Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	77,338	0.0	7.1
Nifty-50	23,516	-0.2	8.2
Nifty-M 100	54,952	-1.0	19.0
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,487	0.0	15.0
Nasdaq	17,862	0.0	19.0
FTSE 100	8,205	0.2	6.1
DAX	18,068	-0.4	7.9
Hang Seng	6,588	3.4	14.2
Nikkei 225	38,571	0.2	15.3
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	86	1.0	11.1
Gold ($/OZ)	2,328	-0.1	12.9
Cu (US$/MT)	9,647	1.2	14.0
Almn (US$/MT)	2,448	0.6	4.4
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	83.5	0.0	0.3
USD/EUR	1.1	0.0	-2.7
USD/JPY	158.1	0.1	12.1
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.0	0.00	-0.2
10 Yrs AAA Corp	7.5	-0.03	-0.2
Flows (USD b)	**19-Jun**	**MTD**	**CYTD**
FIIs	0.9	0.90	-2.8
DIIs	0.85	3.31	27.5
Volumes (INRb)	**19-Jun**	**MTD***	**YTD***
Cash	1,900	1681	1236
F&O	7,54,780	3,95,039	3,78,705

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research theme

India Strategy: Indian PSUs – Back with a vengeance!

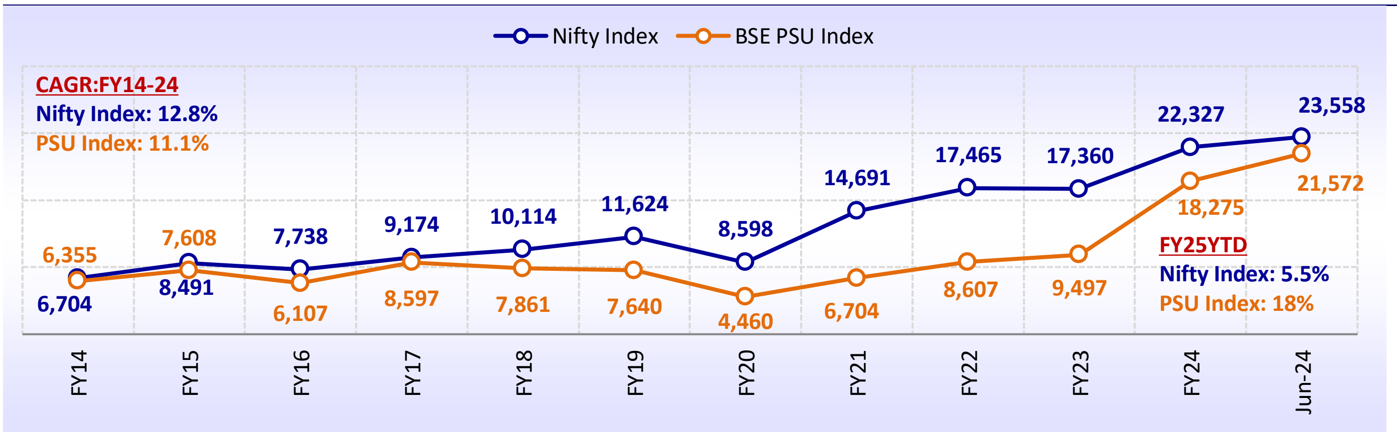
- After a period of weak performance at the start of the past decade, PSUs made a comeback and reported a strong revival in their profits in the previous five years.
- The government's infrastructure and capex push, which had gained momentum post-pandemic, along with cleaner balance sheet, improved governance, margin tailwinds for commodities, and burgeoning order books, have continued to drive the PSU outperformance and their rerating, in our opinion.
- During FY19-24, PSU earnings reported a 33.8% CAGR, outperforming that of the Private Sector, which posted an 18.6% CAGR over the same period. The share of PSUs in the profit pool expanded to 36% in FY24 after hovering in the 17-30% range during the past few years. Further, the earnings of PSUs during FY24 witnessed a spectacular growth of 45% YoY.
- Notably, the market cap share of PSUs in India, which dropped significantly to 10.5% in FY22 from 20.8% in FY14, has since recovered and currently stands at 17.5%. Over a similar period, India's market cap skyrocketed to INR389t in FY24 from INR69t in FY14 and currently it stands at INR440t. During FY14-24, PSUs' market cap surged to INR66t (INR77t as of Jun'24) from INR14t, while the private sector's market cap catapulted to INR323t (INR363t as of Jun'24) from INR55t.

Research covered

Cos/Sector	Key Highlights
India Strategy	Indian PSUs – Back with a vengeance!
DCB Bank	Business growth steady; valuations reasonable
SRF	Recovery in sight during FY25!
Real Estate	Third consecutive year of strong demand
EcoScope	How did we get it so wrong in FY24?

Chart of the Day: India Strategy (Indian PSUs – Back with a vengeance!)

PSUs witnessing a smart recovery after a dull decade



Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Cabinet approves development of Rs 76k crore all-weather port in Maharashtra's Vadhavan

Upon completion, the Rs 76,220 Vadhavan port will be one of the top 10 ports in the world.

2

Titan lines up aggressive expansion plans for Tanishq, Taneira, other brands this year, says MD

Venkataraman was talking to reporters after unveiling one of the company's Helios watch stores along with the 59th jewellery store Tanishq and the 7th Taniera store at Pondy Bazaar, in Chennai.

3

Blue Dart launches drone deliveries in collaboration with Skye Air

Blue Dart has launched drone delivery services in partnership with Skye Air, focusing initially on the e-commerce sector. The initiative aims to enhance delivery efficiency and sustainability in logistics.

4

Adani Group to invest $100 billion in energy transition, says Gautam Adani

Green hydrogen, which is made by splitting hydrogen from water with the help of electrolyzers powered by clean energy, is seen as a potential panacea for decarbonizing the industry as well as transportation.

5

IiAS recommends voting against reappointment of Gautam Singhania to Raymond’s board

IiAS suggested that Raymond’s board of directors remove Singhania, along with his estranged wife Nawaz Modi, from their positions until their divorce proceedings are completed. Singhania has been on the board of Raymond since April 1, 1990.

