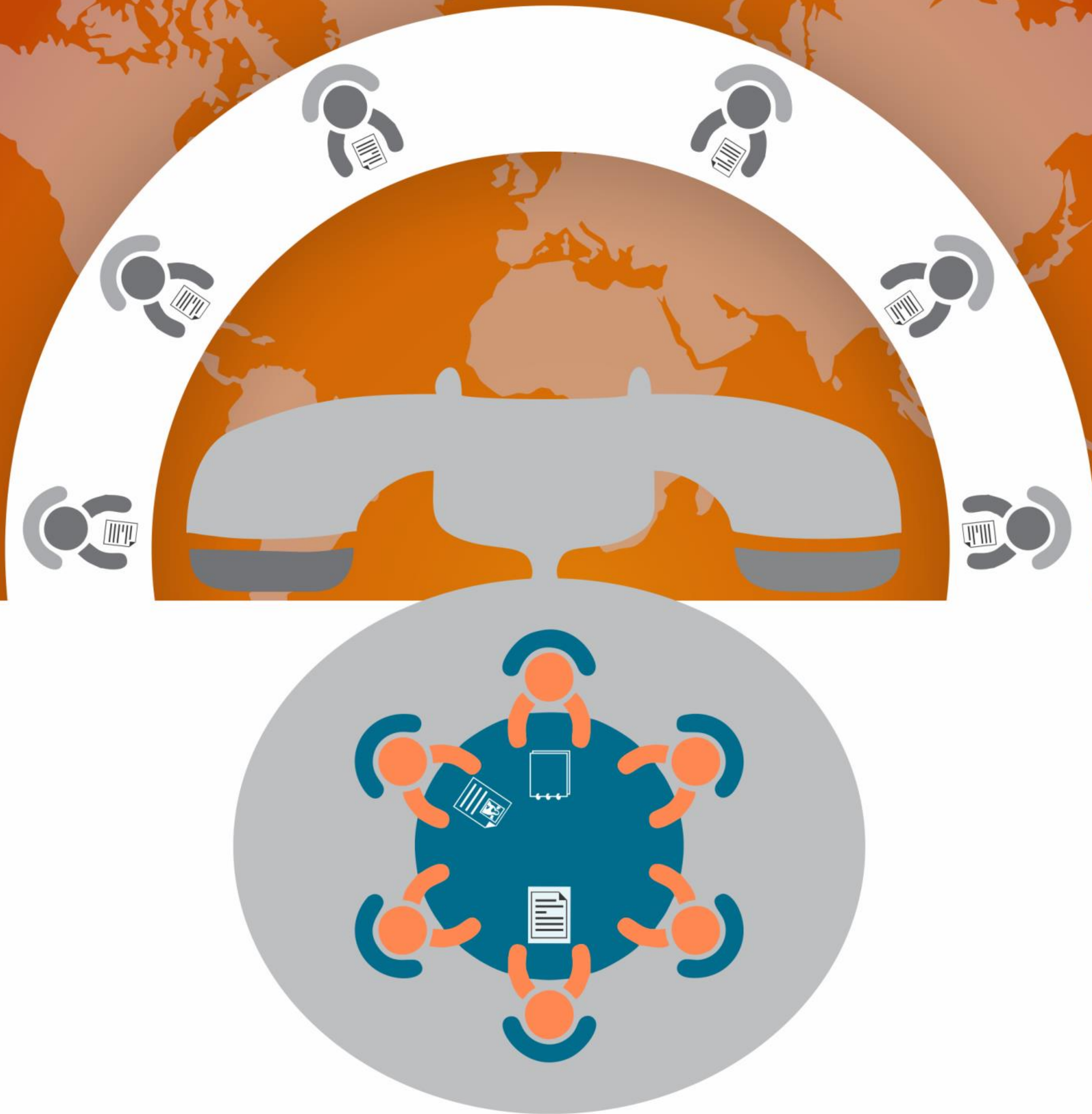
1QFY25 | August 2024

VOICES



VOICES

India Inc on Call

VOICES, a quarterly product from Motilal Oswal Research, provides a ready reference for all the post results earnings calls attended by our research analysts during the quarter. Besides making available to readers our key takeaways from these interactions, it also provides links to relevant research updates, and transcripts links of the respective conference calls.

This quarterly report contains

- Key takeaways from the post results management commentary for 230 companies, with links to the full earnings call transcripts
- Links to our Results Updates on each of the companies included

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

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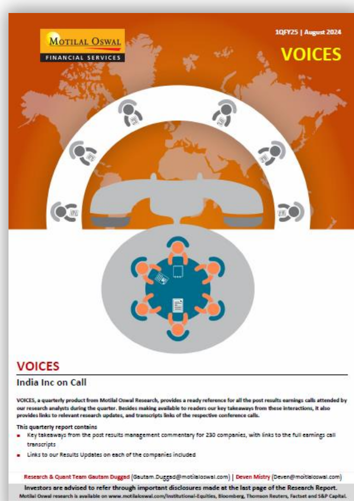
Note: All stock prices and indices are as on 21st August 2024, unless otherwise stated.

Voices

BSE Sensex: 81,053 **S&P CNX: 24,812**



Domestic cyclicals ignite resilience; OMCs temper corporate earnings

In this report, we present the detailed takeaways from our 1QFY25 conference calls with various company managements as we refine the essence of India Inc.'s 'VOICES'.

- **OMCs temper corporate earnings:** The 1QFY25 corporate earnings came in line, with overall growth primarily being propelled once again by domestic cyclicals. Notable contributions were observed from the Healthcare, Real Estate, Capital Goods, and Metals sectors. In contrast, earnings growth was adversely affected by OMCs.
- For **Banks**, 1Q has been a seasonally slow quarter, and most of the banks have reported slower deposit growth too in 1QFY25. We cut our growth estimates for many of the banks amid slower deposit growth and a higher C/D ratio across several banks and the system. Most of the banks have raised their deposit rates in 1QFY25 amid rising competition in deposits. Banks are still increasingly relying on the bulk TDs and CDs to fund their asset growth.
- Within **NBFC/HFC**, various management teams highlighted the following: 1) disbursements in the mortgage segment were hit by the RBI Fair Practices Code circular in addition to 1Q being the seasonally weakest quarter; 2) asset quality deteriorated across most product segments because of elections, heat waves, higher attrition rates, and even the impact on customers' earnings; 3) the MFI segment, in particular, is experiencing lower collections and slippages into forward buckets due to customer over-leveraging, 4) borrowing costs largely peaked out and everyone is looking forward to repo rate cuts; and 5) competitive intensity in gold loans, from both Banks and NBFCs, moderated.
- Most of the management teams in the **Automobile** have noted that a normal monsoon and the upcoming festival season are expected to boost auto volume growth following a subdued first quarter. The 2W segment is anticipated to outperform other segments. Most of the ancillary companies with overseas exposure have reported a weak demand environment for autos, though there are signs of improvement in the non-auto sector. Ancillaries that have outpaced industry growth have largely done so through increased content and new order wins. However, due to cost inflation, some companies expect a decline in gross margins in the coming quarters.
- In **Healthcare**, companies indicated sustained growth momentum in the chronic category of therapies in the DF segment for the quarter. The weak seasonality hit the off-take of products in acute therapies as per the management teams. Interestingly, raw material costs are likely to sustain at lower levels over the near-to-medium term and drive better gross margins for companies having exposure to the branded domestic formulation segment.
- The management teams of various **IT** companies continue to exercise caution regarding the near-term demand outlook, as the demand from discretionary projects remains unchanged compared to previous quarters; however, BFSI clients in the US experienced a slight recovery in discretionary spending in 1Q. Clients' focus is now slightly shifting away from cost-takeout deals to "high-priority" transformation deals in some pockets.

- In the ferrous **Metals** space, management teams across companies pointed to: 1) stable to declining coking coal costs; and 2) the development of captive raw material mines. Though a better performance from Indian operations backed by strong domestic demand should aid volumes and margins in the near term, management teams believe that global uncertainties might pose challenges to international steel, base metal, and raw material prices in the short term. In the non-ferrous space, management teams guided the CoP to decline, leading to margin accretion in FY25.
- **Consumer** companies have experienced a sequential improvement in demand, with signs of revival in the rural market due to price cuts and enhanced consumer offerings. However, harsh summer conditions and election-related restrictions have impacted consumption in categories such as home insecticides, beverages, alcoholic beverages, and paints. Management anticipates implementing price increases in the 2HFY25 to offset rising raw material costs and drive revenue growth.

Autos

- Management teams have noted that a normal monsoon and the upcoming festival season are expected to boost auto volume growth following a subdued first quarter. The 2W segment is anticipated to outperform other segments. Most of the ancillary companies with overseas exposure have reported a weak demand environment for autos, though there are signs of improvement in the non-auto sector. Ancillaries that have outpaced industry growth have largely done so through increased content and new order wins. However, due to cost inflation, some companies expect a decline in gross margins in the coming quarters.

Capital Goods

- Companies continue to witness strong traction from sectors such as power T&D, renewable energy, data centers, real estate, and defense. International geographies are a mixed bag with robust traction in the Middle East and Africa being offset by muted conditions in developed countries, owing to geopolitical tensions, elevated interest rates, and a subdued macroeconomic scenario. Margin performance for EPC players is expected to see an uptick from 2HFY25 as newer orders booked at favorable prices come up for execution and input costs remain benign. Order inflow too is expected to ramp up with the elections and budget behind us. The domestic enquiry pipeline is shaping up well and is expected to translate into firm orders. Availability of labor is a key monitorable going forward, as EPC players reported lower-than-expected domestic execution owing to the shortage of skilled and semi-skilled labor.

Cement

- Several cement companies are witnessing consolidation, which will intensify the industry, and this should benefit in the longer term. Cement demand is expected to improve in 2HFY25, backed by infrastructure and housing segments. Cement demand is estimated to grow between 6-7% YoY in FY25, considering muted growth in 1HFY25. Cement prices have further declined ~1-2% in Jul’24 vs. avg. of 1QFY25 and are likely to remain soft till CY24-end.

Chemicals Specialty

- Various management teams mentioned that while destocking is over for most of the companies, pricing pressure persists in the sector. Companies highlighted that they expect 2HFY25 to be better than 1HFY25. They also emphasized that the lead time has increased, which is taking longer than expected for the FG to be delivered to customers and RM to reach the plants of the companies as well. This has been creating some pressure on the margin as RM prices, freight, and container rates have also increased.

Consumer

- The consumer companies have experienced a sequential improvement in demand, with signs of recovery in the rural market due to price cuts and enhanced consumer offerings. However, harsh summer conditions and election-related restrictions have hurt consumption in categories such as home insecticides, beverages, alcoholic beverages, and paints. Management anticipates implementing price increases in the 2HFY25 to offset rising raw material costs and drive revenue growth. The outlook for rural markets remains positive. EBITDA margins are expected to improve at a moderate pace over the medium term, supported by operating leverage, a better product mix, and growth in the premium portfolio.

Financials

Banks

- The first quarter has seen a seasonally slow quarter, and most of the banks have reported slower deposit growth too in 1QFY25. We cut our growth estimates for several banks amid slower deposit growth and a higher C/D ratio across many banks and the system. Most of the banks have raised their deposit rate in 1Q, amid rising competition in deposits. Banks are still increasingly relying on the bulk TDs and CDs to fund their asset growth. The decline in industry-wide CASA mix led to higher funding costs. With rising costs, NIMs are likely to witness a mild moderation, albeit at a slower rate.
- PSU Banks have continued to report steady earnings led by improving asset quality. Opex growth normalized after elevated wage/pension provisions, which lasted until 4QFY24. The SMA pool continues to remain lower, while slippages from the restructured pool continue to remain lower. With healthy PCR and healthy contingency buffers, credit costs are expected to be lower, supporting earnings. Most of the banks have guided for lower credit costs amid healthy recoveries and contained slippages. While caution prevails on the potential increase in delinquencies for unsecured loans, it is anticipated that credit costs will remain under control in the coming quarters.

NBFC

- Within **NBFC/HFC**, various management teams highlighted the following: 1) disbursements in the mortgage segment were hit by the RBI Fair Practices Code circular in addition to 1Q being the seasonally weakest quarter; 2) asset quality deteriorated across most product segments because of elections, heat waves, higher attrition rates, and even the impact on customers' earnings; 3) the MFI segment, in particular, is experiencing lower collections and slippages into forward buckets due to customer over-leveraging, 4) borrowing costs largely peaked out and everyone is looking forward to repo rate cuts; and 5)

competitive intensity in gold loans, from both Banks and NBFCs, moderated. Difficulty in getting unsecured credit (either personal loans or MFI loans) could result in higher demand for gold loans.

Capital Markets

- The capital market was volatile in 1QFY25, with F&O and cash volumes reaching new highs; about 15.5m (as of Jul'24) demat accounts were added, and NSE active clients rose to 45.7m (Jul'24). Angel One saw strong revenue growth (+76% YoY), but operating margins were pressured by investments in customer acquisition, IPL advertisement costs, and new business expansion.

Insurance

- The general insurance players have seen decent growth in premiums driven by the strength of auto sales, sustained high demand for health insurance, and commercial lines growing in line with economic growth. Motor segment profitability improved, but health segment loss ratios remained elevated. Star Health's increased claims ratio pushed the combined ratio up by ~350bp above estimates. ICICIGI and STARHEAL saw a 16% YoY NEP growth each, with PAT up 49%/11%, respectively. Life insurers (excluding Max) reported healthy premium growth led by ULIPs. However, adverse product mix led to pressure on VNB margins. IPRU/SBILIFE/HDFCLIFE reported APE growth of 34%/20%/23% YoY, with VNB margins contracting 590bp/200bp/120bp YoY.

Healthcare

- In **Healthcare**, companies indicated sustained growth momentum in the chronic category of therapies in the DF segment for the quarter. The weak seasonality hit the off-take of products in acute therapies as per the management teams. Interestingly, raw material costs are likely to sustain at lower levels over the near-to-medium term and drive better gross margins for companies having exposure to the branded domestic formulation segment. For the US generics space, management indicated that while price erosion is limited on the base portfolio, the cost of logistics/supply chain has increased due to geopolitical turmoil. The filings are inclined towards complex products, and thus, there is a reduction in the overall pace of filings according to the management teams. On the hospital front, companies are implementing efforts towards adding beds and treating more number of in-patients as well as out-patients. Management indicated about some more scope of improving ARPOB based on the case mix/payor mix. Some companies indicated that they have scaled-up efforts towards increasing international patient flow considering the locational advantage and availability of strong clinical talent. Overall, the pharma space continues to witness tailwinds led by niche pipelines in the US and EU. Hospitals remain poised to benefit from the considerable demand-supply gap by not only adding infrastructure but also nurturing the doctor-nurse resources.

Logistics

- In the logistics sector, demand activity was subdued primarily due to general elections, high inflation impacting MSME customers, and e-commerce volumes during 1QFY25. E-commerce and express logistics companies continued to report sluggish growth during 1Q due to high competitive pressure. Multi-modal logistic companies performed better than pure-play freight operators and express logistics players. Management anticipates improved operational

performance with the onset of festive season, particularly with reduced fuel charges and stable operating costs. In the long term, companies are optimistic about sector growth, driven by e-way bills, GST implementation, expanded routes on the Dedicated Freight Corridor (DFC), and enhanced connectivity of major ports, which are expected to encourage businesses to move towards the organized sector.

Metals

- In the ferrous **Metals** space, management teams across companies pointed to: 1) stable to declining coking coal costs; and 2) the development of captive raw material mines. Though a better performance from Indian operations backed by strong domestic demand should aid volumes and margins in the near term, management teams believe that global uncertainties might pose challenges to international steel, base metal, and raw material prices in the short term. In the non-ferrous space, management teams guided the CoP to decline, leading to margin accretion in FY25.

Oil & Gas

- Major OMC company's expansion projects are set to wrap up in the next two years, setting the stage for substantial growth. CGDs are optimistic about robust volume growth and margins, given that spot LNG prices are anticipated to stay stable. ONGC and OINL also forecast strong production growth due to KG-98 and NRL, respectively. Additionally, gas utility entities are anticipating continued strong transmission volumes.

Real Estate

- The companies have identified a pipeline that can support their ambition of 20-30% growth in FY25, notwithstanding their high base. Companies exuded confidence in demand sustainability for a couple of years, and timely launches remain top priority given the minimal inventory level of most of the developers.

Retail

- **Retail:** Continued demand slowdown fueled by heatwaves, election headwinds has impacted footfalls/productivity in 1QFY25, and hence revenue remained subdued (largely negative to single-digit positive). Exceptions were Trent/V-Mart/DMart. Sector-wide management commentary indicated recovery from 2HFY25.
- **QSR:** The Quick Service Restaurant (QSR) industry continues to face demand challenges, grappling with weak unit economics and intense market competition. There has been some improvement in the delivery channel, driven by increased traffic, while dine-in demand is still weak. We remain cautious about the anticipated demand recovery in the 2HFY25. Margins have also been negatively affected. Despite these challenges, management is maintaining its guidance for store expansion in FY25.

Technology

- The management teams of various **IT** companies continue to exercise caution regarding the near-term demand outlook, as the demand from discretionary projects remains unchanged compared to previous quarters; however, BFSI clients in the US experienced a slight recovery in discretionary spending in 1Q. Clients' focus is now slightly shifting away from cost-takeout deals to "high-priority" transformation deals in some pockets. Moreover, revenue growth, utilization, and pyramid optimization will be key drivers for margin improvement, providing some room for margin gains in FY25. The management teams suggest that FY25 should be better than FY24. The strong deal wins, along with early signs of recovery driven by BFSI, bode well for growth in FY25.

Telecom

- The Indian telecom sector registered revenue/EBITDA growth of 1.5%/1.8% QoQ in 1QFY25, led by a 0.7% increase in subscribers (7.7m net adds QoQ). ARPU was flat. The market share shift continues, with RJio/BHARTI gaining subscribers. Management indicated that from 2QFY25 onwards, the tariff hike (of 15-20%) should translate into the revenue increase (by 11%-13% in the next 2-3 quarters). Companies remain focused on deleveraging their balance sheets. Capex is expected to moderate in FY25 for BHARTI/RJio, while VIL's capex is likely to remain around INR500-550b over the three years to support network upgrade.

