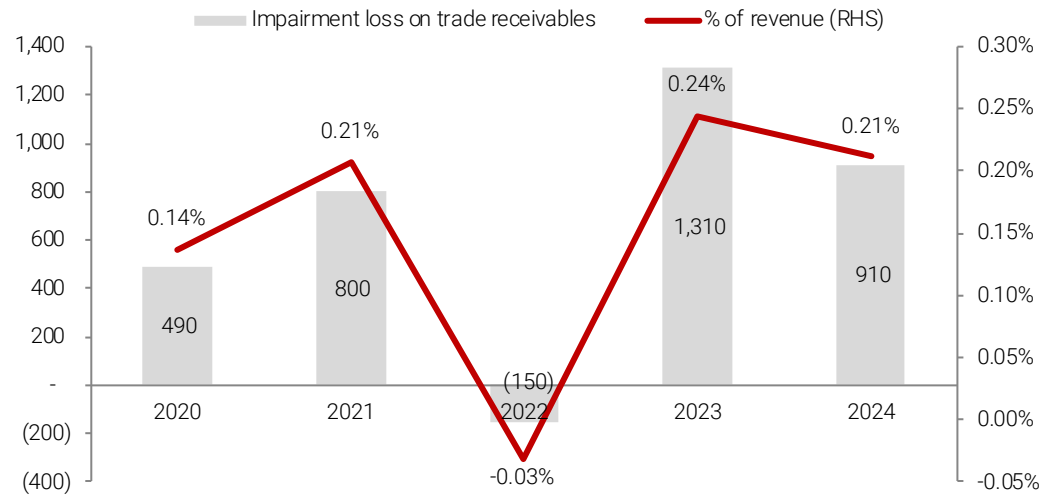
Exhibit 20: Summary of select related party transaction with Sinova March fiscal year-ends 2020-24, (Rs bn)

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| Revenue | 3.1 | 5.0 | 4.2 | 8.7 | 4.1 |
| Payables to Sinova | 2.3 | — | 0.0 | 0.0 | 0.0 |
| Receivables from Sinova | 0.3 | 0.2 | 1.5 | 8.0 | 10.3 |

Source: Company, Kotak Institutional Equities

**Impairment recognized on receivables declined in 2024**

Exhibit 21: Impairment loss on receivables, March fiscal year-ends, 2020-24, (Rs mn)




Source: Company, Kotak Institutional Equities

**Provisioning on receivables with higher ageing reduces in 2024**

Exhibit 22: Ageing of receivable and provisioning, March fiscal year-ends 2023-24 (Rs bn)

| | | Current | 0-60 days | 61-180 days | 180-270 days | > 270 days | Total |
|---|---|---|---|---|---|---|---|
| 2024 | Gross carrying amount for exposure at default | 131.8 | 1.5 | 8.7 | 3.5 | 15.8 | 175.3 |
| | Expected credit loss | 1.0 | 0.3 | 0.5 | 0.3 | 9.5 | 11.6 |
| | Average (%) | 0.8 | 1.9 | 5.5 | 9.3 | 60.2 | |
| 2023 | Gross carrying amount for exposure at default | 160.7 | 12.8 | 6.6 | 1.4 | 12.3 | 193.7 |
| | Expected credit loss | 1.1 | 0.2 | 0.5 | 0.2 | 8.8 | 10.9 |
| | Average (%) | 0.7 | 1.8 | 7.3 | 17.4 | 71.3 | |

Source: Company, Kotak Institutional Equities

### Adjusted net-debt at 1.5X; deleveraging using rights issue/capital raise at platform a priority

- The reported net debt of UPL increased to Rs216 bn in FY2024 from Rs164 bn in FY2023. However, with the reduced (absolute) working capital requirements, adjusted for perpetual bonds and the sale of receivables and payables with financing element, we estimate that the adjusted net debt for UPL declined to Rs380 bn from Rs408 bn in FY2023. Adjusted net debt to equity stood at 1.5X (FY2023: 1.5X), while, adjusted net debt to EBITDA stood at 8.4X (FY2023:4.0X). Deleveraging remains as the foremost priority for the company. In-line with this, UPL plans for 1) a rights issue of up to Rs33.8 bn (93.8 mn shares @360/share) and 2) raising US$ 350 mn from Alpha wave global for a ~12.5% stake in Advanta, of which (a) US$100 mn will be a primary investment in Advanta to fund its growth and (b) US$250 mn will be via secondary sale in Advanta by UPL to deleverage its balance sheet.

- Borrowing costs of UPL increased to 8.9% in FY2024 from 6.0% in FY2023. The treasury assets of UPL stood at Rs68 bn, 27% of NW (FY2023: Rs66 bn, 25% of NW), though with a lower yield, leading to a negative carry.

**Adjusted net debt stood at Rs380 bn as of end-2024**

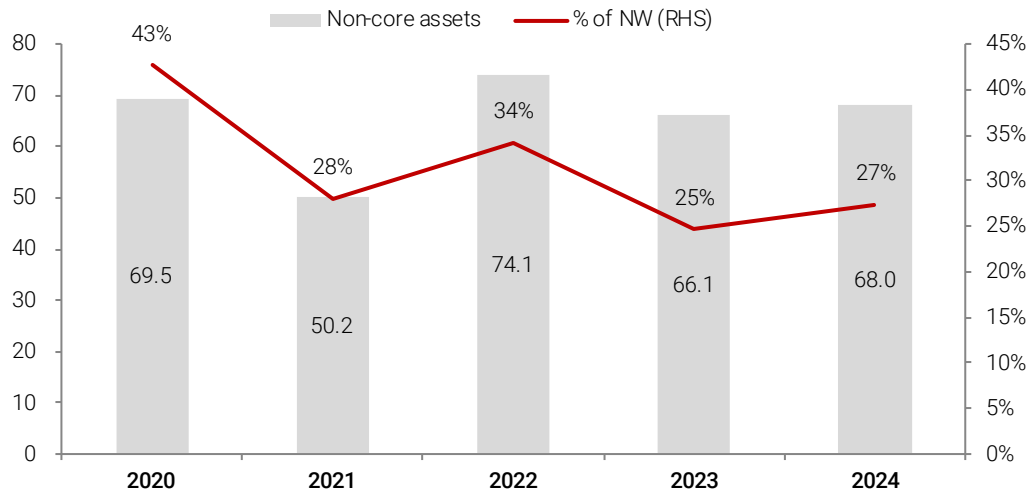
Exhibit 23: Reported and adjusted net-debt, net D/E and net-debt/EBITDA ratio, March fiscal year-ends, 2020-24 (Rs bn)

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| Reported gross debt | 288.1 | 237.7 | 258.7 | 230.0 | 284.4 |
| Add: Perpetual bonds | 29.9 | 29.9 | 29.9 | 29.9 | 29.9 |
| Add: Sale of receivables | 70.2 | 76.2 | 131.0 | 115.0 | 83.4 |
| Add: Payable with financing element (finance cost on trade payable/avg. borrowing cost) | 35.6 | 50.8 | 64.9 | 99.6 | 50.3 |
| Adjusted gross debt | 423.9 | 394.7 | 484.4 | 474.5 | 447.9 |
| Cash and cash equivalents | 69.49 | 50.21 | 74.09 | 66.13 | 67.97 |
| Reported net debt | 218.6 | 187.5 | 184.6 | 163.9 | 216.4 |
| Adjusted net debt | 354.4 | 344.5 | 410.3 | 408.4 | 380.0 |
| Reported gross D/E ratio (X) | 1.8 | 1.3 | 1.2 | 0.9 | 1.1 |
| Adjusted gross D/E ratio (X) | 2.6 | 2.2 | 2.2 | 1.8 | 1.8 |
| Reported net D/E ratio (X) | 1.3 | 1.0 | 0.9 | 0.6 | 0.9 |
| Adjusted net D/E ratio (X) | 2.2 | 1.9 | 1.9 | 1.5 | 1.5 |
| Adjusted net-debt/EBITDA (X) | 5.2 | 4.1 | 4.3 | 4.0 | 8.4 |

Source: Company, Kotak Institutional Equities

**Treasury assets remain high at 27% of net-worth**

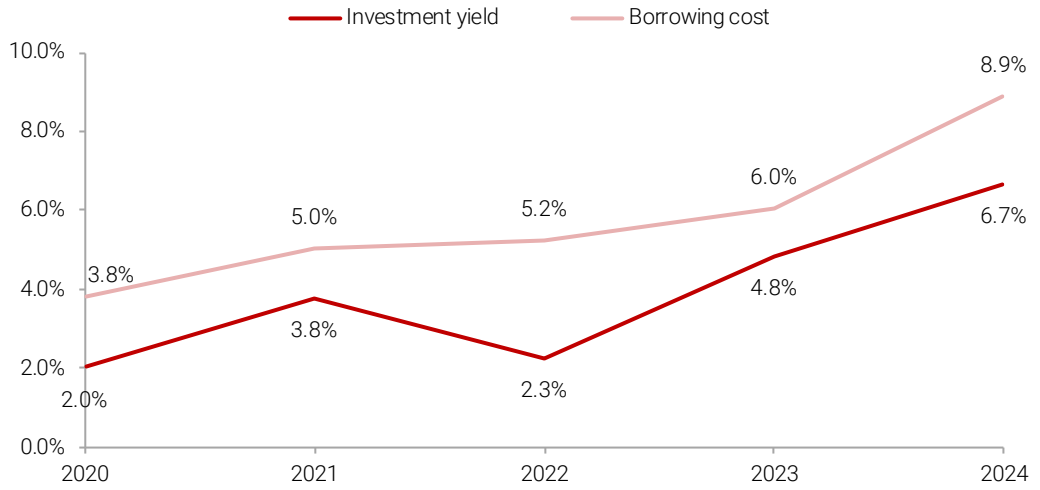
Exhibit 24: Treasury assets, March fiscal year-ends, 2017-21 (Rs bn)




Source: Company, Kotak Institutional Equities

**Higher borrowing costs and lower investment yields lead to a negative carry**

Exhibit 25: Investment yield and borrowing cost, March fiscal year-ends, 2020-24



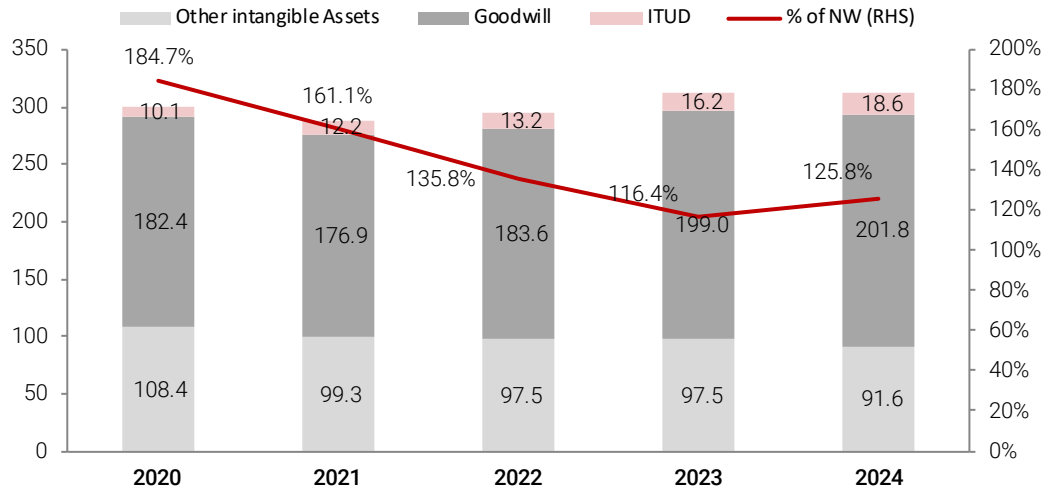

Source: Company, Kotak Institutional Equities

## Intangibles at 1.3X net-worth; annual review does not suggest any impairment

- Intangibles, including goodwill, remain high at Rs312.1 bn, 1.3X of adj. net-worth (FY2023: Rs321.6 bn, 1.2X of adj. net worth). About 65% of these intangibles comprise goodwill pertaining to various geographical cash generating units (CGUs) and are annually tested for impairment. During the recent review, the discount rate assumptions were lowered in the range of 100-200 bps in all geographies except ROW CGUs; while the growth assumptions for all geographies were increased by 3-5% (see Exhibit 28). Management believes that any reasonable change in assumption would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the related CGU.

**Intangibles continue to remain high**

Exhibit 26: Intangible assets, March fiscal year-ends, 2020-24, (Rs bn)




Source: Company, Kotak Institutional Equities

**43% of the goodwill pertains to LATAM**

Exhibit 27: Geography-wise goodwill and intangibles with indefinite useful life, March fiscal year-ends, 2020-24, (Rs bn)

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| Europe | 37.8 | 36.5 | 37.8 | 41.0 | 41.6 |
| Brazil | | | 49.5 | 53.6 | 54.4 |
| Latin America | 79.2 | 76.5 | 29.9 | 32.4 | 32.9 |
| North America | 29.5 | 28.5 | 29.6 | 32.1 | 32.6 |
| Rest of the World | 35.9 | 35.3 | 37.0 | 39.9 | 40.3 |
| Total Goodwill | 182.4 | 176.9 | 183.6 | 199.0 | 201.8 |
| Brand with indefinite useful life | 4.1 | 4.0 | 4.2 | 4.5 | 4.6 |
| Goodwill and brand with indefinite useful life | 186.5 | 180.9 | 187.8 | 203.5 | 206.4 |

Source: Companies, Kotak Institutional Equities

**Revenue growth rate assumption increased and discount rate assumption reduced (except ROW) across geographies in 2024**

Exhibit 28: CGU-wise key assumption on revenue growth and discount rate for testing impairment of goodwill and brands with indefinite useful life, March fiscal year-ends, 2020-24

| | 2020 | | 2021 | | 2022 | | 2023 | | 2024 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Growth rate | Discount rate | Growth rate | Discount rate | Growth rate | Discount rate | Growth rate | Discount rate | Growth rate | Discount rate |
| Europe | 3%-5% | 12% | 3%-5% | 10%-11% | 3% | 10% | 3% | 12% | 8% | 11% |
| Brazil | | | | | 8% | 12% | 8% | 15% | 11% | 13% |
| Latin America | 7%-10% | 12%-13% | 7%-10% | 12%-13% | 8% | 14% | 8% | 14% | 11% | 13% |
| North America | 3%-6% | 10% | 5%-8% | 9%-10% | 8% | 9% | 8% | 9% | 12% | 8% |
| Rest of the World | 8%-12% | 13%-14% | 8%-12% | 10%-12% | 8% | 11-12% | 8% | 10-13% | 11% | 13-14% |

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

# IT Services
India

Sector View: **Neutral** NIFTY-50: **23,907**

**November 25, 2024**

## Midcap Conference takeaways

**We hosted 11 emerging technology companies across services (IT, ERD and BPO), products and as-a-service in our Midcap Conference. The key takeaways are: (1) small companies expect some improvement in demand with healthy growth in deal pipeline, but decision-making timelines are longer; (2) BPO companies believe that clients prioritization toward cost optimization could lead to increased outsourcing; and (3) most companies are open to focused inorganic investments to scale faster, expand market presence and address white spaces in capabilities.**

### Healthy growth in deal pipeline demonstrates willingness to spend

Companies have indicated an improved pipeline, demonstrating a willingness to spend, and expect it to eventually result in better performance in the upcoming quarters. Some hope that better visibility on economic policies of the new US administration could aid growth in tech spends by enterprises. However, the decision-making timelines for clients remain longer, with focus on cost optimization initiatives. Sonata Software expects a pickup in revenue growth in 2HFY25 as compared to 1HFY25, setting up a strong exit for better performance in FY2026. Cyient expects strong growth in the near term, aided by broad-based growth across verticals. Order intake in 1HFY25 was impacted by large engagements being awarded in smaller tranches.

### Banking spend momentum likely to continue; weakness in retail

Commentary remains buoyant on BFS spend outlook. eClerx indicated healthy spends on KYC initiatives. Sonata Software expects 50-70% of incremental revenues from BFSI and healthcare for it to scale to US$500 mn by FY2027. On the other hand, Firstsource indicated that mortgage volumes are unlikely to reach peak levels in CY2021-22 as the interest rate remains significantly higher. Newgen expects continued growth led by the Middle East, while Intellect has established a reasonable presence in the market and expects positive outcomes. Retail vertical spends might remain tepid due to weak end consumer spending. US consumer confidence is at subdued levels despite a reasonable uptick in October.

### Cost pressures could lead to increased outsourcing for pure-play BPO

Firstsource indicated US healthcare payers have been under pressure due to rising medical costs. This could result in increased outsourcing of specific processes to offshore-based players.

### Investments in AI and Gen AI holds promise

Sonata expects to benefit from being the launch partner for Microsoft fabric and believes it is slightly ahead of peers in Gen AI. Pure-play BPO companies indicated significant benefits have been derived from automation. Gen AI could help challengers further disrupt larger incumbents in CX. We believe technology transitions provide an opportunity to challengers that can adapt better to scale faster.

Full sector coverage on KINSITE

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### Focused inorganic moves to establish scale and capabilities

Product engineering, AI and data capabilities are focus areas for Sonata Software. eClerx would consider targets offering nearshore capabilities in CX (Note: FSOL acquired Ascensos for nearshore capabilities and expanding into new verticals such as retail). In addition, eClerx is interested in bolt-on acquisitions offering salesforce and adobe implementation and analytics capabilities. RateGain is engaging with multiple targets, with scale likely to be larger than previous acquisitions. It is also considering assets of significant scale that could help in establishing a leadership position.

We hosted 11 small and mid-tier firms at Kotak Institutional Equities' inaugural midcap conference. Among IT and ERD services we hosted Sonata, Zensar and Cyient. RateGain participated among SaaS companies. Product companies included NewGen Software and Intellect Design Arena. Firstsource and eClerx represented BPO companies. Others include Route Mobile, Protean eGov and eMudhra.

# Cyient

## Key takeaways

- **Some improvement in growth in the near term.** The company expects continued growth momentum in the December 2024 quarter. The company indicated better conversion of order intake to growth in the near term. While the subsequent quarter too appears promising, better visibility is yet to emerge. However, macro factors might influence client decisions given 50% of the revenues are capex-plays. The company remains cautiously prudent on macro factors.

- **Connectivity.** The company aspires to revive the vertical towards FY2023 peak revenues. The medium-term outlook looks promising given ~50% wireline penetration in US and ~50-60% penetration in Europe. The network optimization would take some time to playout. The company plans to invest in the vertical to enhance presence and capabilities in select areas.

- **Sustainability.** Over last two years, most of the spends have been in energy security rather than energy transition. There were lot of fossil-fuel fired plants in Europe. Capex spends in this vertical has been for energy security rather than energy transition. The company's acquisition of Citec aided in expanding footprint in Europe and participate in energy transition initiatives of clients. Cyient expects most of the incremental demand for energy to be met through conventional sources. However, the company remains optimistic of being able to meet clients' needs regardless the evolution of demand in either direction. The company plans to strengthen capabilities in areas such as digital twins, which might take more time to develop on organic basis. The seasonal weakness in the September quarter is an annual phenomenon in Finland, Norway, Germany, etc. and a large deal ramp-up had offset the impact in 2QFY24. However, during this quarter, the impact was more pronounced due to weaker macro. Equipment and other infrastructure for the subsidiary are in place and would be transitioned without incurring significant additional capex.

- **Aerospace.** Large aircraft OEMs are going through issues related to safety which has also impacted the supply chain. The industry has been impacted by (1) issues at few large suppliers and (2) a lack of availability of quality talent post Covid. This presents an opportunity for vendors such as Cyient to address the evolving needs of the clients. While this would gradually translate into better growth eventually, there could be some volatility in the near term due to transient issues. Additional opportunity would emerge from new platform development as the useful life of existing platforms would end by CY2033-35 timeframe and would take nearly a decade to develop.