6

Centre monetised Rs 3.85 trn worth of assets as part of NMP since FY22

Vaishnaw has in the past said on the question of monetisation that railways is a public good and decisions would only be taken keeping the larger good of the masses in mind

7

Union Cabinet approves MSP for 14 Kharif crops including paddy, ragi, bajra, jowar, maize, and cotton

Vaishnaw said that the Cabinet's decision regarding MSP for Kharif season crops will result in farmers receiving approximately Rs 2 lakh crore. This figure, he said, is an increase of Rs 35,000

BSE Sensex: 77,338 | **Nifty-50: 23,516**

Refer to our strategy note on Corporate profit to GDP – Rebounds to a 15-year high!

Indian PSUs – Back with a vengeance!

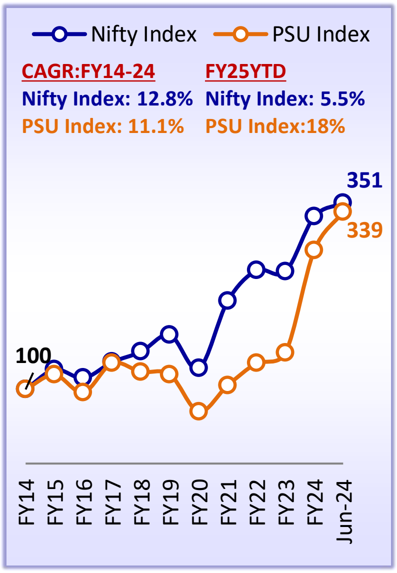
Indian PSUs: Earnings momentum fueling the outperformance!

- **Rebounding in style…:** After a decade of underperformance, the Indian PSUs have made an admirable comeback. They have marked FY24 as the year of clear outperformance. This was evident in the sharp run-up of PSU companies and their index outperformance compared to the Nifty-50 in the previous year.
- **…and galloping ahead:** Since our previous report on PSUs, released on 21st Dec'22, the PSU index has surged 113% to date. Conversely, the market capitalization of the BSE PSU Index has galloped ~2.1x to INR69.1t from INR32.5t between Dec'22 and Jun'24. The BSE PSU Index P/E ratio has expanded to 12.8x from 8.7x during the same period.
- As FY24 came to an end, we are revisiting our findings on Indian PSUs.

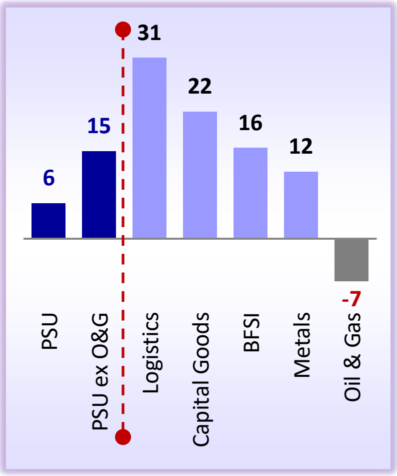
Strong business narratives and growing order book driving a rerating

- After a period of weak performance at the start of the past decade, PSUs made a comeback and reported a strong revival in their profits in the previous five years.
- The government's infrastructure and capex push, which had gained momentum post-pandemic, along with cleaner balance sheet, improved governance, margin tailwinds for commodities, and burgeoning order books, have continued to drive the PSU outperformance and their rerating, in our opinion.
- During FY19-24, PSU earnings reported a 33.8% CAGR, outperforming that of the Private Sector, which posted an 18.6% CAGR over the same period. The share of PSUs in the profit pool expanded to 36% in FY24 after hovering in the 17-30% range during the past few years. **Further, the earnings of PSUs during FY24 witnessed a spectacular growth of 45% YoY.**
- **Notably, the loss pools of PSUs have reduced consistently over the last five years.** The contribution of loss-making companies (accounting for 1% of profit pool as of FY24 vs. 45% in FY18) has dwindled over the past few years.
- **The RoE of the PSU universe also jumped to 17.6% in FY24 from the lows of 5.2% in FY18.**
- **Sharp underperformance of the past continues to catch up:** The PSU index posted a CAGR of 9.6%, underperforming Nifty-50 (12% CAGR) during Jun'14-Jun'24. Notably, the majority of the gains for PSUs have occurred in the past four years only. The BSE PSU index reported a 9% compounded decline during Jun'14-Jun'20, but clocked an impressive CAGR of 45% during the past four years (Jun'20-Jun'24). During FY24, the PSU index returns of +92.4% significantly outperformed the benchmark (+28.6%). Further, the outperformance continues as of FY25YTD; the PSU index is up by 18% vs. the benchmark (+5.5%).
- **A steep fall and then a laudable rise in the market cap share:** Notably, the market cap share of PSUs in India, which dropped significantly to 10.5% in FY22 from 20.8% in FY14, has since recovered and currently stands at 17.5%. Over a similar period, India's market cap skyrocketed to INR389t in FY24 from INR69t in FY14 and currently it stands at INR440t. During FY14-24, PSUs' market cap surged to INR66t (INR77t as of Jun'24) from INR14t, while the private sector's market cap catapulted to INR323t (INR363t as of Jun'24) from INR55t.

PSU index has outperformed the Nifty in FY25YTD



PAT growth expected over FY24-26 (%)



Healthy outlook to continue!

- Fundamentally, India is witnessing its own mini-Goldilocks moment with excellent macros (GDP growth of 8.2% in FY24 on the back of ~7% growth in FY23, inflation at ~5%, both current account and fiscal deficits well within tolerance band, stable currency, etc.), robust corporate earnings (Nifty ended FY24 with 25% earnings growth and FY25/26 earnings are likely to post 14-15% CAGR), focus on manufacturing, capex and infrastructure creation, and valuations at ~20x one-year forward earnings.
- The political stability with Modi 3.0 augurs well for the economy and capital markets as it provides the necessary stability and continuity in policy-making which will likely continue pushing its economic agenda.
- This verdict and the consequent political stability and continuity in policy-making will act like an icing on the cake and keep India as the cynosure of all eyes, in our view.
- For our MOFSL Coverage PSU Universe (~55% of Indian PSU Mcap), we estimate that the FY24-26 PAT CAGR is likely to moderate to 6%, mainly due to conservative margin assumptions for O&G. Conversely, the earnings growth for other sectors continues to remain strong. Ex O&G, we estimate a PAT CAGR of 15% for MOFSL Coverage PSU Universe. For the said Universe, incremental profits would be contributed by BFSI (120%), followed by Metals (22%). O&G is likely to drag the earnings CAGR with an adverse contribution of -47% to overall profitability.
- **The road ahead:** As we look forward, the profitability of PSUs is likely to improve notably across domestic and global cyclicals, with a sharp turnaround in the fortunes of PSU Banks driving the overall trend. Higher commodity prices over the last two years have strengthened the P&L and balance sheets of Metals and O&G PSUs. The government's emphasis on localization, increased capex, and 'Make-in-India' in the defense sector has catalyzed the improvement in the fortunes of Industrial PSUs. Hence, we expect the recovery in PSUs' contribution to earnings and market capitalization to continue.
- **Preferred PSU Ideas:** SBI, Coal India, GAIL, HPCL, and Bank of Baroda.