Key takeaways from management commentary

AUTOMOBILES

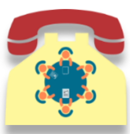
- **Management teams have noted that a normal monsoon and the upcoming festival season are expected to boost auto volume growth following a subdued first quarter. The 2W segment is anticipated to outperform other segments. Most of the ancillary companies with overseas exposure have reported a weak demand environment for autos, though there are signs of improvement in the non-auto sector. Ancillaries that have outpaced industry growth have largely done so through increased content and new order wins. However, due to cost inflation, some companies expect a decline in gross margins in the coming quarters.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Demand outlook	Other key takeaways from the call
Ashok Leyland	▪ **FY25 outlook:** Stable macro, normal monsoons, and budget focus on infrastructure would drive growth in FY25. Management remained upbeat on MHCV demand recovery in FY25. ▪ **Age of fleet of CVs in the market**: Fleet age is at its peak currently at 10-11 years (vs. avg-7-8 years). It is expected to unlock replacement demand in the next 2-3 years.	▪ **New product launches**: AL plans to launch four new LCV products in the next few quarters. A new product in the sub-2 ton segment is a medium term plan. AL plans to focus on the ICV bus segment, where it has a market share of less than 20%. ▪ **EVs**: The order book for Switch buses is 560/300/100 for Delhi/ Bengaluru/UP for FY25. There is another order of 400 buses for Delhi.
Bajaj Auto	▪ **Exports 2W**: Small but steady recovery visible. BJAUT expects 2Q to be better than 1Q. Production in its newly established plant in Brazil started in Jun'24, with a single-shift capacity of 20k units per annum, scalable to 50k units per annum. ▪ **Domestic 2W**: It anticipates 6-8% YoY volume growth for the industry in FY25, with the 125CC and above category outperforming. EVs, including 2W and 3Ws, contributed 14% of the domestic revenue.	▪ **Freedom 125**: It has received bookings for 4,200 units, with 90% from Maharashtra and Gujarat initially. It is expanding into Kerala and Delhi in two quarters. ▪ **Expect cost inflation in the coming quarters**: BJAUT anticipates 50-70bp cost inflation in the coming quarters. It has increased prices at the beginning of the quarter, covering half of the estimated cost increase.
Eicher Motors	▪ **Domestic**- EIM is currently seeing improving conversion rates. Hence, management is hopeful that demand for middle weight motorcycles and especially for RE will pick up in ▪ **Exports for RE grew in 1Q after many quarters**. EIM is witnessing some green shoots in its key export regions.	▪ Management targets to focus on promotional activities to help revive demand. ▪ **At VECV**, while near-term demand remains weak, management expects the CV demand to revive in 2H given the government's infra push and driven by steady replacement demand.
Hero MotoCorp	▪ **Domestic demand outlook**: It is seeing a good recovery in both the entry and 125cc segments for the last couple of quarters. Rural growth is also ahead of urban growth for HMCL. The management has indicated its retail market share was ahead of wholesale market share in 2Ws in 1Q.	▪ **Performance in the entry-level and 125cc segments**: HMCL has improved its market share in the 125cc segment. It has increased capacity of Xtreme 125cc to 25k per month and expects to increase to 40k per month in the next couple of months. ▪ **Margins:** HMCL saw modest raw material inflation of INR340 per unit in 1Q. Input costs are likely to remain range-bound in the near term, as per management.
M&M	▪ **Auto**: The management has reiterated its FY25 volume growth guidance of mid- to high-teens YoY for its UV segment. Despite tepid demand, new launches should help MM outperform. ▪ **Tractors:** MM has reiterated its growth guidance of ~5% for FY25. Given positive trade terms, a good monsoon outlook, increased government spending in rural areas, and Navratra in 2HFY25, there could be an upside risk to the current guidance. MM has reduced its tractor inventory QoQ.	▪ While the order book has decreased, the pace of new bookings and the upcoming new launch of 5-door Thar should give MM confidence of achieving its FY25 volume growth guidance in UVs. ▪ **XUV700**: MM aims to make the brand more accessible, and hence the price reduction was a structural, long-term decision.
Maruti	▪ **Demand outlook**: 1Q volumes were affected by heatwaves and elections. However, the management has maintained its volume growth guidance for the industry for FY25 at about 4%, led by an expected pickup in demand amid good rainfall across India so far. ▪ **Export growth** was driven by good demand from geographies like Africa, the Middle East, and Latin America.	▪ **Margins**: MSIL was able to post a 30bp QoQ margin improvement in 1Q, which was driven by the reversal of one-off costs in 4Q (+60bp benefits), lower input costs (+30bp), favorable currency (Yen depreciated vs. USD), and higher other operating income.

Company	Key takeaways	
Tata Motors	■ **JLR demand outlook**- Some of the markets, such as the EU and China, are under pressure. North America is improving, and demand in the UK is recovering. The current order book stands at ~104k units vs. ~133k units in 4QFY24 and 150k units in 3QFY24. ■ **CVs:** While CV demand until Jul'24 had been weak, it is expected to bounce back in 2HFY25 as structural demand drivers remain intact. We expect TTMT's India CV business to see a 4% CAGR (FY24-26E).	■ **EBIT margin guidance maintained**: VME and FME (variable and fixed market expenses) are likely to increase as the company plans to invest in demand generation. Overall, it has maintained stable margin guidance for FY25E and retains its FY26E EBIT margin guidance of 10%.
TVS Motor Co.	■ **Domestic:** With normal monsoon expected for this fiscal, TVS expects rural recovery to drive sustained momentum for the industry in the coming quarters. Management expects the 2W industry to post 10%+ growth for FY25E. ■ **Exports**: Challenges in the Red Sea that were affecting the transit times. While African markets face currency devaluation, LATAM and the Middle East offer significant opportunities for TVS. Despite some challenges in Bangladesh, management expects stabilization soon.	■ **Norton**: It is going to launch six new products over the next three years, with the first launch likely by FY26 end. The new range of motorcycles will be more affordable than the earlier line-up. TVSL has so far invested INR12b in Norton. ■ **Capex and investments**: Management guided a capex of INR10-11b for FY25, with similar guidance for investments.
Tube Investments	■ **TI standalone**: The company is aiming for double-digit growth in the core business. Growth will be driven by three factors: 1) improving construction and non-auto segments, 2) demand in EVs for lighter components where it has expertise, and 3) export opportunities where it can leverage its strong market presence in metal forms and tubes globally.	■ **EVs:** The company wants to be among the top-2 players in all businesses and aspires for 20-25% market share in each of the segments.
BHFC	■ **CVs:** Management does not expect any major pickup in 2Q but expects a good revival in 2H for domestic CVs, based on discussion with OEMs. For FY25, the management expects CV exports to remain stable with a moderately negative bias. ■ **Non-auto exports**: While aerospace has remained muted in 1Q so far, the management expects this business to post 15-20% growth in FY25 and then strong double-digit growth from FY26E onward as the company starts executing orders (segment revenue stood at INR2.5b in FY24).	■ **Defense business**: Management indicated that India needs 4k guns of different platforms. Given the war going on in different regions globally, there is huge demand for replacement of various guns over a period of time.
BIL	■ **Demand outlook:** Despite a 24% YoY volume growth posted in 1QFY25, BIL has guided for minor volume growth YoY in FY25 as it expects demand headwinds in its key markets in Europe, North America, and the Middle East in the coming quarters. ■ **Margin guidance:** While 1QFY25 margins stood at 26%, management has indicated that they would strive to maintain margin at FY24 levels of 25% in FY25, given the rising cost pressure highlighted above.	■ **Freight costs:** This was already negotiated for 1Q. The freight cost is expected to increase to 8-9% of revenue in 2Q, largely due to the Red Sea crisis. It was 6.4% in 1QFY25. ■ **Raw material costs:** BIL expects a 2-3% increase in 2Q. The company has not taken any price hike as market demand is weak.

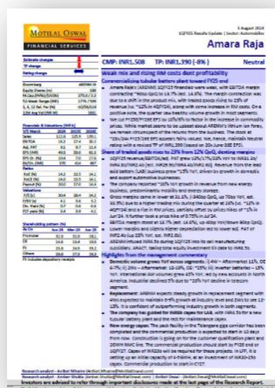
Click below for Detailed Concall Transcript & Results Update



Amara Raja Energy — Neutral

Current Price INR 1,555

- 1QFY25 performance: Adjusted for li-ion revenue in 1QFY24 (as li-ion revenue was part of standalone in the base quarter before the demerger), 1QFY25 revenue growth was ~15% YoY for lead business. This was driven by growth in both domestic and export auto segment.
- **Domestic volume growth YoY across segments:** i) 4W: Aftermarket 11%, OE 6-7%; ii) 2Ws: Aftermarket: 18-19%, OE: ~25%; iii) Inverter batteries- 15% YoY. Inverter batteries were traded and traded revenue was higher at around 23% during the quarter vs. ~12% in 4QFY24; however, this would not cross ~15% in FY25E.
- International 4W volumes grew 45% YoY, led by new accounts in North America.
- Industrial declined 5%, led by a ~20% YoY drop in telecom segment, partially because of a high base and impacted by the transition toward lithium ion



batteries. UPS and other segments reported growth YoY. The non-telecom part of the UPS business has been consistently growing at 7-8% and that trend will continue. Telecom revenue will depend on the capex plan for telecom companies in coming years.

- It reported ~20% YoY growth in revenue from new energy business, predominantly mobility and energy storage.
- **Replacement-** The company expects steady growth in replacement segment to continue, with 4Ws expected to continue to grow at 8-9% at industry level and 2Ws at 12-13%. It is confident of outperforming industry growth in both segments.
- **Exports:** ARENM aims to clock a 15% CAGR over the next 2-3 years. It is seeing good traction in Northern American and European markets. Other markets such as the Middle East, APAC and Africa are also doing well. ARENM now supplies to 55 to 60 countries.

Segmental Market share:

- Aftermarket- 2W: ~40% and 4W: ~36%.
- OEMs- It is about 25% in 2Ws and 35% in 4Ws.
- Home Inverters- It only uses traded batteries and market share would be 15%. Industrial UPS- Market share stands at 40-45%. Telecom- market share of 60%, including supplies of both lead and li-ion batteries.

Capex- It is commercializing tubular battery plant toward FY25 end

- The company has guided for INR8b capex for LAB, with INR4.5b for a new tubular battery plant and the rest for maintenance capex.
- ARENM has a battery capacity of 21m/year for 4Ws and 32m/year for 2Ws. The current capacity utilization is 85-90%. It will continue to focus on optimum capacity utilization of existing LAB facilities. It has already achieved 5-6% capacity addition in these plants through productivity improvement.
- **New energy capex-** The pack facility in Telangana giga corridor has been completed and the commercial production is expected to start in 10 days from now. Construction is going on for the customer qualification plant and 2GWH NMC line. The commercial production should start by FY26 end or 1QFY27. Capex of INR20b will be required for these projects.
- **LFP-** The plans are getting laid out and there will be an initial capacity of 4-5GWH, which will be scaled up based on demand. INR20-25b capex will be required for this. Commercial production to start in CY27.
- **Lithium ion cell pricing trends:** Lithium cell prices have fallen to ~USD65-70 / kwh due to excess supply available. Prices are unlikely to be sustainable at the current levels even for Chinese companies, as per the management.
- **Circular solutions:** 80% of lead requirement will be met through recycled sources. It will launch a 100k-ton lead recycling facility in the first phase. Refining operations will start in Sep-Oct'24, and it will use that lead internally. Battery breaking operations will begin about four to five months after refining starts. This initiative will enhance recovery rates and improve raw material security. Ultimately, the facility should meet about 30% of its needs internally. There should not be much more investments needed beyond this, except for working capital.
- **Debt:** ARENM is currently debt free but may need short-term debt this year for an estimated capex of INR10-15b for lead acid and new energy projects. It is also planning long-term financing and will give details once it finalizes the approach.

Others-

- **PLI-** The company is technically qualified and it has applied for the same recently but there is no official announcement yet.
- **New energy business-** Margin was just 5% in 1QFY25 vs. 13% QoQ. The margins will depend on mix and volume between packs and chargers. At contribution level, margins would be 7-8% for the pack manufacturing and 13-15% for charger manufacturing.
- **InoBat-** The company invested EUR10m two years ago and EUR20m in 1Q, as it is working on certain high-power NMC cells and has a tie-up with Gotion for some of their requirements as well.

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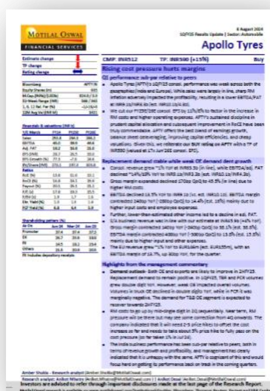

Apollo Tyres — Buy

Current Price INR 506

- Demand outlook- Both OE and exports are likely to improve in 2HFY25. Replacement demand to remain positive.

1QFY25 performance-

- In 1QFY25, TBR and PCR volumes grew double digit YoY. However, weak OE impacted overall volumes. Volumes in truck OE declined in double digits YoY, while in PCR it was marginally negative. The demand for T&B OE segment is expected to recover towards 2HFY25.
- Replacement- Expects high single digit YoY growth for FY25E.
- Exports- Freight rate disruptions and geopolitical challenges dented growth, but still doing better than the last year (saw 20% growth YoY).
- RM cost pressure impacted margins in 1QFY25. RM basket gone up by 5% QoQ in 1QFY25. RM costs for the commodities in 1QFY25: NR INR180/kg, SR 180/kg, CB- 120/kg
- Capacity utilization in India and Europe stood at 82% and 78%.
- RM costs to go up by mid-single digit in 2Q sequentially. Near term, RM pressure will be there but might see some correction from 4Q onwards. The company has taken 1% price hike in 2Q as of now. In 1QFY25, it has already taken 2%/1% price hike in PCR/TBR, which is over and above EPR related price hike of 0.7% in replacement.
- The company indicated that it will need 2-3 price hikes to offset the cost increase so far and needs to take about 5% price hike to fully pass on the cost pressure (so far taken 1% in Jul'24).
- The India business performance has been sub-par relative to peers, both in terms of revenue growth and profitability, and management has clearly indicated that it is unhappy with the same. APTY is cognizant of this and would focus hard on getting its performance back on track in the coming quarter.
- Europe- Expect mid-to-high single-digit YoY growth for FY25. 1Q margin was better than last year, despite just 1% YoY growth, fuelled by better product mix (UUHP volumes grew 20% YoY). The competition has not taken any price hike in Europe. RM pressure is relatively less in Europe business as the proportion of NR in tyres is relatively small than that for India.
- Consol- Will target over 15% EBITDA margin Net debt reduced by INR2.8b QoQ and it now stands at INR22.5b. Net debt/EBITDA stood at 0.6x.
- Net debt declined to INR19b for standalone business from INR22b in 4QFY24. Standalone net debt to EBITDA reduced to 0.7x.

Others-

- Market share stood at 28-29% in TBR replacement in India and at 20% in PCR replacement for FY24
- Started supplies to a German luxury passenger car OEM in India.
- Other expenses- INR270m EPR provision taken in current quarter.
- Utilization in PCR is in mid-80s and ~70% in T&B.
- Reifen- Revenue was EUR50m and margin of 4%.

Ashok Leyland

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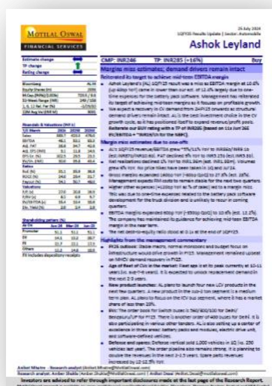

Ashok Leyland — Buy

Current Price INR 260

- Outlook for FY25: Despite headwinds, the MHCV industry saw 10% growth in 1Q and is seeing a good momentum in 2Q. Stable macro, normal monsoons and budget focus on infrastructure should drive growth in FY25. The management indicated that some of the subdued export markets in FY24 are now showing signs of recovery. It is not seeing any major impact of DFC on truck demand. Management remained upbeat on MHCV demand recovery in FY25.
- 1Q performance: MHCV industry grew by 10% YoY in 1Q, with AL growing 8% YoY. Bus segment grew 50% YoY for AL. MHCV goods carrier growth was muted (-3% YoY) mainly due to weakness in tipper segment due to elections (green shoots visible now). Cargo segment is also expected to revive from Q2 onwards. Tractor-trailer and ICV grew well. There was a decline in the multi-axle trailer segment, where demand has seen a shift to the tractor-trailer segment. LCV industry remained flat YoY, but AL saw growth, indicating market share gains. Overall CV exports grew 5% YoY. Other expenses were high due to one-time expenses for the battery pack software development costs for truck division.
- Age of CV fleet in the market: Fleet age is at its peak currently at 10-11 years (vs avg 7-8 years). It is expected to unlock replacement demand in the next 2-3 years. Higher prices of CVs in the last 3-4 years have led to a slowdown in demand from fleet owners, with other parameters remaining constant. Presently there are 3.7m MHCVs on the road, of which 1m were sold in the last 4 years (~27% of fleet). MHCVs sold between FY17-20 constitute another 27% of fleet, while the remaining are older.
- AL's market shares in MHCV stood at 30.7% in 1Q. The management reiterated that it would not be discounting to gain market share.
- New product launches: There would be four new LCV product launches in the next few quarters. A product in the sub-2-ton segment is a medium term plan. The focus would be on the ICV bus side, where it has a market share of less than 20%.
- EVs: Newly launched e-LCVs have seen a good response and initial customers are from the B2B segment. Charging infrastructure is presently poor across states. If CVs are included in FAME-3, it would provide a good thrust for the industry. LCV products are meeting the PLI requirements and the company is in the process of acquiring PLI certificate for the same.
  - Ohm is managing bus operations in Bengaluru, Bihar and Chandigarh.
  - Order book for Switch e-buses is 560/300/100 for Delhi/Bengaluru/UP for FY25. There is another order of 400 buses for Delhi. It is also participating in various other tenders.
  - It is also setting up a center of excellence in three areas: battery packs and modules, electric drive unit and software-defined vehicles.

- Defence and spares: Defence vertical sold 1,000+ vehicles in 1Q (vs. 250 vehicles last year). Revenues grew 3x. The order pipeline also remains strong. It is planning to double the revenues in next 2-2.5 years. Spare parts revenues rose 12-12.5% YoY.
- Hinduja Leyland Finance (HLF): The reverse merger with NXT Digital would be completed by FY25 end. Total AUM of HLF is INR400b and Hinduja Housing's AUM is INR115b. It clocked revenue of INR13.8b and PAT of INR1.3b in 1QFY25.
- HLF portfolio is well diversified across 2W/3W/OH/low-ticket properties, with CV share of less than 25%.

Others:

- Engines: No significant investments or tie-ups are required for tractor-trailer engines of >250hp. Its present engine power capacity can be extended beyond 250hp.
- Mandatory AC requirements in truck cabins would not see a major price increase. Presently 20% of trucks have AC in their cabins.

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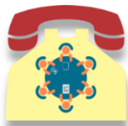

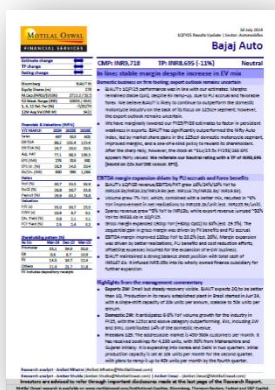

Bajaj Auto — Neutral

Current Price INR 9,855

- **Export 2W:** Small but steady recovery visible. BJAUT expects 2Q to be better than 1Q and anticipates ongoing growth. Africa continues to underperform, especially Nigeria as devaluation-led inflation has significantly affected demand. However, currency stabilization has been noted in recent weeks.
- 1QFY25 volumes were down 40% YoY in Africa, up 20% in the Middle East and North America, up 70% in Asia (led by the Philippines and Nepal), and 26% in LatAm. Nigeria's motorcycle sales dropped from 50k units per month to 5k in Apr'24 but are recovering to 15k units per month. Exports of Qute to Egypt began in 1Q with a shipment of 500 vehicles, opening a new segment.
- Brazil: Production started in a new plant in Jun'24, with a single-shift capacity of 20k units per annum, scalable to 50k units per annum. Brazil is expected to become one of its top three largest markets.
- **Domestic 2Ws:** It anticipates 6-8% YoY volume growth for the industry in FY25, with the 125CC and above category outperforming.
- The Pulsar NS400Z has been well-received, with around 2,400 bookings as of now and 1,000 units already delivered. The newly launched Pulsar, along with the N and NS series, now make up 70% of its portfolio.
- EVs, including 2W and 3Ws, contributed 14% of the domestic revenue.
- **Freedom 125:** The addressable market is 450-500k customers per month, with BJAUT targeting mileage-conscious customers. It has received bookings for 4,200 units, with 90% from Maharashtra and Gujarat initially. It is expanding into Kerala and Delhi in two quarters. Initial production capacity is set at 10k units per month for the second quarter, with plans to ramp it up to 40k units per month by the fourth quarter.
- **3Ws:** BJAUT reported a 78% market share in 1QFY25 and 26% in e-Auto (up from 9% in 4QFY24). It sold 30-33k 3Ws in the latest month, including 3k electric 3Ws. In e-3Ws, the company now has a presence in 140 towns, covering 70% of the e-auto market, and is now even observing a shift of customers from e-rickshaws to e-autos. E-3W business is nearly as profitable as ICE at the margin level after considering the PLI benefits.