- **Order intake.** The decline in order intake has in part driven by a large work order being awarded in multiple tranches by clients due to macro uncertainties. This trend was first started by clients in communications vertical but is now a broad-based phenomenon. Cyient remains confident that the metric would improve with shift in macro given the depth of its relationships.

- **Cyient Semiconductor.** The company aspires to scale the business to US$500 mn in the next 10 years. The company has partnerships with boutique fabs in Europe and US to scale the business. The company has enough capital to for inorganic and working capital requirements.

- **Return ratios.** The company indicated that margins and RoCE of transportation, connectivity and sustainability segments are comparable. New growth areas might be marginally lower due to ongoing investments to scaleup each of the verticals (hitech, automotive and health & medical devices).

- **Guidance.** The company expects DET segment revenues to remain flattish in FY2025E and expects to raise EBIT margin to ~16% by the March 2025 quarter.

## eClerx services

### Key takeaways

- **Business overview.** eClerx's business is broadly divided into 3 segments: (1) financial markets, (2) digital and (3) customer operations.
- **Competition.** In each of the three segments, eClerx's competitors are (1) financial markets–inhouse teams and large IT companies, (2) digital–agencies, pure-play analytics companies and interactive arms of large IT services vendors, (3) customer operations–large customer experience (CX) focused BPO services vendors.
- **Demand.** The pipeline is growing at a healthy rate. This has been aided by efforts to expand into new buying centers of existing clients (there by de-risking the business partly) and also actively responding to more RFPs. However, the company's growth rate has been volatile in the past and management is taking measures to demonstrate sustained growth rate. This remains a work in progress.
- **Outlook.** Financial markets and customer operations segments remain strong aided by deal wins and demand tailwinds while digital business would be a tad weaker due to continued pressure on discretionary spends.
- **Deal wins and ACV.** ACV trend have been healthy in the past few quarters. However, there have been higher business roll-offs in 2QFY25, which will have an impact on 3QFY25. Reported ACV does not include contribution from CLX, as the business is highly project-based.
- **Sales refresh.** The company has invested in hiring new sales people and also has replaced a few underperformers. The sales team has been motivated to take more risks and participate in more RFPs rather than just relationship/referral-based sales. Further, the company needs to strengthen relationships with senior sponsors/CXO within clients' organizations. The early results are visible in terms of growing pipeline and deal ACV. The focus is now on increasing quarterly large deal wins (>US$2 mn). The sales team has been encouraged to take risks and have confidence in delivery team to handle clients' requirements. However, there might be a few cases of slip-ups initially but would be addressed as the need arises.
- **Margins.** People-related investments are largely done. Investments will continue in tech and analytics and might be higher in 2HFY25. Marketing spends would also increase in 2HFY25. Further, there would be a few replacement hires in sales team at lower levels. Management expects EBITDA margin to remain in 24-28% range for FY2025. Over the medium term, margin evolution would depend on the level of investments that need to be maintained.
- **Pricing.** eClerx does not play as a lowest-cost vendor. The offerings would be priced at a marginal premium to competition, but the quality of delivery and clients' comfort have aided in sustaining premium positioning.
- **Acquisitions.** The company is interested in bolt-on acquisition in areas such as (1) salesforce and adobe implementation capabilities, (2) nearshore capabilities in CX, (3) KYC and (4) analytics capabilities. While the company wouldn't rule-out rebadging deals in CX, it would prefer an outright acquisition for CX capabilities. The acquisitions are initially screened by the founders but the CEO would have final call on "go-no go" decision.
- **Management remuneration.** The CEO's remuneration is linked to the following factors (1) EBITDA growth (US$ terms), (2) client concentration and (3) progression of clients through the various buckets.

## Firstsource Solutions

### Key takeaways

- **Organizational restructuring.** The company is undertaking multiple measures to drive improved performance under the current CEO. Key highlights are (1) focus on scalable accounts with dedicated sales people, (2) increased focus on large deals (>US$5 mn ACV), which has led to increase in large deal wins from 1 per quarter to 3 on an average currently, (3) amplifying the brand and increasing engagement with industry analysts, (4) investments in sales (40% increase in headcount over more than a year), and (5) infusing AI into platforms.

- **CX BPO.** Significant part of the spend was inhouse but there has been an increasing trend towards outsourcing. Enterprises are looking at vendors with offshore and nearshore capabilities to outsource processes. There can be ask for productivity benefits which can be achieved by leveraging AI. However, Firstsource's participation in the market has been low historically and the business would be incremental as compared to pure-play CX BPO players.

- **Healthcare.** The company works with payers and providers in the US. The business has grown well in the recent past. Healthcare payers are seeking cost efficiencies and are now open for incremental outsourcing to offshore locations. With the acquisition of QBSS, the company now has end-to-end offering for healthcare providers

- **Mortgage.** Management indicated that given the interest rates are likely to remain significantly higher than trough levels of CY2020-21, it might be tough to scale the business to previous peak. A 150-200 bps lower fed rate from current level could spur incremental volumes in refinancing. Over past few years, the dependence on originations and monoliners has reduced while there has been an increase in servicing and higher revenues from participating in internal processes of clients. This has also been aided by increased outsourcing by a few clients. The company has also recently launched an LLM to simplify the mortgage processes. The offering has garnered strong attention from clients. On the other hand, the company expects new home buyers' market to grow with further cut to interest rate. However, the outcomes of macro events are not included in the company's guidance.

- **Collections.** The company's services span across first-party, third-party and legal collections. The company has license for legal collections across all states in the US. Over the past 9 months, it has also invested in infusing AI into its digital collections platform.

- **BFSI.** The company continues to expect improving growth trajectory in the vertical in FY2025

- **CMT.** The company is positioning itself as a challenger in a vertical where most clients are mature outsourcers. The company has expanded presence in the ANZ market and expects healthy growth momentum from the region.

- **Margin.** The company has identified 25-26 areas that can be more efficient to pull-up margins. FSOL has been able to maintain margins range bound despite investments in capabilities and 2 rounds of wage hike over past 3-4 quarters. Targeted initiatives to improve EBIT margin by 50-75 bps on annual basis.

- **Acquisition.** Ascensos was acquired for its nearshore capabilities and also presence in quality retail clients in the UK. The business operates at high-single digit margin. Firstsource did not acquire significant part of support functions and can extract cost synergies to drive margin expansion for the acquired business.

## Intellect Design Arena

### Key takeaways

- **Healthy long-term demand outlook.** Demand outlook is healthy from a long-term perspective. Overall transformation spend on technology by BFSI companies is increasing. Banks will realize that cutting change the bank initiatives will not be good in the long run. Intellect already has achieved product market fit.
- **AI.** Intellect is a BFSI AI company, with focus on operational efficiency. The company leads with Purple Fabric, an enterprise AI platform for operational transformation in regulated industries. Guardrails and traceability are in-built in the platform. Enterprises can build use cases on top of the platform tailored to industry-specific functions.
- **Pipeline and deal flow.** Pipeline is strong. Current revenue growth slowdown is due to slowdown in contract closures because deals have to get approved by multiple stakeholders. The funnel size keeps on increasing across all regions.
- **Partnership strategy is in early stages.** Started winning deals with GSIs. Intellect has set up a partnership organization to engage with GSI consultants. Clients tend to trust solutions recommended by incumbent GSIs.
- **Region-wise commentary.** In North America, Intellect is winning new insurance contracts. These tend to be all subscription deals; hence the revenue gets recorded over a period of time. In Canada demand is healthy for Intellect's DEP (digital experience platform). Intellect is targeting US for consumer banking products. Intellect has strong refereceability in Europe. The Middle East continues to do well. Intellect has created a good presence in Eastern Europe in the last few years. North America is a stronghold for Intellect's AI business. Intellect has strong reference clients for transaction banking business in India and to an extent for consumer banking as well. Intellect is performing well in core banking and lending deals in Asia.
- **Better revenue mix.** Macro and geopolitical situation has impacted signings of destiny deals leading to revenue shortfall compared to expectations. Geopolitical tensions remain even now. To mitigate risk, the company is working on having a better mix of revenue from destiny deals and run-rate business.
- **DSO.** Significant receivables from GEM program are yet to be collected. CEO change at GEM is also leading to some delays. Excluding GEM Intellect is targeting DSO of 100. Intellect takes quarter annualized revenue for DSO calculation. Revenue shortfall contributed to increased DSO in the previous quarter.
- **Temenos and OFSS.** Hindenburg allegations did not impact customer perception of Temenos significantly. Temenos's strategy is to go only after license deals and leave services to partners. Focus is less on on-premises licenses and more on subscriptions. Intellect focuses on making products technically superior to Temenos. OFSS has invested well in the last few years and have improved their products.
- **Product segments.** Intellect has organized business into three segments: (1) transaction banking, (2) consumer banking and (3) AI. Transaction banking is the largest segment followed by consumer banking.
- **Pricing model.** Pricing model depends on clients' needs. For example, North American insurance market has always been a subscription-based market. Larger clients irrespective of the market usually tend to prefer license-based deals.
- **Core banking.** Intellect has always been in the top 3 in vendor evaluation exercise of clients. In the US banks are still running on COBOL based core banking systems. Some banks are following hollowing the core strategy where core is used just as a system of record. Transactions are moved out of the core and kept in separate systems. Intellect already has products that cater to many of these sub-segments. Companies in Eastern Europe and APAC want to change the core. Demand for core replacement will pick up strongly in India post a couple of years.

- **Competition.** Most of their announcements are upgrade deals. Intellect is winning against competition and gaining share. In the last six months, Intellect has replaced Temenos in two locations in Africa.
- **Shift from public cloud.** Cloud becomes expensive when transaction volumes are high. Banks are shifting workloads from public cloud to on-prem or to private cloud in select instances to for cost effective operations.
- **Pricing model.** Historically, sales were based on perpetual licenses. Now term licenses are mostly sold for a term period of 3-5 years. Separate contracts are signed for license, implementation and AMC. Insurance is always based on subscription basis. License revenue is booked upfront. Lifetime value of subscription model is higher than license model.
- **SaaS revenue.** Intellect expects revenue from SaaS model to double in the next 18 months, aided by North America insurance deals.
- **Clients.** Intellect has 7 out of top 10 banks in almost all regions as clients. Cross-selling will be key to mine accounts.

# Newgen Software

## Key takeaways

- **Company evolution.** The genesis of Newgen was to develop a standardized product for document management focused on financial service sector. Further, the company developed process automation and customer communication products. These products are now offered as Newgen ONE platform, a standardized offering with customized solutions on top of the platform to meet clients' requirements.

- **Addressable markets.** Newgen's offerings can be categorized among either of the following (1) low-code, (2) process automation or (3) platforms. For instance, low-code platforms market could be ~US$50 bn with mature markets accounting for 55%. However, the applications that are developed on the low-code platform are tough to account for given customized nature of these solutions. Applications for lending management and trade finance would be more relevant ones for Newgen.

- **Strong presence in emerging markets.** Over the years, Newgen has established its presence in India, Middle East and South East Asian markets as a credible player competing with global peers such as Pega, Appian, IBM Filenet, OpenText, etc. Win rates range from ~80% in India, ~50-60% in the Middle East and the South East Asian market. In mature markets, however, the win rates are more modest at ~10%.

- **GSI channel.** Newgen has limited presence in mature markets such as the US and the UK. The company has been investing to establish presence in the US over the past 7-8 years without very encouraging outcomes. While the company has been able to win new clients, most of these relationships are small with limited ability to scale materially. The company looks to partner with GSI (Global System Integrators) to win large deals with large banking and financial clients in the US. Further, it has also engaged a global management consulting firm to formulate a strategy to benefit from large addressable market in the US and the UK.

- **Pricing.** Pricing for products varies by market but is not very different from competition. Rather than compete on price, Newgen prefers to leverage analyst recognitions as a reference point of its capabilities to win larger engagements with clients. Further, the ability to understand business case and respond to RFP also would determine success.

- **Buying centers.** Large organizations have multiple business leaders who decide from a list of products that would be part of tech stack. The decentralized decision-making limits ability to effectively expand in a particular account across divisions and geographies.

- **Implementation.** Typical Implementation time frame is 8-9 months. Earlier 50-60% was license to implementation revenue but as the process becomes more complex implementation revenues will increase.

- **DSO days.** The company operates at 130-140 days receivables (incl unbilled). DSO is typically higher during implementation cycle as clients look for higher control on payments. Further, DSO would moderate marginally with increased presence in mature markets. However, the company's DSO is comparable to global peers.

- **Client churn.** The churn would be typically 5% in large customers. Most contracts are of 5-year duration. The company has been moving away from small and mid-sized banks to grow business in larger banks.

- **Reasonable potential in existing accounts and geos.** Management believes existing set of clients in emerging markets could enable scale up of the business up to US$500 mn over the long term and healthy growth rate and margins.

# RateGain Travel Technologies

## Key takeaways

- **Overview.** RateGain is focused on developing an integrated tech stack to enable hotels acquire, engage and interact with their guests. The business started off with DaaS products (rate parity and optima). The company has gradually expanded capabilities across distribution and MarTech segments, primarily driven by acquisitions.
- **Demand.** Travel demand has moderated post robust uptick over past 2-3 years. The company indicated weakness in the US, also driven by some uncertainty due to elections in the geography. The company expects gradual improvement in the next few quarters. Business travel is inching back to pre-pandemic levels, with a stronger focus on cost control, presenting an opportunity for competitive intelligence offering. Large hotel chains are looking to expand into newer markets and reach new travelers, providing an opportunity for new travel aggregators to streamline B2B distribution.
- **Pricing.** There are a lot of pricing discussions underway as clients are tightening their budgets due to the normalization of demand. RateGain offers great value to clients but is now focused on offering better products at similar price rather than outright discounting. In addition, it is focused on increasing attach rate for clients.
- **DaaS.** The company offers price parity and pricing intelligence products for hotels, OTAs, car rentals clients. The data is acquired primarily by crawling and scraping websites and in few cases, from existing API integration with clients. RateGain has SLAs with each of the customers to provide accurate data, the company's key value proposition.
- **Organic growth.** DaaS segment has been completely scaled by organic investments. It has also invested in building a connectivity platform for small and mid-market hotels to distribute availability, rates and inventory (ARI) data. The company has recently launched booking engine as part of its RevMax platform (uno).
- **Adara.** The company indicated that the performance of Adara over the past 18 months has been better than expected. Adara added 89 clients during the quarter. The business is now clocking US$48-49 mn revenue run-rate in 2QFY25 and 18% EBITDA margin.
- **Acquisition.** RateGain is evaluating multiple acquisition targets with discussions at various stages of maturity. The company is considering targets that can add a beachhead in a certain area.
- **Margins.** DaaS and distribution businesses are higher margin business while MarTech has relatively lower margins. The company aspires to increase EBITDA margins progressively to 25% range over the medium-term.

# Route Mobile

## Key takeaways

- Route Mobile is a communication partner for enterprises. Its communication platform addresses multiple channels such as SMS, email, voice, chat bots, WhatsApp, etc. Revenue is largely transaction-based and is charged on a cost-plus basis. The company caters to end to end requirements of clients. For example, for ride-hailing apps, Route Mobile caters to diverse use cases such as identity verification using OTP over SMS, emailing invoice post the ride and providing chat bot facility to air grievances.
- Route Mobile works with all major hyperscalers. The company's communication platforms are typically well-integrated into enterprise customers such as BFSI. Route Mobile's CPaas platforms are well integrated into core banking platforms of various prominent Indian banks. Gross margins are typically higher for banks and lower for new-age enterprises. Business follows an asset light model.
- Partnership with Proximus is aiding the company's reach into developed markets. Organic efforts would have entailed high customer acquisition costs. Proximus is using its alliance ecosystem to aid entry and go-to-market with new international clients. The deal with Proximus also involves getting better profitability for Telesign. With the Proximus deal Route Mobile has become one of the few CPaaS companies backed by telecom operators.
- Telesign's emerging market volumes that were earlier addressed by players like Tanla are now moving through Route Mobile. The company expects benefit close to Rs4.5-5 bn, which has already started to flow. Route Mobile expects further synergies from cross-selling of Telesign's tech stack such as digital identity stack to Indian enterprises and cross-sell of Route Mobile's services to Telesign's international customers.
- Proximus has signed a large deal with Infosys. On the back of this deal, Infosys will also help generate certain committed CPaaS revenues for Route Mobile.
- Route Mobile is trying to break into a global CRM player using Proximus connection. Success in the endeavor can itself lead to double-digit growth in FY2026.
- CPaaS market globally is growing at 8-10%. Route Mobile can grow faster aided by share gains facilitated by Proximus partnership and expects to deliver a three-year revenue CAGR of 15%. The company indicated better deal flows. Headwind from lower demand due to sharp price increases from telecom operators and higher interest rates are in the base. Route Mobile gets 7% of revenue from non-SMS channels and aims to increase the mix to 15% in the next three years.
- The US market is 50% of the overall market and is US$8-10 bn in size. Focus is on selling non-SMS products till Route Mobile gets direct connectivity from US telecom operators.
- Route Mobile believes that OTTs will eat into traditional contact center revenue share and not SMS.

## Sonata Software

### Key takeaways

- **Microsoft business.** Sonata is one of the top 10-15 Dynamics implementation partners globally. Focus is on small-to-mid size companies. Dynamics capability was a differentiator and provided entry into customers. The business has been impacted by higher interest rates impacting ability of customer base to spend. Sonata indicated increasing demand for Dynamics CRM product and fast-growing pipeline for Microsoft Fabric related deals. Fabric has the potential to be the next Dynamics for Sonata. Sonata was one of the seven launch partners for Sonata and is well positioned to benefit from growing demand for Fabric.

- **Generative AI.** Sonata believes that it is somewhat ahead of peers in generative AI. The company already has a platform, Harmony.AI, where it has use cases customized for different verticals and horizontals. Adoption of generative AI can lead to short term pressure on volumes. But technology intensity will increase due to AI offsetting this impact.

- **Temporary slowdown in hi-tech.** Internal mandate of key hi-tech clients is to use AI and cut costs leading to the company focusing on cost efficiencies and productivity increases. Sonata expects volatility in spends which will be across other service providers as well.

- **Focus on BFSI and HLS.** 50-70% of the next US$150 mn of revenue will accrue from BFSI and HLS verticals. TMT will be the third focus vertical. From a near term outlook perspective, hi-tech and manufacturing are witnessing greenshoots with pick up in customer enquiries. Retail will take longer to recover. BFSI and healthcare also are exhibiting greenshoots.

- **Margin outlook.** Sonata continues to invest substantially in scaling technical teams and sales teams. Leverage from better revenue growth and offshoring of large healthcare deal will help get to 20%+ EBITDA margin in 1Q2026. Sonata believes that it can maintain steady state EBITDA margin in the low 20s consistently. Large deals usually meet company average margins. Upfront costs can lead to lower margins in initial ramp up of deals.

- **Growth outlook.** Growth will be better in 2H than 1H. Growth momentum will further pick up from 1QFY26.

- **Domestic business revenue growth outlook.** Sonata expects 10-12% growth in gross contribution for the domestic business in FY2025, lower than normalized growth of 15%, due to weak demand in the IT industry, which contributes 30% of revenue. Sonata expects gross contribution increase to be higher in FY2026.

- **BFSI vertical.** Exposure is largely toward BFS clients. Focus in BFSI is on fintech, payments, consumer and retail banking and data and analytics. Data privacy process related IP from Quant acquisition helps get entry to banks and opens opportunities in areas of compliance, data analytics

- **Cash concerns.** OCF to EBITDA has reduced recently because most large deals are fixed-price projects, leading to a shift in revenue mix toward fixed price, resulting in increase in unbilled revenue. The transition will reach a steady state in FY2026.