Preferred PSU's valuations

	Mkt Cap	CMP	EPS (INR)			EPS CAGR (%)	PE (x)			PB (x)			ROE (%)		
Company	(USDb)	(INR)	FY24	FY25E	FY26E	FY24-26	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
State Bank	90.4	845	75.2	89.4	104.7	18.0	10.0	9.4	8.1	1.7	1.6	1.4	18.8	18.8	18.5
Coal India	36.4	489	60.7	55.9	66.0	4.3	7.1	8.7	7.4	3.2	3.0	2.5	45.2	34.6	34.1
Bank of Baroda	17.8	287	34.4	39.4	45.1	14.6	7.7	7.3	6.4	1.3	1.2	1.0	17.9	17.7	17.6
GAIL	17.5	222	13.7	13.1	16.5	9.8	13.2	16.9	13.4	1.8	2.0	1.9	15.0	12.9	15.0
HPCL	9.0	530	112.9	71.9	72.1	-20.1	4.2	7.4	7.4	1.4	1.4	1.2	40.4	20.2	17.6

Source: Company, MOFSL

Note: Exhibit data is sourced from Capitaline, Bloomberg and MOFSL research database. Prices as of 18th June'24 closing.

19 June 2024

Update | Sector: Financials

DCB Bank

BSE SENSEX	S&P CNX
77,338	23,516

DCB BANK

Stock Info

Bloomberg	DCBB IN
Equity Shares (m)	313
M.Cap.(INRb)/(USDb)	43.1 / 0.5
52-Week Range (INR)	163 / 110
1, 6, 12 Rel. Per (%)	0/-7/-9
12M Avg Val (INR M)	365

Financials & Valuations (INR b)

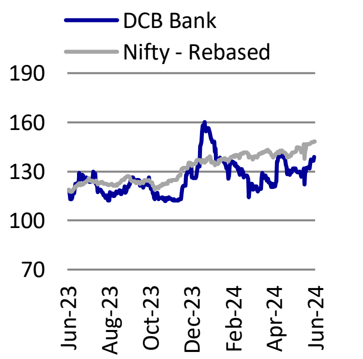
Y/E MARCH	FY24	FY25E	FY26E
NII	19.3	22.9	27.2
OP	8.6	10.9	13.6
NP	5.4	6.4	7.9
NIM (%)	3.7	3.6	3.6
EPS (INR)	17.1	20.4	25.3
EPS Gr. (%)	14.6	19.2	23.8
BV/Sh. (INR)	157	175	198
ABV/Sh. (INR)	147	165	187
Ratios			
RoE (%)	11.9	12.6	13.9
RoA (%)	0.9	0.9	1.0
Valuations			
P/E (x)	8.1	6.8	5.5
P/BV (x)	0.9	0.8	0.7
P/ABV (X)	0.9	0.8	0.7

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	14.8	14.8	14.8
DII	29.7	34.2	40.0
FII	12.8	13.0	12.3
Others	42.8	38.0	32.9

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR138 **TP: INR175 (+27%)** **Upgrade to Buy**

Business growth steady; valuations reasonable

Operating leverage to drive RoE recovery

- **DCB Bank (DCBB) has seen a healthy recovery in loan growth over the past two years after reporting tepid trends over FY20-22. The bank continues to focus on granular retail loans, with the share of mortgages rising to 45% from 41% in Mar'22.**
- **DCBB has maintained NIMs within a healthy range of 3.6-4.0%, aided by a granular liability profile, limited reliance on bulk deposits and an improving asset mix as the bank has strategically reduced the mix of low-margin corporate loans.**
- **While opex has been high owing to investments in business, we expect operating leverage to kick in, pushing RoA toward 1%. We believe the C/I ratio has broadly peaked out at 64% in FY24 and expect it to moderate to ~60% by FY26E.**
- **We expect a healthy 19% CAGR in revenue over FY24-26E amid stable margins and steady loan growth. We estimate RoA/RoE to reach 1%/14% by FY26 (FY24 RoA: 0.9%).**
- **We had downgraded our rating on DCBB to Neutral in Jul'19 (stock price at INR239) amid weaker operating performance and an uncertain growth/asset quality outlook. However, with a recovery in loan growth and anticipated improvements in operating leverage, we estimate a 21% earnings CAGR over FY24-26E.**
- **We, thus, find the current valuations at 0.7x FY26E ABV attractive and accordingly upgrade our rating to BUY from Neutral, with a revised TP of INR175 (0.9x FY26E ABV).**

Loan growth to sustain at 19% CAGR after a blip in FY20-22

DCBB management has oriented its business strategy to generate more business from its existing branch network while investing in digital capabilities to enhance the customer experience at branches. The bank is seeing a healthy recovery in loan growth over the past two years after reporting tepid trends over FY20-22. The bank continues to focus on granular retail loans while also increasing the mix of business loans to deliver profitable growth. The bank has increased the share of mortgages in its book, which now form 45% of the overall portfolio. We estimate the bank to deliver an 18% CAGR in its overall balance sheet for FY24-26E, with advances and deposits garnering a 19-20% CAGR in the same period.

Retail mix rising; branch expansion to aid business growth

DCBB has put in conscious efforts to make the loan book granular and has curtailed its exposure to the lumpy corporate segment. Over the past two years, the bank has further increased the mix of mortgages and AIB segments by ~800bp to ~70%, while the mix of corporate and SME has declined. DCBB, under the leadership of new MD, Mr. Praveen Kutty, remains focused on delivering steady growth with a focus on retail and business loans. The bank is gradually expanding its branch network by adding 15-20 branches each year through a cluster-based approach and increasing ground staff to support growth momentum. It is focusing on improving productivity and efficiency at existing branches in states with many untapped SMEs and good potential for CASA mobilization. Consequently, the bank aims to double its balance sheet size over next 3-4 years, matching the historical run rate.