- **Chetak:** It has secured third position and is now aiming for No. 2. The increase in market share is due to: i) the launch of a model priced under INR100k, and ii) network expansion, with 500 stores expected by the end of Jul'24 (up from 250 in Jun'24) and further growth to 1,000 stores by Sep'24. The ramp-up of Chetak is not diluting margins for the EV business and is a function of its cost reduction initiatives.
- **Triumph-** It has three main initiatives: i) Expanding the domestic network to 250 stores by 1H from the current 100, ii) Developing the brand, and iii) Supporting Triumph UK in expanding its overseas business. It sold 60k bikes in over 57 countries last year, bringing in INR12b for BJAUT.
- In India, it is selling around 2,000 units per month. The number of stores has significantly expanded from 42 to 100 in recent months. In new markets like Dehradun and Coimbatore, the challenge is building awareness for the brand, which it plans do in the next 3-6 months.
- **Expect cost inflation in the coming quarters:** BJAUT anticipates 50-70bp cost inflation in the coming quarter. It has taken a price hike at the beginning of the quarter, covering half of the estimated cost increase.
- In 1Q, aluminum, copper, and noble metals like rhodium and platinum saw price increases, while rubber also went up. However, steel, nickel, lead, and palladium provided some cost relief. Price increase in ICE was compensated by price reduction in EVs.
- **Bajaj Auto Credit (BACL):** It has already covered 50% of BJAUT's market and stores, aiming to reach 100% coverage by Mar'25. It infused capital of INR5.05b into NBFC- Bajaj Auto Credit during the quarter.
- Capex guidance for FY25 is set at INR7-8b. A major portion will be allocated to the commissioning of the e3W facility in Waluj and building other capabilities for EVs.
- PLI: Accrued PLI benefits in 1Q financials, which benefitted margins by ~50bp. Currently, it has 5 certified vehicles under the PLI scheme—2 Chetak and 3 EV models. Certification for the new Chetak 2901 is underway and expected soon.

Others

- Reported spare sales of INR13b (vs. INR12b in 1QFY24), i.e. 11% of revenue.
- Export revenue stood at USD460m (vs. USD400m in 1QFY24).
- BJAUT reported a surplus cash balance of INR167b. In 1Q, it reported FCF generation of INR17.5b.
- EV revenue was INR5b in FY23, contributed only by chetak. In FY24, it grew 4x of FY23, led by both chetak and e3Ws. In 1Q, EV alone contributed 14% of domestic revenue.
- USD-INR remains range-bound at 83.4 vs. 83/82.1 in 4Q/1QFY24.
- Finance penetration for 2W/3W stood at 75%/90%.

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Balkrishna Inds — Neutral

Current Price INR 2,845

- **Demand outlook-** Despite a 24% YoY volume growth posted in Q1FY25, BIL has guided for minor volume growth YoY in FY25 as it expects demand headwinds in its key markets in Europe, North America and Middle East in the coming quarters. There has been some channel filling as well by distributors due to increased transit time on account of the Red Sea Crisis. In 1QFY25, sales volume grew 24% YoY to 83,570MT. However, the 1QFY24 base was also low due to the cyclonic issue in western India.
- It has market share of 6-7% and is likely to sustain it in FY25.
- **Freight cost-** This was already being negotiated for Q1. However, freight cost is expected to increase to 8-9% of revenue in 2Q, largely due to the Red Sea crisis. It was 6.4% in 1QFY25.
- **Raw material-** BIL expects a 2-3% increase in 2Q. The company has not taken any price hikes as market demand is weak.
- **EUDR:** Effective 31st Dec'24, EUDR regulations in Europe requires that rubber supplied to the EU must not come from land deforested after Dec'20. While the company has secured compliant suppliers, but costs could increase by USD300 per metric ton above the current base price of USD1,800 per metric ton.
- **Margin guidance:** While Q1FY25 margins stood at 26%, management has indicated that they would strive to maintain margin at FY24 levels of 25% in FY25, given the rising cost pressure highlighted above.
- **Capex guidance-** The company has guided for capex of INR6-7b for FY25, out of which it has already incurred capex of INR2b in 1QFY25.

New capex-

- With the acceptance and success in the OTR range of tires, the company is planning to add fresh capacity. It is embarking on a new capex of up to INR13b for capacity addition of 35k MTPA at Bhuj.
- It is working on advanced carbon black project of 30k MT and the commissioning is expected in Q2 as per schedule.
- Commenced operations for the new mould manufacturing unit in Bhuj. This will be used for internal consumption.

Others

- Third party Carbon Black Sales stood at ~8% of total revenue in 1QFY25.
- EUR-INR rate- INR92; For future it has hedged at INR92.5.
- EPR- The net impact would be INR40m for this quarter after adjusting for the reversal attributable to the last year.

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Results Update

Bharat Forge — Neutral

Current Price INR 1,601

Update on domestic business

Domestic CVs:

- This business saw a 9% YoY decline in revenue in 1Q due to election-led slowdown.
- BHFC saw market share improvement in domestic CVs in 1Q.
- The management does not expect any major pick-up in 2Q but expects a good revival in 2H for domestic CVs, based on discussion with OEMs.

Domestic PVs:

- This segment saw strong 31% YoY growth in revenues, albeit over low base of last year.
- As it attempts to forge new partnerships, the company hopes to gain from the long-term structural growth and the premiumization trend in the sector.

Domestic non-auto:

- This segment witnessed a robust 45% YoY growth to INR7.3b, mainly driven by defence order execution (revenue of INR6.4b in 1Q, up 147% YoY).
- Apart from healthy defence ramp-up, outlook for the non-defence domestic Industrial segment is very promising given strong spending on power infrastructure and new capacity additions in the pipeline in India.

Update on defence

- With order wins of INR7.75b in 1Q, the executable order book as of Jun'24 stood at INR54b, with a mix of artillery guns, vehicles and consumables
- Given this order book, the management expects to post 50%+ growth in defence business in FY25.
- The management is hopeful of receiving the final clearance for the domestic ATAG order for 307 guns (INR45b) by Aug'24 end. This order is split with Tata Advanced Systems and would be split 60:40 depending on who gets L1/L2.
- Outlook: The management indicated that India needs 4k guns of different platforms. Given the wars going on in different regions globally, there is huge demand for replacement of various guns over a period of time. Given BHFC has nine artillery gun platforms, the company is likely to be among the beneficiaries of new incremental gun orders, either from Indian Army or overseas.

Update on Exports

CV exports

- CV exports grew 6% YoY to INR5.3b.
- While the order backlog seems to be slowing down, the overall build rates remain stable at the moment, as per the management.
- Inventory level in supply chain remains reasonable and the sales momentum is sustaining.
- The company has enough order backlog and hence it is not affecting its production.
- As per 2 of the 3 large CV OEMs in the US, the outlook for 2025 is likely to be stable.
- However, in Europe, CV sales remain muted and recovery remains anemic.

PV exports

- PV exports declined 1% YoY in 1Q, for the first time in many quarters. The decline was largely due to a slowdown in Brazil markets.
- Its new order wins are expected to start from FY26 onward. While 1Q was weak, the management expects this segment to continue its strong growth momentum in the years to come.
- BHFC continues to focus on increasing its market share and focus on improving content supplied in this business.

Non-auto exports

- Revenue from non-auto exports fell 9% YoY in 1Q.
- However, the positive news is that oil and gas exports have started recovering from its lows and the management expects to see good growth in FY25 from this business.

- While aerospace has remained muted in 1Q, the management expects this business to post 15-20% growth in FY25 and then strong double-digit growth from FY26 onward as the company starts executing orders (segment revenues stood at INR2.5b in FY24).
- Excluding oil & gas and aerospace, the demand environment remains sanguine as spending on infrastructure is a focus area globally.

JS Auto outlook

- JS Auto continued to witness strong momentum and posted revenue/ EBITDA/PAT of INR1.6b/INR220m/INR100m, up 26%/48%/89% YoY.
- As the company embarks on various productivity and cost improvement measures, it expects to significantly improve its margins, amply supported by organic sales growth (management expects them to cross INR10b mark in coming years) over the next 24–36 months.

Overseas subsidiary update

Europe subsidiary:

- Margins improved 60bp QoQ to 3.5% (utilization stable QoQ at 70%).
- The management is focusing on pass-through of cost pressure to customers and this exercise is likely to be done by 4Q, when BHFC expects to have passed on bulk of the cost pressure to customers.
- However, the PV industry in Europe continues to be under pressure.
- Thus, its margins may remain under pressure for a couple more quarters till industry demand revives.
- The management expects significant improvement in margin from FY26 onward in Europe.
- In the traditional steel forgings business, BHFC is undergoing business rationalization and right sizing (would exit business that is not profitable). This would involve footprint optimization manpower rationalization and the same should be done in the next 8-10 months.

US subsidiary

- EBITDA loss declined to INR235m from INR341m QoQ (utilization stable QoQ at 50%).
- Its performance would have been better if not for a customer-specific issue, which hurt revenues. This impact is likely to remain for the next 3-4 months.
- Post this, BHFC expects US subsidiary performance improvement to be back on track.

Update on fund raising resolution

- BHFC has approved a fundraise of up to INR20b through issue of equity, debt or any other instrument that the Investment committee may deem fit.
- The funds are expected to be used for both organic (greenfield plant) and inorganic growth opportunities.
- The management has clarified that any funds raised would be deployed in India and for business opportunities within its allied segments.

Other highlights

- BHFC has announced VRS at its Mundwa facility and aims to reduce about 100 people. Some of its facilities at this location are old and the management wants to modernize the plant and improve its productivity through this exercise.
- Capex guidance over FY25-26 stands at INR10b.
- Its long-term debt reduced to INR21.5b (from INR24.6b QoQ) and net D/E reduced to 0.6x. Consolidated RoCE improved 210bp QoQ to 18.4%.

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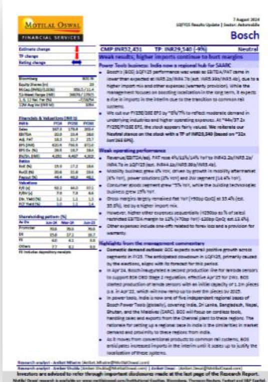

BOSCH — Neutral

Current Price INR 32,219

- **Domestic demand outlook:** The overall growth expectation for the year remains positive across segments. The anticipated slowdown of 1QFY25, primarily influenced by the elections, aligns with its forecast for this period.

Quarterly performance.

- Mobility business grew ~4% YoY, driven by- i) aftermarket growth of 8.1% on account of higher demand for new generation diesel components, ii) 2% YoY growth in power solutions led by higher SUV growth, and iii) ~15% YoY growth in 2W segment led by higher sales of fuel injectors and supply modules owning to additional demand from TVS and Bajaj.
- Consumer goods grew by 5.1% due to higher demand for grinders, drills, and cutters driven by market growth.
- The building technologies business grew by ~19% YoY due to a higher volume of security system installation orders.
- Bosch is seeing global recognition of hydrogen-based engines in different geographies such as EU, North America, China, etc. Hydrogen prices below INR4 per kg and the development of adequate infrastructure are prerequisites for this technology to take off in India. Bosch continues to work with many OEMs for hydrogen-based solutions in India.
- **Mobility aftermarket:** BOS introduced a new tyre pressure monitoring system for all vehicles and the Adicare extended warranty for diesel and rotating machines, benefiting both aftermarket and OEM customers.

2Ws:

- In Apr'24, it inaugurated a second production line for lambda sensors to support the BS6 OBD Stage 2 regulation, effective Apr'25. BOS started the production of lamda sensors with an initial capacity of 1.2m pieces p.a. in Apr'22, which is likely to now ramp up to over 8m pieces annually by 2025.
- The launch of Bajaj Pulsar N 250cc and Pulsar 400cc confirms BOS as the preferred partner for premium powertrain components, introducing value-added functions to enhance performance and features.

Power tools:

- India is now one of the five independent regional bases of Bosch Power Tools (globally), covering India, Sri Lanka, Bangladesh, Nepal, Bhutan, and the Maldives (SARC). The focus will be on the cordless tools business, handling sales and exports from the Chennai plant to these regions. The rationale to set up regional base in India is the similarities in market demand and proximity to these regions from India.
- Recent efforts to improve cost competitiveness and scale have made India increasingly attractive for certain volumes like injectors and VE pumps. While India and SAARC remain in focus, opportunities for exports through parent or affiliated companies help with local volume and fixed cost coverage.

Imports:

- As BOS moves from conventional products to common rail systems, it expects a reduction in conventional products, where it has high localization. As it advances to supply common rail systems, the company anticipates increased imports in the interim until it scales up enough to justify the localization of these systems.

- Common rail systems will feature exhaust gas treatment components. BOS will begin importing these components, starting with the NOx sensor, set to start production in Apr'25. It is also working on localizing this sensor.

Others

- **Trem-V norms** have been postponed to 2QFY26.
- **Future margins are uncertain** due to changing technologies, but it aims to balance between higher imports and localization. Too early localization is counter-productive, as per the management; hence, it has a well-planned phased localization program for all components.
- **One-offs in other expenses:** 4Q expenses were low due to a forex gain, which reversed in 1Q. Also, it made a provision for a special warranty, which led to higher expenses. The management has refrained from quantifying the impact of one-offs.
- **PLI-** Capex planning and investments are not tied to DVA approvals. It continues to invest in capex based on localization needs, with PLI benefits as additional bonus. While BOS is an applicant for the PLI scheme, it has not yet received official confirmation on the same.
- **Bosch's production in India mainly serves local OEMs.** Globally, Bosch follows a local-for-local supply principle. However, due to ongoing geopolitical issues and shifts in emission norms and electrification, exporting from India is becoming more appealing. It aims to increase exports over time, though no major changes are expected in the mix in the near term.

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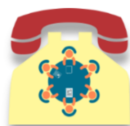
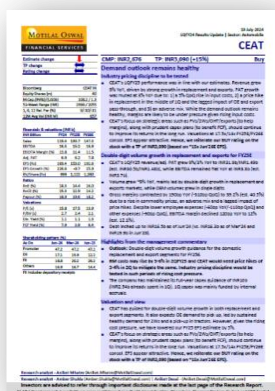
Results Update





CEAT Buy

Current Price INR 2,825

Domestic business updates:

- **Outlook:** Double-digit growth in replacement segment in FY25; OEM demand to remain steady. Replacement demand will be led by 2Ws/agri Tyres, supported by good monsoon and gradually improving rural demand. Even in CVs, it expects to see strong demand in the replacement segment, albeit on a low base. PCR replacement demand is likely to see single-digit growth. Overall, the management expects the replacement segment to post double-digit growth in FY25. CEAT expects OEM demand to pick up in coming quarters on the back of new launches in UVs, continued momentum in 2Ws and a pick-up in tractors.
- 1QFY25 revenue growth largely driven by volumes. Volume growth was driven by replacement (CVs and 2Ws) and export segments. However, OEM segment volumes grew in low-single digits largely due to weak demand in CVs and PVs, which was offset by a healthy pick-up in 2W OEMs.
- **RM costs to see a further rise of 5-6% in 2QFY25:** The commodity basket grew ~5% in 1QFY25. Domestic landed NR prices currently stand at INR207-210/kg, which are at a 12-13 year high. This is mainly due to demand-supply mismatch and should normalize in 3Q, as per the management. Higher freight rates have an impact of INR10-12/kg on NR rates. The management has indicated that it would need another 3-4% price hike in 2Q to offset the incremental input cost pressure.
- **Price hikes from hereon may not be as easy:** CEAT took price hikes in the replacement market for CVs/PVs in the range of 2.3-2.8%, with the lowest price hike taken in 2Ws (~1%) and maximum in CVs. OEM prices follow indexation

with a lag of a quarter and would see this benefit in 2Q. Export price hike also remained back-ended.

- Price hikes were taken in a staggered manner starting from the mid of 1Q, due to which realization-led growth was missing in 1Q and full benefits would be visible in 2Q. Higher freight rates and unfavorable mix (TBR mix was higher in Q1) also offset the price hike impact. CEAT plans to further take a price hike of 2-3% in 2Q across categories.
- As per the management, the largest competitor in the TBR segment has recently given discounts. The No. 2 player has not taken any price hike in any segment so far. However, CEAT does not intend to roll back pricing for any segment.
- The management has indicated that in the 2W segment, it has taken price hike without the competition passing on the same. Also, it would target another hike by Jul'24 end, irrespective of competition action.
- In terms of positioning, CEAT remains a market leader in 2Ws and hence its tyre prices are 2-4% ahead of the 2nd largest player. In PVs, CEAT and Apollo Tyres are positioned at par and at a discount of around 8-10% to market leader Bridgestone. In TBR, CEAT is priced about 1-2% lower than the market leader.

Export business updates:

- 1QFY25 saw double-digit volume growth, which was limited by non-availability of containers. The contribution from exports stood at 20%, which is expected to increase to 25% in 2-3 years. CEAT has launched 42 OTR SKUs and 30 PV SKUs. The company has a strong order backlog in the LatAm/America/EU markets. On the back of this, it expects double-digit volume growth in FY25 in exports.
- US TBR channel development is underway, with 60% of the regions covered. PCR rollout is planned in 4QFY25 / 1QFY26. Agri radials continue to do well on a low base in the US.
- LatAM TBR growth has been strong, while PCR/2Ws are growing on a low base.
- Ambernath OTR plant with 105k MT capacity has reached 70% utilization. Its phase 2 will see capacity increase to 160k MT.

Other business updates:

- The management has indicated that its TBR tyres are now seeing tremendous response from customers. Its Halol TBR facility is now fully sold out and it expects volumes to pick up further once Chennai TBR comes on stream in 2Q end. Hence, CEAT remains confident of improving its market share in the coming quarters in this segment.
- During 1QFY25, the company purchased the license to fulfil its EPR obligations pertaining to FY23. Given that it had provided for EPR in 4QFY24 based on expectations, it has now reversed a part of this worth INR115m post the actual payout and classified the same as exceptional gains. VRS expenses were INR40.4m in 1QFY25.
- Higher other expenses in 1QFY25 were mainly due to 100bp higher ad spending (vs. average ad spending) on world cup and IPL advertising. Freight rates have grown 3-4 times their normal rates. Shipping time has increased to 60 days from 14-15 days for shipments to reach India from Southeast Asia.
- Employee costs have normalized in 1Q vs. 4Q, which had various variable payouts.
- CEAT has a 30% market share in 2W EV OEMs.
- The company has maintained its full-year capex guidance of INR10b (INR2.54b already spent in 1Q). Capex was mainly funded through internal accruals in 1Q.

There was negative WC of INR2.4b in 1QFY25. Consolidated debt marginally increased by INR180m QoQ to INR16.5b.

CIE Automotive — Buy

Current Price INR 558

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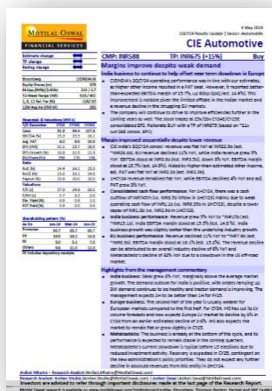

India business:

- India business sales grew 8% YoY, marginally above the average market growth. The demand outlook for India is positive, with orders ramping up and showing a revenue growth trajectory of 1%, 4%, 6%, and 8% YoY in the last four quarters, respectively.
- 1Q India EBITDA margin was its highest ever. Even its PAT margin crossed 10% for the first time in 1H.
- Two-wheeler demand continues to be healthy and tractor demand is improving. The management expects 2H to be better than 1H in FY25.