# eMudhra

## Key takeaways

- **emSigner.** Initially it was rolled out as a general-purpose product. Over time it became more specialized for banking and has been modified to enable easy integration with core banking platforms.
- **Two lines of businesses.** The first line of business is Digital Signature which was initially issued for individuals and now can be issue for websites, IoT devices etc. The other line of business involves other solutions such as SecurePass, emSigner and CERTInext. The company was initially dependent on digital signature business but over time the second line of business has expanded. Digital signature or trust services comprises of ~20% of revenue currently.
- **Revenue outlook.** eMudhra expects annual revenue of ~Rs5 bn in FY2025. Indian business revenue is expected to be around Rs2-2.2 bn.
- **Competition.** The company is well positioned globally. eMudhra enjoys 2-3X realization in global markets compared to domestic, along with benign competitive intensity. DocuSign and Adobe are key competitors. eMudhra competes on price with global players who mostly tend to be from the US. eMudhra does not have significant competition in the cyber security space.
- **Pricing in trust services.** Realization in trust services prices reduced because of pressure from partners to cut prices. eMudhra has changed its pricing and collects payments from customers directly following new mandates from the IT Ministry from July 15, 2024. Most customers buy digital certificates through partners who charge a commission of 40-50% which impacts net realization for eMudhra. Digital signature volume has significantly gone down because of two factors- (1) earlier any tax audit case required digital signature- now only corporate tax audit need digital signature. This led to 30% reduction in market size and (2) reduction in channel inventory led to another 10% reduction in market size. Volume reduction has been offset by higher pricing. Trust business in India may grow 10-15% yoy.
- **E-signature market.** Net realization is very poor in Aadhaar based e-signature because Protean has reduced prices. eMudhra is not keen on the e-signature market.
- **Differentiation with peers.** (1) Adobe and DocuSign offer only public cloud-based solutions while eMudhra offers on-prem and private cloud also, (2) eMudhra is flexible on the pricing aspect and (3) solutions are not general purpose but have vertical specific features.
- **emSigner.** The solution has revenue of Rs600-650 mn. Customers include large enterprises and many small SME clients.
- **Growth philosophy.** eMudhra does not want to scale up aggressively. Focus is to always run profitably and grow 25-30% yoy. The company will not blitz scale by ramping up heavily on sales and using paid lead generation entities. The company wants to maintain 18% PAT margin levels. Margins in 1HFY25 were impacted by acquisition-related charges.
- **SecurePass.** Serves the identity and authentication market. Focus till now has been on the Indian market with no significant competition. The business generates revenue of Rs 250-300 mn per annum. eMudhra sells to government departments, banks and other enterprises.
- **CERTInext.** Certificate discovery and replacement solution based on public key infrastructure. Competing with players such as Nexus, DigiCert and Entrust.

# Protean eGov

## Key takeaways

- **Business segments.** The company has three business segments that account for most of the revenue: (1) tax services (~55% of revenue), (2) social security (~25% of revenue) and digital identity (~20% of revenue).
- **Tax services.** The company is mandated to issue PAN cards. There are three players in the domain: (1) ITD (4-5%), (2) Protean (64% market share cumulatively and on a quarterly basis, it fluctuates between 57% and 64%) and UTITSL accounting for the rest of the market. The company also offers PAN editing services. Based on, most recent PAN-Aadhaar linkage, there could be 570 mn live PAN cards out of overall 740 mn PAN cards issued. The company accrues Rs91 for PAN card issued online. Both franchisee and assisted online businesses have similar margins. Leveraging tech, the company has been able to issue new PAN cards within 10 minutes.
- **Social security.** Primarily the CRA business, and the company was the first entrant and only CRA during 2010-18. PFRDA issued perpetual licenses in CY201 to Protean, CAMS and Kfintech. However, Protean has a 97% market share among the 77 mn NPS and Atal Pension Yojana (APY) accounts. While CRA allows customer switching, the difference is not significant for subscribers as the quality of service is standardized and pricing is marginally higher for Protean. The revenue model is as follows: (1) account opening charges (Rs40 per account), (2) AMC (Rs69 per year) and (3) transaction charges (Rs3.75 per transaction). Corporate and government accounts have 12 transactions per year while no transaction fee is charged for APY accounts
- **NPS penetration.** Currently, pension penetration is roughly ~6% in India in contrast to developed countries with 70%+ penetration. The government has been nudging for increased NPS adoption. Protean has 16k corporates registered and 100% market share in B2G accounts
- **Digital identity.** This includes Aadhaar eKYC, Aadhaar authorization, e-sign and online PAN verification. Protean is among top-5 in Aadhaar verification.
- **Open digital ecosystem.** This has started with ONDC. The company is one of the founder-promoters and provides search platform for ONDC. The revenue generation is from providing the search gateway and is on a 'cost plus' basis. It has 26 buyer apps and 80 seller apps integrated. The company charges 0.5-3% of GMV for buyer-seller tech integration. The business is currently in investment mode and would have some tangible outcomes (revenues) in the next six months.

## Exhibit 1: Valuation summary of key Indian technology companies

| Company | 22-Nov-24 Price (Rs) | Rating | Mkt cap. (Rs m) | Mkt cap. (US$ m) | EPS (Rs) 2025E | EPS (Rs) 2026E | EPS (Rs) 2027E | P/E (X) 2025E | P/E (X) 2026E | P/E (X) 2027E | EV/EBITDA (X) 2025E | EV/EBITDA (X) 2026E | EV/EBITDA (X) 2027E | RoE (%) 2025E | RoE (%) 2026E | RoE (%) 2027E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Coforge | 8,328 | ADD | 555,960 | 6,583 | 143.8 | 195.6 | 248.3 | 57.9 | 42.6 | 33.5 | 28.9 | 21.9 | 17.9 | 19.9 | 20.5 | 23.5 |
| Cyient | 1,803 | BUY | 200,049 | 2,369 | 66.4 | 82.2 | 91.5 | 27.1 | 21.9 | 19.7 | 15.5 | 12.6 | 11.2 | 15.5 | 17.4 | 17.7 |
| HCL Technologies | 1,898 | REDUCE | 5,151,622 | 60,998 | 63.4 | 70.1 | 78.0 | 29.9 | 27.1 | 24.3 | 19.0 | 17.2 | 15.6 | 24.8 | 26.1 | 27.3 |
| Indegene | 640 | ADD | 153,204 | 1,814 | 16.8 | 20.9 | 24.8 | 38.1 | 30.6 | 25.8 | 24.4 | 20.3 | 16.7 | 20.1 | 17.7 | 17.6 |
| Infosys | 1,902 | BUY | 7,898,612 | 93,525 | 63.1 | 72.0 | 80.0 | 30.2 | 26.4 | 23.8 | 19.7 | 17.4 | 15.6 | 28.6 | 30.4 | 31.7 |
| KPIT Technologies | 1,308 | SELL | 358,703 | 4,247 | 27.4 | 34.5 | 42.6 | 47.7 | 37.9 | 30.7 | 28.1 | 22.4 | 18.4 | 30.4 | 30.4 | 30.3 |
| L&T Technology Services | 5,309 | SELL | 561,912 | 6,653 | 123.3 | 145.5 | 164.8 | 43.1 | 36.5 | 32.2 | 27.4 | 23.9 | 20.9 | 22.9 | 23.8 | 23.6 |
| LTIMindtree | 6,134 | ADD | 1,816,703 | 21,511 | 163.2 | 202.7 | 233.2 | 37.6 | 30.3 | 26.3 | 25.3 | 21.2 | 18.1 | 22.7 | 24.8 | 25.0 |
| Mphasis | 2,884 | SELL | 546,072 | 6,466 | 90.0 | 99.2 | 116.1 | 32.0 | 29.1 | 24.8 | 20.4 | 18.3 | 15.8 | 18.8 | 19.7 | 21.4 |
| Persistent Systems | 5,792 | SELL | 902,683 | 10,688 | 87.0 | 106.8 | 127.8 | 66.6 | 54.2 | 45.3 | 44.3 | 36.3 | 30.1 | 25.0 | 25.9 | 26.2 |
| Rategain | 690 | REDUCE | 81,376 | 964 | 17.5 | 21.6 | 25.6 | 39.5 | 32.0 | 27.0 | 31.9 | 24.7 | 20.0 | 13.3 | 14.2 | 14.5 |
| Tata Elxsi | 6,586 | SELL | 410,217 | 4,857 | 138.5 | 162.1 | 186.1 | 47.5 | 40.6 | 35.4 | 34.2 | 28.3 | 24.5 | 33.0 | 33.3 | 33.6 |
| Tata Technologies | 941 | SELL | 381,815 | 4,521 | 16.7 | 20.0 | 23.7 | 56.3 | 47.0 | 39.8 | 38.2 | 31.8 | 26.6 | 20.0 | 21.6 | 22.8 |
| TCS | 4,245 | ADD | 15,357,334 | 181,840 | 136.2 | 150.6 | 169.5 | 31.2 | 28.2 | 25.0 | 21.7 | 19.8 | 17.7 | 50.5 | 50.5 | 51.3 |
| Tech Mahindra | 1,747 | ADD | 1,542,165 | 18,260 | 50.8 | 65.8 | 84.0 | 34.4 | 26.6 | 20.8 | 20.4 | 15.9 | 12.7 | 16.8 | 20.9 | 25.0 |
| Wipro | 571 | SELL | 2,989,425 | 35,397 | 24.0 | 26.0 | 28.1 | 23.8 | 22.0 | 20.3 | 14.5 | 13.4 | 12.5 | 15.5 | 15.0 | 15.1 |

| Company | Target Price (Rs) | O/S shares (mn) | EPS CAGR (%) 2025-27E | EPS growth (%) 2025E | EPS growth (%) 2026E | EPS growth (%) 2027E | Net Profit (Rs mn) 2025E | Net Profit (Rs mn) 2026E | Net Profit (Rs mn) 2027E | EBITDA (Rs mn) 2025E | EBITDA (Rs mn) 2026E | EBITDA (Rs mn) 2027E | Sales (Rs mn) 2025E | Sales (Rs mn) 2026E | Sales (Rs mn) 2027E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Coforge | 8,000 | 67 | 31.4 | 8.2 | 36.0 | 26.9 | 9,691 | 13,255 | 16,918 | 19,283 | 25,202 | 30,468 | 120,335 | 148,665 | 173,534 |
| Cyient | 2,050 | 111 | 17.4 | 0.1 | 23.8 | 11.3 | 7,367 | 9,123 | 10,157 | 12,457 | 15,093 | 17,021 | 76,692 | 88,730 | 100,597 |
| HCL Technologies | 1,760 | 2,716 | 10.9 | 9.6 | 10.5 | 11.3 | 172,304 | 190,514 | 212,268 | 255,315 | 280,237 | 307,279 | 1,172,012 | 1,288,462 | 1,408,126 |
| Indegene | 730 | 240 | 21.5 | 12.4 | 24.4 | 18.7 | 4,036 | 5,021 | 5,961 | 5,603 | 6,501 | 7,548 | 28,064 | 32,233 | 37,220 |
| Infosys | 2,200 | 4,151 | 12.6 | 7.8 | 14.2 | 11.1 | 261,766 | 298,924 | 332,010 | 390,792 | 438,863 | 490,486 | 1,632,172 | 1,800,494 | 1,981,673 |
| KPIT Technologies | 1,150 | 273 | 24.7 | 28.8 | 25.8 | 23.6 | 7,499 | 9,434 | 11,658 | 12,368 | 15,274 | 18,174 | 58,594 | 69,826 | 82,167 |
| L&T Technology Services | 4,450 | 106 | 15.6 | (0.1) | 18.0 | 13.3 | 13,019 | 15,359 | 17,400 | 19,212 | 21,791 | 24,629 | 104,664 | 117,095 | 132,308 |
| LTIMindtree | 6,750 | 296 | 19.6 | 5.3 | 24.2 | 15.1 | 48,235 | 59,907 | 68,938 | 67,004 | 78,724 | 90,492 | 379,205 | 429,129 | 484,463 |
| Mphasis | 2,750 | 189 | 13.6 | 9.2 | 10.3 | 17.1 | 17,009 | 18,753 | 21,952 | 25,972 | 28,743 | 32,993 | 141,808 | 157,196 | 176,734 |
| Persistent Systems | 4,600 | 155 | 21.2 | 18.1 | 22.7 | 19.7 | 13,489 | 16,555 | 19,815 | 20,073 | 24,259 | 28,877 | 117,997 | 140,423 | 163,700 |
| Rategain | 800 | 119 | 21.0 | 35.6 | 23.4 | 18.6 | 2,073 | 2,558 | 3,034 | 2,311 | 2,874 | 3,394 | 10,993 | 12,759 | 14,634 |
| Tata Elxsi | 5,600 | 62 | 15.9 | 8.9 | 17.0 | 14.8 | 8,828 | 10,101 | 11,595 | 11,464 | 13,762 | 15,743 | 38,932 | 45,865 | 52,747 |
| Tata Technologies | 650 | 406 | 19.0 | (1.9) | 19.9 | 18.1 | 6,782 | 8,130 | 9,603 | 9,630 | 11,513 | 13,639 | 52,766 | 60,148 | 69,111 |
| TCS | 4,500 | 3,619 | 11.5 | 5.1 | 10.5 | 12.6 | 492,991 | 544,860 | 613,346 | 683,260 | 744,756 | 830,284 | 2,572,226 | 2,714,837 | 2,999,160 |
| Tech Mahindra | 1,850 | 890 | 28.6 | 60.6 | 29.5 | 27.6 | 45,219 | 58,546 | 74,730 | 72,750 | 92,474 | 115,175 | 535,947 | 584,479 | 646,250 |
| Wipro | 500 | 5,236 | 8.2 | 14.7 | 8.3 | 8.2 | 125,645 | 136,070 | 147,225 | 178,970 | 187,464 | 196,787 | 888,474 | 929,198 | 980,380 |