Estimate NIMs to stabilize at ~3.65%

NIMs have been maintained in the healthy range of 3.6-4.0%, despite a lower CASA ratio of 26%. Several key factors have contributed to this stability, including a granular liability profile, limited reliance on bulk deposits and an improving asset mix, as the bank has strategically reduced the mix of low-margin corporate loans. The bank offers higher rates on higher ticket sizes to attract SA customers; however, the bulk of savings account balances come at the lower end of the pricing range. With deposit re-pricing largely complete, we expect funding costs to remain broadly under control and we believe that SA rate remains a lever that the bank can use to maneuver its funding costs as and when the rate cycle turns. We thus estimate margins to sustain at ~3.65% over FY25-26E, while the CASA mix remains broadly stable.

Revenue growth to lead opex growth; estimate C/I ratio to decline to ~60%

DCBB has made aggressive investments in business to enhance the franchise, which has resulted in a sharp rise in the C/I ratio. Consequently, opex growth over the past three years has dwarfed revenue growth, leading to a sharp deterioration in the C/I ratio to 64% (FY18-20 average of 57%). As branches mature and loan growth remains steady, DCBB expects enhanced productivity leading to lower opex growth and an improved C/I ratio. Investments in digital capabilities and branch network optimization are key strategies to enhance customer experience and improve operational performance. We estimate opex growth to moderate to 15% CAGR over FY24-26 (vs. 22% CAGR over FY21-24) as operating leverage in the business improves. The C/I ratio is thus anticipated to decline to 60% by FY26 vs. 64% in FY24.

Asset quality outlook healthy; GNPA to improve further

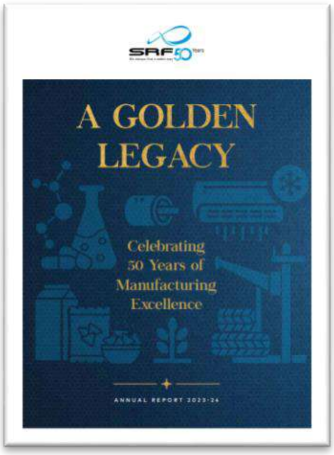
During the Covid phase, the bank experienced asset quality pressure as GNPA deteriorated. However, the bank has corrected its course by focusing more on underwriting quality. The portfolio is now mostly secured, well-diversified, and increasingly granular. Moreover, revamped collection and recovery mechanisms and a streamlined credit appraisal process have improved asset quality. While restructured book still remains relatively elevated (INR10.7b; 2.6% of loans), we expect slippages to remain under control, led by continued growth in secured retail, SME, and agri/microfinance sectors. We estimate GNPA/NNPA ratios to improve to 2.6%/0.8% by FY26 and estimate credit costs to sustain at 0.5% in FY26E.

Valuation and view: Upgrade to BUY on reasonable valuations

DCBB has seen a healthy recovery in loan growth after witnessing sluggish trends during FY20-22. The bank's shift in loan mix toward retail loans has not only shielded its margins but also provided stable, profitable growth. The bank has made significant investments in the business and is well poised to sustain the healthy growth rate, while improvement in operating leverage helps sustain RoA at ~1% by FY26E vs. 0.9% in FY24. We, thus, estimate RoE to recover toward ~14% by FY26E vs. average 10% over FY22-24. We had downgraded our rating on DCBB to Neutral in Jul’19 (stock price at INR239) amid weaker operating performance and an uncertain growth/asset quality outlook. However, we find the current valuations at 0.7x FY26E ABV attractive in context to a ~21% earnings CAGR estimated over FY24-26E. We, thus, upgrade our rating to BUY from Neutral, with a revised TP of INR175 (0.9x FY26E ABV).

SRF

BSE SENSEX	S&P CNX
77,338	23,516



Stock Info

Bloomberg	SRF IN
Equity Shares (m)	296
M.Cap.(INRb)/(USDb)	716.4 / 8.6
52-Week Range (INR)	2697 / 2040
1, 6, 12 Rel. Per (%)	2/-10/-25
12M Avg Val (INR M)	1283
Free float (%)	49.7

Financials Snapshot (INR b)

Y/E MARCH	2024	2025E	2026E
Sales	131.4	151.9	175.5
EBITDA	26.6	32.3	39.4
Adj. PAT	14.1	16.8	21.7
EBITDA margin (%)	20.3	21.3	22.5
Cons. Adj. EPS (INR)	47.5	56.5	73.0
EPS Gr. (%)	(37.7)	19.0	29.2
BV/Sh. (INR)	386	427	483
Ratios			
Net D:E	0.4	0.3	0.3
RoE (%)	13.0	13.9	16.0
RoCE (%)	10.5	11.1	12.8
Payout (%)	16.0	26.5	23.3
Valuations			
P/E (x)	50.8	42.7	33.1
EV/EBITDA (x)	28.5	23.6	19.3
Div. Yield (%)	0.3	0.6	0.7
FCF Yield (%)	(0.3)	0.7	1.2

CMP: INR2,417 TP: INR2,140 (-11%) Neutral

Recovery in sight during FY25!

SRF witnessed a challenging year (revenue/EBITDA down ~12%/27% YoY), with multiple headwinds plaguing its business segments. The chemicals and packaging businesses inhibited SRF's overall performance, while the technical textiles business remained flat. Due to this, the capex intensity also waned in FY24. However, SRF expects some recovery across businesses going forward. The expected pickup in capex would bode well for the company in FY25.