Europe business:

- The 11% YoY revenue decline in Europe was led by: 1) a 6% YoY decline in Europe LV market and 2) a 30% decline in Metalcastello.
- The second half of the year is usually weaker for European markets compared to the first half. For CY24, IHS has cut its LV volume forecasts and now expects Europe LV market to decline by 6% in CY24 from an earlier estimated decline of 2-3%. IHS also expects the market to remain flat or grow slightly in CY25.
- Electrification has slowed down because of the elimination of certain subsidy policies, and the company expects a 2-3-year delay in EV transition in EU from earlier timeline. As a result, EV orders are being delayed as customers adopt a wait-and-watch approach.
- Aluminum forgings: It will take 2-3 years for this business to contribute significantly to the overall business, as all programs have been delayed.
- CIE India has already taken corrective actions to align its cost structure with reduced revenues.

Metalcastello:

- The business is already at the bottom of the cycle, and its performance is expected to remain stable in the coming quarters. Metalcastello's current slowdown is typical before US elections due to reduced investment activity. A recovery is expected in CY25, contingent on the new administration's policy priorities. CIE India does not expect any further decline in absolute revenues from this entity in 2H.
- It has been heavily reliant on one American customer, and since the market for off-road vehicles is cyclical, it is witnessing some downturns. However, it is actively working on diversification by onboarding new customers and has already secured significant business from a new American transmission manufacturer for EVs, especially for LCVs. Unfortunately, these new programs are facing delays due to the delayed EV transition.

Others:

- The new order book in India stands at INR5b, with 30% contribution from EVs, reflecting the growing share of EVs. In the EU, the order book is INR2.2b, with 55% contribution from EVs.
- Capex was 4% of turnover in 1HCY24 and is expected to normalize to its stated guidance of 5-5.5% by the end of CY24. A bulk of its capex remains focused on the expansion in India, which is expected to be its key growth driver.

- CIE is not pursuing acquisitions of distressed assets in Europe and will instead focus on opportunities in India.
- The sunroof system business is the only tier-1 segment within the CIE group, while all other businesses are tier-2. It is a global business for CIE, which is operated from centralized R&D in Europe. The contribution of the sunroof business is decent for the parent. Hence, it does not make sense to integrate the recent sunroof acquisition by the parent in India in CIE Automotive India.
- The management has guided for an additional INR1b debt reduction by the end of the year.

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Craftsman Automation

Craftsman Automation — Buy

Current Price INR 5,573

Performance during the quarter-

- Demand- The quarter presented a challenging and mixed performance. The MHCV segment showed no respite from a declining trend, while the tractor industry exhibited some green shoots. The 2W segment remained robust, but the PV segment slowed down. Additionally, the key raw material, aluminum, saw a significant price increase, hitting double digits.
- The storage segment showed good growth, though margins remained under pressure.
- Aluminum segment margins were impacted by weak demand in PVs and a sharp rise in input costs, which the company would pass on with a quarter lag.
- In the powertrain sector, the tractor market has shown signs of recovery since Jul'24. PV demand is steady. While CV is weak currently, it is expected to revive with a pick-up in economic growth in subsequent quarters. Additionally, it has secured new business in PV segment that is expected to commence from FY26 onward.
- DR Axion is not capital intensive and requires only marginal maintenance capex. The management team remains intact, with all eight Korean expats continuing on their roles. All three customers acquired by the company are still continuing. Export operations have been added to DRA Korea, and there is new business coming in for Hyundai's new Talegaon plant.
- The company has invested INR2b in capex in 1Q. Capex outflow for FY25 would depend upon the closing of its ongoing acquisition as also the ramp-up of its facilities.

Update on German Acquisition

- It is a high-tech foundry for industrial engine blocks, with plans for growth even in India.
- The deal cost was EUR5.5m (EUR3.5m for the purchase of assets and EUR2m for working capital), and another EUR0.5m in debt (so, total INR600m). The management would invest another INR600m to further improve efficiencies.
- This deal has been done at the behest of some customers and hence it has full customer support.
- The foundry has been a single source for most products and has been EBIT positive for most years.
- CY23 revenue was about INR2.5b with high single digit EBITDA margin.
- The rationale for purchasing this asset is to get a critical foothold in the larger engines segment (180 ltr etc) in Industrial powertrain business, where there are only six large customers globally. With no new capacities coming in globally in

developed regions given the adverse geopolitical situation, the management expects this acquisition to provide a strong base for exponential growth in the long run.

- Update on proposed Sunbeam acquisition-
- This acquisition is still not complete. They have signed an MoU for the same and due diligence is nearly complete.
- Revenue stands at about INR12b. This business is currently loss making largely due to duplication of costs as the erstwhile promoters targeted to move away production from their Gurgaon plant.
- This business would give them entry into exports to the US, apart from complementary and mutually beneficial capabilities.
- The management is very clear that the erstwhile management needs to resolve the worker conflict in Gurgaon themselves. They will also not take over any debt of the company.
- The Gurgaon plant contributes to about 10-15% of Sunbeam's overall revenues but is critical for its exports. However, about 60% of this plant's output is already transferred to other locations.
- As per the current MOU, they are in talks for acquiring all the machinery and business of Sunbeam, ex of the Gurgaon plant.

Greenfield projects-

- Kothavadi Phase 1: This plant will begin as a general engineering foundry initially with focus on supplying to its existing segment of wind energy. Focus would be on supplying gear box housing and planetary carriers within the industrial engineering segment. It expects to start Phase 1 trial production in 4QFY25 and ramp up from 2HFY26.
- Kothavadi Phase 2 will involve production and supply of heavy engines for stationary application globally. They have already secured firm orders from this segment, which is expected to commence from 4QFY27, with tremendous growth potential in future years given the huge growth seen for data centers globally. However, given the high gestation period for suppliers and also the significant investments required for both suppliers and OEMs, it was necessary to start Phase I as a general foundry and then later focus on stationary engines with confirmed orders.
- For the last 2-3 years, the management has been working on gaining business traction in the stationary engines segment. They are now confident of seeing a strong ramp-up in business from this segment starting 4QFY27 once the phase 2 Kothavadi plant ramps up operations. Hence, the powertrain segment will start seeing healthy growth from FY27 onward, irrespective of whether CV/tractor cycle is in favor or not. Another tailwind for this segment is that global OEMs are keen to scout for suitable quality suppliers in low-cost regions like India given the ongoing challenges in supply chain in Europe and the US.
- The Bhiwadi plant is set to complete Phase 1 in 15 months, with trial production scheduled for 4Q. This phase will focus on producing structural Al parts for two-wheelers, including alloy wheels, and engine components. The initial casting method will be gravity die-casting, followed by Low Pressure Die Casting (LPDC) and High Pressure Die Casting (HPDC) as and when required.

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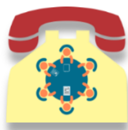

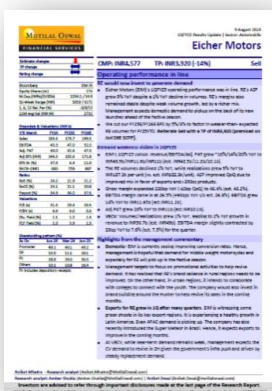

Eicher Motors — Sell

Current Price INR 4,911

Royal Enfield update

- While wholesales were weak in 1Q, RE retails grew at a low-single digit in 1Q as per the management. A part of the reason for weak wholesales was that the company moved to an auto replenishment model of inventory management and hence did not want high stock in the system around that time.
- EIM is currently seeing improving conversion rates. Hence, management is hopeful that demand for middle weight motorcycles and especially for RE will pick up in the festive season.
- Exports for RE grew in 1Q after many quarters. EIM is witnessing some green shoots in its key export regions. It is experiencing a healthy growth in Latin America. Even APAC demand is picking up. The company has also recently introduced the Super Meteor in Brazil. Hence, it expects exports to improve in the coming months.
- RE is among the top 4 bike players in the middle-weight motorcycle segment in many markets like UK, Italy, and Continental Europe. Thailand, Australia etc.
- The recent Guerilla 450 launch on the Sherpa platform has received strong reviews from most industry experts and is also seeing a lot of consumer interest at dealerships, as per management
- The company intends to bring in product interventions in Classic and Bullet models in the coming months to boost consumer interest ahead of the festive season
- Management targets to focus on promotional activities to help revive demand. It has realized that RE's brand salience in rural regions needs to be improved. On the other hand, in urban regions, it intends to collaborate with colleges to connect with the youth. The company would also invest in brand building around the Hunter to help revive its sales in the coming months.
- The first time buyer proportion at RE is 12-13% and for Hunter it is much higher at around 19%

VECV update

- In 1QFY25, while HD market share improved to 8.4%, LMD market share improved to 34%.
- VECV has seen a strong ramp-up in exports having grown 58% YoY in Q1
- VECV EBITDA margin remained stable YoY at 7.7%
- PAT saw a sharp growth of INR3.2b vs. INR1.8b YoY as it had a write back of deferred tax in 1QFY25. VECV has now moved to 25% tax rate from FY25 onwards
- At VECV, while near-term demand remains weak, management expects the CV demand to revive in 2H given the government's infra push and driven by steady replacement demand.
- Discounts continue to remain low at an industry level and have been the key to improving margins for all players in the industry. Management is hopeful of healthy pricing discipline to sustain going forward.

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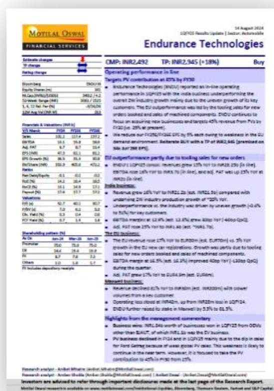

Endurance Technologies — Buy

Current Price INR 2,522

India business update

- ENDU's 1QFY25 2W industry grew 19.8%. Overall auto industry grew 16.3%. ENDU's growth was lower than the industry as its key customers saw uneven growth.
- INR1,843m worth of businesses was won in 1QFY25 from OEMs other than BJAUT, of which INR1061m EV business. The EV business win includes: 1) INR795m business from M&M E-3Ws 2) INR300m business won from HMSI for 150cc motorcycle 3) INR257m brake assembly business from HMSI and HMCL 4) INR87m of Alu castings order from Japanese multinational for M&M 4W application 5) INR68m business for TVSL E-3Ws for suspensions, brakes and driveshaft.
- Order book expected to be boosted further with INR17.7b of RFQs under discussion with various customers. Since FY21 ENDU has won orders worth INR36.77b (INR8.41b of replacement orders and INR28.36b of new orders). Out of INR28.36b of new orders, INR24.5b would experience a peak in FY27.
- Total business wins to date for EVs is INR8.4b (excludes INR4.2b business won in Maxwell).

SOP start:

- INR719m business win from TVSL in FY24 (INR309m for inverted front fork and rear mono-shocks, INR404m business for TVS Raider and HLX bikes for front fork shock absorber business). These orders are expected to start from Oct'24 onwards.
- Sep'24 SOP for INR240m inverted front fork business from HMCL.
- Apr'24 SOP for disc brake assembly business and INR900m business for front/rear shock absorber which would be reaching peak in 4QFY25.
- Suzuki new scooter front fork business of INR253m in addition to INR1400m business won earlier would start in 3QFY25.
- HMSI disc brake assembly business of INR294m in 3QFY25.
- RE alloy wheel business of INR960m has started SOP in 1QFY25.
- 35 DIA air suspension inverted front forks would start in 3QFY25 with order value of INR400/annum to be supplied directly to KTM Austria.
- INR876m Alu casting business from Hyundai to start from 3QFY27.
- HMSI new business for 100cc Shine motorcycle front fork and rear shock absorber business for INR343m/annum. SOP from Feb'25. Front fork and rear shock absorber business for e-2W SOP would be 4QFY25.

Capacity expansion:

- 4th Al forging press at Waluj to be commissioned in Q2FY25. Alu Forging business is backward integration for inverted forks business except INR290m business won from JLR where SOP is expected in this year. On the basis of JLR business win in this segment, it is able to get new orders from PVs/2Ws.
- To increase Chakan Alu Alloy wheel capacity from 4.5 to 5.5 mn wheels p.a. in 2QFY25
- Commissioned Waluj SMT plant for BMS in Feb-24; BMS with optimized design for a key OEM audited and validated in lab and on vehicle. Production lot in May-24. Ramp-up to healthy volumes by Sep-24.

- Expanding Vallam machined Al. casting capacity for Japanese e2W brand. SOP in 3QFY25.
- Expansion in Waluj/Pantnagar for requirement of an Indian OEM, for e2W, e3W, petrol and CNG motorcycle models, likely to be concluded in 3QFY25.
- Expanding Chakan plant for machined Al. castings for 4W for Indian JV of global powertrain manufacturer
- Waluj second plant: Started disc brake supply to HMCL this year in Apr'24 and supplies would commence for HMSI from 3QFY25. Disc brake assemblies would now be 6.2m/annum, brake discs to 8.1m/annum and 3W brake assembly to 1m/annum by FY25 from 2 plants.
- Supply of 2W ABS assemblies has started and run rate stands at 400k/annum. Would start dual channel ABS supplies from next month. Total capacity would now be enhanced to 640k ABS assemblies/annum by 4QFY25. Target of 1.2m/annum by 2026.
- PV business declined in FY24 and in 1QFY25 mainly due to the dip in sales for Ford Getrag because of weak global PV sales. This weakness is likely to continue in the near term. However, it is focused to take the PV contribution to 45% in FY30 from 25%. 15-18% of new business was won for PVs (mainly Hyundai/Kia/ Punch Powertrain/TTMT). It has the opportunity of adding new products with Hyundai mostly on Alu die casting (for its new Pune plant).
- Freedom 125cc—Contribution currently is sizeable and ENDU is present in all areas.
- Process of acquiring customers in 4Ws/non-autos for AURIC region. They remain focused to increase the PV business contribution to 45% from 25% currently by 2030. Margins would be better than 2Ws.

EU business update

- EUR revenue/EBITDA/PAT stood at EUR80.3m/EUR13.3m/EUR4.9m (v/s EUR68.8m/ EUR11.3m/EUR4.2m in 1QFY24).
- EU/UK market grew 4.6% YoY (this compares to 17% revenue growth for ENDU in Euro terms including tooling business). Its growth was partially driven by sale of tooling's (8% growth contribution) for new orders booked and some was due to sale of machined components to customers. Aluminium costs have been stable QoQ.
- Higher fixed costs in new plants led to lower margin expansion in EU business. Should see full benefit in the next 2 years.
- EUR3.1m of business won in 1QFY25 includes win from VW for specialty plastic component for hybrid PVs. This business currently contributes to ~5% of overall ENDU'S EU revenues. Rise in plastic costs has affected profitability of several peers. Hence they are seeing good traction for this business and ENDU's existing capacity can be utilized. Presently it is small business (EUR 2m) but an entry with VW will help ramp up presence in this segment going forward.

Maxwell update:

- INR457m of business won in 1QFY25. It includes an order of INR344m of MCU (Motor control units) with SOP from Mar'25.
- Maxwell is expected to contribute revenues of INR2500m by FY27.
- Order book from Maxwell: Mainly it is from HMCL. Volumes are ramping up from the last month.

Other highlights:
- INR228m incentive booked in 1QFY25.
- Aftermarket sales grew 14% YoY in 1QFY25. Now exporting parts to 37 countries with addition of Costa Rica in June.
- Net Cash of INR6127m/ INR5818m for standalone / consol. business.

Escorts Kubota Neutral

Current Price INR 3,788

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Results Update

Agri machinery division:
- Domestic tractor industry outlook:
- Management reiterated its guidance of mid-single digit growth (5-6%) in FY25E. There is a positive rural sentiment with Kharif sowing up 7% YoY. Government has also increased the MSP of Kharif crops which has supported demand. 1QFY25 saw a 0.5% YoY industry growth relative to prior expectations of a decline.

Regional Performance:
- **Eastern India:** There was a substantial growth of 40% YoY in 1QFY25 which is unlikely to sustain.
- **Southern India:** Dropped 20% YoY; this market now contributes 12% to overall tractor industry.
- **Northern/Western India:** These markets contribute 75% to overall tractor industry. North has grown 5% YoY in 1QFY25 and West is also showing signs of improvement led by Maharashtra, but Gujarat declined. ESC has been successful in gaining market share in these regions.

New product launches:
- World Max has phased rollout planned, with a full launch expected by September.
- New Farmtrac series to be introduced in October/November.

Exports:
- Europe market remains challenging due to inflation and interest costs. About 60% of industry exports happen in Europe.
- Kubota channel contributed 21% to exports in 1QFY25.
- North America and Latin America are performing well, but ESC does not have many products to cater to these markets. The new greenfield plant will be focused on different products needed in the North America market. They are currently scouting for land for this plant and hence this is at least 3-4 years away.
- **Outlook on input costs:** There was no input cost pressure in 1Q but costs have started rising in 2Q mainly on the rubber/steel side. There were price hikes taken in May'24 (~0.5-0.6%) which should offset the rise in commodity costs in 2Q.
- **Merger with subsidiaries:** Order from NCLT expected this month and merger would be effective from September 2024. Subs revenue in 1QFY25 was ~INR5b.
- Agri business has now been organized into four new verticals namely tractors, agri solutions, engines, and spares. This is in line with Kubota's global business structure. Each of these segments is expected to surpass INR10b in the next 3-5 years.
- **Emission Norms:** New emission norms deadline is currently set for Apr'26.

- **Regional dealer network expansion:** ESCORTS aims to increase dealers from 1,200 to 1,700 over the next 2-3 years.
- **Construction Equipment division:** 1Q saw a significant growth in compactor segment which grew 17% YoY. Further Product mix and realizations aided margins. 1Q is a seasonally weak quarter and demand is expected to improve in coming quarters given government focus continues on infrastructure. Margins are likely to improve from here-on with pick-up in demand.
- **Railway Division:** It is expecting to grow in double digits in this segment due to the shift from LHB rolling stock to Vande Bharat coaches. Order book stands at INR8.8b. It has also secured initial orders for Vande Bharat coaches, including brakes and couplers. Initial orders have a lesser margin. It has also started supplying electric controllers to Delhi Metro. It has reduced import content and is focusing on localization of components. It further expects positive margin impact from localization efforts.

Happy Forgings — Buy

Current Price INR 1,213

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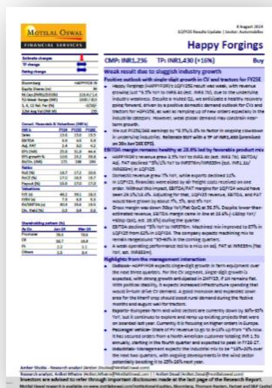
Detailed Concall Transcript &
Results Update


Happy Forgings

CMP: INR1,236 TP: INR1,430 (+16%) Buy

- **Outlook-** HAPPYFOR expects single-digit growth in farm equipment over the next three quarters. For the CV segment, single-digit growth is expected, with strong growth anticipated in 2HFY25, if 1H remains flat. With political stability, it expects increased infrastructure spending. A good monsoon and expanded sown area for the kharif crop should boost rural demand during the festive months. Further, this will be supported by better utilization of existing units, capacity expansion, and new global customers.
- **Domestic CV** saw a 5-6% production drop in 1Q, with component demand down almost 10% due to lower production of multi-axle and long-haulage trucks. The farm sector also declined by 4%-5%, except for one or two customers.
- **Passenger vehicle-** Share of PV revenue to go to 8-10% up from ~3% now. It has secured orders from a North American customer totaling INR 1.5b annually, starting in the fourth quarter and expected to peak in FY26-27.
- It has begun issuing RFQs to the existing clients for mixed components, including fully machined suspension and steering knuckles, and brake flanges for EV players. These products have similar margins. Currently, it supplies three PV OEMs and is also working on new programs with existing clients
- **Exports-** European farm and wind sectors are currently down by 30%-35% YoY, but it continues to explore and ramp up existing projects that were on boarded last year. In North America, most programs are new and involve replacements, so it anticipates strong demand for these projects moving forward.
- Currently it is focusing on higher orders in Europe and working on North American orders for the PV and farm sectors.
- It is developing more parts for new clients and receiving good opportunities from them. Not working on Class 8 yet. The share of North American orders is expected to increase significantly after 4Q in the coming years.
- **Machining Capacity-** 90% of the new orders are for fully machined components. Adding close to 11k machining capacity which will take it to 62k MT. This includes 6k by 1HFY25 and 5k by 2HFY25.