Source: Kotak Institutional Equities estimates

## Kotak Institutional Equities: Valuation summary of KIE Universe stocks

| | | Price (Rs) | Fair Value | Upside | Mkt cap. | | O/S shares | EPS (Rs) | | | P/E (X) | | | P/B (X) | | | EV/EBITDA (X) | | | RoE (%) | | | Dividend yield (%) | | | ADV-3M (US$ mn) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Rating | 22-Nov-24 | (Rs) | (%) | (Rs bn) | (US$ bn) | (mn) | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | Traded | Delivered |
| **Automobiles & Components** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Amara Raja Energy & Mobility | SELL | 1,228 | 1,050 | (15) | 225 | 2.7 | 183 | 55 | 63 | 69 | 23 | 19 | 18 | 2.9 | 2.6 | 2.3 | 13 | 11 | 11 | 14 | 14 | 14 | 0.4 | 0.5 | 0.6 | 11 | 6 |
| Apollo Tyres | SELL | 495 | 390 | (21) | 314 | 3.7 | 638 | 23 | 28 | 30 | 22 | 18 | 17 | 2.1 | 1.9 | 1.8 | 8 | 7 | 7 | 10 | 11 | 11 | 1.2 | 1.4 | 1.4 | 11 | 4 |
| Ashok Leyland | ADD | 224 | 235 | 5 | 658 | 7.8 | 2,936 | 10 | 11 | 12 | 22 | 20 | 19 | 6.0 | 5.1 | 4.5 | 14 | 12 | 11 | 29 | 27 | 26 | 1.8 | 2.0 | 2.7 | 26 | 12 |
| Bajaj Auto | SELL | 9,482 | 7,225 | (24) | 2,648 | 31 | 279 | 314 | 336 | 374 | 30 | 28 | 25 | 9.9 | 9.3 | 8.7 | 23 | 22 | 19 | 34 | 34 | 35 | 2.6 | 2.8 | 3.2 | 83 | 39 |
| Balkrishna Industries | SELL | 2,767 | 2,375 | (14) | 535 | 6.3 | 193 | 82 | 90 | 102 | 34 | 31 | 27 | 5.3 | 4.7 | 4.1 | 21 | 18 | 16 | 17 | 16 | 16 | 0.6 | 0.7 | 0.8 | 8 | 4 |
| Bharat Forge | SELL | 1,316 | 1,100 | (16) | 613 | 7.3 | 466 | 28 | 36 | 44 | 47 | 37 | 30 | 7.6 | 6.6 | 5.6 | 23 | 20 | 17 | 17 | 19 | 20 | 0.5 | 0.6 | 0.7 | 20 | 10 |
| CEAT | SELL | 2,845 | 2,375 | (17) | 115 | 1.4 | 40 | 137 | 165 | 171 | 21 | 17 | 17 | 2.6 | 2.3 | 2.1 | 9 | 8 | 7 | 13 | 14 | 13 | 1.2 | 1.4 | 1.5 | 7 | 3 |
| CIE Automotive | SELL | 455 | 450 | (1) | 173 | 2.0 | 378 | 23 | 25 | 28 | 20 | 18 | 16 | 2.6 | 2.3 | 2.1 | 12 | 11 | 10 | 13 | 14 | 14 | 1.2 | 1.4 | 1.5 | 2 | 1 |
| Eicher Motors | SELL | 4,986 | 3,500 | (30) | 1,367 | 16.2 | 272 | 170 | 174 | 190 | 29 | 29 | 26 | 7.4 | 6.5 | 5.7 | 26 | 24 | 22 | 27 | 24 | 23 | 1.1 | 1.2 | 1.4 | 34 | 18 |
| Endurance Technologies | SELL | 2,362 | 1,875 | (21) | 332 | 3.9 | 141 | 56 | 66 | 74 | 42 | 36 | 32 | 5.9 | 5.3 | 4.7 | 22 | 19 | 17 | 14 | 15 | 15 | 0.5 | 0.6 | 0.7 | 5 | 3 |
| Escorts Kubota | SELL | 3,510 | 3,000 | (15) | 393 | 4.7 | 112 | 114 | 121 | 137 | 31 | 29 | 26 | 3.7 | 3.4 | 3.0 | 26 | 24 | 21 | 12 | 12 | 12 | 0.5 | 0.5 | 0.6 | 13 | 4 |
| Exide Industries | SELL | 424 | 300 | (29) | 360 | 4.3 | 850 | 14 | 16 | 17 | 30 | 27 | 25 | 2.6 | 2.4 | 2.2 | 18 | 16 | 15 | 9 | 9 | 9 | 0.6 | 0.6 | 0.6 | 25 | 9 |
| Hero Motocorp | SELL | 4,794 | 3,800 | (21) | 959 | 11.4 | 200 | 226 | 241 | 262 | 21 | 20 | 18 | 5.0 | 4.6 | 4.3 | 14 | 13 | 12 | 24 | 24 | 24 | 3.3 | 3.5 | 3.8 | 51 | 23 |
| Mahindra & Mahindra | BUY | 3,013 | 3,300 | 10 | 3,747 | 44.4 | 1,159 | 103 | 112 | 124 | 29 | 27 | 24 | 5.6 | 4.8 | 4.1 | 22 | 20 | 18 | 21 | 19 | 18 | 0.5 | 0.6 | 0.6 | 126 | 71 |
| Maruti Suzuki | REDUCE | 11,064 | 10,800 | (2) | 3,478 | 41.2 | 314 | 449 | 467 | 510 | 25 | 24 | 22 | 3.8 | 3.5 | 3.2 | 16 | 15 | 13 | 16 | 15 | 15 | 1.6 | 1.7 | 1.8 | 89 | 50 |
| MRF | SELL | 124,597 | 102,500 | (18) | 528 | 6.3 | 4 | 4,635 | 5,225 | 5,850 | 27 | 24 | 21 | 2.8 | 2.6 | 2.3 | 12 | 10 | 9 | 11 | 11 | 11 | 0.2 | 0.2 | 0.2 | 11 | 4 |
| Ola Electric | REDUCE | 69 | 70 | 1 | 305 | 3.6 | 4,411 | (3) | (3) | (2) | NM | NM | NM | 4.9 | 6.0 | 7.1 | (36) | (59) | (453) | NM | NM | NM | 0.0 | 0.0 | 0.0 | - | 22 |
| Samvardhana Motherson | ADD | 165 | 175 | 6 | 1,163 | 13.8 | 7,036 | 6 | 7 | 8 | 30 | 24 | 22 | 3.4 | 3.0 | 2.7 | 12 | 10 | 9 | 13 | 13 | 13 | 0.5 | 0.6 | 0.6 | 45 | 22 |
| Schaeffler India | REDUCE | 3,402 | 3,700 | 9 | 532 | 6.3 | 156 | 60 | 69 | 80 | 57 | 49 | 42 | 10.0 | 9.0 | 8.1 | 36 | 31 | 27 | 19 | 19 | 20 | 0.1 | 0.0 | 0.0 | 4 | 2 |
| SKF | ADD | 4,675 | 5,000 | 7 | 231 | 2.7 | 49 | 119 | 143 | 161 | 39 | 33 | 29 | 7.7 | 6.8 | 6.0 | 29 | 24 | 21 | 20 | 21 | 21 | 1.0 | 1.1 | 1.3 | 4 | 3 |
| Sona BLW Precision | ADD | 686 | 700 | 2 | 426 | 5.0 | 618 | 11 | 14 | 16 | 64 | 49 | 42 | 7.4 | 6.7 | 6.0 | 36 | 30 | 25 | 15 | 14 | 15 | 0.4 | 0.5 | 0.6 | 21 | 12 |
| Tata Motors | ADD | 791 | 925 | 17 | 3,029 | 35.9 | 3,677 | 57 | 69 | 86 | 14 | 12 | 9 | 2.8 | 2.3 | 1.9 | 6 | 5 | 4 | 22 | 22 | 23 | 0.9 | 1.3 | 1.9 | 167 | 74 |
| Timken | ADD | 3,299 | 3,800 | 15 | 248 | 2.9 | 75 | 57 | 73 | 90 | 58 | 45 | 37 | 8.8 | 7.4 | 6.2 | 40 | 31 | 25 | 16 | 18 | 19 | 0.0 | 0.0 | 0.0 | 3 | 2 |
| TVS Motor | SELL | 2,417 | 1,850 | (23) | 1,148 | 13.6 | 475 | 52 | 60 | 70 | 46 | 40 | 34 | 15.2 | 12.0 | 9.6 | 29 | 25 | 21 | 33 | 33 | 31 | 0.5 | 0.6 | 0.7 | 29 | 15 |
| Uno Minda | SELL | 1,067 | 925 | (13) | 612 | 7.3 | 572 | 17 | 19 | 21 | 64 | 55 | 50 | 10.4 | 8.9 | 7.6 | 34 | 29 | 26 | 16 | 16 | 15 | 0.2 | 0.2 | 0.3 | 14 | 7 |
| Varroc Engineering | SELL | 505 | 460 | (9) | 77 | 0.9 | 153 | 16 | 26 | 32 | 32 | 19 | 16 | 4.4 | 3.6 | 2.9 | 11 | 8 | 7 | 14 | 18 | 19 | – | – | – | 3 | 1 |
| **Automobiles & Components** | **Cautious** | | | | **24,217** | **286.7** | | | | | **27.3** | **24.2** | **21.0** | **4.8** | **4.2** | **3.7** | **14.6** | **13.0** | **11.4** | **17.5** | **17.4** | **17.6** | **1.1** | **1.2** | **1.4** | **815** | **416** |
| **Banks** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| AU Small Finance Bank | ADD | 596 | 675 | 13 | 443 | 5.2 | 744 | 30 | 42 | 59 | 20 | 14 | 10 | 2.7 | 2.3 | 1.9 | – | – | – | 15 | 17 | 20 | – | – | – | 25 | 10 |
| Axis Bank | BUY | 1,142 | 1,500 | 31 | 3,535 | 41.9 | 3,087 | 81 | 90 | 103 | 14 | 13 | 11 | 2.1 | 1.8 | 1.6 | – | – | – | 15 | 15 | 15 | 1.1 | 1.2 | 1.4 | 132 | 77 |
| Bandhan Bank | BUY | 170 | 250 | 47 | 274 | 3.2 | 1,611 | 25 | 29 | 33 | 7 | 6 | 5 | 1.2 | 1.0 | 0.9 | – | – | – | 17 | 17 | 17 | 2.3 | 2.7 | 3.0 | 44 | 19 |
| Bank of Baroda | ADD | 236 | 270 | 14 | 1,220 | 14.5 | 5,178 | 31 | 32 | 34 | 8 | 7 | 7 | 1.1 | 1.0 | 0.9 | – | – | – | 14 | 13 | 12 | 2.7 | 2.8 | 2.9 | 44 | 19 |
| Canara Bank | REDUCE | 97 | 110 | 13 | 880 | 10.4 | 9,071 | 16 | 17 | 17 | 6 | 6 | 6 | 1.1 | 0.9 | 0.8 | – | – | – | 16 | 15 | 13 | 3.4 | 3.5 | 3.5 | 34 | 14 |
| City Union Bank | ADD | 172 | 170 | (1) | 127 | 1.5 | 741 | 15 | 17 | 19 | 12 | 10 | 9 | 1.4 | 1.3 | 1.2 | – | – | – | 12 | 13 | 13 | 1.4 | 1.5 | 1.8 | 11 | 5 |
| DCB Bank | BUY | 116 | 160 | 37 | 37 | 0.4 | 313 | 19 | 22 | 31 | 6 | 5 | 4 | 0.7 | 0.7 | 0.6 | – | – | – | 11 | 12 | 14 | 1.5 | 2.2 | 3.5 | 2 | 1 |
| Equitas Small Finance Bank | BUY | 64 | 85 | 34 | 72 | 0.9 | 1,139 | 3 | 6 | 10 | 24 | 10 | 6 | 1.2 | 1.1 | 1.0 | – | – | – | 5 | 11 | 16 | – | – | – | 4 | 2 |
| Federal Bank | BUY | 209 | 225 | 7 | 513 | 6.1 | 2,435 | 16 | 17 | 20 | 13 | 12 | 10 | 1.6 | 1.5 | 1.3 | – | – | – | 12 | 12 | 13 | 1.1 | 1.2 | 1.5 | 29 | 12 |
| HDFC Bank | BUY | 1,746 | 1,900 | 9 | 13,342 | 158.0 | 7,597 | 88 | 109 | 124 | 20 | 16 | 14 | 2.8 | 2.5 | 2.2 | – | – | – | 14 | 16 | 16 | 1.2 | 1.5 | 1.7 | 405 | 250 |
| ICICI Bank | BUY | 1,278 | 1,450 | 13 | 9,018 | 106.8 | 7,023 | 62 | 65 | 72 | 21 | 20 | 18 | 3.3 | 3.0 | 2.6 | – | – | – | 17 | 16 | 15 | 1.0 | 1.0 | 1.1 | 223 | 130 |
| IndusInd Bank | BUY | 998 | 1,650 | 65 | 778 | 9.2 | 778 | 91 | 125 | 140 | 11 | 8 | 7 | 1.2 | 1.0 | 0.9 | – | – | – | 11 | 13 | 13 | 1.3 | 1.8 | 2.0 | 73 | 39 |
| Karur Vysya Bank | BUY | 213 | 250 | 18 | 170 | 2.0 | 804 | 22 | 23 | 26 | 10 | 9 | 8 | 1.5 | 1.4 | 1.2 | – | – | – | 17 | 16 | 16 | 2.7 | 2.8 | 3.2 | 6 | 3 |
| Punjab National Bank | ADD | 100 | 110 | 10 | 1,147 | 13.6 | 11,011 | 14 | 13 | 13 | 7 | 8 | 8 | 1.0 | 0.9 | 0.9 | – | – | – | 13 | 11 | 10 | 2.7 | 2.5 | 2.5 | 51 | 22 |
| SBI Cards and Payment Services | BUY | 681 | 850 | 25 | 648 | 7.7 | 951 | 23 | 35 | 48 | 29 | 19 | 14 | 4.6 | 3.8 | 3.1 | – | – | – | 17 | 22 | 24 | 0.4 | 0.5 | 0.6 | 19 | 10 |
| State Bank of India | BUY | 816 | 975 | 19 | 7,283 | 86.2 | 8,925 | 66 | 73 | 92 | 12 | 11 | 9 | 1.9 | 1.7 | 1.4 | – | – | – | 15 | 15 | 16 | 1.8 | 1.9 | 2.0 | 152 | 68 |
| Ujjivan Small Finance Bank | BUY | 32 | 50 | 55 | 62 | 0.7 | 1,931 | 4 | 5 | 7 | 7 | 6 | 5 | 1.0 | 0.9 | 0.8 | – | – | – | 14 | 16 | 17 | 3.0 | 3.8 | 4.6 | 6 | 3 |
| Union Bank | BUY | 115 | 155 | 35 | 878 | 10.4 | 7,634 | 20 | 20 | 20 | 6 | 6 | 6 | 0.9 | 0.8 | 0.7 | – | – | – | 15 | 13 | 12 | 3.5 | 3.6 | 3.5 | 15 | 7 |
| Utkarsh Small Finance Bank | ADD | 36 | 45 | 24 | 40 | 0.5 | 1,101 | 2 | 3 | 7 | 23 | 13 | 5 | 1.3 | 1.2 | 1.0 | – | – | – | 6 | 10 | 20 | – | – | – | 1 | 1 |
| YES Bank | SELL | 19 | 18 | (6) | 602 | 7.1 | 28,768 | 1 | 1 | 2 | 26 | 14 | 10 | 1.3 | 1.2 | 1.1 | – | – | – | 5 | 8 | 11 | – | – | – | 25 | 10 |
| **Banks** | **Attractive** | | | | **41,069** | **486.3** | | | | | **14.6** | **12.9** | **11.3** | **2.0** | **1.8** | **1.6** | | | | **13.7** | **13.8** | **14.0** | **1.4** | **1.6** | **1.7** | **1,301** | **702** |
| **Building Products** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Astral | SELL | 1,765 | 1,800 | 2 | 474 | 5.6 | 269 | 27 | 34 | 41 | 66 | 52 | 43 | 12.6 | 10.5 | 8.7 | 40 | 33 | 28 | 21 | 22 | 22 | 0.3 | 0.3 | 0.4 | 13 | 7 |
| **Building Products** | **Cautious** | | | | **474** | **5.6** | | | | | **66.4** | **52.4** | **43.4** | **12.6** | **10.5** | **8.7** | **40.5** | **33.3** | **28.2** | **18.9** | **20.0** | **20** | **0.3** | **0.3** | **0.4** | **13** | **7** |

Source: Company, Bloomberg, Kotak Institutional Equities estimates



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## Kotak Institutional Equities: Valuation summary of KIE Universe stocks

| | | Price (Rs) | Fair Value | Upside | Mkt cap. | | O/S shares | EPS (Rs) | | | P/E (X) | | | P/B (X) | | | EV/EBITDA (X) | | | RoE (%) | | | Dividend yield (%) | | | ADV-3M (US$ mn) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Rating | 22-Nov-24 | (Rs) | (%) | (Rs bn) | (US$ bn) | (mn) | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | Traded | Delivered |
| **Capital goods** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ABB | SELL | 6,910 | 5,900 | (15) | 1,464 | 17.3 | 212 | 85 | 96 | 107 | 81 | 72 | 64 | 19.2 | 15.5 | 12.7 | 63 | 56 | 50 | 27 | 24 | 22 | 0.1 | 0.1 | 0.1 | 34 | 14 |
| Bharat Electronics | SELL | 281 | 230 | (18) | 2,053 | 24.3 | 7,310 | 7 | 8 | 9 | 42 | 37 | 32 | 10.7 | 9.1 | 7.8 | 31 | 26 | 23 | 28 | 27 | 26 | 1.0 | 1.1 | 1.3 | 86 | 39 |
| BHEL | SELL | 234 | 110 | (53) | 816 | 9.7 | 3,482 | 1 | 5 | 11 | 247 | 46 | 21 | 3.2 | 3.0 | 2.6 | NM | 27 | 14 | 1 | 7 | 13 | (0.0) | (0.2) | (0.6) | 51 | 16 |
| Carborundum Universal | SELL | 1,413 | 1,320 | (7) | 269 | 3.2 | 190 | 27 | 33 | 39 | 53 | 43 | 36 | 7.6 | 6.7 | 5.8 | 32 | 27 | 22 | 15 | 17 | 17 | 0.4 | 0.5 | 0.6 | 2 | 1 |
| CG Power & Industrial | SELL | 730 | 475 | (35) | 1,116 | 13.2 | 1,527 | 7 | 9 | 10 | 108 | 85 | 71 | 29.7 | 23.8 | 19.2 | 78 | 62 | 52 | 27 | 28 | 27 | (0.3) | (0.3) | (0.4) | 30 | 14 |
| Cochin Shipyard | SELL | 1,299 | 800 | (38) | 342 | 4.0 | 263 | 28 | 30 | 41 | 47 | 43 | 32 | 6.2 | 5.7 | 5.1 | 35 | 28 | 22 | 14 | 14 | 17 | 0.7 | 0.8 | 0.9 | 29 | 22 |
| Cummins India | BUY | 3,319 | 4,100 | 24 | 920 | 10.9 | 277 | 68 | 81 | 96 | 48 | 41 | 35 | 13.3 | 11.7 | 10.3 | 45 | 38 | 32 | 29 | 30 | 32 | 1.1 | 1.4 | 1.6 | 25 | 12 |
| G R Infraprojects | SELL | 1,560 | 1,070 | (31) | 151 | 1.8 | 97 | 69 | 86 | 108 | 22 | 18 | 14 | 1.9 | 1.7 | 1.5 | 15 | 13 | 10 | 9 | 10 | 11 | 0.0 | 0.0 | 0.0 | 2 | 1 |
| IRB Infrastructure | ADD | 48 | 65 | 37 | 287 | 3.4 | 6,039 | 2 | 2 | 3 | 26 | 19 | 17 | 2.1 | 2.1 | 2.1 | 11 | 10 | 9 | 8 | 11 | 12 | 4.3 | 4.8 | 5.2 | 14 | 7 |
| Kalpataru Projects | ADD | 1,122 | 1,400 | 25 | 182 | 2.2 | 160 | 51 | 80 | 102 | 22 | 14 | 11 | 3.0 | 2.5 | 2.1 | 10 | 8 | 6 | 15 | 20 | 21 | 0.4 | 0.6 | 0.8 | 4 | 2 |
| KEC International | REDUCE | 998 | 900 | (10) | 266 | 3.1 | 257 | 30 | 48 | 61 | 33 | 21 | 16 | 4.6 | 3.8 | 3.2 | 17 | 12 | 10 | 16 | 20 | 21 | 0.3 | 0.5 | 0.7 | 18 | 7 |
| L&T | ADD | 3,604 | 3,600 | (0) | 4,955 | 58.7 | 1,375 | 119 | 147 | 178 | 30 | 24 | 20 | 6.1 | 5.2 | 4.4 | 21 | 17 | 15 | 22 | 23 | 24 | 0.8 | 0.9 | 1.2 | 102 | 61 |
| Siemens | SELL | 6,850 | 4,600 | (33) | 2,439 | 28.9 | 356 | 80 | 93 | 100 | 85 | 73 | 69 | 14.2 | 12.4 | 11.0 | 65 | 55 | 53 | 18 | 18 | 17 | 0.3 | 0.4 | 0.4 | 26 | 13 |
| Thermax | REDUCE | 4,489 | 4,650 | 4 | 535 | 6.3 | 113 | 65 | 85 | 100 | 69 | 53 | 45 | 10.1 | 8.8 | 7.6 | 56 | 41 | 34 | 15 | 18 | 18 | 0.3 | 0.3 | 0.3 | 7 | 3 |
| **Capital goods** | **Cautious** | | | | **15,795** | **187.0** | | | | | **45.7** | **36.1** | **29.4** | **7.6** | **6.6** | **5.7** | **29.8** | **24.1** | **20.0** | **16.6** | **18.4** | **19.4** | **0.6** | **0.7** | **0.8** | **429** | **212** |
| **Commercial & Professional Services** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SIS | REDUCE | 379 | 405 | 7 | 55 | 0.6 | 147 | 18 | 22 | 24 | 21 | 17 | 16 | 2.1 | 1.9 | 1.7 | 10 | 9 | 8 | 10 | 11 | 11 | — | — | — | 0 | 0 |
| TeamLease Services | SELL | 2,730 | 2,800 | 3 | 46 | 0.5 | 17 | 89 | 104 | 133 | 31 | 26 | 21 | 4.8 | 4.1 | 3.4 | 25 | 19 | 15 | 17.1 | 16.9 | 18.0 | — | — | — | 2 | 1 |
| **Commercial & Professional Services** | **Cautious** | | | | **100** | **1.2** | | | | | **24.3** | **20.4** | **17.6** | **2.8** | **2.4** | **2.1** | **13.2** | **11.3** | **10.1** | **11.4** | **12.0** | **12.2** | **0.0** | **0.0** | **0.0** | **2** | **1** |
| **Commodity Chemicals** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Asian Paints | REDUCE | 2,472 | 2,400 | (3) | 2,371 | 28.1 | 959 | 45 | 49 | 55 | 55 | 50 | 45 | 11.3 | 10.2 | 9.2 | 37 | 34 | 31 | 22 | 21 | 21 | 0.9 | 1.0 | 1.2 | 48 | 26 |
| Berger Paints | SELL | 476 | 490 | 3 | 555 | 6.6 | 1166 | 10 | 11 | 12 | 47 | 44 | 40 | 9.0 | 8.0 | 7.2 | 29 | 28 | 26 | 21 | 20 | 19 | 0.7 | 0.9 | 1.1 | 10 | 4 |
| Indigo Paints | REDUCE | 1,500 | 1,300 | (13) | 71 | 0.8 | 48 | 31 | 33 | 38 | 49 | 46 | 39 | 7.0 | 6.2 | 5.5 | 28 | 26 | 22 | 15 | 14 | 15 | 0.3 | 0.5 | 0.6 | 13 | 6 |
| Kansai Nerolac | REDUCE | 267 | 275 | 3 | 216 | 2.6 | 808 | 8 | 9 | 10 | 32 | 29 | 28 | 3.6 | 3.4 | 3.2 | 20 | 19 | 17 | 12 | 12 | 12 | 1.6 | 1.7 | 1.8 | 2 | 1 |
| Tata Chemicals | SELL | 1,070 | 840 | (21) | 273 | 3.2 | 255 | 29 | 34 | 37 | 37 | 31 | 29 | 1.2 | 1.2 | 1.2 | 10 | 9 | 8 | 3 | 4 | 4 | 1.4 | 1.4 | 1.4 | 27 | 9 |
| **Commodity Chemicals** | **Cautious** | | | | **3,487** | **41.3** | | | | | **49.5** | **45.0** | **40.9** | **6.1** | **5.7** | **5.3** | **28.8** | **26.5** | **24.3** | **12.4** | **12.7** | **13.1** | **0.9** | **1.0** | **1.2** | **101** | **47** |
| **Construction Materials** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ACC | REDUCE | 2,090 | 2,360 | 13 | 392 | 4.6 | 188 | 92 | 124 | 145 | 23 | 17 | 14 | 2.2 | 2.0 | 1.8 | 12 | 9 | 7 | 10 | 13 | 13 | 0.9 | 1.2 | 1.4 | 11 | 4 |
| Ambuja Cements | SELL | 500 | 415 | (17) | 1,231 | 14.6 | 2,463 | 14 | 18 | 21 | 36 | 29 | 24 | 2.3 | 2.2 | 2.0 | 17 | 13 | 11 | 7 | 8 | 9 | 0.4 | 0.5 | 0.5 | 25 | 13 |
| Dalmia Bharat | REDUCE | 1,806 | 1,750 | (3) | 339 | 4.0 | 187 | 46 | 61 | 85 | 39 | 30 | 21 | 2.0 | 1.9 | 1.8 | 14 | 11 | 9 | 5 | 6 | 9 | 0.4 | 0.5 | 0.7 | 8 | 4 |
| Grasim Industries | REDUCE | 2,599 | 2,435 | (6) | 1,748 | 20.7 | 680 | 76 | 103 | 128 | 34 | 25 | 20 | 1.9 | 1.8 | 1.7 | 13 | 10 | 9 | 6 | 7 | 8 | 0.5 | 0.5 | 0.5 | 25 | 13 |
| J K Cement | SELL | 4,134 | 2,475 | (40) | 319 | 3.8 | 77 | 84 | 107 | 127 | 49 | 39 | 33 | 5.4 | 4.8 | 4.3 | 20 | 16 | 14 | 12 | 13 | 14 | 0.4 | 0.4 | 0.4 | 7 | 3 |
| Nuvoco Vistas Corp. | ADD | 338 | 355 | 5 | 121 | 1.4 | 357 | (2) | 5 | 7 | NM | 67 | 46 | 1.4 | 1.3 | 1.3 | 12 | 10 | 9 | NM | 2 | 3 | 0.0 | 0.0 | 0.0 | 2 | 1 |
| Shree Cement | SELL | 24,814 | 17,550 | (29) | 895 | 10.6 | 36 | 262 | 432 | 438 | 95 | 57 | 57 | 4.2 | 4.0 | 3.8 | 24 | 19 | 16 | 5 | 7 | 7 | 0.2 | 0.3 | 0.3 | 10 | 5 |
| The Ramco Cements | SELL | 945 | 600 | (37) | 223 | 2.6 | 236 | 9 | 21 | 30 | 101 | 44 | 32 | 2.9 | 2.7 | 2.5 | 19 | 15 | 13 | 3 | 6 | 8 | 0.1 | 0.2 | 0.3 | 8 | 4 |
| UltraTech Cement | SELL | 11,375 | 6,900 | (39) | 3,284 | 38.9 | 289 | 218 | 301 | 366 | 52 | 38 | 31 | 5.1 | 4.6 | 4.2 | 27 | 21 | 18 | 10 | 13 | 14 | 0.5 | 0.7 | 0.9 | 42 | 24 |
| **Construction Materials** | **Cautious** | | | | **8,553** | **101.3** | | | | | **44.3** | **32.2** | **26.5** | **3.0** | **2.8** | **2.5** | **17.5** | **14.0** | **12.0** | **6.7** | **8.6** | **9.6** | **0.4** | **0.6** | **0.7** | **138** | **72** |
| **Consumer Durables & Apparel** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Aditya Birla Fashion and Retail | SELL | 289 | 250 | (13) | 309 | 3.7 | 1,070 | (6) | (4) | (2) | NM | NM | NM | 6.3 | 7.0 | 7.4 | 17 | 13 | 11 | NM | NM | NM | — | — | — | 20 | 8 |
| Campus Activewear | REDUCE | 261 | 290 | 11 | 80 | 0.9 | 304 | 4 | 5 | 6 | 65 | 53 | 43 | 10.3 | 8.9 | 7.6 | 32 | 27 | 22 | 17 | 18 | 19 | — | — | 0.6 | 6 | 2 |
| Cello World | ADD | 746 | 880 | 18 | 165 | 2.0 | 221 | 16 | 19 | 22 | 47 | 39 | 34 | 7.8 | 7.0 | 6.2 | 29 | 25 | 22 | 21 | 19 | 19 | 0.7 | 0.9 | 1.1 | 1 | 1 |
| Crompton Greaves Consumer | ADD | 393 | 420 | 7 | 253 | 3.0 | 643 | 9 | 12 | 14 | 42 | 34 | 28 | 7.5 | 6.6 | 5.8 | 28 | 23 | 19 | 19 | 21 | 22 | 1.0 | 1.3 | 1.5 | 16 | 8 |
| Eureka Forbes | BUY | 558 | 750 | 34 | 108 | 1.3 | 209 | 7 | 10 | 14 | 77 | 56 | 41 | 2.7 | 2.5 | 2.4 | 42 | 32 | 24 | 3 | 5 | 6 | — | — | — | 3 | 2 |
| Havells India | SELL | 1,670 | 1,500 | (10) | 1,047 | 12.4 | 628 | 24 | 29 | 35 | 69 | 58 | 47 | 12.5 | 11.1 | 9.7 | 47 | 38 | 31 | 19 | 20 | 22 | 0.6 | 0.7 | 0.8 | 22 | 12 |
| Page Industries | SELL | 44,765 | 37,000 | (17) | 499 | 5.9 | 11 | 644 | 768 | 904 | 70 | 58 | 50 | 25.7 | 21.4 | 18.1 | 47 | 40 | 34 | 41 | 40 | 40 | 0.8 | 1.0 | 1.2 | 14 | 6 |
| Polycab | SELL | 6,621 | 4,750 | (28) | 996 | 11.8 | 151 | 125 | 150 | 185 | 53 | 44 | 36 | 10.4 | 8.8 | 7.5 | 36 | 29 | 24 | 21 | 22 | 23 | 0.5 | 0.6 | 0.7 | 35 | 16 |
| Vedant Fashions | REDUCE | 1,388 | 1,010 | (27) | 337 | 4.0 | 243 | 19 | 21 | 24 | 74 | 65 | 57 | 17.9 | 15.1 | 12.7 | 43 | 36 | 31 | 26 | 25 | 24 | — | — | — | 4 | 2 |
| Voltas | SELL | 1,653 | 1,150 | (30) | 547 | 6.5 | 331 | 28 | 33 | 41 | 59 | 50 | 41 | 8.4 | 7.6 | 6.7 | 44 | 39 | 32 | 15 | 16 | 17 | 0.5 | 0.6 | 0.7 | 37 | 19 |
| Whirlpool | SELL | 1,765 | 1,500 | (15) | 224 | 2.7 | 127 | 29 | 38 | 48 | 61 | 46 | 37 | 5.8 | 5.3 | 4.8 | 34 | 27 | 21 | 9 | 12 | 14 | 0.4 | 0.6 | 0.7 | 7 | 4 |
| **Consumer Durables & Apparel** | **Cautious** | | | | **4,565** | **54.0** | | | | | **70.9** | **56.4** | **45.0** | **9.6** | **8.6** | **7.7** | **36.1** | **29.6** | **24.5** | **13.5** | **15.3** | **17.0** | **0.5** | **0.6** | **0.7** | **165** | **81** |