- **The chemicals and packaging businesses reported a decline of 15% and 13% YoY, respectively, in FY24 due to weak demand, excess inventory in the market, an increase in competitive intensity, and overcapacity. The impact on margins was severe due to adverse operating leverage and initial inefficiencies in the newly commissioned plant.**
- **The slowdown in business operations was reflected in lower capex (down 17% YoY), to preserve cash during difficult times. The chemicals business continued to be the largest part of the capex (at ~70%). Management guided that SRF will spend INR22.0b in FY25 (lower than the FY24 capex of INR23.5b).**
- **However, the company's moat lies in its technological innovation and advancement to meet evolving customer needs and maintain a leadership position. R&D spending has been increasing (up 13% YoY), touching 1.1%/5.5% of total sales/EBITDA (vs. 0.9%/3.6% in FY23).**
- **Notwithstanding the difficulties encountered in FY24, SRF projects robust growth in FY25, propelled by its strategic investments and capacity expansions. To maintain profitability, the firm focuses on innovation and operational efficiency in addition to increased performance across all segments.**

FY24 – a year of multiple challenges

- SRF posted a weak performance in FY24 with revenue/EBITDA declining ~12%/27% YoY to INR131.4b/INR26.6b due to a decline in the Chemicals/ Packaging business revenue by 15%/~13% to ~INR63.0b/ INR44.9b. However, Technical Textiles' revenue was flat YoY at ~INR19b. The decline in EBITDA was much higher for Chemicals/Packaging at 24%/44% YoY, while Technical Textiles reported 5% YoY growth.
- The **Chemicals** business witnessed a subdued performance in FY24, and accounted for ~48%/74% of consolidated sales/EBIT. Revenue/EBITDA declined 15%/24% YoY to ~INR63.0b/INR20.3b due to a subdued performance in both Specialty Chemicals and Fluorochemicals. EBITDA Margin contraction was much higher at 385bp YoY to 32.3% vs. 36.1% in FY23 led by weak market conditions, higher raw material costs, and initial inefficiencies from the new capacities.
- ➢ The **Specialty Chemicals** business witnessed multiple challenges in FY24, such as, excess inventory in the market, forcing agrochemicals customers to initiate inventory rationalization measures, and incremental capacity from China that made the overall market landscape more competitive. This led to a revenue decline of 12% YoY to INR36.7b in this business.

- The **Fluorochemicals** business also experienced a tough year with revenue declining 19% YoY to INR21.3b led by weak domestic demand, Chinese dumping (affecting prices and volumes), intensified competition due to the additional capacities in India and the Middle East, and continued destocking of HFC inventory in the US.
- The Packaging business (34%/9% of consolidated revenue/EBIT) was also hit in FY24 due to the cyclical downturn and overcapacity in both BOPET and BOPP, resulting in a revenue/EBITDA decline of 13%/44% YoY to INR44.9b/INR4.1b. The major impact was seen in the BOPET segment, and the Hungary plant also witnessed elevated energy costs due to the Russia-Ukraine conflict, thus impacting margins adversely. This led to a EBITDA margin contraction of 510bp YoY to 9.1%.
- The **Technical Textiles business** (14%/12% of consolidated revenue/ EBIT) reported flat revenue growth YoY at ~INR19b. Increased sales volumes of Nylon Tyre Cord Fabric (NTCF), and Nylon Yarn and Belting Fabric (BF) in the domestic market were offset by the stress on domestic margins due to cheap imports from China. To mitigate this, SRF focused on high-end, value-added products (VAPs) to widen its customer base.
- The other businesses, which include **Coated and Laminated Fabrics** businesses, achieved all-time high domestic sales (up ~18.5% to INR4.7b), led by the strong demand for flagship and value-added products.

Capacity additions to support growth…

- Over the past few years, SRF has maintained a robust capex program aimed at expanding its manufacturing capabilities and entering new markets. However, the capex investments have also focused on enhancing operational efficiency, upgrading existing equipment, and expanding into new business segments, such as the Pharma segment.
- SRF's capex intensity has picked up pace over the last three years, with a cumulative capex of INR71.7b as of Mar'24. Chemicals reported the largest spending (~71%), followed by Packaging Films (22%), and Technical Textiles (6%).
- However, the intensity slowed down in FY24 led by weakness across businesses and SRF's conscious decision to slowdown capex to preserve cash. SRF incurred a capex of INR23.5b in FY24, down 17% YoY, of which 70% was incurred in the Chemicals business (vs. 76% in FY23), followed by Packaging Films (19% vs. 18%) and Technical Textiles (9% vs. 5%).
- The company focused on both Greenfield (new facilities) and brownfield (expansions/upgrades of existing facilities) projects across its segments.
- A notable investment was made in the Chemicals Business to expand its production capabilities with a capex of INR16.5b (down 23% YoY). In FY24, the company has capitalized on a large number of plants amounting to ~INR18b. It expects an asset turn of ~0.9x-1.1x on these incremental capacities.
- **Specialty Chemicals business**: In FY24, nine dedicated facilities were commissioned at the Dahej site to enhance production in the Specialty Chemicals Business (pharma). These facilities are part of SRF's strategic efforts to seize future market opportunities in specialty chemicals.
- **Fluorochemicals business:** This business faced challenges due to market conditions, but SRF continued to invest in this area. A significant capex of ~INR12b was capitalized in FY24, which included the Polytetrafluoroethylene

(PTFE) and R32 plants along with capacity expansion of the Anhydrous Hydrogen Chloride (AHCl) plant for pharma applications. Various projects are in progress for backward integration and development of refrigerant gases and other chemical intermediates. SRF is also undertaking a capacity enhancement program, which includes facilities for PTFE, thermal oxidation, pharma intermediates, and agrochemicals intermediates. Each of these projects has significant individual capacities, enhancing the overall production capability.

- **With improving business scenario in Chemicals, SRF is likely to increase the capex intensity in 2HFY25, in line with its aspirations for the future.**

- In the **Packaging Films business**, SRF commissioned its aluminum foil facility at Jetapur, MP in Jan'24, with a capacity of ~20,000MTPA. The total capex incurred on this project was ~INR5.36b with an asset turnover of ~1.7x-2.0x. The company is also in the process of commissioning a Capacitor Grade BOPP Film to the existing portfolio in line with its strategy of growing adjacencies.
- SRF also commissioned the Polyester Industrial Yarn (PIY) facility under the **Technical Textiles business,** and it is likely to be fully utilized in FY25. SRF is also currently expanding its belting fabrics capacity (on track).
- A majority of the capex in FY24 would be utilized over the next 2-3 years.
- **SRF is expecting a total capex of ~INR22b in FY25 (with ~INR11-12b on sanctioned and running projects, INR8-9b on projects that are not yet announced, and ~INR0.5-1.0b on maintenance capex). This will still be lower than its FY24 capex outflow of INR23.5b.**