- It takes around 8-10 months lead time for machining facility to come in after the company decides. It has received approvals for few critical projects where company was working for last 2-3 years to ramp up the new capacity.
- **Industrials-** Management expects the industrial mix to be ~18%-20% over the next two quarters, with ongoing developments in the wind sector potentially boosting it to 25%-26% next year. It is also continuing to develop projects with its existing wind sector clients. On gensets, the company has already executed and received the approvals, but the capacity and the ramp up will start from third quarter.
- **Capex-** It has guided a capex of IN2b for FY25/26E each. This year, it is ramping up its 14,000-ton press line for projects like front axle beams and large crankshafts. Additionally, it'll be adding a new 6,300-ton press line starting in 2Q, focusing on farm equipment and passenger car requirements.
- Next financial year, it will add a 10,000-ton press line, which is already ordered.
- It is planning to order a 4,000-ton press line this quarter, which will be dedicated to meeting the PV requirements of North America. About 20-25% of the total capex would be for PVs in future. Directionally, this should rise going forward.
- About 70-75% of the capex requirement will be funded through cash accruals.
- Railway component- The business is currently small, focusing on specialized component tenders worth INR 150-180m annually. Realizations are INR 800-850 per kg, primarily as import substitutes. Specific products have not been identified yet.
- Defence- It has started evaluating the defence sector two months ago, forming a team to explore tenders and capex requirements. There is currently a significant demand for 155mm shells and artillery. It is likely having more clarity on this requirement as it moves forward.
- Solar- Working on solar project will require further capex of INR1b. If received clearance from the Punjab government then it might need debt of INR0.70-0.8b.

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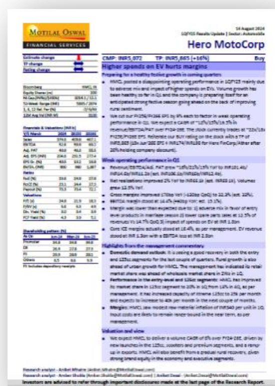

Hero MotoCorp — Buy

Current Price INR 5,285

- **Domestic demand outlook:** HMCL is seeing a good recovery in both the entry-level and 125cc segments in the last couple of quarters. Rural growth is also ahead of urban growth for HMCL. The management has indicated that its retail market share was ahead of wholesale market share in 2Ws in 1Q.
- **Performance** in the entry-level and 125cc segments: HMCL's market share improved in the 125cc segment to 20% in 1Q from 13% in 4Q, as per management. HMCL has increased capacity of Xtreme 125cc to 25k per month and expects to increase it to 40k per month in the next couple of months. About 38-40% of its network received Xtreme 125 as per management.
- **New launches:** The company plans to launch a couple of new models in the premium segment in FY25. It also has a new scooter launch lined up. Apart from this, it is targeting to reduce costs and thereby launch much more affordable EV scooters in the coming quarters.
- Market share improvement top priority. The management has also indicated that strong margins would help HMCL invest in building brands going forward, especially in the premium segment and EVs. It plans to aggressively grow its premium portfolio in the coming quarters.

- Inventory level relative to pre-festive period is under control. It would start inventory build-up ahead of the anticipated strong festive season.
- **EVs:** Vida is currently available with 300 dealers across 175 cities. The upcoming new Vida products are expected to be PLI compliant, as per management. As BOM costs come down and HMCL gains scale, it expects the EV business to become profitable.
- **Margins:** HMCL saw modest raw material inflation of INR340 per unit in 1Q. Input costs are likely to remain range-bound in the near term, as per management.
- **Exports:** The current situation in Bangladesh has been a setback. Overall exports represent about 4% of revenues and Bangladesh is about 13% of exports (so about 0.3-0.4% of revenues).
- Financing for the entry-level segment: It would focus on reviving its entry segment demand backed by refreshes and innovative financing solutions. It has launched Hero Digi Fin solution, which is an automated aggregation platform for financing solutions, which is expected to make financing more accessible to a much wider set of customers.
- **Distribution:** HMCL now has around 520 Hero 2.0 outlets (covering about 50% of total HMCL dealerships) and about 40 Premia outlets. It plans to cross 100 Premia outlets by FY25 end. Apart from this, it has upgraded 190 customer service centers so far.
- Financing share stood at 60% for 1Q.
- Capex guidance stands at INR10-12b for FY25.

Mahindra & Mahindra — Buy

Current Price INR 2,770

Auto segment

- Demand outlook: The management reiterated mid to high teen volume growth guidance YoY for FY25 for its UV segment. Despite tepid demand, new launches should help MM outperform.
- There was lower conversion of existing bookings in June due to heat waves and model changes.
- Inventory levels are at 4-5 days higher than normal; MM will target to normalize the same through improved retails.
- Capacity expected to increase to 64k/72k by the end of FY25/FY26 from 49k in FY24. There would be an additional 8k EV capacity by FY26 end. Also, FY25 exit capacity will include 5k increase in SUV capacity (THAR 5D, XUV3XO/4OO) and 10k EV capacity.
- Given the increased capacity, order backlog has reduced to 178k units. While order book has reduced, the pace of new bookings and the upcoming new launch of Thar 5-door should give MM confidence of achieving its stated mid-to-high teens growth guidance for FY25 in UVs.
- Market share gains: SUV revenue market share increased by 130bp to 21.6%. LCV <3.5T market share up by 160bp YoY to 5.9%.
- XUV700 price has increased by INR380k-400k since its launch and the capacity has increased from 3.5k to 6k to 10k per month.
- MM aimed to make the brand more accessible and hence the price reduction was a structural long term decision; Also, there were benefits of reduced costs

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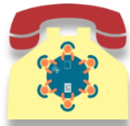

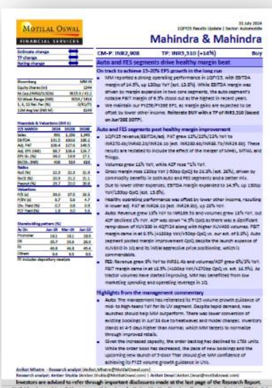
Mahindra & Mahindra

through value engineering and normalized semiconductor premiums as the chip requirement in the model is much higher vis-à-vis others.
- Its price reduction in XUV700 is unlikely to have a material negative impact on Auto margins, as per management.
- Auto ASP declined QoQ as there was significant ramp-down of XUV300 in 4Q, along with higher XUV400 volumes.
- EBIT margins improved for the segment due to commodity benefits and some price increases.
- Exports- Growing organically and seeing strong growth prospects in countries like South Africa, Australia, New Zealand, wherein it has already launched couple of products; Initial focus will be on existing markets, then expanding the reach.
- BEV margins will be initially lower than ICE but expected to match as products mature.
- Pickup segment: The current CNG penetration for MM is 10-15%; MM is prepared for CNG products.
- Hybrid- No significant impact seen on MM products post the road tax cut in UP for hybrid vehicles. As per management, even post the tax cut, the breakeven for a customer going for hybrid vehicle is 120k kms running over 3 years to cover additional cost of INR200k-300k per vehicle.
- MHCV: The company's addressable size is ~80% of the total market; While its market share has gradually increased to 3.9% from 2.5% three years ago, it now targets ~5% market share in 3-4 years, and 7% thereafter. It has lost some market share this quarter as the sector (where MM is present) declined 1% YoY, while the rest of the industry grew 50-60% (where MM is not present).

Farm Equipment Sector (FES)

- Demand outlook: The company has reiterated its growth guidance of ~5% for FY25. Also, given the favorable factors such as positive trade terms, good monsoon outlook, increased government spending in rural areas and Navratra in 2HFY25, there could be an upside risk to current guidance.
- MM has reduced tractor inventory QoQ.
- Tractor market share increased by 180bp YoY to 44.7%.
- Margins improved QoQ due to commodity benefits, cost reductions in marketing and operating leverage as the sector comes out of a downtrend (where cost structures are lean).
- Farm machinery business revenue grew 34% YoY to INR2.65b.
- Decline in farm segment realization QoQ was due to geography mix and model mix changes.

Last Mile Mobility

- It reported highest-ever sales of Treo Auto at 11.1K units; 19.5% electrification in 1QFY25.
- The EV penetration in the industry has now reached ~20% in a short time and is expected to reach 100% by FY30. The management believes Fame-3 support will still be required for ramp-up.

Maruti Suzuki — Buy

Current Price INR 12,216

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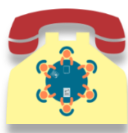

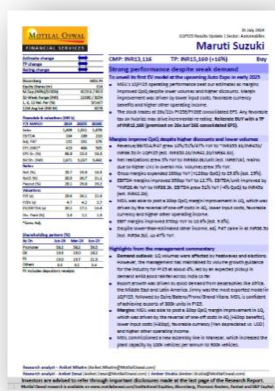

- **Demand outlook:** 1QFY25 volumes were affected by heatwaves and elections. However, the management has maintained its volume growth guidance for the industry for FY25 at about 4%, led by an expected pick-up in demand amid good rainfall across India so far.
- New launches, like Swift and Dream series in Alto/Celerio/Wagon R, were introduced in 1Q to bring back buyer interest in small cars.
- FTB continues to hover around 40-43% for MSIL.
- **CNG vehicle sales have surpassed diesel vehicle sales for the first time in 1QFY25.** One in every three cars sold by MSIL is a CNG vehicle. It sold slightly less than 150k CNG vehicles in 1QFY25. States, like RJ/ KA/ MP/TN/Kerala/ Bihar, which had a lower CNG penetration, are growing strongly on a low base due to the expansion in CNG infrastructure.
- Export growth was driven by good demand from geographies like Africa, the Middle East and Latin America. Jimny has been the most exported model in 1QFY25, followed by Dzire/Baleno/Fronx/Grand Vitara. The company is confident of achieving exports of 300k units in FY25.
- MSIL commissioned a new assembly line in Manesar, which increased its plant capacity by 100k vehicles per annum to 900k vehicles.
- **Margins:** MSIL was able to post a 30bp QoQ margin improvement in 1Q despite an 11% reduction in volume (80bp impact), increased discounts (INR21,700 per unit vs. INR14,500 in 4QFY24) and higher marketing spending for the new Swift launch and T20 World Cup. Margin improvement was driven by the reversal of one-off costs in 4Q (60bp benefit), lower input costs (+30bp), favorable currency (Yen depreciated vs. USD) and higher other operating income.
- Going forward, the management expects part of the forex benefit to normalize.
- Dealer Inventory stands around 37 days at the end of 1QFY25 (vs. 30 days' optimal inventory).
- **Road tax rebate in UP on strong hybrids: The management indicated that it is too early to comment whether this has benefited retails.**

Other highlights:

- Presently TDSG plant in Gujarat is producing LTO chemistry cells locally for hybrid vehicles. MSIL will explore various chemistries for Indian market in consultation with Suzuki. It would be launching 6 EV models by 2031.
- MSIL believes the government will stick to its current deadline for meeting CAFÉ-3 norms by 1st Apr'27.
- Royalty stood at 3.5% for 1QFY25.
- MSIL now has a network of 3,000 Arena outlets and 5,000 service touchpoints.
- Export revenues for 1QFY25 stood at INR44.8b.

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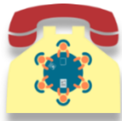

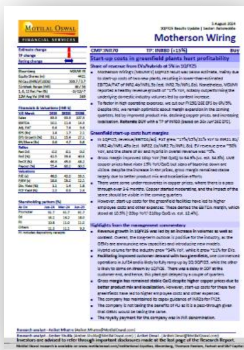

Motherson Wiring — Buy

Current Price INR 72

- Revenue growth in 1QFY25 was led by an increase in volumes as well as content. Overall, the long-term outlook is positive for the industry, as the OEMs are announcing new capacities and introducing new models.
- Hybrid volume for the industry grew ~34% YoY, while it grew ~11% for EVs.
- Facilitating improved customer demand with two greenfields, one commenced operations in Jul'24 and is likely to fully ramp up by 2Q-3QFY25, while the other is likely to come on stream by 1QFY26. There was a delay in SOP at the customer end, and hence, this plant got delayed by a couple of quarters.
- Gross margin has remained stable QoQ despite higher copper prices due to better product mix and localization. However, start-up costs for these two greenfields have led to higher employee costs and other expenses.
- The company has maintained its capex guidance of INR2b for FY25.
- The company is not taking the benefits of PLI as it is a pass-through given that OEMs would be taking the same.
- The royalty payment for the company was in INR denomination.

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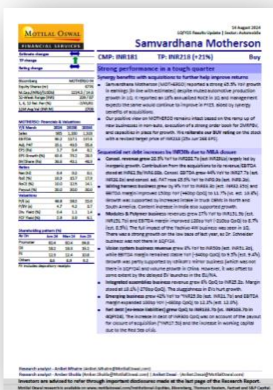

Samvardhan Motherson — Buy

Current Price INR 194

- **Macro factors:** Some regional challenges remain. There has been a spike in container costs and transit time due to the Red Sea crisis, leading to inventory build-up. Commodity prices, especially copper prices, are softening after an inflated quarter. 2Q automobile production to remain muted due to holidays in Aug'24. For FY25, global light vehicle production is likely to decline a bit or remain flat YoY.
- **Automotive production:** Global light vehicle production volume growth remained flat YoY in 1Q. While China, India, North America grew, the EU declined mainly due to a delay in EV launches. Automotive megatrends (Rise in SUV, hybrid penetration) continue to support content growth for SAMIL. There is a slowdown in EV production, as the life of ICE platform is getting extended across Europe and North America.
- SAMIL posted a strong revenue growth of 29% YoY despite muted industry volumes led primarily by acquisitions (INR 62.5bn in revenue from acquired assets included in 1Q).
- Reduction in RM costs on a YoY basis was due to: a) improved mix (integrated assemblies' integration that has lower RM and remained a high-margin business), b) repriced products with customers, c) RM cost pass through.
- **Debt:** Net debt has increased by INR30b mainly contributed by a) INR17.5b impact on net debt on account of M&A closures during the quarter b) Expansion in working capital on account of red sea crisis and volatility in customer production schedules which is expected to normalize in H2FY25

- Investments mostly in emerging markets: 19 greenfields across four emerging markets (13-India, 4-China, 1-Poland and 1 in Mexico) for auto and non-auto business.
- **Wiring harness:** Revenue growth supported by increased intake in truck OEMs in North and South America. Content increase in India due to operational efficiencies supported by insourcing activities. Wiring harness facility of Lumen acquisition included in the quarterly numbers.
- **Modules and Polymers:** Revenue growth was due to: a) mix and content growth, and b) successful integration of Yachiyo 4W business. Dr. Schneider was absent in the base quarter. These factors were partly offset by the decline in production volumes in Europe mainly due to delay in EV launches.
- **Vision systems:** Revenue growth was aided by newly acquired Ichikoh's mirror business not being there in last 1Q and volume growth in China. This was offset by delayed EV launches in EU/NA impacting production volumes.
- Integrated assemblies: Three new Greenfields are being setup to support customers in China (2) and Mexico (1); expected to start operations in Q4 FY25.
- MOTHERSO has posted 18% annualized RoCE in 1Q and management expects the same to continue to improve in FY25 on the back of synergy benefits of acquisitions closed.

Emerging business:

- **a) Automotive:** Expanding geographical presence in Elastomers. Focus on localization in lighting and electronics
- **b) Non-automotive:**
  - **Aerospace:** 2 facilities in India supporting new product lines and vertical integration to come on stream in H2 FY 25. Order book of USD1.3b is spread over 10 years. It is seeing some headwinds globally in this field but India remains a bright spot.
  - **Consumer electronics:** It would initially invest ~INR26b over a period of time. These investments would be utilized for the JV with BIEL Crystal (leading supplier of smartphone glass) and assembly of components. Manufacturing with the JV partner would start by end-2HFY25 and would see a ramp-up in FY26.
  - **Health and medical:** Development of Laparoscopy Imaging System achieved, currently optimizing manufacturing process for Q3FY25 product launch

Other pointers:

- Capex guidance of INR50b in FY25 maintained (Capex of INR1.78b in 1QFY25).
- JV with Sojitz Corporation should see an outflow of INR2.4b in 2QFY25. Motherson Auto solutions (MASL) holds 66% share and Sojitz hold 34% stake. It is engaged in the business of acquiring, developing, operating, selling, renting, leasing of facilities and operating of Industrial Park with ready built in factories along with necessary infrastructure.
- Issued first dual investment grade bonds of USD350m which would help prepare MOTHERSO for future opportunities (organic and inorganic).
- EVs contribution: Stands at 9% of overall revenues. Power agnostic approach of business is helping the company to grow.

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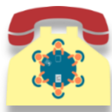

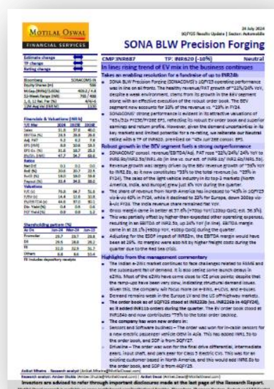

SONA BLW Precision — Neutral

Current Price INR 682

Region wise demand commentary

- The Indian e-2Ws market continues to face challenges related to FAME and the subsequent fall of demand. It is also seeing some launch delays in e2Ws. Most of the e2Ws have come close to ICE price points; despite that the ramp-ups have been very slow, indicating structural demand issues. Given this, the company will focus more on e-3Ws, e-LCVs, and e-buses.
- The US off-highway market continues to struggle and SONACOMS' high market shares in this category adversely impacted the driveline segment.
- Europe – Continues to remain weak.
- The order book as of 1QFY25 stood at INR233b (vs. INR226b in 4QFY24), as it added INR11b orders during the quarter. The EV order book stood at INR184b and now contributes ~79% to the total order backlog.
- The company has 27 EV programs in production by 1Q end, 12 of which are matured and completely ramped up and 15 are in various stages of ramping up.

New products

- In 1Q, the company has commercialized two products and added two new future products to its technology roadmap- i) integrated motor controller for hub motors, and ii) integrated motor controller for high voltage systems.
- The company is integrating its drive motor technology into hub motors, expanding from 96 volts to 350 volts, ideal for three-wheelers and light commercial vehicles (1-1.5 ton). This enhances efficiency and performance. It is developing in-house motors in the 40-50 kilowatt range. For higher kilowatt motors (above 350 volts), it has agreements to support larger applications. Development is on track, and it'll soon approach customers.

The company has won the product orders in:

- Sensors and Software business- The order was won for in-cabin sensors for a new electric passenger vehicle OEM in Asia. This has added INR1.5b to the order book, and SOP is from 3QFY27. This product aligns with its vision of integrating advanced safety features into modern electric vehicles. This is an EV specific product but can be cross sold to other players.
- Driveline- The order was won for the final drive differential, intermediate gears, input shaft, and park gear for Class 5 Electric CVs. This was for an existing customer based in North America, and this would add INR6.8b to the order book, and SOP is from 4QFY25.