Source: Company, Bloomberg, Kotak Institutional Equities estimates

## Kotak Institutional Equities: Valuation summary of KIE Universe stocks

| | | Price (Rs) | Fair Value | Upside | Mkt cap. | | O/S shares | EPS (Rs) | | | P/E (X) | | | P/B (X) | | | EV/EBITDA (X) | | | RoE (%) | | | Dividend yield (%) | | | ADV-3M (US$ mn) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Rating | 22-Nov-24 | (Rs) | (%) | (Rs bn) | (US$ bn) | (mn) | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | Traded | Delivered |
| **Consumer Staples** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Britannia Industries | ADD | 4,848 | 5,350 | 10 | 1,168 | 13.8 | 241 | 89 | 103 | 117 | 55 | 47 | 41 | 27.1 | 25.2 | 23.8 | 37 | 33 | 29 | 52 | 56 | 59 | 1.9 | 2.2 | 2.4 | 27 | 14 |
| Colgate-Palmolive (India) | REDUCE | 2,726 | 2,825 | 4 | 741 | 8.8 | 272 | 55 | 60 | 66 | 50 | 46 | 42 | 38.9 | 36.7 | 34.5 | 36 | 32 | 29 | 79 | 82 | 86 | 1.9 | 2.1 | 2.3 | 22 | 13 |
| Dabur India | ADD | 513 | 590 | 15 | 909 | 10.8 | 1,772 | 10 | 12 | 14 | 49 | 42 | 37 | 8.6 | 8.0 | 7.3 | 37 | 32 | 28 | 18 | 20 | 21 | 1.2 | 1.5 | 1.6 | 21 | 12 |
| Godrej Consumer Products | ADD | 1,190 | 1,500 | 26 | 1,217 | 14.4 | 1,023 | 21 | 26 | 29 | 57 | 46 | 41 | 8.9 | 8.1 | 7.4 | 38 | 33 | 29 | 16 | 18 | 19 | 0.9 | 1.1 | 1.3 | 22 | 14 |
| Hindustan Unilever | ADD | 2,445 | 2,850 | 17 | 5,745 | 68.0 | 2,350 | 45 | 51 | 56 | 54 | 48 | 44 | 11.1 | 10.6 | 10.2 | 38 | 34 | 31 | 21 | 22 | 24 | 1.6 | 1.8 | 2.0 | 61 | 37 |
| Honasa Consumer | REDUCE | 225 | 340 | 51 | 73 | 0.9 | 322 | 2 | 4 | 6 | 109 | 51 | 35 | 6.0 | 5.2 | 4.4 | 91 | 35 | 23 | 6 | 11 | 14 | 0.0 | 0.0 | 0.0 | 16 | 8 |
| ITC | ADD | 475 | 540 | 14 | 5,938 | 70.3 | 12,428 | 17 | 18 | 20 | 28 | 26 | 24 | 7.9 | 7.5 | 7.2 | 22 | 20 | 18 | 26 | 28 | 30 | 3.0 | 3.3 | 3.6 | 73 | 42 |
| Jyothy Labs | SELL | 405 | 410 | 1 | 149 | 1.8 | 367 | 10 | 11 | 13 | 39 | 36 | 32 | 7.5 | 6.8 | 6.2 | 29 | 26 | 23 | 20 | 20 | 20 | 1.4 | 1.5 | 1.7 | 5 | 2 |
| Marico | REDUCE | 599 | 640 | 7 | 776 | 9.2 | 1,290 | 13 | 14 | 15 | 47 | 43 | 39 | 18.8 | 17.5 | 16.2 | 35 | 31 | 28 | 42 | 42 | 43 | 1.8 | 1.9 | 2.1 | 21 | 11 |
| Nestle India | ADD | 2,247 | 2,475 | 10 | 2,167 | 25.7 | 964 | 33 | 37 | 43 | 69 | 60 | 53 | 47.6 | 37.2 | 31.7 | 46 | 40 | 35 | 79 | 69 | 65 | 0.9 | 1.1 | 1.4 | 34 | 21 |
| Sula Vineyards | ADD | 397 | 450 | 13 | 33 | 0.4 | 84 | 9 | 11 | 13 | 43 | 36 | 31 | 5.5 | 5.0 | 4.5 | 22 | 19 | 17 | 13 | 14 | 15 | 0.6 | 0.8 | 1.0 | 2 | 1 |
| Tata Consumer Products | ADD | 945 | 1,110 | 17 | 940 | 11.1 | 989 | 14 | 19 | 22 | 65 | 51 | 43 | 4.8 | 4.6 | 4.4 | 36 | 30 | 26 | 8 | 9 | 10 | 0.9 | 1.1 | 1.3 | 25 | 14 |
| United Breweries | REDUCE | 1,860 | 1,900 | 2 | 492 | 5.8 | 264 | 21 | 31 | 39 | 89 | 61 | 48 | 11.0 | 10.1 | 9.3 | 52 | 38 | 30 | 13 | 17 | 20 | 0.8 | 1.2 | 1.6 | 7 | 3 |
| United Spirits | ADD | 1,500 | 1,525 | 2 | 1,091 | 12.9 | 727 | 19 | 23 | 27 | 79 | 65 | 56 | 13.5 | 12.0 | 10.6 | 53 | 44 | 39 | 18 | 20 | 20 | 0.5 | 0.6 | 0.7 | 14 | 8 |
| Varun Beverages | ADD | 616 | 640 | 4 | 2,084 | 24.7 | 3,248 | 8 | 10 | 12 | 77 | 62 | 51 | 21.7 | 16.6 | 13.0 | 45 | 37 | 32 | 32 | 30 | 29 | 0.2 | 0.2 | 0.3 | 47 | 27 |
| **Consumer Staples** | **Attractive** | | | | **23,524** | **278.5** | | | | | **46.7** | **41.1** | **36.8** | **11.1** | **10.4** | **9.7** | **33.3** | **29.2** | **26.0** | **24** | **25** | **26** | **1.6** | **1.9** | **2.1** | **398** | **228** |
| **Diversified Financials** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 360 One | REDUCE | 1,082 | 1,100 | 2 | 420 | 5.0 | 359 | 25 | 31 | 36 | 43 | 35 | 30 | 10.5 | 9.8 | 9.0 | — | — | — | 25 | 29 | 32 | 1.7 | 2.1 | 2.5 | 9 | 5 |
| Aadhar Housing Finance | BUY | 417 | 550 | 32 | 179 | 2.1 | 427 | 22 | 27 | 34 | 19 | 15 | 12 | 2.8 | 2.4 | 2.0 | — | — | — | 17 | 17 | 17 | — | — | — | 6 | 3 |
| Aavas Financiers | BUY | 1,637 | 1,925 | 18 | 130 | 1.5 | 79 | 72 | 89 | 108 | 23 | 18 | 15 | 3.0 | 2.6 | 2.2 | — | — | — | 14 | 15 | 16 | — | — | — | 6 | 3 |
| ABSL AMC | ADD | 844 | 830 | (2) | 243 | 2.9 | 288 | 31 | 35 | 38 | 28 | 24 | 22 | 6.9 | 6.2 | 5.6 | — | — | — | NM | NM | NM | 2.2 | 2.5 | 2.7 | 6 | 3 |
| Aptus Value Housing Finance | ADD | 315 | 370 | 17 | 158 | 1.9 | 499 | 15 | 17 | 20 | 21 | 19 | 16 | 3.7 | 3.2 | 2.8 | — | — | — | 18 | 18 | 19 | 1.3 | 1.6 | 1.9 | 6 | 3 |
| Cholamandalam | ADD | 1,208 | 1,500 | 24 | 1,016 | 12.0 | 840 | 49 | 61 | 77 | 25 | 20 | 16 | 4.3 | 3.4 | 2.8 | — | — | — | 19 | 19 | 20 | 0.1 | 0.4 | 0.5 | 27 | 15 |
| Computer Age Management Services | REDUCE | 4,449 | 4,200 | (6) | 219 | 2.6 | 49 | 92 | 107 | 125 | 49 | 42 | 36 | 19.7 | 16.3 | 13.7 | — | — | — | 45 | 43 | 42 | 1.2 | 1.4 | 1.6 | 20 | 8 |
| CRISIL | SELL | 5,484 | 3,900 | (29) | 401 | 4.7 | 73 | 99 | 113 | 128 | 56 | 49 | 43 | 20.0 | 17.8 | 16.0 | — | — | — | 31 | 32 | 32 | 1.2 | 1.3 | 1.5 | 4 | 2 |
| Five Star Business Finance | ADD | 630 | 890 | 41 | 184 | 2.2 | 291 | 35 | 42 | 51 | 18 | 15 | 12 | 2.9 | 2.5 | 2.1 | — | — | — | 18 | 18 | 18 | — | — | — | 29 | 16 |
| HDFC AMC | REDUCE | 4,220 | 4,200 | (0) | 902 | 10.7 | 213 | 114 | 139 | 155 | 37 | 30 | 27 | 11.9 | 11.0 | 10.2 | — | — | — | 33 | 38 | 39 | 2.2 | 2.6 | 2.9 | 30 | 16 |
| Home First Finance | BUY | 1,087 | 1,360 | 25 | 97 | 1.1 | 89 | 43 | 54 | 68 | 25 | 20 | 16 | 3.9 | 3.3 | 2.8 | — | — | — | 17 | 18 | 19 | — | 0.5 | 0.6 | 9 | 4 |
| ICRA | SELL | 6,332 | 6,000 | (5) | 61 | 0.7 | 10 | 181 | 208 | 238 | 35 | 30 | 27 | 5.8 | 5.4 | 5.1 | — | — | — | 16 | 17 | 35 | — | — | 0.3 | 1 | 1 |
| India Shelter | BUY | 634 | 850 | 34 | 68 | 0.8 | 107 | 36 | 40 | 48 | 18 | 16 | 13 | 2.5 | 2.2 | 1.9 | — | — | — | 15 | 15 | 15 | — | — | — | 3 | 2 |
| Kfin Technologies | SELL | 1,067 | 920 | (14) | 183 | 2.2 | 171 | 20 | 24 | 27 | 54 | 45 | 39 | 14.2 | 12.2 | 10.5 | — | — | — | 22 | 22 | 22 | 0.7 | 0.9 | 1.0 | 15 | 7 |
| L&T Finance Holdings | SELL | 140 | 160 | 15 | 348 | 4.1 | 2,480 | 11 | 14 | 16 | 13 | 10 | 8 | 1.4 | 1.2 | 1.1 | — | — | — | 11 | 13 | 14 | 2.4 | 2.9 | 3.5 | 18 | 8 |
| LIC Housing Finance | BUY | 617 | 750 | 21 | 340 | 4.0 | 550 | 94 | 99 | 102 | 7 | 6 | 6 | 1.0 | 0.8 | 0.8 | — | — | — | 15 | 14 | 13 | 2.5 | 2.6 | 2.7 | 21 | 9 |
| Mahindra & Mahindra Financial | ADD | 264 | 320 | 21 | 326 | 3.9 | 1,234 | 18 | 22 | 25 | 15 | 12 | 11 | 1.6 | 1.5 | 1.3 | — | — | — | 12 | 13 | 13 | 1.4 | 1.6 | 1.9 | 14 | 6 |
| Muthoot Finance | BUY | 1,926 | 2,175 | 13 | 773 | 9.2 | 401 | 133 | 159 | 183 | 14 | 12 | 11 | 2.7 | 2.3 | 2.0 | — | — | — | 20 | 21 | 20 | 1.6 | 2.0 | 2.3 | 14 | 6 |
| Nippon AMC | REDUCE | 679 | 720 | 6 | 430 | 5.1 | 630 | 22 | 25 | 27 | 31 | 27 | 25 | 10.4 | 10.0 | 9.6 | — | — | — | 34 | 37 | 39 | 2.9 | 3.3 | 3.6 | 9 | 5 |
| SBFC | ADD | 84 | 90 | 7 | 91 | 1.1 | 1,107 | 3 | 4 | 5 | 27 | 21 | 17 | 3.3 | 2.8 | 2.4 | — | — | — | 12 | 13 | 14 | — | — | — | 7 | 3 |
| Shriram Finance | BUY | 2,842 | 3,700 | 30 | 1,069 | 12.7 | 376 | 281 | 285 | 341 | 10 | 10 | 8 | 1.9 | 1.6 | 1.4 | — | — | — | 16 | 17 | 18 | 1.5 | 1.5 | 1.8 | 53 | 28 |
| UTI AMC | REDUCE | 1,302 | 1,300 | (0) | 166 | 2.0 | 127 | 62 | 56 | 60 | 21 | 23 | 22 | 3.6 | 3.5 | 3.4 | — | — | — | 18 | 16 | 16 | 3.8 | 3.5 | 3.7 | 7 | 3 |
| **Diversified Financials** | **Attractive** | | | | **14,497** | **171.7** | | | | | **20.6** | **17.2** | **14.4** | **3.7** | **3.2** | **2.7** | | | | **18.1** | **18.5** | **19.0** | **0.9** | **1.1** | **1.2** | **465** | **228** |