...backed by increasing investments in R&D

- Through its Chemicals Technology Group (CTG), SRF prioritizes continuous technological innovation and advancement to meet evolving customer needs and maintain a leadership position. This includes developing new fluoropolymer grades and optimizing production processes.
- The company also focuses on process enhancements to reduce its resources, improve cost-effectiveness, and strengthen the value chain by integrating critical raw materials in-house. Management also aims to automate processes to improve robustness, cost, and safety.
- This was reflected in an increasing R&D spending, which rose 13% YoY to INR1.5b (at a CAGR of ~14% over FY14-24). R&D spending as a percentage of sales/EBITDA inched up to 1.1%/5.5% in FY24 from 0.9%/3.6% in FY23. FY24 witnessed the highest R&D spending over the last decade.
- SRF has applied for 37 patents during the year, while 17 patents were granted in FY24. The company had 149 total patents granted up to FY24, indicating its commitment to technological advancement and maintaining a competitive edge in the market.
- In FY24, SRF launched 15 new products catering to the agrochemical and pharma sectors. These products have good long-term prospects, are at a different maturity level of market potential, and have a future growth potential.
- One such innovative product is "R467A", a low-GWP (~1330) refrigerant blend. It is a perfect retrofit for R22, which had a significant potential to cause global warming. This is the first refrigerant in Indian history to earn an ASHRAE accreditation. R467A is a non-toxic, lower-flammability refrigerant blend designed mainly for use in stationary air conditioning applications.

Chemicals and Technical Textiles to drive growth; Packaging to be a drag

- FY24 turned out to be a challenging year for the company, with headwinds persisting across businesses. This led to a muted performance. However, SRF is optimistic of a healthy recovery despite the short-term challenges, driven by strategic investments, capacity expansions, and a diversified business model.
- Over the last decade, SRF has witnessed a revenue/EBITDA/Adj. PAT CAGR of 13%/18%/24% and we expect the company to clock a 16%/22%/24% CAGR over FY24-26. This growth will be largely propelled by the Chemicals business (20% CAGR over FY24-26), followed by Packaging (12%), and Technical Textiles (10%).
- The Chemicals business has recorded 21%/23% revenue/EBITDA CAGR over the last decade. Management expects the **Chemicals business** to **grow ~20% YoY in FY25,** with a major recovery possibly more towards 2HFY25. **We have built in similar growth CAGR (20%) over FY24-26E.**
  - The **Fluorochemicals** segment has posted a 21% CAGR over the last decade. However, it declined 19% YoY in FY24. Management expects **a strong recovery in FY25,** aided by better global and Indian economic conditions, reduced inflation, and a revival in the Indian air conditioning industry. Pricing pressures are anticipated to ease with market stabilization. SRF's focus will be on ramping up the newly commissioned plants to meet the rising demand, along with ongoing investments in R&D and technology to introduce the new and enhanced products. **We expect its revenue to clock 9% CAGR over FY24-26.**
  - The **Specialty Chemicals business has** recorded healthy 24% revenue CAGR over the last decade while succumbing to macro headwinds in FY24. The company anticipates a **strong market recovery in this segment with better utilization of new capacities**. It is strategically entering the Pharma segment, leveraging new skills and technologies to garner market share. There will be a continued emphasis on developing new products, optimizing production processes, and enhancing operational efficiencies and cost-effectiveness through technological advancements and process improvements. **We expect this segment to post a strong 27% CAGR over FY24-26.**
- The **Technical Textiles** segment has not been able to move the needle materially over the last decade, with a compounded revenue decline of 1%. The company also expects **moderately improved results** in FY25, after a flattish performance in FY24. This will be driven by increased volumes and better capacity utilization. SRF's focus will be on high-quality and high-end VAPs to cater to market demand. It is also putting efforts towards cost reduction and efficiency improvements to maintain profitability despite the potential margin pressures. **We expect a revenue/EBITDA CAGR of 10%/19% over FY24-26.**
- The global **Packaging Films** market faces competition and margin pressure from new capacity additions; yet there is a growing demand for high-quality, sustainable solutions. SRF aims to enhance profitability through VAPs and capacity expansion projects, such as the Aluminum Foil plant and Capacitor Grade BOPP Film project. Despite margin challenges, SRF's focus on VAPs, sustainability, and capacity expansion is expected to drive **moderate growth over FY25 and improve profitability** in the Packaging Films segment. We expect a revenue/EBITDA CAGR of 12%/32% over FY24-26 vs. historical (FY14-24) CAGR of 18%/24%.

Valuation and view

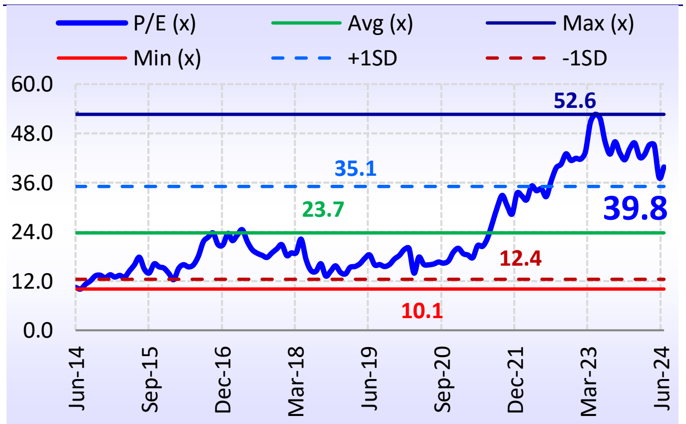
- Despite challenges in FY24, SRF anticipates a healthy growth in FY25, driven by strategic investments and capacity expansions. The company targets improved performance across segments, focusing on market recovery, innovation, and operational efficiencies to sustain profitability.
- The Chemicals business (Fluorochemicals and Specialty Chemicals) is expected to grow 20% YoY in FY25, with major improvements likely from 2HFY25. Conversely, Technical Textiles would witness a moderate growth in FY25. The packaging business is likely to remain under pressure in the medium term; however, marginal improvement is expected in FY25.n
- We expect SRF to clock a revenue/EBITDA/Adj. PAT CAGR of 16%/22%/24% over FY24-26.
- **We reiterate our Neutral rating on the stock with our SoTP-based TP of INR2,140, owing** to its rich valuations**.**

Valuation methodology

EV/EBITDA	FY26 EBITDA (INR m)	Multiple (x)	EV (INR m)
Technical Textiles	4,534	10	47,375
Chemicals	29,999	18	5,53,779
Packaging Films	7,128	10	74,778
Others	1,275	5	6,998
Total EV			**6,82,931**
Less: Debt			50,202
Less: Minority Interest			-
Add: Cash & Cash Equivalents			3,713
Target Mcap (INR m)			**6,36,441**
Outstanding share (m)			297.4
Target Price (INR)			**2,140**