Novelic:

- SONACOMS aims to make it one of the most respected and valued sensing companies globally.
- The first set of customers would be more from Europe and US. Entry into India would be at later stage.
- It is focusing on integrating millimeter-wave radar with cameras for a comprehensive solution.
- ACAM is key, as in-cabin sensing becomes essential with NCAP standards. Despite delays, it will be implemented in all vehicles. It also aims to add features like intrusion and proximity alerts.

- Additionally, it is expanding into mobility solutions for industrial areas and enhancing its semiconductor chip design business. This involves shifting more functionality to software, leveraging NOVELIC's expertise in integrated circuits.

Fundraise - SONACOMS has passed an enabling resolution for the fundraise of up to INR24b.

- This has been announced to fund any strategic inorganic growth opportunities or partnerships that it may consider. The company has been working on this for last 5-6 months. Management has clarified it would focus only on the mobility segment.

Financials

- Tax adjustments resulted in exceptionally lower taxes in 4QFY24; the average tax rate for the year is expected to be 24-25%.
- PLI: The company indicated that the industry is not going to receive incentive in FY25, hence, it is not accounting for any PLI this year, but might probably do it in FY26E.

TATA MOTORS

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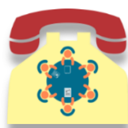

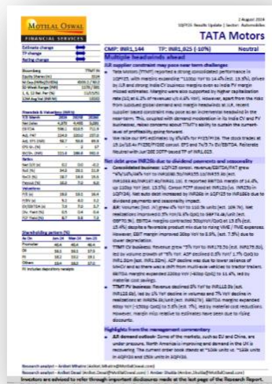

Tata Motors — Neutral

Current Price INR 1,085

Tata CV business

- Realization declined QoQ due to lower salience of MHCVs and there was a shift from multi-axle vehicles to tractor trailers.
- 1Q fleet utilization was healthy.
- Jul'24 wholesales were weak largely due to heavy rainfalls in many parts of the country, which affected infra and mining projects and goods transported on highways. Customers have also postponed purchases in Jul'24. Also, a few customers expect payment release from the government soon.
- Overall, the management remains upbeat about growth prospects for the industry in H2FY25 given healthy monsoon, policy continuity and continuing thrust on infra push from the government. CV passenger segment is likely to see higher growth in FY25.
- Margins can see an uptick if demand recovers in 2H on expected lines.
- TTMT has deployed total 2900+ EV buses till date (over 160 buses in 1QFY25). Ace EV has received PLI certificate. Under TML Smart Mobility, deployment under CESL tender continues. Over ~1,300 buses were deployed in Delhi and Bangalore. The deployment of electric buses in Jammu and Srinagar is nearing completion, with ~200 buses already operational.

Tata PV business:

- Channel inventory stood at 35-40 days (vs. 30 days normally).
- Focus remains on maintaining Vahan market share, which stood at 13.7% in 1Q vs. 13.9% in FY24.
- Penetration of CNG vehicles and EVs stood at 22% and 12%, respectively, for TTMT. The management maintained that TTMT is well placed to meet the current and future emission norms.
- Input cost reduction has led to improvement in EBITDA margin YoY despite a drop in volumes. However, margin miss relative to estimates have been due to rising discounts.
- EBITDA margin for ICE stood at 8.5% in 1QFY25 vs. 8.6% in 1QFY24.

EV business-

- For EVs, adjusted for P&D spends, EBITDA margin was 0.1% in 1QFY25 vs. -6.2% in 1QFY24. Margin expansion was led by cost reductions and tailwinds of battery prices. It expects a sequential improvement in margin led by the launch of Curvv and festive demand sales.
- Auto PLI SOP: As of now, in PVs, Tiago is ATI certified. All the sales happened in FY24 are eligible for claiming PLI incentives. TTMT plans file claims by Sep'24.
- In FY24, fleet segment accounted for 10% of EV sales for TTMT, which dropped to 5-6% in 1Q. EV sales rose 2-3x due to pre-buys as FAME-2 was set to expire w.e.f March2024. This impacted 1Q EV volumes.

Others:

- Net auto debt increased to INR186b in 1QFY25 from INR160b in FY24 due to dividend payments and seasonality impact.
- Tata Motors Finance (TMF): Disbursements stood at INR45.2b for 1QFY25, up 33% YoY. Focus remains on sourcing quality and pricing discipline. Collection efficiency came in at 96.8% in 1Q (96.6% YoY). Capital adequacy stood at 19.7%, with Tier-1 capital at 11.6%. DE ratio stood at 7.1x (up 28bp YoY). Liquidity is adequate at INR410b. GNPA stood at 5.8% in 1QFY25 vs 8.1% in 1QFY24.
- Demerger of CV business is likely to happen in the next 12-15 months and the appointed date for this transaction would be around 1st Jul'25.

Tube Investments **Buy**

Current Price INR 4,050

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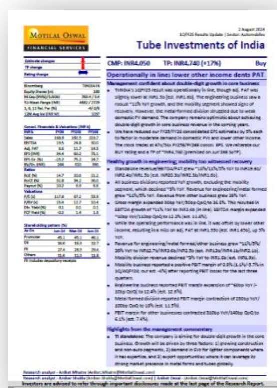
Tube Investments of India

- **TI standalone:** The company is aiming for double-digit growth in the core business. Growth will be driven by three factors: 1) growing construction and non-auto industries, 2) demand in EVs for lighter components where it has expertise, and 3) export opportunities where it can leverage its strong market presence in metal forms and tubes globally.
- In 1QFY25, PVs and CVs witnessed slowdown, while 2Ws saw a revival. Standalone business has performed in line with the industry if not better.
- **Exports:** 19% of revenue for engineering business and 14% for overall business. Freight is challenging due to the Red Sea issue.
- **Engineering division:** The capacity expansion for large diameter tubes will materialize over a period, but some part of it is ready. After the full commissioning, capacity utilization will come down to ~70% from 85-90%, which would be sufficient for the next two years.
- **Metal formed:** It is dependent on the 4W segment (~50% revenue contribution), which remained muted in 1Q; it is a temporary issue. Railway margins are under pressure because of participation in the tender business. Both of these issues should be resolved in the next couple of quarters.
- **Mobility:** Cycle business has started to stabilize. Currently, it is working on exports and e-bikes, which have huge growth prospects in the future.
- **EVs:** The company wants to be among the top-2 players in all the businesses and aspires for 20-25% market share in each of the segments.
- Currently, growth is coming from 3Ws and IPL. E3Ws and E-HCVs contribute 1/3rd and 2/3rd of sales, respectively. It expects these volumes to grow significantly over the next 2-3 quarters.

- **E3W:** Proceeding reasonably well and has good market share in south, wherein it is growing steadily. It is making inroads in the key markets the north and garnering a market share of 4-5%. The company has total 70 dealers across India, which should increase to 150 by FY25 end.
- **E-HCV:** It currently has one product of 55 ton (6x4) and will launch the 2nd variant by Sep'24. This will take it to 20% of the TIV. Later, it plans to launch the 3rd and 4th products in 3Q and 4Q, respectively. It is making good progress with customers.
- In E-HCV, it is getting repeat orders. Customers are saving 10-15% on the running cost. It is currently receiving truck orders from steel and cement industries.
- TIINDIA aims to reduce the manufacturing cost significantly over the next 1-2 years by- i) Indigenizing more by developing supply chain in India, ii) developing own capabilities in control unit, iii) packing batteries, and iv) focusing more on mechanical components. This will be further complemented by reducing battery prices.
- **Railways-** A large part is under CG Power. It is growing at good pace and should continue in the coming quarters. CG side will start scaling up.
- The train collision avoidance system is going to be the focus area for the railways in the coming years. These tenders will come out in Oct'24 and a ramp-up is expected to happen later in FY25. The company is building up significant engineering capabilities as this is going to be a huge growth area in the next 3-5
- **Medical devices-** The business is doing well and the company is investing in new product development as well as on the sales side. It is putting up a greenfield in Noida for medical consumables. It is currently in the process of land acquisition and should start commercial production in 2QFY26. years.
- **Electronics:** TIINDIA is working with customers for lens, particularly in the approval process, wherein samples have been approved and the company is now in the process of ramping it up. Currently, it is facing supply chain challenges in the business as it is significantly controlled by China.
- **Lotus surgical:** It has started exports to 1-2 countries already and is waiting for approval in a few more countries. It will take another 2-3 quarters to get into ramp-up phase.
- **TI Clean Mobility:** The company has raised total capital of INR30b. The largest part of the fund will be utilized for factory construction and tools (INR10-11b still in the bank). This ensures sufficient capital for growth plans without needing additional funds from TI3 cash flow, except for potential rapid scaling. Capital allocation will focus on TI Medical and a new sector, with electronics receiving minimal initial investment until proven viable.

TVS Motors — Neutral

Current Price INR 2,630

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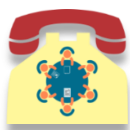
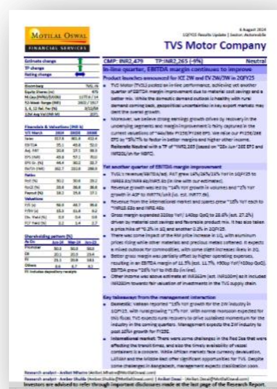
- **Domestic demand -** Vahaan reported ~13% YoY growth for the 2W industry in 1QFY25, with rural growing ~17% YoY. With normal monsoon expected for this fiscal, TVS expects rural recovery to drive sustained momentum for the industry in the coming quarters. Management expects the 2W industry to post 10%+ growth for FY25E.




TVS Motor Company

- **Exports -** There were some challenges in Red Sea that were affecting the transit times and timely availability of containers.
- African markets face currency devaluation and inflation, but further decline is unlikely given the low base and management expects a gradual pick-up in sales in the coming quarters. LATAM and the Middle East offer significant growth opportunities for TVS. ASEAN is likely to take some time to revive. Demand in Nepal is healthy. Despite the current ongoing in Bangladesh, the region is expected to normalize soon. TVS does not have a material exposure in Bangladesh.
- It has started entering the European markets (like Italy) through BMW. They are now introducing TVS-branded products in the region. Management believes that market penetration in developed markets will need a lot of patience. Accordingly, TVS will focus on investments in the region towards dealer identification, market presence, and EV product launches over the next three quarters.
- **New launches-** One new product in ICE and one each in 2W/3W EV to be launched soon.
- EVs-
- Introduced a new variant to make it accessible during the quarter. Feedback for the product is positive.
- It has 750 EV dealers covering over 450 cities for the iQube.
- It is expanding it to developed and developing export markets. It will soon export EV products to ASEAN markets, with testing already done. Local sourcing and the ASEAN FTA with Indonesia will provide advantages.
- PLI- TVS did not recognize the PLI incentive in 1Q and is expected to do so in subsequent quarters. It has received PLI certification for two of the iQube variants, which has contributed to major volumes currently.
- **TVS Credit-** It has now ~15m customers and the book size is ~INR263.5b. The book size grew ~20% YoY in 1QFY25. PBT grew 19% YoY to INR1.87b. Net worth for TVS Credit stood at INR43.44b as on June'24 vis-à-vis ~INR38.65b as of Mar'24.
- **Norton-** It is going to launch six new products over the next three years, with the first launch likely by 4QFY26 end. The new range of motorcycles will be more affordable than the earlier line-up. TVSL has so far invested INR12b in Norton.
- **Europe e-bike market update:** Europe's sluggish economy and high industry stock levels have led to significant discounts in the e-bike segment in Europe. Despite the near term headwinds, management believes long term prospects for e-bikes in Europe remain promising due to the large market potential.
- **Capex and investments-** The company has guided a capex of INR 10-11 billion for FY25, with similar guidance for investments. In 1Q, major investments were INR3b in TVS Credit, INR1b in Norton, and INR0.3b in the e-bike entity, with a smaller amount in TVS Digital.

Financials-

- Other expenses in 1Q were high due to: i) Variable expenses such as packing and freight by INR600m, ii) brand-building activities raised marketing expenses by

INR870m, and iii) investments in digital technologies and innovation added INR350m.

- Revenue from international market was ~INR19.63b for 1QFY25. Spares revenue stood at INR8.46b.
- The 1.4% QoQ benefit in gross margin is mainly due to sustained material cost reduction and an improved product and geography mix. TVS has taken 0.2% price increase in 1Q and a similar hike in July as well. There was some impact of RM increase in 1Q, with aluminum prices increasing, while other materials and precious metals softened. It expects a mixed outlook for commodities, with some slight increases likely.
- Staff costs increased due to performance appraisal accounting for ~10%, increase in employee strength in the area of digital, EV and software as it has added 450-500 employees.

CAPITAL GOODS

- **Companies continue to witness strong traction from sectors such as power T&D, renewable energy, data centers, real estate, and defense. International geographies are a mixed bag with robust traction in the Middle East and Africa being offset by muted conditions in developed countries, owing to geopolitical tensions, elevated interest rates, and a subdued macroeconomic scenario. Margin performance for EPC players is expected to see an uptick from 2HFY25 as newer orders booked at favorable prices come up for execution and input costs remain benign. Order inflow too is expected to ramp up with the elections and budget behind us. The domestic enquiry pipeline is shaping up well and is expected to translate into firm orders. Availability of labor is a key monitorable going forward, as EPC players reported lower-than-expected domestic execution owing to the shortage of skilled and semi-skilled labor.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook	Domestic Capex Cycle
Cummins	▪ Double-digit revenue growth guidance for FY25	▪ Robust demand from commercial and residential real estate, data centers, etc. ▪ The industrial demand is robust, fueled by construction.
KOEL	▪ Unveiled a new strategy of 2B2B in the next five years	▪ Strong demand from infrastructure, construction, railways, and defense
Larsen and Toubro	▪ FY25 revenue and OI growth guidance at 10% and 15%, respectively. Margin guidance is 8.25%	▪ Outlook remains robust on the back of government spending and stable macro situation. Uptick expected in domestic order inflows in 2HFY25
Thermax	▪ NA	▪ Pipeline is shaping up well for thermal, steel, refining, and petrochemicals.
Bharat Electronics	▪ Order inflow guidance at INR250b, 15% revenue growth, and 23-25% margin for FY25	▪ NA
Triveni Turbine	▪ Robust prospects for exports and aftermarkets in the near to medium term ▪ Domestic order inflows to improve post-2QFY25	▪ Enquiries remain robust, and the company expects order finalization in the coming quarters.
Hitachi Energy	▪ NA	▪ Robust traction in power T&D, renewables, data centers, etc.
Kalpataru	▪ FY25 to see 20% revenue growth, PBT margin at 4.5-5.0%, NWC below 100 days, and order inflow guidance of ~INR220-230b	▪ Strong domestic and international T&D pipeline, driven by the shift towards renewable energy ▪ Healthy traction in real estate, data centers, water, etc.
KEC International	▪ FY25 order inflow guidance at ~INR250b, revenue growth of 15%, and margin guidance of 7.5%. while double-digit margin performance is expected in FY26	▪ T&D pipeline in both India and international is robust at ~INR1.5t

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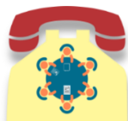

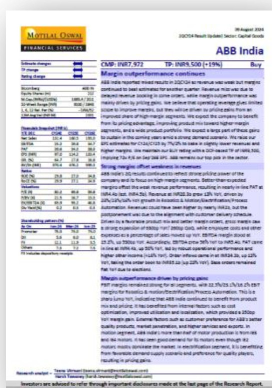

ABB India — Buy

Current Price INR 7,916

- **Demand:** The company is witnessing robust traction in high-growth segments such as data centers, railways, metros and electronics, where it has a significant presence across the value chain. These emerging sectors are also seeing strong momentum in large orders. While there was a transient moderation in enquiry levels owing to elections and union budget, the overall pipeline continues to be buoyant. Management believes India is lagging China by 20-25 years, which provides the company a long growth runway.
- **Market scenario:** ABB India is reaping the benefits of initiatives undertaken in the last 4-5 years in India. After Covid, the company is experiencing accelerated demand for its products as customers prefer quality, reliability and service over price, which bodes well for the company. While the company has no plan of significantly expanding its capacity, which is sufficient for the next few years, some of the divisions have drawn up plans to increase capacity to cater to improved export mandates from the parent.
- **Margins:** EBITDA margin rose to a record high on the back of product mix, pricing action, design optimization, and a higher share of services and exports. Out of the ~530bp YoY expansion, ~350bp was led by product mix.
- **Ordering:** Order inflow growth of 13% was entirely contributed by large orders (INR5.4b, +245% YoY) as base orders were flat. Export orders grew 39% YoY; however, the company has a selective approach. About 40-45% of orders are long-gestation orders (15-18 months), which have variable price in nature, while the remaining orders are short-cycle orders executable over 6-9 months.

Segment-wise

- **Electrification:** Revenue grew 12% YoY owing to robust execution of backlog. Margin improved ~680bp YoY due to a favorable revenue mix and efficient capacity utilization. It received key orders from data centers, smart power, power distribution solutions and higher service orders. Reported revenue could have been higher, but elections and budget delayed revenue booking.
- **Motion:** Order inflow (+18% YoY) was buoyed by large order wins for traction technology from railways and metro. Revenue grew 17% YoY on contribution from propulsion equipment and high dynamic performance motors, coupled with higher share of exports and services. Margin saw a robust expansion (to 23.1% vs. 14.5%) owing to superior price realization and revenue mix. IE3 and IE4 motors accounted for more than half of ABB India's production, underscoring its acceptability in the market.
- **Process Automation:** Order inflows declined 32% YoY as the base quarter had a large order win. Revenue, however, grew 24% YoY on better execution and share of services and exports. Margin expanded ~510bp on higher mix of energy industries.
- **Robotics:** Order inflow surged 157% YoY driven by inflows from automotive sector. Revenue was declined 31% YoY on a high base. Margin expanded ~200bp YoY on higher share of service revenue. There was no impact of elections on the segment, and number of robots grew by 50% in CY23 over CY22.

Cummins India — Buy

Current Price INR 3,833

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- **Domestic powergen:** Management is confident on the long-term sustainability of demand as investments in infrastructure will continue for the foreseeable future. Sectors such as data centers, infrastructure, real estate (commercial and residential), and manufacturing, continue to drive demand. Even though India has managed to sharply narrow the power deficit, inelastic demand for uninterrupted power will continue to propel demand for gensets as a backup, and price hikes will not act as a deterrent. While KKC has been weak in the LHP nodes, the advent of CPCB4+ is expected to provide a fillip to the company owing to its tech-led offerings.
- **Exports:** There are nascent signs of a bottoming out, as the Middle East and African markets are seeing an uptick while other geographies are largely flattish. This has resulted in a sequential improvement of 13%. Due to tepid local demand, certain countries are resorting to dumping their excess inventory in LatAm, South Asia, Africa, etc.
- **Industrial segment:** Reported 55% YoY growth on the back of robust activity in the construction space, as well as railways, mining, marine and compressors. The company expects this momentum to continue owing to the government's thrust on infrastructure, manufacturing and defence.
- **CPCB 4+ transition:** CPCB 4+ accounted for ~30-40% of Powergen revenue during 1QFY25. There is no channel inventory for CPCB 2 products owing to strong demand traction. With a healthy order backlog, KKC will try to replenish the depleted inventory in coming quarters. While there is no imminent pricing war, further clarity will emerge as to how various players try to position themselves in the market in due course of time. Price hikes so far have been in the 15-25% range.
- **Margin:** Stellar margin performance during the quarter was supported by various factors, such as product mix, favorable pricing, and benign commodity costs. However, copper and aluminum have now started inching up. Such high margins will not be sustainable going ahead once the commodity cycle turns.
- **1QFY25 revenue breakup:** Industrial – INR3.14b (+55% YoY), Powergen – INR8.03b (-8% YoY), Distribution – INR3.89b (+23% YoY), HHP exports – INR1.55b (-25% YoY) and LHP exports – INR2.02b (-17% YoY).