Source: Company, Bloomberg, Kotak Institutional Equities estimates



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## Kotak Institutional Equities: Valuation summary of KIE Universe stocks

| | | Price (Rs) | Fair Value | Upside | Mkt cap. | | O/S shares | EPS (Rs) | | | P/E (X) | | | P/B (X) | | | EV/EBITDA (X) | | | RoE (%) | | | Dividend yield (%) | | | ADV-3M (US$ mn) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Rating | 22-Nov-24 | (Rs) | (%) | (Rs bn) | (US$ bn) | (mn) | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | Traded | Delivered |
| **Electric Utilities** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CESC | SELL | 173 | 145 | (16) | 229 | 2.7 | 1,326 | 11 | 14 | 15 | 15 | 13 | 12 | 1.8 | 1.7 | 1.6 | 8 | 7 | 7 | 13 | 14 | 14 | 2.9 | 3.4 | 3.6 | 18 | 6 |
| JSW Energy | SELL | 689 | 330 | (52) | 1,204 | 14.3 | 1,744 | 16 | 21 | 25 | 43 | 33 | 28 | 4.2 | 3.8 | 3.4 | 18 | 15 | 13 | 11 | 12 | 13 | 0.3 | 0.3 | 0.3 | 25 | 11 |
| NHPC | SELL | 79 | 70 | (12) | 795 | 9.4 | 10,045 | 4 | 6 | 7 | 20 | 14 | 11 | 1.9 | 1.8 | 1.6 | 20 | 9 | 7 | 10 | 14 | 15 | 2.0 | 3.0 | 3.7 | 28 | 12 |
| NTPC | SELL | 365 | 320 | (12) | 3,544 | 42.0 | 9,895 | 22 | 25 | 27 | 16.4 | 14.8 | 14 | 1.9 | 1.7 | 1.6 | 10 | 9 | 9 | 12 | 12 | 12 | 2.2 | 2.2 | 2.3 | 83 | 44 |
| Power Grid | SELL | 337 | 280 | (17) | 3,134 | 37.1 | 9,301 | 18 | 20 | 21 | 18.9 | 16.6 | 16 | 3.4 | 3.1 | 2.9 | 10 | 9 | 9 | 18 | 20 | 19 | 3.6 | 3.8 | 4.0 | 60 | 37 |
| Tata Power | SELL | 414 | 315 | (24) | 1,322 | 15.7 | 3,196 | 15 | 17 | 20 | 28 | 24 | 21 | 3.6 | 3.1 | 2.7 | 15 | 13 | 11 | 14 | 14 | 14 | — | — | — | 79 | 29 |
| **Electric Utilities** | **Cautious** | | | | **10,228** | **121.1** | | | | | **19.8** | **17.0** | **15.5** | **2.5** | **2.3** | **2.1** | **11.5** | **10.1** | **9.3** | **12.9** | **13.7** | **13.7** | **2.1** | **2.3** | **2.4** | **293** | **140** |
| **Electronic Manufacturing Services** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Amber Enterprises | ADD | 6,483 | 6,000 | (7) | 219 | 2.6 | 34 | 80 | 123 | 160 | 81 | 53 | 40 | 9.3 | 7.9 | 6.6 | 32 | 25 | 20 | 12 | 16 | 18 | — | — | — | 53 | 16 |
| Avalon Technologies | SELL | 852 | 520 | (39) | 56 | 0.7 | 65 | 9 | 14 | 21 | 94 | 59 | 41 | 9.2 | 7.9 | 6.7 | 55 | 38 | 27 | 10 | 14 | 18 | — | — | — | 6 | 2 |
| Cyient DLM | SELL | 630 | 620 | (2) | 50 | 0.6 | 79 | 12 | 20 | 26 | 51 | 32 | 25 | 5.0 | 4.3 | 3.7 | 29 | 20 | 16 | 10 | 13 | 15 | — | — | — | 5 | 3 |
| Dixon Technologies | SELL | 15,349 | 8,430 | (45) | 922 | 10.9 | 60 | 176 | 195 | 234 | 87.4 | 78.6 | 66 | 33.1 | 22.9 | 16.8 | 64 | 46 | 38 | 39 | 34 | 30 | — | — | — | 119 | 33 |
| Kaynes Technology | ADD | 5,855 | 5,730 | (2) | 375 | 4.4 | 58 | 50 | 75 | 106 | 116.9 | 78.4 | 55 | 12.1 | 10.4 | 8.6 | 82 | 53 | 37 | 12 | 16 | 19 | — | — | — | 35 | 11 |
| Syrma SGS Technology | REDUCE | 527 | 450 | (15) | 94 | 1.1 | 176 | 8 | 12 | 17 | 63 | 43 | 31 | 5.3 | 4.7 | 4.1 | 32 | 23 | 17 | 8 | 11 | 14 | — | — | — | 10 | 4 |
| **Electronic Manufacturing Services** | **Cautious** | | | | **1,716** | **20.3** | | | | | **94.7** | **66.3** | **51.3** | **15.2** | **12.3** | **10.0** | **54.0** | **38.9** | **30.5** | **16.0** | **18.6** | **19.4** | **0.0** | **0.0** | **0.0** | **229** | **69** |
| **Fertilizers & Agricultural Chemicals** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bayer Cropscience | SELL | 5,737 | 5,620 | (2) | 258 | 3.1 | 45 | 180 | 209 | 240 | 32 | 27 | 24 | 8.7 | 8.3 | 7.9 | 24 | 21 | 18 | 28 | 31 | 34 | 2.7 | 3.1 | 3.6 | 3 | 2 |
| Godrej Agrovet | ADD | 726 | 820 | 13 | 140 | 1.7 | 192 | 23 | 27 | 35 | 32 | 27 | 21 | 4.6 | 4.2 | 3.7 | 18 | 15 | 12 | 15 | 16 | 19 | 1.5 | 1.9 | 2.3 | 3.5 | 1.7 |
| Rallis India | SELL | 319 | 230 | (28) | 62 | 0.7 | 195 | 8 | 10 | 12 | 38 | 32 | 27 | 3.2 | 3.0 | 2.8 | — | — | — | 9 | 10 | 11 | 0.9 | 1.1 | 1.3 | 5 | 2 |
| UPL | SELL | 566 | 430 | (24) | 425 | 5.0 | 751 | 4 | 21 | 34 | 144 | 27 | 17 | 1.7 | 1.6 | 1.4 | 9 | 7 | 6 | 2 | 6 | 9 | 0.2 | 0.2 | 0.2 | 18 | 7 |
| **Fertilizers & Agricultural Chemicals** | **Cautious** | | | | **885** | **10.5** | | | | | **47.6** | **26.7** | **19.1** | **2.7** | **2.5** | **2.3** | **11.3** | **9.2** | **7.8** | **5.6** | **9.4** | **11.9** | **1.2** | **1.4** | **1.6** | **30** | **13** |
| **Gas Utilities** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| GAIL (India) | SELL | 193 | 160 | (17) | 1,266 | 15.0 | 6,575 | 15 | 14 | 14 | 13 | 14 | 14 | 1.8 | 1.7 | 1.6 | 10 | 9 | 9 | 14 | 13 | 12 | 3.1 | 3.4 | 3.6 | 40 | 20 |
| Indraprastha Gas | SELL | 313 | 330 | 6 | 219 | 2.6 | 700 | 24 | 25 | 26 | 13 | 12 | 12 | 2.4 | 2.2 | 2.1 | 11 | 10 | 9 | 19 | 19 | 18 | 3.4 | 3.5 | 3.7 | 21 | 10 |
| Mahanagar Gas | SELL | 1,158 | 1,040 | (10) | 114 | 1.4 | 99 | 93 | 93 | 94 | 12 | 12 | 12 | 2.0 | 1.8 | 1.6 | 8 | 8 | 7 | 17 | 15 | 14 | 2.8 | 2.8 | 2.8 | 16 | 6 |
| Petronet LNG | SELL | 324 | 235 | (27) | 485 | 5.7 | 1,500 | 29 | 27 | 28 | 11 | 12 | 12 | 2.4 | 2.1 | 1.8 | 7 | 8 | 8 | 23 | 18 | 17 | 1.5 | 0.8 | 1.5 | 14 | 8 |
| **Gas Utilities** | **Cautious** | | | | **2,272** | **26.9** | | | | | **13.0** | **13.6** | **13.3** | **2.0** | **1.8** | **1.7** | **9.2** | **9.3** | **8.8** | **15.1** | **13.3** | **12.6** | **2.7** | **2.7** | **3.0** | **117** | **55** |
| **Health Care Services** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Apollo Hospitals | ADD | 6,935 | 8,100 | 17 | 997 | 11.8 | 144 | 101 | 140 | 188 | 69 | 50 | 37 | 12.1 | 9.9 | 8.0 | 33 | 26 | 20 | 19 | 22 | 24 | 0.2 | 0.2 | 0.2 | 32 | 17 |
| Aster DM Healthcare | ADD | 432 | 475 | 10 | 216 | 2.6 | 500 | 7 | 11 | 14 | 62 | 41 | 32 | 4.5 | 4.1 | 3.7 | 24 | 19 | 15 | 7 | 11 | 12 | 0.5 | 0.5 | 0.6 | 7 | 4 |
| Dr Lal Pathlabs | REDUCE | 3,062 | 3,250 | 6 | 256 | 3.0 | 84 | 52 | 60 | 69 | 59 | 51 | 44 | 12.4 | 11.2 | 10.0 | 35 | 29 | 25 | 22 | 23 | 24 | 0.9 | 1.0 | 1.2 | 9 | 4 |
| Global Health | ADD | 1,114 | 1,175 | 6 | 299 | 3.5 | 268 | 19 | 22 | 28 | 60 | 50 | 40 | 9.0 | 7.8 | 6.7 | 32 | 28 | 22 | 16 | 17 | 18 | 0.3 | 0.3 | 0.4 | 8 | 5 |
| KIMS | ADD | 592 | 580 | (2) | 237 | 2.8 | 400 | 8 | 10 | 14 | 77 | 61 | 42 | 11.1 | 9.4 | 7.7 | 32 | 27 | 20 | 16 | 17 | 20 | 0.0 | 0.0 | 0.0 | 3 | 2 |
| Max Healthcare | REDUCE | 1,000 | 975 | (2) | 972 | 11.5 | 971 | 15 | 21 | 27 | 68 | 47 | 37 | 9.2 | 7.7 | 6.5 | 43 | 32 | 26 | 14 | 18 | 19 | 0.1 | 0.1 | 0.2 | 26 | 16 |
| Metropolis Healthcare | REDUCE | 2,062 | 2,075 | 1 | 106 | 1.3 | 51 | 36 | 47 | 58 | 57 | 44 | 36 | 8.5 | 7.4 | 6.5 | 29 | 24 | 20 | 16 | 18 | 19 | 0.3 | 0.5 | 0.8 | 3 | 1 |
| Narayana Hrudayalaya | ADD | 1,272 | 1,400 | 10 | 260 | 3.1 | 204 | 38 | 46 | 54 | 34 | 27 | 23 | 7.1 | 5.6 | 4.6 | 22 | 17 | 15 | 24 | 23 | 21 | — | — | — | 6 | 3 |
| Rainbow Children's Medicare | REDUCE | 1,585 | 1,400 | (12) | 161 | 1.9 | 102 | 23 | 30 | 36 | 68 | 54 | 44 | 11.1 | 9.5 | 8.0 | 33 | 27 | 23 | 18 | 19 | 20 | 0.3 | 0.3 | 0.4 | 7 | 3 |
| **Health Care Services** | **Neutral** | | | | **3,504** | **41.5** | | | | | **61.9** | **46.2** | **36.2** | **9.3** | **7.9** | **6.6** | **33.2** | **26.3** | **21.1** | **15.1** | **17.2** | **18.3** | **0.2** | **0.3** | **0.3** | **100** | **54** |

Source: Company, Bloomberg, Kotak Institutional Equities estimates



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## Kotak Institutional Equities: Valuation summary of KIE Universe stocks