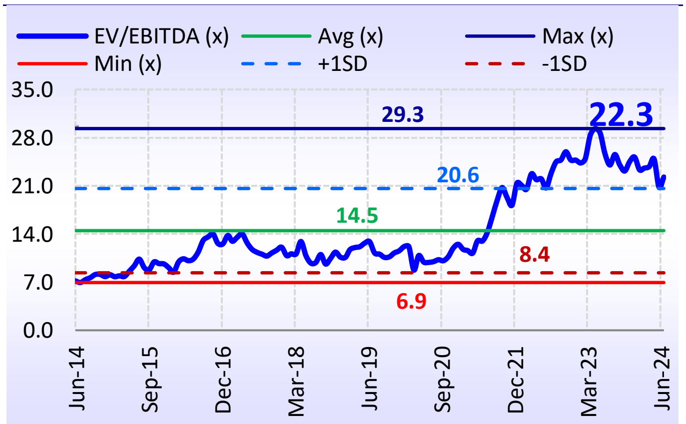
Source: MOFSL

One-year forward P/E ratio



Source: MOFSL

One-year forward EV/EBITDA ratio



Source: MOFSL

Real Estate

Third consecutive year of strong demand

Double-digit growth guidance intact

- **In line with historical trends, 4Q has been the strongest quarter for most of the listed companies (among top 14). The cumulative bookings in 4QFY24 were the highest ever at INR344b, up 26% YoY/9% QoQ, and likewise, pre-sales reached a new peak in FY24 at INR1105b, up 41% YoY.**
- **Growth was driven by 35% increase in new launches to INR1t of which 53% were absorbed during the year and contributed 60% to pre-sales. Further, absorption rate (bookings divided by inventory + launches), improved for third consecutive year and stood at 53% in FY24 versus 48% in FY23 despite a healthy growth of 14% witnessed in blended realization.**
- **The listed universe is set to witness further pick-up in launches in FY25 to INR1.4t (up 40% YoY) as most of the players have less than 12 months of inventory now. Hence, despite high base we expect our coverage universe to deliver 26% YoY growth in pre-sales in FY25. If companies sustain the absorption rate clocked in FY24, they would deliver 36% growth and surpass the FY25 pre-sales guidance/estimate by 15%.**
- **With steady interest rates and affordability, the industry is likely to maintain healthy growth at least in the near term. The outperformance by listed players is expected to continue given that most of them are actively foraying in new markets**
- **Despite sharp run up in last 18 months, the Realty index has only caught up with strong pre-sales performance reported by companies since the beginning of CY22 and large part of expected growth over the next two-three years is yet to reflect in valuations. PEPL, GPL and SOBHA are our top picks**

FY24 ends on a high note; double-digit growth guidance intact

- Listed real estate companies ended FY24 on a high note as they delivered 26% YoY growth in pre-sales in 4QFY24 to INR344b, with 4Q turning out to be the best quarter for most of the companies. Top-14 companies cumulatively reported INR1.1t in pre-sales in FY24, up 41% YoY.
- Our coverage universe posted 13% growth in pre-sales in 4QFY24 and 37% YoY growth in FY24 to INR966b, with volume growth of 19% and price growth of 17%. While the individual performance of most of the companies was healthy, timely launches for a few companies, such as GPL, MLIFE, BRGD, and OBER, enabled them to outperform their peers.
- The cumulative bookings for top 14 listed companies clocked a 42% CAGR over FY21-24, and despite the high base, the companies continued to aspire for 20-30% growth in FY25.

Absorption rate likely to remain intact at FY23 level (49%)

- Our coverage names ended FY24 with pre-sales of INR946b, up 44% YoY, driven by a 35% increase in launch value and a 500bp rise in the absorption rate (bookings divided by total beginning inventory and launches) to 53%.
- While the absorption rate for cumulative sales of coverage companies dipped to 37% in 1HFY24 from 48% in FY23, it recovered sharply in 2H, driven by increased launches, which generated encouraging responses.
- Going ahead, while cumulative launches for our coverage universe are expected to surpass INR1.4t, pre-sales guidance/our estimates imply an absorption rate similar to FY23 (49%). If companies are able to deliver similar churn like FY24, pre-sales are expected to be 9-10% higher than guidance/estimates at INR1.2t.

Launches accelerating driven by low inventory

- At the beginning of FY24, inventory for most of the top-14 listed real estate players was below 12 months, which compelled them to scale up the launches in FY24 to ~INR1t from ~INR739b in FY23.
- Despite higher launches, the inventory overhang remained at 13 months at the end of FY24 for most of the companies due to a better churn rate and improved sales velocity.
- Our coverage companies now plan to launch over INR1.4t worth of projects in FY25, which will drive 26% growth in bookings in FY25 to ~INR1.2t.

Robust cash flows and healthy balance sheet will continue to support future growth

- In FY24, collections for top 14 players grew by 23% YoY to INR700b and collection efficiency stood at over 90% of FY23 pre-sales and 65% of FY24 pre-sales, indicating the strong quality of pre-sales and healthy execution progress.
- These companies cumulatively generated OCF of INR256b, of which they spent INR152b on new project additions. The surplus money was largely utilized to reduce leverage as net debt declined by INR25b to INR225b.
- As collections coincide with the existing pre-sales rate, OCF will further scale up and, coupled with healthy balance sheet (0.3x of equity for Top-14 players), will provide a strong headroom to fund growth opportunities, enabling further growth visibility.

Valuation and view

- Residential real estate sector continued its growth momentum with 14% growth in absorption for top-7 cities in FY24 and realizations grew by 10%. As supply continue to lag the demand (547k units in FY24) and inventory overhang of 11 months, we believe gradual price hikes will continue keeping demand momentum intact.
- Further, with industry growth sustaining at 10-15%, listed players are bound to report growth that is at least 10-15% higher than industry growth, as they continue to gain market share by consolidating their position in existing markets as well entering at least two new markets.
- With a favorable demand-supply balance, a comfortable inventory position, healthy pricing power and a market consolidation opportunity, we expect buoyancy in the real estate sector to continue at least for the next two-three years. Accordingly, we remain constructive on the sector.
- While the Realty Index has jumped three-fold since the RBI took a pause in rate hikes in Apr'23, it has just caught up to strong pre-sales performance reported by companies since the beginning of CY22. It is trading at a 10% premium to pre-sales growth (refer Exhibit 1). Thus, a large part of expected growth over the next two-three years is yet to reflect in valuations.
- We have a BUY rating on LODHA, GPL, PEPL, BRGD and SOBHA and are Neutral on DLFU, MLDL, and OBER. **PEPL, GPL and SOBHA** are our top picks

How did we get it so wrong in FY24?