Kalpataru Projects — Buy

Current Price INR 1,238

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- **T&D segment –** The outlook remains robust across both domestic and international markets, such as the Middle East, Europe, Africa, Australia and LatAm, driven by growing energy demand, energy transition and investments in infrastructure. In India, the company sees a pipeline of INR500b for the next 3-4 months. 1Q saw order inflows of ~INR33.8b in India, Europe and the Middle East, while the company is L1 in contracts worth INR40b. Revenue for 1QFY25 was impacted by a severe shortage of manpower, owing to elections. Notably, newer orders have been booked at better margins.
- **Non-T&D –** The outlook remains robust for the B&F, oil & gas and urban infra segments, while it would be noticeably weaker for Railways. In B&F, KPIL won a large order in real estate and expects the segment to clock double-digit growth.

In oil & gas, the company sees a stronger international pipeline than domestic. KPIL would continue with its selective approach for railways and the company does not see any growth prospects in either FY25 or FY26. The Water business too was impacted by labor shortage and payment delays, which should improve in the coming quarters.

- **Oil & Gas –** The segment is poised to grow by over 50% on a low base, aided by the execution of the Saudi Aramco order, which will ramp up Dec'24 onward (resource mobilization has already started). Pipes required for the project will be supplied by the customer, so KPIL will not be tasked with procurement.
- **Guidance –** The management has reiterated its FY25 guidance of 20% revenue growth, PBT margin of 4.5-5%, NWC below 100 days, and interest cost of below 2% (as % of sales). Capex will be in the range of INR5-6b, a third of which is for the urban infra segment. Order inflows would be in the range of ~INR220-230b. Except for Railways, all other segments will report a minimum 20% execution growth.
- **Non-core assets –** Indore real estate saw revenues of INR230m in 1QFY25. Collection was INR3.5b (INR1.5b to be collected). 80% of the inventory has been sold, with the balance to be sold in FY25. VEPL equity funding is ~INR3.9b, while debt funding is ~INR2.8b. KPIL expects to sign an agreement in 2Q for the disposal of VEPL.
- **International subsidiaries –** LMG and Fasttel are both sitting on healthy order books (INR30.8b and INR12b, respectively). LMG order inflows stood at INR13.7b, while Fasttel did not receive any order inflows. KPIL expects 30-35% growth with 5-6% EBITDAM for FY25. Fasttel is out of legacy projects and is expected to turn profitable by 2Q or 3Q. The growth guidance is 20% with 8-9% EBITDAM.

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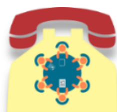

Kirloskar Oil — Buy

Current Price INR 1,372

- **Powergen segment:** The demand environment continues to be strong, and the company is not seeing any signs of a softening. The company has relatively lower market share in the above 750kva segment, which provides it with a lot of headroom to expand, with its newer offerings both on the diesel and gas sides. Overall genset market share stands at ~30%. In data centers, it has a minimal presence, but new launches will aid the company in making inroads. Notably, the Optiprime series has received a healthy response.
- **Industrial segment:** Demand continues to be strong on the back of continued investment in Infra development in the country. Traction is being witnessed in construction and railways segments. BSV program is on track, while the order book continues to be strong.
- **Exports:** Exports grew YoY to INR1.1b, as the company is looking at each country with a different approach. The investment in the Wildcat brand is part of the strategy to gain entry in the US market. The ambition is to have 30% revenue contribution from exports, going ahead.
- **B2C:** WMS revenue grew well at 23% YoY, while FMS revenue continued to decline (-35% YoY). Overall, B2C grew 14% YoY in 1QFY25. EBIT margin trajectory is on an upswing with 8.4% in 1QFY25 vs. 5.2% in 1QFY24. The

management aims for further improvement toward 10-11% margins in B2C segment in the coming years.

- **Capex:** Current installed capacity of 135k engines per annum (utilization level: 70%) will be expanded to 185k engines per annum with an outlay of INR7b, over a period of 3 years.
- **CPCB 4+ transition:** CPCB 4+ accounted for ~40% of Powergen revenue during 1QFY25. Price hikes have been in the range of 30-40%, and the company is closely watching how the market dynamics play out in terms of pricing environment. KOEL expects some consolidation in the below 250kva nodes to take place due to CPCB4+ transition.
- **Strategy:** The company unveiled its 2B2B strategy to grow the business to USD2b in the next 5 years at the consolidated level. All the businesses have been given milestone targets with specific timelines over FY26-30 in order to achieve the strategy. As part of this, the B2C business is tasked with improving its capacity utilization, gaining market share and expanding the product portfolio. Similarly, the powergen and industrial businesses would target the execution of the technology roadmap, explore inorganic growth opportunities, expand global footprint, improve share of defence and railways and expand to non-ICE programs.

KEC International — Neutral

Current Price INR 845

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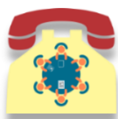

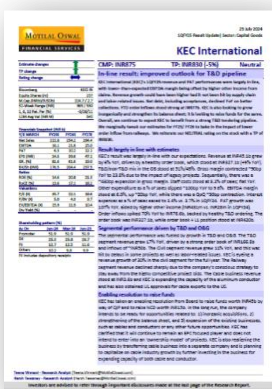

- **Order inflows –** 1QFY25 order inflows saw a healthy growth of 70% at INR76.6b, driven by strong traction in T&D, taking the order book to INR327b (+9% YoY). Supply chain issues that had weighed in on execution have eased considerably and the company expects further improvement by 3QFY25.
- **Execution** – Despite a strong opening order book, revenue grew 6% YoY to INR45.1b, as execution in T&D and Civil segments was hit by shortage of skilled and semi-skilled labor owing to the elections.
- **Guidance –** Maintained FY25 order inflow guidance of ~INR250b, revenue of ~15%, and EBITDA margin of 7.5f% with 4QFY25 margin closer to 9%.
- **T&D segment –** The order pipeline continues to be robust at INR1.5t across India and key markets such as Middle East, SAARC, Africa, etc. In Saudi Arabia and Abu Dhabi, KEC is seeing a lot of traction in terms of volume of tenders.
- **Civil segment –** Bagged orders from residential and commercial real estate, while other areas such as industrial capex, airports, hospitals, etc. are noticeably weaker, adversely impacted by elections. Going ahead, the company expects these segments to pick up and is also seeing a lot of focus on water projects, driven by budgetary allocations towards Nal Se Jal, AMRUT scheme, lift irrigation, etc. Accordingly, it has guided for 30% revenue growth in FY25.
- **Cables segment –** Cables business is proposed to be transferred to a separate subsidiary, so as to retain the core EPC focus of the main entity. In fY24, it clocked in revenue of INR16.5b, and the company expects to take it to INR20b in FY25. Beyond that, it has guided for 20% CAGR for the coming few years. FY25 capex outlay is pegged at INR1b for FY25, which will take the peak revenue potential to INR30b. Once the business becomes an independent entity, it will have a higher capex run-rate.

- **Others –** Afghanistan pending dues are at ~INR2b, while collection in 1QFY25 was INR1.6. The company has won arbitration case against PGCIL, with proceeds of INR240m. The conductor capacity will come on line in 3QFY25. SAE has seen debt repayment and now stands at INR3b. Notably, interest cost has come down to 10.5% resulting in improved balance sheet health and the subsidiary has become self-sustaining. It is targeting 10-12% growth in FY25.

Larsen & Toubro — Buy

Current Price INR 3,596

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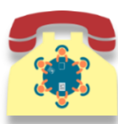

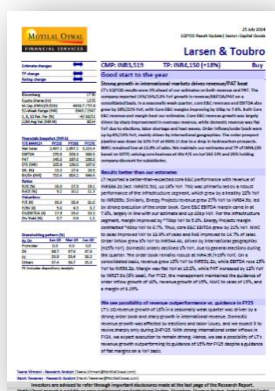

- **Core order book up 19% YoY –** The order book at the end of 1QFY25 stood at INR4.9t. Inflows during the quarter grew by 8%, largely led by international geographies (+25% YoY), while domestic inflows declined 1% owing to the election cycle. About 62% of the order book is domestic and 38% international. The domestic order book comprises state PSUs (37%) and states (28%), center (14%) and private sector (21%). About 18% of total order book is funded by multilateral agencies.
- **Order prospects at INR9.07t –** The prospect pipeline for the remainder of FY25 stood at INR9.07t vs. INR10.07t for the corresponding period of FY24. This reduction was due to reduced prospects in the hydrocarbon space as LT failed to secure certain tenders, while some orders got deferred or shelved altogether. Infrastructure segment prospects stand at INR6.02t spread across water (20%), power T&D (22%), transportation infrastructure (23%), buildings and factories (12%), heavy civil (18%), metallurgical and material handling (5%). Energy segment prospect pipeline of INR2.62t is spread across hydrocarbon (INR2.17t and power INR0.45t. Hi-tech manufacturing order prospects stand at INR310b, while green energy prospects are INR0.1t.
- **Working capital at comfortable levels –** Even though working capital as % of sales saw a sequential increase from 12% to 13.9%, it remains within comfortable levels and improved from 17% in 1QFY24. The sequential increase was driven by gross working capital buildup. Customer collections continued to improve YoY (INR459b vs. INR439b).
- **GCC capex is diversified –** While the prospects for hydrocarbons have seen a setback, other areas such as oil-to-chemicals, gas-based projects, renewable energy and transportation infrastructure are seeing strong traction in the Middle East region and the company is well-placed to benefit from the same. The management is confident of achieving revenue and margin guidance if execution happens as per the schedule and commodity prices remain stable, as most contracts are fixed price in nature.
- **Emerging opportunities shaping up –** With the measures announced in the budget and activity taking place in emerging segments, the company is looking to capitalize on upcoming opportunities in nuclear energy, green hydrogen, solar projects, pumped storage, offshore wind, etc. Large-scale solar projects are more prevalent in international geographies, which is reflected in the current solar order book of INR550-600b.
- **Hyderabad metro performance –** Average ridership slightly improved to 432k pax/day from 442k pax/day in 1QFY24. However, there was a sequential decrease (442 pax/day). The company is in talks with the Telangana government to secure additional funding in the form of soft loans.

- **RoE improvement levers –** Despite cutting its FY25 margin guidance to 8-8.25%, the management is confident of a healthy improvement in RoE on the back of a) Hyderabad Metro achieving breakeven, b) capital restructuring in terms of rewarding shareholders, and c) core E& margin improvement.
- **Labor availability –** The company highlighted that domestic execution was impacted by shortage of skilled labor, owing to the general elections, heat waves and higher demand in foreign countries. While some of these factors are expected to see a reversal, a prolonged continuation of the situation could have implications on the execution front.

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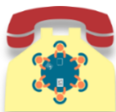

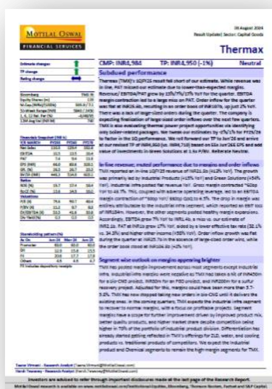

Thermax — Neutral

Current Price INR 4,501

- **Order pipeline –** After a lull due to the general elections, the pipeline is shaping up well for sectors such as thermal power, steel, refining and petrochemicals. While the pipeline for thermal power is developing the fastest, the company will adopt a selective approach as thermal projects haven't been profitable in the past. Refinery and petrochemicals will pan out over the medium term and there are no immediate prospects. For ethanol, the pipeline has slowed down. Notably, the international pipeline has recovered much faster than domestic.
- **Industrial Infra –** TX faced challenges owing to the execution of bio-CNG projects which led to the company taking a hit of INR450m during the quarter (INR300m in TBSPL and INR150m in TMX). Additionally, there were further impacts of INR80m on account of FGD projects, INR200m from sulphur recovery units. TMX is avoiding projects where construction and civil works are a major component as labour is in short supply. However, subsequent quarters will see an improvement on the margin front.
- **Industrial Products –** Newer products such as electric heater, electric boiler, bio solutions, cooling solutions are getting good traction. New offerings towards carbon capture, solutions for scrubbing of gases, ZLD will take some time to scale up. Overall outlook on orders, revenue, margin is positive.
- **Chemicals –** The current quarter faced some setbacks owing to supply chain issues resulting in unexecuted orders. However, the supply chain has now stabilized so going ahead there shouldn't be any hiccups. In recent years, the company has forayed into construction chemicals and entered into a JV with Vebro Polymers, which can potentially propel overall Chemicals revenue to an annual run-rate of INR2-2.5b.
- **Green solutions –** FEPL will face a tougher year than was previously envisaged and will report a loss in FY25 as well. The company is in discussions with insurance companies to mitigate the impact of losses on account of flooding in Tamil Nadu. Similarly, wind projects too are facing issues. Nevertheless, the pipeline is very strong and the company will continue to be selective. TOESL however, is on a strong footing and will do well in FY25.
- **FGD –** The company has seen some delay in FGD projects which for which it will incur site costs and additional vendor payments. The way tenders were structured in the past was unfavorable to industry players and all of them incurred losses. Therefore, unless the design of the same is changed, there will be limited participation.

CEMENT

- **Several cement companies are witnessing consolidation, which will intensify the industry, and this should benefit in the longer term. Cement demand is expected to improve in 2HFY25, backed by infrastructure and housing segments. Cement demand is estimated to grow between 6-7% YoY in FY25, considering muted growth in 1HFY25. Cement prices have further declined ~1-2% in Jul'24 vs. avg. of 1QFY25 and are likely to remain soft till CY24-end.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Insights and future outlook FY25	Capex plans
UltraTech Cement	▪ In 1QFY25, UTCEM's rural volumes grew 9% YoY, while there was lower demand from the infrastructure segment. Demand should improve going forward as construction activities resume in Bihar and Andhra Pradesh. Demand momentum should pick up in 3QFY25. ▪ Industry volume growth is estimated to be 3-3.5% YoY in 1QFY25. Industry demand should grow by 7-8% in FY25, while UTCEM volume should grow in double digits. Cement prices in Jul'24 are further down 1.5% from the 1QFY25 average. Any price improvement will be seen only in 2HFY25. Price improvements start happening when all-India capacity utilization goes above 85%.	▪ Capex in 1Q was INR20b and will be at INR80-90b in FY25. Capex in FY26/FY27 will also be in the similar range. ▪ The company commissioned two integrated units in 1Q and each unit has a clinker capacity of 3.5mtpa. Other integrated units too will have similar clinker capacities. ▪ UTCEM's capacity addition accounted for 32% of 41mtpa grinding capacity added in the industry in FY24. UTCEM achieved a capacity utilization of 85% in 1Q on an increased base. In FY25, the company will expand its capacity by 16mtpa, representing ~40% of the total industry capacity addition.
Ambuja Cements	▪ Cement demand is likely to grow at 7%-9% YoY in FY25 to ~450mt supported by rising demand from housing and infrastructure sectors. The government's push towards infrastructure and housing development through ongoing housing for all schemes, the national infrastructure plan, PM Gati Shakti National Master Plan, and others will drive cement demand. ▪ Opex/t declined 3% led by a decline in energy costs. Kiln fuel cost declined to INR1.73/kcal vs. INR2.08/INR1.84 YoY/QoQ. Freight cost declined 8% YoY, led by footprint optimizations. The secondary lead distance was reduced by 9km to 46km and direct dispatches increased 4pp to 55%.	▪ Consol. capex was pegged at INR100b for the expansions (including Penna acquisition), cost efficiency, and maintenance capex. It expects cash and cash equivalent to be around INR100b by FY25-end. ▪ It also identified 14 additional grinding unit projects for which land acquisitions and statutory approvals are under progress, which will help to reach its capacity target of 140mtpa by FY28.
Shree Cement	▪ Volumes rose 8% YoY; cement realization was down 6% YoY. Management indicated that cement demand would remain weak until CY24-end and expects a full recovery from 4QFY25. SRCM expects volume growth to be in line with the industry in FY25. ▪ SRCM posted an underwhelming performance in 1Q with a higher decline in realization (down 6% QoQ vs. ~2-3% decline for peers; 6% below our estimate). However, the cost was in line with our estimates. Management indicated that cement demand will remain weak until CY24-end.	▪ It is working on 15.4mtpa grinding capacity addition in the next two years, which includes - Ras, Rajasthan (6.0 MTPA), Kodla, Karnataka (3.0 MTPA), Baloda Bazar, Chhattisgarh (3.4 MTPA), and Etah, Uttar Pradesh (3.0 MTPA). ▪ In the RMC business, the company currently has seven plants with a total capacity of 624 cubic meter/h. It plans to setup 100 concrete plants over the next five years, operating in over 50 cities.
Dalmia Bharat	▪ Management expects 8% YoY industry volume growth in FY25 and reiterated DALBHARA's volume growth at 1.5x of the industry's growth. It estimates prices to remain soft until the monsoon, and price hikes could happen in 3QFY25. ▪ Fuel consumption costs stood at INR1.38/Kcal vs. INR1.45/Kcal in 4QFY24. It may decline by ~1-2% sequentially.	▪ DALBHARA's clinker/grinding capacities stood at 22.6mtpa/46.6mtpa (including Kadapa, Andhra Pradesh – 1mtpa grinding capacity expansion commissioned in Jul'24). It is progressing well on the ongoing expansion of 0.5mtpa in Bihar and 2.4mtpa in the Northeast to reach 49.5mtpa by FY25-end. ▪ It committed to become a PAN-India pure-play cement player with a capacity target of 110-130mtpa by FY31. Management will share a detailed expansion plan, including location and timeline of commissioning, after 12 months.

Company		
J K Cement	■ Cement demand is weak, and JKCE expects it to revive in Sep-Oct'24. Cement prices are also under pressure and down 1.0-1.5% vs. 1QFY25. ■ The company is targeting a cost reduction of INR150-200/t in the next two to three years. Major areas of cost savings will be 1) Logistics optimization – reduction of cost by INR30-40/t; 2) increasing green power share; and 3) use of AFR. It expects INR70-75/t savings in the first year and similar savings in the next year.	■ Capex stood at INR1.75b in 1QFY25. It marinated capex guidance of INR19b/ INR18b for FY25/FY26. ■ The company has a target to double it gray cement capacity by FY30 and is positioned as among the top five cement players in the country.
Birla Corp	■ General elections and an extended heat wave have resulted in low cement demand in 1Q. It expects industry volume to grow ~6-7% YoY in FY25. Cement prices corrected due to low demand and aggression from the market leaders. BCORP's realization drop was due to a change in market mix and sharp correction in cement prices in the company's core markets. It hurt more in Rajasthan and Gujarat markets. ■ Fuel consumption costs stood at INR1.48/Kcal vs. INR1.56/Kcal in 4QFY24. The share of renewable power stood at ~27% in 1QFY25 vs. ~23%/25% in 1QFY24/4QFY24.	■ It is expanding capacity in its core market eastern UP by expanding capacity at Kundanganj plant and the same in expected to be commissioned in 1HFY26. This will strengthen the company's position and competitiveness as this plant will be eligible for incentive for the new capacity. ■ It is completing land acquisition in Bihar for its Gaya grinding unit. However, it refrains from giving any guideline about the capacity, investment and timelines. ■ Currently, the management has not provided any timeline for the Greenfield expansion at Prayagraj, Uttar Pradesh. However, it reiterated its capacity target of 25mtpa by FY27. Management will further update on expansion plans in coming months. Capex is pegged at INR8b in FY25E.
JK Lakshmi Cement	■ The company's realization drop was higher due to change in distribution mix and slightly higher clinker sales (which has lower realization). Cement demand growth is now expected 6-7% in FY25 vs. (earlier est. of 7-8%). ■ Average fuel cost stood at INR1.63/kcal vs. INR1.68/Kcal in 4QFY24. It expects fuel cost to be at INR1.62-INR1.65/kcal.	■ Consolidated capex stood at INR1.5b in 1QFY25, with an expected spending of INR15-16b over 9MFY25. Consolidated gross debt stood at INR20.5b and net debt stood at INR16.5b as of Jun'24. ■ UCWL line 2 ramp-up is expected to be gradual as the grinding capacity was commissioned in Mar'24 only. It expects capacity utilization to reach ~60% by 4QFY25 and further ramp-up upto 75% in FY26.