| | | Price (Rs) | Fair Value | Upside | Mkt cap. | | O/S shares | EPS (Rs) | | | P/E (X) | | | P/B (X) | | | EV/EBITDA (X) | | | RoE (%) | | | Dividend yield (%) | | | ADV-3M (US$ mn) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Rating | 22-Nov-24 | (Rs) | (%) | (Rs bn) | (US$ bn) | (mn) | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | Traded | Delivered |
| **Hotels & Restaurants** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Chalet Hotels | ADD | 842 | 930 | 10 | 184 | 2.2 | 218 | 8 | 29 | 46 | 108 | 29 | 18 | 6.1 | 5.1 | 4.1 | 25 | 18 | 12 | 7 | 19 | 25 | (0.2) | (0.2) | (0.3) | 3 | 1 |
| Devyani International | ADD | 168 | 184 | 10 | 202 | 2.4 | 1,204 | (0) | 0 | 1 | NM | 339 | 160 | 19.2 | 18.7 | 17.7 | 25 | 21 | 17 | NM | 6 | 11 | 0.0 | 0.0 | 0.0 | 7 | 4 |
| Indian Hotels | ADD | 799 | 800 | 0 | 1,137 | 13.5 | 1,423 | 12 | 16 | 20 | 65 | 50 | 40 | 10.1 | 8.6 | 7.3 | 37 | 29 | 23 | 17 | 19 | 20 | 0.3 | 0.3 | 0.4 | 34 | 17 |
| Jubilant Foodworks | REDUCE | 638 | 540 | (15) | 421 | 5.0 | 660 | 4 | 5 | 7 | 180 | 122 | 96 | 17.8 | 16.1 | 14.3 | 36 | 29 | 25 | 10 | 14 | 16 | 0.2 | 0.2 | 0.3 | 17 | 8 |
| Lemon Tree Hotels | REDUCE | 125 | 118 | (6) | 99 | 1.2 | 792 | 2 | 4 | 5 | 51 | 36 | 25 | 9.6 | 8.5 | 7.3 | 18 | 14 | 11 | 20 | 25 | 32 | 1.1 | 1.3 | 1.7 | 6 | 3 |
| Restaurant Brands Asia | REDUCE | 79 | 95 | 20 | 39 | 0.5 | 495 | (2) | (1) | (1) | NM | NM | NM | 2.2 | 2.3 | 2.3 | 14 | 11 | 9 | NM | NM | NM | — | — | — | 3 | 2 |
| Samhi Hotels | BUY | 183 | 265 | 45 | 40 | 0.5 | 220 | 6 | 9 | 13 | 32 | 22 | 14 | 3.5 | 3.0 | 2.5 | 13 | 12 | 10 | 11 | 15 | 20 | 0.0 | 0.0 | 0.0 | 3 | |
| Sapphire Foods | ADD | 302 | 380 | 26 | 97 | 1.1 | 318 | 1 | 2 | 3 | 447 | 144 | 88 | 7.1 | 6.7 | 6.2 | 20 | 16 | 14 | 2 | 5 | 7 | — | — | — | 4 | 2 |
| Westlife Foodworld | REDUCE | 707 | 700 | (1) | 110 | 1.3 | 156 | 1 | 5 | 8 | 1,169 | 148 | 90 | 18.5 | 16.8 | 14.6 | 36 | 26 | 21 | 2 | 12 | 17 | — | — | — | 2 | 1 |
| **Hotels & Restaurants** | **Attractive** | | | | **2,330** | **27.6** | | | | | **96.8** | **60.0** | **44.0** | **9.9** | **8.7** | **7.5** | **29.8** | **23.2** | **18.7** | **10.2** | **14.5** | **17.0** | **0.2** | **0.2** | **0.3** | **80** | **38** |
| **Insurance** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HDFC Life Insurance | BUY | 688 | 850 | 24 | 1,481 | 17.5 | 2,020 | 8 | 10 | 11 | 81 | 70 | 61 | 9.6 | 9.0 | 8.4 | — | — | — | 12 | 13 | 14 | 0.3 | 0.4 | 0.4 | 30 | 15 |
| ICICI Lombard | ADD | 1,838 | 2,075 | 13 | 910 | 10.8 | 493 | 52 | 60 | 70 | 36 | 31 | 26 | 6.4 | 5.5 | 4.6 | — | — | — | 19 | 19 | 19 | 0.4 | 0.5 | 0.6 | 20 | 12 |
| ICICI Prudential Life | BUY | 687 | 850 | 24 | 993 | 11.8 | 1,441 | 6 | 7 | 8 | 107 | 95 | 87 | 8.6 | 8.0 | 7.5 | — | — | — | 8 | 9 | 9 | 0.5 | 0.5 | 0.5 | 11 | 5 |
| LIC | BUY | 890 | 1,250 | 41 | 5,626 | 66.6 | 6,325 | 67 | 70 | 72 | 13 | 13 | 12 | 4.9 | 3.8 | 3.1 | — | — | — | 43 | 34 | 28 | — | — | — | 15 | 7 |
| Max Financial Services | ADD | 1,166 | 1,350 | 16 | 403 | 4.8 | 345 | 2 | 2 | 3 | 626 | 545 | 465 | — | — | — | — | — | — | 1 | 1 | 1 | — | — | — | 20 | 11 |
| PB Fintech | REDUCE | 1,745 | 1,500 | (14) | 796 | 9.4 | 456 | 6 | 13 | 21 | 278 | 137 | 84 | | | | — | — | — | 4 | 9 | 12 | — | — | — | 36 | 20 |
| SBI Life Insurance | ADD | 1,485 | 1,900 | 28 | 1,488 | 17.6 | 1,005 | 24 | 27 | 29 | 62 | 56 | 52 | 9.0 | 7.9 | 7.0 | — | — | — | 15 | 15 | 14 | 0.3 | 0.3 | 0.3 | 34 | 19 |
| Star Health and Allied Insurance | REDUCE | 460 | 500 | 9 | 270 | 3.2 | 585 | 13 | 17 | 25 | 34 | 27 | 19 | 3.8 | 3.3 | 2.8 | — | — | — | 12 | 13 | 16 | — | — | — | 10 | 6 |
| **Insurance** | **Attractive** | | | | **11,967** | **141.7** | | | | | **23.4** | **22.0** | **20.6** | **6.2** | **5.1** | **4.3** | | | | **27** | **23** | **21** | **0.1** | **0.1** | **0.1** | **176** | **96** |
| **Internet Software & Services** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cartrade Tech | SELL | 1,280 | 700 | (45) | 61 | 0.7 | 51.5 | 17 | 20 | 23 | 77 | 65 | 56 | 3.1 | 2.9 | 2.8 | 48 | 39 | 32 | 4.1 | 4.6 | 5.1 | — | — | — | 5 | 2 |
| FSN E-commerce Ventures | SELL | 169 | 170 | 0 | 484 | 5.7 | 2,875.0 | 0 | 1 | 2 | 478 | 142 | 81 | 35.7 | 28.5 | 21.1 | 103 | 60 | 41 | 7.8 | 22 | 30 | — | — | — | 33 | 15 |
| Indiamart | SELL | 2,279 | 2,575 | 13 | 137 | 1.6 | 59.9 | 80 | 89 | 103 | 29 | 25 | 22 | 6.4 | 5.4 | 4.5 | 21 | 18 | 14 | 24 | 23 | 22 | 0.9 | 0.9 | 0.9 | 13 | 6 |
| Info Edge | ADD | 8,000 | 8,350 | 4 | 1,037 | 12.3 | 129.1 | 77 | 93 | 110 | 103 | 86 | 73 | 3.9 | 3.8 | 3.7 | 89 | 73 | 61 | 3.9 | 4.5 | 5.2 | 0.2 | 0.3 | 0.3 | 22 | 10 |
| Just Dial | BUY | 1,073 | 1,475 | 37 | 91 | 1.1 | 85.0 | 67 | 67 | 74 | 16 | 16 | 14 | 2.0 | 1.8 | 1.6 | 12 | 9 | 6 | 13.2 | 11.6 | 11.5 | — | — | — | 7 | 2 |
| Zomato | BUY | 264 | 315 | 19 | 2,335 | 27.6 | 9,131 | 1 | 2 | 4 | 272 | 111 | 74 | 11.0 | 9.7 | 8.4 | 225 | 88 | 46 | 4.2 | 9.3 | 12.2 | 0.0 | 0.0 | 0.0 | 196 | 86 |
| **Internet Software & Services** | **Attractive** | | | | **4,144** | **49.1** | | | | | **133** | **84** | **62** | **7.1** | **6.5** | **5.9** | **111** | **67** | **44** | **5.3** | **7.8** | **9.5** | **0.1** | **0.1** | **0.1** | **277** | **122** |
| **IT Services** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Coforge | ADD | 8,328 | 8,000 | (4) | 556 | 6.6 | 67 | 144 | 196 | 248 | 58 | 43 | 34 | 9.2 | 8.3 | 7.5 | 29 | 22 | 18 | 20 | 20 | 24 | 0.9 | 1.1 | 1.7 | 47 | 18 |
| Cyient | BUY | 1,803 | 2,050 | 14 | 200 | 2.4 | 111 | 66 | 82 | 92 | 27 | 22 | 20 | 4.0 | 3.6 | 3.3 | 15 | 13 | 11 | 15 | 17 | 18 | 2.0 | 2.5 | 3.1 | 9 | 5 |
| HCL Technologies | REDUCE | 1,898 | 1,760 | (7) | 5,152 | 61.0 | 2,716 | 63 | 70 | 78 | 30 | 27 | 24 | 7.3 | 6.9 | 6.4 | 19 | 17 | 16 | 25 | 26 | 27 | 2.9 | 3.1 | 3.2 | 60 | 34 |
| Indegene | ADD | 640 | 730 | 14 | 153 | 1.8 | 240 | 17 | 21 | 25 | 38 | 31 | 26 | 5.9 | 5.0 | 4.2 | 24 | 20 | 17 | 20 | 18 | 18 | 0.0 | 0.0 | 0.0 | 6 | 3 |
| Infosys | BUY | 1,902 | 2,200 | 16 | 7,899 | 93.5 | 4,151 | 63 | 72 | 80 | 30 | 26 | 24 | 8.3 | 7.7 | 7.4 | 20 | 17 | 16 | 29 | 30 | 32 | 2.5 | 2.8 | 3.6 | 140 | 86 |
| KPIT Technologies | SELL | 1,308 | 1,150 | (12) | 359 | 4.2 | 273 | 27 | 34 | 43 | 48 | 38 | 31 | 12.9 | 10.4 | 8.4 | 28 | 22 | 18 | 30 | 30 | 30 | 0.7 | 0.9 | 1.1 | 23 | 11 |
| L&T Technology Services | SELL | 5,309 | 4,450 | (16) | 562 | 6.7 | 106 | 123 | 145 | 165 | 43 | 36 | 32 | 9.3 | 8.1 | 7.1 | 27 | 24 | 21 | 23 | 24 | 24 | 0.9 | 1.0 | 1.2 | 10 | 4 |
| LTIMindtree | ADD | 6,134 | 6,750 | 10 | 1,817 | 21.5 | 296 | 163 | 203 | 233 | 38 | 30 | 26 | 8.1 | 7.0 | 6.2 | 25 | 21 | 18 | 23 | 25 | 25 | 1.3 | 1.5 | 1.8 | 41 | 19 |
| Mphasis | SELL | 2,884 | 2,750 | (5) | 546 | 6.5 | 189 | 90 | 99 | 116 | 32 | 29 | 25 | 5.9 | 5.6 | 5.1 | 20 | 18 | 16 | 19 | 20 | 21 | 2.3 | 2.4 | 2.4 | 28 | 13 |
| Persistent Systems | SELL | 5,792 | 4,600 | (21) | 903 | 10.7 | 155 | 87 | 107 | 128 | 67 | 54 | 45 | 15.4 | 13.0 | 10.9 | 44 | 36 | 30 | 25 | 26 | 26 | 0.5 | 0.6 | 0.8 | 31 | 13 |
| RateGain | REDUCE | 690 | 800 | 16 | 81 | 1.0 | 119 | 17 | 22 | 26 | 39 | 32 | 27 | 4.9 | 4.2 | 3.6 | 32 | 25 | 20 | 13 | 14 | 15 | — | — | — | 4 | 2 |
| Tata Elxsi | SELL | 6,586 | 5,600 | (15) | 410 | 4.9 | 62 | 139 | 162 | 186 | 48 | 41 | 35 | 14.4 | 12.7 | 11.2 | 34 | 28 | 25 | 33 | 33 | 34 | 1.3 | 1.5 | 1.8 | 38 | 14 |
| Tata Technologies | SELL | 941 | 650 | (31) | 382 | 4.5 | 406 | 17 | 20 | 24 | 56 | 47 | 40 | 10.7 | 9.6 | 8.6 | 38 | 32 | 27 | 20 | 22 | 23 | 0.9 | 1.1 | 1.3 | 47 | 22 |
| TCS | ADD | 4,245 | 4,500 | 6 | 15,357 | 181.8 | 3,619 | 136 | 151 | 170 | 31 | 28 | 25 | 15.0 | 13.5 | 12.2 | 22 | 20 | 18 | 51 | 50 | 51 | 2.6 | 2.8 | 3.2 | 120 | 74 |
| Tech Mahindra | ADD | 1,747 | 1,850 | 6 | 1,542 | 18.3 | 890 | 51 | 66 | 84 | 34 | 27 | 21 | 5.7 | 5.4 | 5.0 | 20 | 16 | 13 | 17 | 21 | 25 | 2.2 | 2.3 | 2.9 | 45 | 25 |
| Wipro | SELL | 571 | 500 | (12) | 2,989 | 35.4 | 5,236 | 24 | 26 | 28 | 24 | 22 | 20 | 3.4 | 3.2 | 3.0 | 14 | 13 | 12 | 16 | 15 | 15 | 0.2 | 2.1 | 2.6 | 56 | 24 |
| **IT Services** | **Neutral** | | | | **38,908** | **460.7** | | | | | **31.5** | **27.8** | **24.7** | **8.6** | **7.9** | **7.3** | **20.8** | **18.5** | **16.5** | **27.4** | **28.4** | **29.5** | **2.1** | **2.5** | **2.9** | **706** | **349** |
| **Media** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PVR INOX | ADD | 1,465 | 1,700 | 16 | 144 | 1.7 | 98 | 13 | 42 | 56 | 110 | 35 | 26 | 1.7 | 1.6 | 1.5 | 21 | 13 | 11 | 2 | 5 | 6 | 0.1 | 0.3 | 0.4 | 10 | 4 |
| Sun TV Network | REDUCE | 742 | 730 | (2) | 292 | 3.5 | 394 | 45 | 50 | 54 | 16 | 15 | 14 | 2.5 | 2.3 | 2.1 | 12 | 10 | 9 | 16 | 16 | 16 | 2.6 | 2.9 | 3.3 | 6 | 2 |
| Zee Entertainment Enterprises | REDUCE | 117 | 138 | 18 | 113 | 1.3 | 960 | 8 | 10 | 11 | 14 | 12 | 11 | 1.0 | 1.0 | 0.9 | 7 | 6 | 6 | 7 | 8 | 9 | 3.4 | 3.8 | 4.3 | 29 | 12 |
| **Media** | **Neutral** | | | | **549** | **6.5** | | | | | **20.3** | **16.5** | **14.7** | **1.7** | **1.6** | **1.5** | **12.0** | **9.7** | **8.5** | **8.6** | **10.0** | **10.5** | **2.1** | **2.4** | **2.7** | **44** | **17** |

Source: Company, Bloomberg, Kotak Institutional Equities estimates



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## Kotak Institutional Equities: Valuation summary of KIE Universe stocks

| Company | Rating | Price (Rs) 22-Nov-24 | Fair Value (Rs) | Upside (%) | Mkt cap. (Rs bn) | Mkt cap. (US$ bn) | O/S shares (mn) | EPS (Rs) 2025E | EPS (Rs) 2026E | EPS (Rs) 2027E | P/E (X) 2025E | P/E (X) 2026E | P/E (X) 2027E | P/B (X) 2025E | P/B (X) 2026E | P/B (X) 2027E | EV/EBITDA (X) 2025E | EV/EBITDA (X) 2026E | EV/EBITDA (X) 2027E | RoE (%) 2025E | RoE (%) 2026E | RoE (%) 2027E | Dividend yield (%) 2025E | Dividend yield (%) 2026E | Dividend yield (%) 2027E | ADV-3M (US$ mn) Traded | ADV-3M (US$ mn) Delivered |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Metals & Mining** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gravita India | ADD | 2,105 | 2,500 | 19 | 145 | 1.7 | 69 | 44 | 58 | 72 | 48 | 37 | 29 | 13.3 | 10.1 | 8.0 | 34.9 | 27.6 | 22.4 | 32 | 31 | 31 | 0.3 | 0.4 | 0.9 | 9 | 4 |
| Hindalco Industries | REDUCE | 652 | 680 | 4 | 1,465 | 17.4 | 2,220 | 66 | 59 | 63 | 10 | 11 | 10 | 1.2 | 1.1 | 1.0 | 5.5 | 5.7 | 5.4 | 13 | 11 | 10 | 1.0 | 0.9 | 1.0 | 57 | 26 |
| Hindustan Zinc | SELL | 489 | 380 | (22) | 2,067 | 24.5 | 4,225 | 25 | 26 | 26 | 19 | 19 | 19 | 15.1 | 15.1 | 15.1 | 11.6 | 11.1 | 10.9 | 74 | 79 | 79 | 5.9 | 5.3 | 5.2 | 21 | 12 |
| Jindal Steel and Power | BUY | 879 | 1,160 | 32 | 897 | 10.6 | 1,020 | 46 | 71 | 103 | 19 | 12 | 9 | 1.8 | 1.6 | 1.4 | 9.9 | 7.3 | 5.2 | 10 | 14 | 17 | 0.3 | 0.4 | 0.6 | 29 | 14 |
| JSW Steel | REDUCE | 977 | 925 | (5) | 2,390 | 28.3 | 2,445 | 36 | 65 | 84 | 27 | 15 | 12 | 2.8 | 2.4 | 2.1 | 11.1 | 8.3 | 6.8 | 11 | 17 | 19 | 0.6 | 1.0 | 1.3 | 26 | 11 |
| National Aluminium Co. | ADD | 257 | 250 | (3) | 472 | 5.6 | 1,837 | 23 | 21 | 23 | 11 | 12 | 11 | 2.8 | 2.4 | 2.2 | 7.0 | 7.5 | 6.5 | 26 | 21 | 20 | 3.5 | 3.2 | 3.5 | 62 | 19 |
| NMDC | SELL | 221 | 210 | (5) | 647 | 7.7 | 2,931 | 24 | 23 | 21 | 9 | 10 | 10 | 2.2 | 1.9 | 1.7 | 6.2 | 6.3 | 6.7 | 25 | 21 | 17 | 4.3 | 4.2 | 3.9 | 36 | 14 |
| SAIL | SELL | 113 | 55 | (51) | 466 | 5.5 | 4,130 | 2 | 4 | 4 | 47 | 31 | 29 | 0.8 | 0.8 | 0.8 | 9.3 | 8.9 | 9.0 | 2 | 3 | 3 | 0.6 | 1.0 | 1.0 | 35 | 11 |
| Tata Steel | SELL | 143 | 135 | (5) | 1,783 | 21.1 | 12,486 | 5 | 11 | 14 | 31 | 13 | 10 | 1.9 | 1.7 | 1.5 | 9.6 | 6.9 | 6.3 | 6 | 14 | 15 | 1.1 | 2.0 | 2.4 | 88 | 35 |
| Vedanta | SELL | 445 | 430 | (3) | 1,741 | 20.6 | 3,913 | 31 | 40 | 44 | 14 | 11 | 10 | 4.6 | 4.1 | 3.6 | 5.6 | 4.8 | 4.5 | 36 | 38 | 37 | 7.9 | 6.1 | 6.4 | 75 | 31 |
| **Metals & Mining** | **Cautious** | | | | **12,074** | **143.0** | | | | | **17.4** | **13.5** | **11.8** | **2.4** | **2.1** | **1.9** | **8.2** | **7.0** | **6.3** | **13.7** | **15.9** | **16.3** | **3.0** | **2.8** | **3.0** | **439** | **173** |
| **Oil, Gas & Consumable Fuels** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| BPCL | SELL | 286 | 265 | (7) | 1,240 | 14.7 | 4,273 | 22 | 29 | 28 | 13 | 10 | 10 | 1.5 | 1.4 | 1.3 | 7.0 | 5.8 | 6.0 | 12 | 15 | 13 | 2.6 | 3.4 | 3.4 | 49 | 20 |
| Coal India | SELL | 414 | 420 | 1 | 2,552 | 30.2 | 6,163 | 52 | 53 | 54 | 8 | 8 | 8 | 2.6 | 2.2 | 1.9 | 7.2 | 6.1 | 5.5 | 35 | 30 | 27 | 6.0 | 6.0 | 6.0 | 54 | 28 |
| HPCL | SELL | 361 | 200 | (45) | 768 | 9.1 | 2,128 | 16 | 35 | 34 | 22 | 10 | 11 | 1.8 | 1.6 | 1.4 | 13.3 | 8.8 | 8.8 | 8 | 16 | 14 | 1.4 | 2.9 | 2.8 | 44 | 18 |
| IOCL | SELL | 133 | 100 | (25) | 1,873 | 22.2 | 14,121 | 8 | 15 | 14 | 16 | 9 | 9 | 1.0 | 1.0 | 0.9 | 7.8 | 5.5 | 5.5 | 7 | 11 | 10 | 2.9 | 4.6 | 4.5 | 39 | 16 |
| Oil India | SELL | 507 | 345 | (32) | 825 | 9.8 | 1,627 | 45 | 49 | 48 | 11 | 10 | 11 | 1.7 | 1.5 | 1.4 | 8.3 | 7.3 | 7.1 | 16 | 15 | 14 | 2.9 | 3.4 | 3.3 | 48 | 21 |
| ONGC | REDUCE | 246 | 270 | 10 | 3,090 | 36.6 | 12,580 | 40 | 44 | 44 | 6 | 6 | 6 | 0.8 | 0.8 | 0.7 | 4.0 | 3.3 | 3.4 | 14 | 14 | 13 | 5.1 | 4.9 | 4.8 | 59 | 28 |
| Reliance Industries | ADD | 1,265 | 1,560 | 23 | 17,124 | 202.8 | 13,532 | 51 | 62 | 71 | 25 | 20 | 18 | 2.0 | 1.8 | 1.7 | 11.7 | 9.7 | 8.2 | 8 | 9 | 10 | – | 0.4 | 0.5 | 291 | 181 |
| **Oil, Gas & Consumable Fuels** | **Neutral** | | | | **27,471** | **325.3** | | | | | **15.0** | **12.5** | **11.8** | **1.6** | **1.5** | **1.4** | **8.7** | **7.1** | **6.4** | **10.9** | **11.9** | **11.5** | **1.8** | **2.0** | **2.0** | **585** | **312** |
| **Pharmaceuticals** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Aurobindo Pharma | SELL | 1,223 | 1,225 | 0 | 710 | 8.4 | 586 | 63 | 74 | 79 | 19 | 17 | 15 | 2.3 | 2.1 | 1.9 | 11 | 9 | 9 | 12 | 13 | 12 | 1.5 | 1.8 | 2.1 | 20 | 10 |
| Biocon | REDUCE | 332 | 315 | (5) | 398 | 4.7 | 1,202 | (1) | 8 | 12 | NM | 40 | 28 | 1.6 | 1.5 | 1.4 | 16 | 12 | 10 | NM | 4 | 5 | 0.9 | 0.9 | 1.3 | 22 | 8 |
| Blue Jet Healthcare | ADD | 534 | 550 | 3 | 93 | 1.1 | 173 | 12 | 16 | 21 | 45 | 32 | 26 | 8.9 | 7.1 | 5.7 | 34 | 23 | 18 | 22 | 24 | 24 | 0.2 | 0.2 | 0.3 | 1 | 1 |
| Cipla | ADD | 1,487 | 1,750 | 18 | 1,200 | 14.2 | 806 | 60 | 66 | 65 | 25 | 23 | 23 | 3.9 | 3.5 | 3.1 | 16 | 14 | 14 | 17 | 16 | 14 | 0.9 | 1.0 | 1.0 | 39 | 21 |
| Concord Biotech | ADD | 2,030 | 2,050 | 1 | 212 | 2.5 | 105 | 35 | 47 | 60 | 59 | 43 | 34 | 11.8 | 9.8 | 8.0 | 41 | 31 | 25 | 22 | 25 | 24 | 0.4 | 0.6 | 0.7 | 7 | 3 |
| Divis Laboratories | SELL | 6,000 | 4,000 | (33) | 1,593 | 18.9 | 265 | 79 | 98 | 124 | 76 | 61 | 48 | 10.8 | 9.8 | 8.8 | 54 | 44 | 34 | 15 | 17 | 19 | 0.6 | 0.7 | 0.9 | 49 | 25 |
| Dr Reddy's Laboratories | REDUCE | 1,214 | 1,295 | 7 | 1,013 | 12.0 | 832 | 68 | 70 | 62 | 18 | 17 | 20 | 3.1 | 2.7 | 2.4 | 11 | 10 | 11 | 19 | 16 | 12 | 0.8 | 0.8 | 0.9 | 31 | 18 |
| Emcure Pharmaceuticals | ADD | 1,314 | 1,680 | 28 | 249 | 2.9 | 189 | 39 | 49 | 58 | 34 | 27 | 22 | 5.8 | 5.0 | 4.3 | 17 | 14 | 12 | 20 | 20 | 20 | 0.7 | 0.9 | 1.1 | 3 | |
| Gland Pharma | REDUCE | 1,755 | 1,625 | (7) | 289 | 3.4 | 164 | 49 | 63 | 77 | 36 | 28 | 23 | 3.2 | 3.0 | 2.7 | 20 | 16 | 14 | 9 | 11 | 13 | 1.3 | 1.5 | 1.6 | 9 | 5 |
| Glenmark Life Sciences | BUY | 1,054 | 1,200 | 14 | 129 | 1.5 | 123 | 39 | 47 | 53 | 27 | 22 | 20 | 5.1 | 4.6 | 4.1 | 19 | 15 | 14 | 20 | 22 | 21 | 2.2 | 2.3 | 2.4 | 4 | 2 |
| JB Chemicals & Pharma | BUY | 1,743 | 2,325 | 33 | 271 | 3.2 | 157 | 44 | 55 | 63 | 40 | 32 | 28 | 7.9 | 6.6 | 5.5 | 25 | 20 | 17 | 22 | 23 | 22 | 0.6 | 0.6 | 0.7 | 5 | 3 |
| Laurus Labs | SELL | 513 | 370 | (28) | 276 | 3.3 | 536 | 6 | 9 | 12 | 89 | 55 | 42 | 6.2 | 5.6 | 4.9 | 29 | 22 | 18 | 7 | 11 | 13 | - | - | - | 16 | 7 |
| Lupin | ADD | 2,071 | 2,385 | 15 | 945 | 11.2 | 455 | 67 | 85 | 81 | 31 | 24 | 25 | 5.6 | 4.7 | 4.1 | 18 | 14 | 14 | 20 | 21 | 17 | 0.6 | 0.7 | 0.7 | 31 | 16 |
| Mankind Pharma | ADD | 2,554 | 2,855 | 12 | 1,023 | 12.1 | 401 | 58 | 71 | 86 | 44 | 36 | 30 | 9.2 | 7.7 | 6.4 | 33 | 27 | 23 | 23 | 23 | 24 | 0.5 | 0.7 | 0.8 | 15 | 7 |
| Sun Pharmaceuticals | ADD | 1,795 | 2,045 | 14 | 4,307 | 51.0 | 2,399 | 48 | 57 | 66 | 37 | 31 | 27 | 5.9 | 5.1 | 4.5 | 27 | 22 | 19 | 17 | 18 | 18 | 0.5 | 0.6 | 0.7 | 44 | 28 |
| Torrent Pharmaceuticals | REDUCE | 3,167 | 3,335 | 5 | 1,072 | 12.7 | 338 | 59 | 75 | 92 | 54 | 42 | 34 | 12.9 | 10.4 | 8.4 | 28 | 24 | 21 | 26 | 27 | 27 | 0.5 | 0.6 | 0.6 | 22 | 12 |
| **Pharmaceuticals** | **Neutral** | | | | **13,781** | **163.2** | | | | | **35.7** | **29.5** | **26.8** | **5.1** | **4.5** | **4.0** | **21.7** | **18.4** | **16.7** | **14.3** | **15.2** | **14.8** | **0.5** | **0.6** | **0.7** | **317** | **165** |
| **Real Estate** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Brigade Enterprises | BUY | 1,194 | 1,320 | 11 | 292 | 3.5 | 244 | 26 | 34 | 48 | 45 | 36 | 25 | 5.1 | 4.5 | 3.9 | 21 | 16 | 11 | 14 | 13 | 17 | 0.2 | 0.2 | 0.2 | 7 | 4 |
| Brookfield India Real Estate Trust | ADD | 274 | 330 | 20 | 132 | 1.6 | 480 | 3 | 7 | 10 | 81 | 40 | 27 | 1.2 | 1.3 | 1.4 | 14 | 13 | 12 | 1 | 3 | 4 | 6.8 | 7.3 | 7.9 | 1 | 1 |
| DLF | BUY | 803 | 960 | 20 | 1,989 | 23.5 | 2,475 | 17 | 22 | 31 | 48 | 36 | 26 | 4.7 | 4.3 | 3.9 | 98 | 47 | 33 | 10 | 12 | 16 | 0.7 | 0.9 | 1.0 | 35 | 14 |
| Embassy Office Parks REIT | ADD | 370 | 425 | – | 351 | 4.2 | 948 | 25 | 12 | 16 | 15 | 30 | 23 | 1.5 | 1.6 | 1.6 | 15 | 13 | 12 | 10 | 5 | 7 | 6.2 | 6.7 | 7.2 | 5 | 5 |
| Godrej Properties | SELL | 2,857 | 2,245 | (21) | 794 | 9.4 | 278 | 65 | 52 | 95 | 44 | 55 | 30 | 6.7 | 6.0 | 5.0 | 480 | 197 | 65 | 17 | 12 | 18 | – | – | – | 25 | 10 |
| Macrotech Developers | ADD | 1,245 | 1,340 | 8 | 1,241 | 14.7 | 995 | 26 | 41 | 43 | 48 | 30 | 29 | 6.2 | 5.1 | 4.4 | 32 | 22 | 20 | 14 | 19 | 16 | – | – | – | 21 | 11 |
| Mindspace REIT | ADD | 379 | 410 | 8 | 225 | 2.7 | 593 | 11 | 14 | 18 | 35 | 27 | 21 | 1.6 | 1.6 | 1.7 | 15 | 14 | 12 | 4 | 6 | 8 | 5.7 | 6.2 | 6.6 | 1 | 1 |
| Nexus Select Trust | ADD | 142 | 155 | 9 | 216 | 2.6 | 1,515 | 4 | 5 | 6 | 35 | 29 | 25 | 1.5 | 1.6 | 1.7 | 16 | 15 | 14 | 4 | 5 | 6 | 5.8 | 6.4 | 6.9 | 2 | 1 |
| Oberoi Realty | REDUCE | 1,942 | 1,825 | (6) | 706 | 8.4 | 364 | 56 | 86 | 120 | 34 | 23 | 16 | 4.4 | 3.7 | 3.0 | 24 | 15 | 11 | 14 | 18 | 21 | 0.5 | 0.6 | 0.7 | 24 | 12 |
| Phoenix Mills | REDUCE | 1,627 | 1,465 | (10) | 582 | 6.9 | 357 | 35 | 44 | 46 | 46 | 37 | 35 | 5.5 | 4.8 | 4.3 | 23 | 19 | 17 | 12 | 14 | 13 | 0.2 | 0.2 | 0.2 | 15 | 8 |
| Prestige Estates Projects | ADD | 1,631 | 1,830 | 12 | 703 | 8.3 | 408 | 22 | 26 | 47 | 73 | 63 | 35 | 3.9 | 3.9 | 3.5 | 25 | 21 | 14 | 6 | 6 | 11 | 0.1 | 0.2 | 0.2 | 30 | 15 |
| Signature Global | BUY | 1,302 | 1,570 | 21 | 183 | 2.2 | 141 | 32 | 74 | 164 | 41 | 18 | 8 | 17.0 | 8.7 | 4.1 | 39 | 13 | 6 | 53 | 65 | 71 | – | – | – | 14 | 4 |
| Sobha | REDUCE | 1,629 | 1,500 | (8) | 163 | 1.9 | 107 | 14 | 38 | 55 | 115 | 42 | 29 | 3.8 | 3.5 | 3.2 | 44 | 20 | 13 | 4 | 9 | 11 | 0.2 | 0.3 | 0.3 | 5 | 2 |
| Sunteck Realty | BUY | 520 | 670 | 29 | 76 | 0.9 | 140 | 16 | 39 | 52 | 32 | 13 | 10 | 2.2 | 1.9 | 1.6 | 25 | 10 | 7 | 7 | 15 | 17 | 0.2 | 0.2 | 0.2 | 4 | 2 |
| **Real Estate** | **Attractive** | | | | **7,650** | **90.6** | | | | | **42.7** | **33.7** | **24.4** | **3.9** | **3.7** | **3.3** | **31.7** | **22.1** | **16.8** | **9.2** | **10.8** | **13.5** | **1.0** | **1.1** | **1.2** | **188** | **90** |