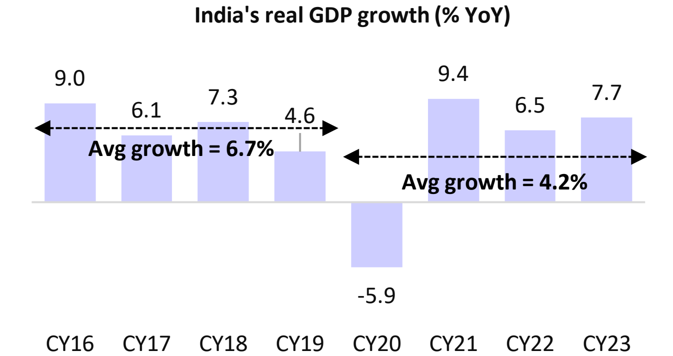
Some lessons from the recent past for FY25

- **In this note, we discuss – with the benefit of hindsight – the possible factors explaining better-than-expected real GDP growth in FY24. In our view, four factors explain a large part of this outperformance: 1) lower deflator pushing real growth higher, even when nominal growth moderated; 2) no fiscal drag as fiscal spending, led by capex, grew decently in FY24, amid deficit consolidation; 3) strong growth in credit, pushing the credit-to-GDP growth ratio to a 17-year high; and 4) a 47-year low household net financial savings (HHNFS) in FY23, leading to an unfavorable base for household spending in FY24, which was exaggerated by a likely pick-up in HHNFS.**
- **As we enter FY25, one of these factors will reverse (deflator), some will moderate (fiscal spending and credit growth) and the last one (household spending growth) will improve. Accordingly, it explains the unanimous projection of a moderation in real GDP growth to 6.5-7.2% in FY25 from 8.2% in FY24. In any case, India's economic growth in the post-pandemic period (FY21-FY24), especially considering a modest fiscal and monetary stimulus, has not been particularly weak compared to other major economies, and it is unlikely to change in FY25.**

India's real GDP grew by a stunning 7.7% in CY23, following 6.5% growth in CY22. It implies a CAGR of 4.2% in the past four years (CY20-CY23), compared to 6.7% in the four-year period preceding the pandemic (CY16-CY19). This reduction in real GDP growth – by as much as 37% (and 2.5 percentage point [pp]) – may look really bad *(Exhibit 1)*; however, a comparison with other major emerging and advanced economies may put it in the correct perspective *(Exhibit 2)*.

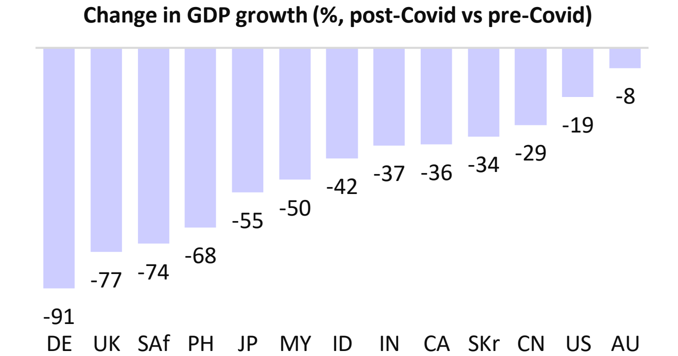
The deterioration in real GDP growth was as much as 42% in Indonesia (to 3.0% per annum in the post-Covid period, from 5.1% in the pre-Covid period), 68% in the Philippines (to 2.1% from 6.6%), 50% in Malaysia (to 2.4% from 4.9%) and as much as 74% in South Africa (to 0.2% from 0.9%). Not only this, real growth fell by as much as 91% in Germany (to 0.2% from 1.8%), 77% in the UK (to 0.4% from 1.9%) and 55% in Japan (to 0.3% from 0.7%).

Exhibit 1: India's real GDP growth strengthened to 7.7% YoY in CY23...



Calendar year data arrived at using quarterly data

Exhibit 2: ...and its performance has not been bad in the post-Covid period vis-à-vis other nations



Pre-Covid = CY16-CY19; Post-Covid = CY20-CY23

Source: CSO, CEIC database, MOFSL

Mishra Dhatu Nigam: Order book now at INR1700 cr; Sanjay Kumar Jha, CMD

- Could see revenue contribution of INR15 cr in Q4FY25 & INR60 cr in FY26 from Pratt & Whitney
- Revenue +23% with margins around 25% for FY25
- Exports will grow 2x

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LIC Housing Finance: Looking at AUM growth of 10-12% for FY25; Tribhuwan Adhikari, MD & CEO

- From 2015-2024, disbursed INR42b under PMAY scheme
- INR5-7b of disbursals factored in FY25 disbursal target
- Looking at AUM growth of 10-12% for FY25
- NIM guidance is at 2.7-2.9% vs 3.09% in FY24
- Looking at gross NPA of 2%, expect RoA of 1.5-1.6%

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DEE Development Engineering's: To repay INR175 cr of debt using IPO proceeds; KL Bansal, CMD; Sameer Agarwal, CFO

- Post IPO debt will come down to 225cr vs 400cr
- EBITDA margin will range between 20-22%
- Focus is on improving profit margins & ROCE
- Order Book provides visibility

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Tata Communications: Driving synergies from acquisition for higher margins; Amur S. Lakshminarayanan, MD & CEO

- Continue to look for strategic acquisitions
- Monetization levers: Real Estate (750 acres), Data Centre biz, utilizations of net op. losses
- Guides data revenue of INR28b with EBITDA margins of 23-25% for FY27
- RoCE at 25% in FY26

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Century Ply: Expect The Thrust On Hsg From The Govt To Continue In The Budget; Keshav Bhajanka - Executive Director

- Targets double-digit revenue growth for FY25.
- On track to meet guidance for FY25, may exceed it.
- Seeing early signs of new building inventory hitting the market.
- Will gain market share in South India for MDF.
- Target >25% share in organised Plywood market.

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BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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