Source: Company, Bloomberg, Kotak Institutional Equities estimates



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## Kotak Institutional Equities: Valuation summary of KIE Universe stocks

| | | Price (Rs) | Fair Value | Upside | Mkt cap. | | O/S shares | EPS (Rs) | | | P/E (X) | | | P/B (X) | | | EV/EBITDA (X) | | | RoE (%) | | | Dividend yield (%) | | | ADV-3M (US$ mn) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Rating | 22-Nov-24 | (Rs) | (%) | (Rs bn) | (US$ bn) | (mn) | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | Traded | Delivered |
| **Retailing** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Avenue Supermarts | SELL | 3,614 | 3,650 | 1 | 2,352 | 27.8 | 651 | 46 | 55 | 67 | 78 | 65 | 54 | 10.8 | 9.3 | 7.9 | 49 | 40 | 34 | 15 | 15 | 16 | — | — | — | 38 | 23 |
| Metro Brands | REDUCE | 1,145 | 1,100 | (4) | 311 | 3.7 | 272 | 14 | 17 | 21 | 85 | 66 | 54 | 14.9 | 12.9 | 11.0 | 40 | 33 | 27 | 19 | 21 | 22 | — | 1— | 0.7 | 2 | 1 |
| Titan Company | REDUCE | 3,309 | 3,275 | (1) | 2,937 | 34.8 | 888 | 42 | 52 | 62 | 79 | 64 | 53 | 25.6 | 20.1 | 15.9 | 50 | 42 | 36 | 36 | 35 | 33 | 0.4 | 0.5 | 0.6 | 54 | 27 |
| Trent | ADD | 6,653 | 6,800 | 2 | 2,365 | 28.0 | 356 | 54 | 76 | 108 | 124 | 87 | 62 | 39.8 | 27.4 | 18.9 | 84 | 60 | 43 | 38 | 37 | 36 | — | — | — | 96 | 52 |
| **Retailing** | **Neutral** | | | | **5,600** | **94.3** | | | | | **88.3** | **70.1** | **55.8** | **19.3** | **15.6** | **12.6** | **55.8** | **45.1** | **36.6** | **22** | **22** | **23** | **0.2** | **0.2** | **0.2** | **189** | **103** |
| **Specialty Chemicals** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Aarti Industries | SELL | 431 | 380 | (12) | 156 | 1.8 | 363 | 9 | 11 | 18 | 46 | 38 | 25 | 2.8 | 2.6 | 2.4 | 19 | 16 | 13 | 6 | 7 | 10 | 0.2 | 0.4 | 0.6 | 14 | 6 |
| Atul | SELL | 7,262 | 5,270 | (27) | 214 | 2.5 | 29 | 189 | 232 | 274 | 38 | 31 | 27 | 3.8 | 3.5 | 3.2 | 19 | 17 | 14 | 10 | 12 | 13 | 0.5 | 0.6 | 0.8 | 7 | 3 |
| Castrol India | SELL | 199 | 190 | (4) | 197 | 2.3 | 989 | 9 | 11 | 11 | 21 | 19 | 17 | 8.7 | 8.0 | 7.3 | 15 | 13 | 12 | 42 | 44 | 44 | 4.0 | 4.3 | 4.5 | 15 | 6 |
| Clean Science & Technology | ADD | 1,299 | 1,540 | 19 | 138 | 1.6 | 106 | 26 | 36 | 50 | 50 | 36 | 26 | 9.7 | 8.1 | 6.5 | 34 | 26 | 19 | 21 | 24 | 28 | 0.5 | 0.6 | 0.9 | 3 | 2 |
| Deepak Nitrite | SELL | 2,675 | 1,990 | (26) | 365 | 4.3 | 136 | 59 | 69 | 81 | 45 | 39 | 33 | 6.6 | 5.7 | 4.9 | 32 | 28 | 24 | 15 | 16 | 16 | 0.2 | 0.3 | 0.3 | 13 | 5 |
| Navin Fluorine | REDUCE | 3,330 | 3,330 | 0 | 165 | 2.0 | 50 | 50 | 86 | 119 | 67 | 39 | 28 | 6.4 | 5.6 | 4.8 | 39 | 25 | 19 | 10 | 15 | 18 | 0.3 | 0.4 | 0.5 | 8 | 3 |
| Neogen Chemicals | ADD | 1,941 | 2,070 | 7 | 51 | 0.6 | 26 | 23 | 51 | 61 | 84 | 38 | 32 | 6.3 | 5.5 | 4.8 | 39 | 24 | 15 | 8 | 16 | 16 | 0.2 | 0.4 | 0.4 | 3 | 2 |
| Pidilite Industries | ADD | 2,967 | 3,315 | 12 | 1,509 | 17.9 | 509 | 43 | 49 | 56 | 70 | 60 | 53 | 16.0 | 14.4 | 13.1 | 47 | 42 | 37 | 24 | 25 | 26 | 0.8 | 1.0 | 1.2 | 16 | 9 |
| PI Industries | REDUCE | 4,117 | 4,000 | (3) | 625 | 7.4 | 152 | 120 | 131 | 147 | 34 | 31 | 28 | 6.1 | 5.2 | 4.5 | 26 | 23 | 20 | 19 | 18 | 17 | 0.4 | 0.5 | 0.5 | 14 | 7 |
| S H Kelkar and Company | BUY | 267 | 370 | 39 | 37 | 0.4 | 138 | 10 | 12 | 17 | 26 | 22 | 16 | 2.8 | 2.5 | 2.3 | 13 | 11 | 9 | 11 | 12 | 15 | 0.9 | 0.9 | 1.2 | 4 | 2 |
| SRF | ADD | 2,163 | 2,290 | 6 | 641 | 7.6 | 296 | 38 | 57 | 81 | 56 | 38 | 27 | 5.2 | 4.7 | 4.1 | 26 | 20 | 16 | 10 | 13 | 16 | 0.6 | 0.6 | 0.7 | 19 | 10 |
| Vinati Organics | SELL | 1,822 | 1,200 | (34) | 189 | 2.2 | 104 | 37 | 46 | 57 | 49 | 40 | 32 | 6.8 | 5.9 | 5.1 | 33 | 26 | 21 | 15 | 16 | 17 | 0.3 | 0.4 | 0.5 | 2 | 1 |
| **Specialty Chemicals** | **Neutral** | | | | **4,287** | **50.8** | | | | | **48.4** | **39.6** | **32.4** | **7.2** | **6.4** | **5.6** | **29.9** | **25.0** | **20.8** | **14.8** | **16.1** | **17.4** | **0.7** | **0.8** | **1.0** | **118** | **55** |
| **Telecommunication Services** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bharti Airtel | ADD | 1,569 | 1,720 | 10 | 9,389 | 111.2 | 5,753 | 40 | 53 | 68 | 39 | 29 | 23 | 9.9 | 7.9 | 6.8 | 12 | 9 | 8 | 27 | 30 | 31 | 1.0 | 1.4 | 1.8 | 124 | 77 |
| Indus Towers | SELL | 330 | 340 | 3 | 871 | 10.3 | 2,638 | 32 | 28 | 21 | 10 | 12 | 16 | 2.6 | 2.2 | 2.2 | 5 | 5 | 5 | 29 | 20 | 14 | 0.6 | 6.1 | 3.0 | 51 | 25 |
| Vodafone Idea | SELL | 7 | 7 | 5 | 465 | 5.5 | 69,645 | (4) | (3) | (3) | NM | NM | NM | NM | NM | NM | 15 | 14 | 12 | NM | NM | NM | — | — | — | 89 | 32 |
| Tata Communications | SELL | 1,738 | 1,645 | (5) | 495 | 5.9 | 285 | 42 | 63 | 82 | 41 | 28 | 21 | 18.9 | 12.7 | 9.0 | 12 | 10 | 9 | 54 | 55 | 49 | 1.0 | 1.4 | 1.9 | 12 | 5 |
| **Telecommunication Services** | **Attractive** | | | | **11,220** | **132.9** | | | | | **202.9** | **75.5** | **47.4** | **66** | **32** | **25** | **11.2** | **9.5** | **8.2** | **33** | **42** | **52** | **0.9** | **1.7** | **1.8** | **275** | **139** |
| **Transportation** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Adani Ports and SEZ | BUY | 1,137 | 1,690 | 49 | 2,456 | 29.1 | 2,160 | 50 | 63 | 70 | 23 | 18 | 16 | 3.9 | 3.3 | 2.8 | 16 | 13 | 11 | 19 | 20 | 19 | 0.6 | 0.8 | 0.8 | 45 | 20 |
| Container Corp. | SELL | 788 | 750 | (5) | 480 | 5.7 | 609 | 23 | 27 | 32 | 35 | 29 | 24 | 3.9 | 3.6 | 3.4 | 21 | 18 | 15 | 11 | 13 | 14 | 1.3 | 1.5 | 1.8 | 18 | 9 |
| Delhivery | BUY | 346 | 475 | 37 | 256 | 3.0 | 747 | 3 | 5 | 9 | 114 | 71 | 39 | 2.7 | 2.6 | 2.4 | 58 | 31 | 20 | 2 | 4 | 6 | — | — | — | 10 | 6 |
| Gateway Distriparks | ADD | 83 | 104 | 25 | 41 | 0.5 | 500 | 5 | 6 | 6 | 18 | 15 | 13 | 2.0 | 1.9 | 1.7 | 12 | 10 | 9 | 11 | 13 | 14 | 2.2 | 2.5 | 2.7 | 1 | 1 |
| GMR Airports | SELL | 79 | 74 | (7) | 836 | 9.9 | 6,036 | (1) | 1 | 1 | NM | 107 | 61 | NM | NM | NM | 32 | 19 | 17 | 1,708 | NM | 203 | — | — | — | 28 | 13 |
| Gujarat Pipavav Port | SELL | 179 | 178 | (1) | 87 | 1.0 | 483 | 8 | 10 | 11 | 22 | 18 | 16 | 3.4 | 2.9 | 2.4 | 12 | 11 | 9 | 17 | 17 | 16 | — | — | — | 4 | 2 |
| InterGlobe Aviation | BUY | 4,143 | 5,200 | 26 | 1,601 | 19.0 | 383 | 185 | 252 | 266 | 22 | 16 | 16 | 17.5 | 8.5 | 3.8 | 7 | 5 | 4 | 128 | 69 | 43 | — | — | — | 97 | 56 |
| JSW Infrastructure | SELL | 304 | 255 | (16) | 639 | 7.6 | 2,119 | 6 | 8 | 8 | 48 | 39 | 38 | 7.1 | 6.2 | 23.4 | 29 | 26 | 23 | 16 | 17 | 15 | 0.5 | 0.5 | 0.5 | 12 | 5 |
| **Transportation** | **Attractive** | | | | **6,396** | **75.7** | | | | | **31.0** | **22.8** | **20.4** | **6.0** | **4.9** | **4.0** | **14.8** | **11.6** | **9.5** | **19.4** | **21** | **19.6** | **0.4** | **0.5** | **0.5** | **215** | **111** |
| **KIE universe** | | | | | **303,627** | **3,595** | | | | | **25.9** | **21.9** | **19.2** | **3.8** | **3.4** | **3.0** | **15.9** | **13.4** | **11.9** | **14.7** | **15.5** | **15.8** | **1.3** | **1.5** | **1.6** | | |

Notes:
(a) We have used adjusted book values for banking companies.
(b) 2024 means calendar year 2023, similarly for 2025 and 2026 for these particular companies.
(c) Exchange rate (Rs/US$)= 84.5

Source: Company, Bloomberg, Kotak Institutional Equities estimates



k.kathirvelu-kotak.com

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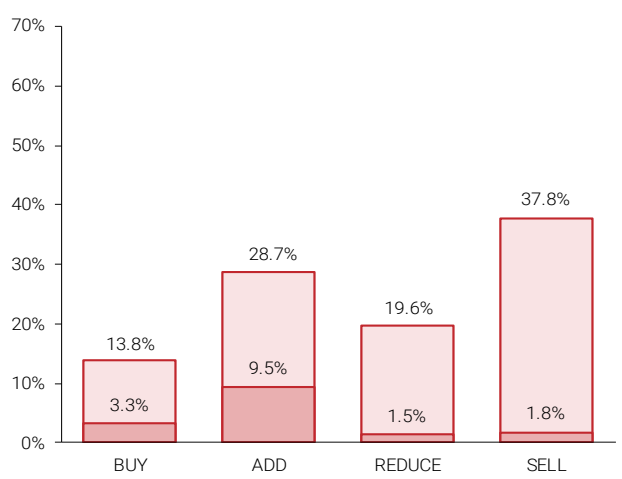


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Source: Kotak Institutional Equities

As of September 30, 2024

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**ADD.** We expect this stock to deliver 5-15% returns over the next 12 months.

**REDUCE.** We expect this stock to deliver -5-+5% returns over the next 12 months.

**SELL.** We expect this stock to deliver <-5% returns over the next 12 months.

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| Head of Customer Care | Mr. Tabrez Anwar | | 022-42858208 | ks.servicehead@kotak.com |
| Compliance Officer | Mr. Hiren Thakkar | | 022-42858484 | ks.compliance@kotak.com |
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