Ambuja Cement

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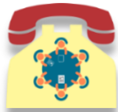

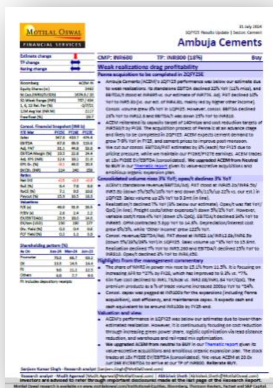

Ambuja Cements — Buy

Current Price INR 629

Demand and pricing

- Cement demand is likely to grow at 7%-9% YoY in FY25 to ~450mt supported by rising demand from housing and infrastructure sectors. The government's push towards infrastructure and housing development through ongoing housing for all schemes, national Infrastructure plan, PM Gati Shakti National Master Plan and others will drive cement demand.
- The company's cement capacity increased to 89mtpa including the ongoing Penna acquisition (likely to be completed in 2QFY25). Its current market (consol.) share is ~14% with an internal target to reach ~20% by FY28.

Operational highlights

- Blended cement mix in the total sales volumes is maintained at ~86%. Premium products as a % of trade volume increased 200bp to ~24%. Opex/t declined 3% led by decline in energy cost. Kiln fuel cost declined to INR1.73/kcal vs. INR2.08/INR1.84 YoY/QoQ. Freight cost declined 8% YoY, led by footprint optimizations. The secondary lead distance reduced by 9km to 46km and direct dispatches increased by 4pp to 55%.
- WHRS capacity at the time of takeover (in Sep'22) was ~40MW, which it is now targeting to increase to 186MW by Mar'25. Currently the WHRS capacity is at 165MW. Also, it announced investments in other renewable power and setting up of 1GW RE capacity, which is expected to be commissioned by FY26. It targets

green power share of 60% by FY28 and cost saving of INR90/t. The first phase of 200MW is expected to be commissioned in Q2FY25.

- The share of WHRS in power mix rose to 15.1% vs. 11.5%. Further, it is focusing on increasing AFR to ~27% by FY28, which has improved to 9.3% vs. ~7% earlier.
- The second cost item is freight and forwarding cost. There are three focus areas of cost reduction here, reduction in lead distance, warehouse optimization and railroad mix optimization. It is targeting to reduce the average primary road lead distance by about 100 km over a period of time. The company is also procuring 11 general purpose wagons (9 delivered and remaining are expected in 2QFY25). Additionally, 26 BCFC rakes have been ordered to facilitate the movement of fly ash. It will also introduce EV trucks in a few select routes which will be started in 2QFY25. It secured 275mt of new limestone reserves in 1QFY25.
- Sanghi Industries: It is seeing a substantial improvement in volumes in Gujarat, which is almost doubled, aided by Sanghi. The major refurbishment program, which was part of its acquisition strategy and budgeted in the acquisition cost is likely to be completed by Oct-Nov'24, and thereafter it will start full utilization. Further, regarding its investment at Jetty and the shipping infrastructure, the first level of dredging has been done, and Immediately after monsoon, the next set of investments would be made. The company also plans to set up 1GW of wind power capacity at Sanghi to make that plant more cost efficient.

Capacity expansion and capex plan

- It will commission 4mtpa of clinker capacity (line-III at Bhatapara) and 6.4mtpa of grinding capacity (Sankrail - 2.4mtpa, Farakka - 2.4 and Sindri - 1.6 MTPA) in FY25. In addition, preoperative work for 28mtpa grinding capacity and 22mtpa clinker capacity is under progress. The GU at Salai Banwa, Uttar Pradesh to be commissioned in 1QFY26 and brownfield expansion of Bhatinda, GU in Punjab and Marwar Munda GU in Rajasthan to be commissioned in 2QFY26. With these capacity commissioning the company's grinding capacity will reach to 100mtpa by 2QFY26.
- Clinker capacity of 4mtpa at Maratha, Maharashtra and aggregate grinding capacity of 12mtpa at various locations (Warishaliganj, Bihar and Kalamboli, Maharashtra, Mudra and Dahej in Gujarat) are expected to be commissioned by FY26-end. It expects the grinding capacity to reach 112mtpa by FY26-end. It also identified 14 additional grinding unit projects for which land acquisitions and statutory approvals are under progress, which will help to reach its capacity target of 140mtpa by FY28.
- Around INR60b have been utilized out of which INR33b towards organic and inorganic growth (acquisition of Tuticorin GU and Penna acquisition), dividend payout of INR6.3b and balance towards working capital which includes higher receivables during this quarter, higher inventory, lower payables and income tax payout.
- ACC is building cement houses in Ahmedabad and Delhi at capex of INR11-12b.
- Capex: Consol. capex was pegged at INR100b for the expansions (including Penna acquisition), cost efficiency and maintenance capex. It expects cash and cash equivalent to be around INR100b by FY25-end.

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Birla Corp — Buy

Current Price INR 1,307

Demand and pricing outlook

- General elections and extended heat wave have resulted in low cement demand in 1Q. It expects industry volume to grow ~6-7% YoY in FY25.
- Cement prices corrected due to low demand and aggression from the market leaders. The company's realization drop was due to a change in market mix and sharp correction in cement prices in the company's core markets. It hurt more in Rajasthan and Gujrat markets.
- In Uttar Pradesh (central India), the pricing pattern was unchanged until 3QFY24. But pricing dynamics changed from the beginning of CY24, and prices reduced sharply. Leading players wiped out the premium over normal brand. PE/RD shot up exponentially, resulting in a plunge in WSP.
- Current cement price is down ~1.5-2% vs. Jun'23-exit. The company does not change its pricing strategy and believes current pricing trend is a temporary. It expects pricing to improve and it continued to place its product in 'A category'.
- The management refrained from giving any guidance on the volume growth and profitability due to the current market conditions.

Operational data points and cost-saving initiates

- The company's capacity utilization stood at 91% in 1QFY25 vs. 91%/97% in 1QFY24/4QFY24. Blended cement sales stood at 84% in 1QFY25 vs. 88%/84% of total volumes in 1QFY24/4QFY24. Trade share stood at 72% of total volumes in 1QFY24 vs. 76%/72% in 1QFY24/4QFY24. Decline in trade share was mainly due to market conditions. Premium products contributed 59% of trade volumes in 1QFY25 vs. 54%/55% in 1QFY24/4QFY24. At Mukutban 40% of trade volume is in premium segment.
- The share of renewable power stood at ~27% in 1QFY25 vs. ~23%/25% in 1QFY24/4QFY24. Fuel consumption costs stood at INR1.48/Kcal vs. INR1.56/Kcal in 4QFY24. It expects a reduction upto INR0.05/kcal in the current quarter. The lead distance stood at 350Km. Lead distance is likely to increase due to further ramp up of Mukutban plant.
- The company's cost reduction initiates under "Project Shikhar" and "Project Unnati" yielding desired results. It remained focused to drive cost efficiencies and investment in GTM strategy to improve profitability.
- SGST incentive accrued to INR210m in 1QFY25 (mainly from the Mukutban plant) vs. INR440m in 4QFY24 (included incentive from Kundanganj plan which is now expired).

Capacity expansion and net debt

- The company is expanding capacity in its core market eastern UP by expanding capacity at Kundanganj plant and the same in expected to be commissioned in 1HFY26. This will strengthen the company's position and competitiveness as this plant will be eligible for incentive for the new capacity.
- Currently, the management has not provided any timeline for the Greenfield expansion at Prayagraj, Uttar Pradesh. However, it reiterated its capacity target of 25mtpa by FY27. The management will further update on expansion plans in coming months. Capex is pegged at INR8b in FY25E.

- It is completing land acquisition in Bihar for its Gaya grinding unit. Though it refrains from giving any guideline about the capacity, investment and timelines.

Jute division

- It witnessed unprecedented downturn in the jute industry as the Government scaled back orders for jute bags and export of shopping bags was hobbled by logistical constraints. It registered a cash loss of INR39m in 1QFY25 vs. a cash profit of INR64m in 1QFY24.
- The jute goods industry is faced with multiple challenges, which forced major mills to scale back production. Government orders have fallen sharply, leading to an inventory pile-up. Most mills are currently running at partial capacity.

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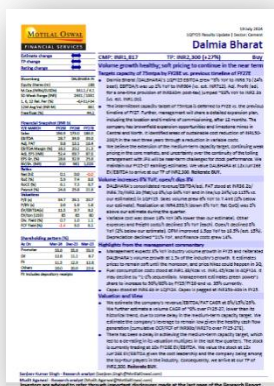
Dalmia Bharat

Dalmia Bharat — Buy

Current Price INR 1,754

Demand and pricing outlook

- 1Q being an election quarter, saw demand moderation. Floods in a few regions, heatwaves also impacted cement demand. Estimate industry volume growth between 2-4% YoY in 1QFY25. Volume on a tolling basis from JPA's cement plants was 0.4mt. It estimates 8% YoY industry volume growth in FY25 and reiterated DALBHARA's volume growth at 1.5x of the industry's growth.
- Cement prices were continuously under pressure. The average cement price in 1QFY25 was down ~2-3% QoQ while, Exit-Jun'24 price was down ~3% vs. avg. 1QFY25. Despite weak pricing, the company's NSR declined only 0.3% QoQ due to initiatives to improve product and brand mix, price positioning, and rationalization of discounts. Management estimates prices to remain soft until the monsoon, and price hikes could happen from 3Q onwards.

Operational highlights and cost insights

- The reversal of certain cost efficiencies led to an improvement in EBITDA/t. The cost of raw materials consumed (excluding purchase of traded goods) declined 5% YoY to INR729/t led by optimization of mining costs and procurement efficiencies, which it expects are sustainable.
- Power and fuel costs declined 22% YoY to INR1,003/t due to a reduction in fuel consumption costs to USD106/t vs. USD152 in 1QFY24 and USD114/t in 4QFY24. Fuel consumption cost stood at INR1.38/Kcal vs. INR1.45/Kcal in 4QFY24. Further, the renewable energy share jumped to 35% during the quarter (~28% in 4QFY24). Green energy capacity stood at 186MW. It will continue to invest in renewable power and target RE share to increase to 50%/60% by FY25/FY26-end. A captive coal mine (Brinda) at Jharkhand is expected to become operational in FY25, while the Mandla coal block will be commissioned in FY26.
- Logistics costs dipped sequentially with the reversal of an additional cost incurred in the previous quarter. Further, lead distance declined to 272Kms vs. 289Km in 4QFY24.
- Blended cement sales stood at 86% vs. 87% in 4QFY24. The C:C ratio stood at 1.67x similar to 4QFY24 levels, and management continues to work on reduction of the clinker factor. The trade share stood at 64% vs. 65% in 4QFY24.
- Incentives accrued stood at INR740m in 1QFY25, and incentives received stood at INR450m. Incentives receivable stood at INR7.34b. For FY25, estimate total incentive accruals as well as collection of around INR3b.

- It Identified areas of sustainable cost reduction of INR150-200/t in the next three years. Key focus areas will be reduction in variable costs through increase in RE share, use of captive coal mines, and reduction in logistics costs (increasing direct dispatches, lead distance reduction).
- Depreciation declined due to: a) in 1QFY24 it provided accelerated depreciation of INR570m on replacement of equipment's, which is no longer there in 1QFY25; and b) In 4QFY24, it realigned depreciation of North East plant to SLM method, led to INR470m reduction in 1QFY25. Expects depreciation of INR13.5b-14.0b in

Expansion plans and capex

- DALBHARA's clinker/grinding capacities stood at 22.6mtpa/46.6mtpa (including Kadapa, Andhra Pradesh – 1mtpa grinding capacity expansion commissioned in Jul'24). It is progressing well on the ongoing expansion of 0.5mtpa in Bihar and 2.4mtpa in the Northeast to reach at 49.5mtpa by FY25-end.
- It committed to become a Pan-India pure-play cement player with a capacity target of 110-130mtpa by FY31. However, the intermittent target of 75mtpa capacity is deferred to FY28E vs. earlier timeline of FY27E. Capex stood at INR6.6b in 1QFY24. Capex is pegged at INR35b-40b in FY25, largely attributable to organic expansions in Bihar and Northeast, efficiency improvement, land acquisition, and maintenance capex.
- Management will share a detailed expansion plan, including location and timeline of commissioning, after 12 months. The company has brownfield expansion opportunities as well as limestone mines in Central India and North.
- JPA has entered into insolvency proceedings. The management is in discussion with IRP on the tolling arrangements. It will continue to serve the Central India market from its eastern plants as well.

Debt and other key highlights

- Gross debt stood at INR46.1b as of Jun'24 vs. INR46.5b as of Mar'24. Net debt (considering IEX investment part of cash and cash equivalents) stood at INR4.4b vs. INR4.8b as of Mar'24. Its net debt to EBITDA stood at 0.17x vs. 0.18x as of Mar'24. IEX investment at MTM value stood at INR24.0b vs. INR17.9b as of Mar'24.
- Reiterated its net debt to EBITDA ratio to maintain below 2x, while announcing next phase of expansion.
- The industry is witnessing consolidation as the share of the top-four players has increased. It took almost a decade to increase the share of the top-four players by 12pp to 48% by FY23. However, within in a short span of time (15-month) this share jumped 7pp to 55% currently.

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Grasim Industries — Buy

Current Price INR 2,685

- Birla Opus: Total revenue of the paints business (~INR800m) in 1Q was net of CWIP (production during the trial-run between Feb and Apr'24 has gone into CWIP). Every plant will have trial-production for three months, which will be included in CWIP.
- Birla Opus started commercial production at three plants in Apr'24. Commercial production at Chamarajanagar will start in 2QFY25. Construction at other two plants are going as per schedule. Birla Opus flagship brand in Mumbai has also become operational.

- Total capex on this business stood at INR77.95b (~77% of total project cost).
- Out of 145 products planned; ~80% have been launched into the markets. It has already established 108 depots to date (plans to reach to 150 depots by FY25-end). Its depots are now in every state including the Northeast regions. Also, it is able to serve the dealers within 4 hours or the next day according to the practices followed by the market leader and other competitors in respective markets. The company is on track to reach to its guidance of 50,000 dealers in FY25.
- The company has been successful in its initial product campaigning and its advertisement (Make life beautiful campaign) received good response from the customers.
- Many dealers are finding it a strong alternative to the existing brands in the market. Its products are available in 3,800 towns (target 6,000 towns in FY25) as of Jul'24. The company has plans to produce 1,250 SKUs and remains on track to achieve the same.
- All expenses related to the three operational plants have been routed through P&L; expenses related to other three plants are being capitalized. Ad spends and launch costs are a part of P&L. The target is to become cash positive in the 3rd year of operations

VSF Segment

- Lower preference for cotton and polyester fibres make cellulosic fibres a preferred choice of fibre for brands globally. Globally, VSF prices have been in an uptrend since 3QFY24; however; Indian realization remain impacted due to oversupply in Indonesia and decline in input prices (pulp and caustic soda) which were passed on to the consumers.
- The company is trying to maximize production from current plants. Domestic price of VSF was up in-line with the international price trend. VSF business was impacted due to low consumption across the value chain.

Chemical Business

- India's caustic soda market remains hit by an oversupply situation. The company remains slightly positive on the caustic soda business. Chlorine is under pressure and hence; ECU realization could be flat to slightly positive.
- 10% of Hydrogen produced is being sold in the markets; rest is being used on a captive basis and for maintaining the plants. With the increase in capacities of caustic soda; the company looks to produce hydrogen derivatives. However; the priority is to develop chlorine derivatives first.
- Adverse realization of chlorine continues to be between INR3-4/kg (similar to 4QFY24). Chlorine usage is ~30-35% for water treatment and industrial usage each; ~25% for plasticizers and PVC additives and 10-1%% for specialty things like refrigerants, pharma, agrochemical etc.
- One plant at Vilayat was under shutdown and production from that plant was impacted for 18 days. This led to volume loss in 1QFY25.

B2B E-commerce

- Quarterly run-rate of revenue was INR5.5b and there has been a gradual scale up across categories, geographies and new customers. The company executed its first export order to Nepal and products are now being delivered in 200+ cities across 25 states and union territories in domestic market.
- Its private label products are available across three product categories- Plywood, doors and tiles. The target is to achieve a revenue of US$1b in 3 years.

- Gross margin of different products of this business will be in the range of 1.5-4%.
- Renewable business: It will double the capacity to 2GW from 1GW in FY25. The target is to commission 1GW capacity every year for next 2-3 years.
- Working capital management led to higher OCF in 1QFY25 and hence; net debt increase was lower despite higher capex and lower profitability. Net debt stands at INR63.1b vs. INR59.8b in Mar'24.

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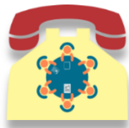

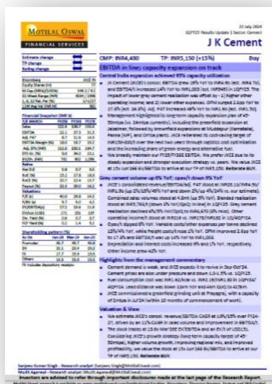

JK Cement — Buy

Current Price INR 4,300

Demand pricing and operational highlights

- Cement demand is weak, and JKCE expects it to revive in Sep-Oct'24. Cement prices are also under pressure and down 1.0-1.5% vs. 1QFY25.
- JKCE's Central India plant achieved an average 90% capacity utilization in 1QFY25.
- Green energy usage/thermal substitution rate stood at 57%/17.3% in 1QFY25 vs. 51%/16.3% in FY24. It targets to increase green energy/TSR to 75%/35% by FY30. Fuel consumption cost stood at INR1.62/kcal vs. INR2.19/INR1.80/ kcal in 1QFY24/4QFY24. The company's pet coke consumption stood at 60%.
- Lead distance was down 19km YoY and 8km QoQ to 419km.
- Blended cement sales stood at 67% vs. 66% in 4QFY25 and trade sales stood at 63% vs. 61% in 4QFY24. Premium products sales as a % of trade sales stood at 13%, similar to 4QFY24).
- Raw Material cost declined due to lower volume (down 7%) and there was some extraordinary item in previous quarter (purchase of traded goods of INR300m). Further, other expenses lower sequentially due to previous quarter has certain annual adjustments pertaining to SAP4 Hana and deferment of branding expenses (including dealers tour), which are expected in 3Q onwards.
- The company is targeting a cost reduction of INR 150-200/t in the next two to three years. Major areas of cost savings will be 1) Logistics optimization – reduction of cost by INR30-40/t; 2) increasing green power share; and 3) use of AFR. It expects INR70-75/t saving in first year and similar saving in the next year.

Capacity expansion and Capex update

- 3.3mtpa grey clinker expansion at Panna (line II) and 3.0mtpa cement capacity expansion at Panna, Hamirpur and Prayagraj is progressing as per schedule. Actual expenditure incurred on this plant till Jun'24 is INR950m. It has done land acquisition for a greenfield grinding unit in Bihar and placed order for main plant and machinery. It expects scheduled commissioning by Dec'25.
- The company has target to double it grey cement capacity by FY30 and positioned as among the top five cement players in the country. In its long term capacity expansions, the company is planning to add a greenfield capacity in Jaisalmer followed by brownfield expansion at Karnataka (line 2), Panna (line 3) and Orissa. The company has land for expansion at all these plants, however, for any split location grinding unit land acquisition will require.
- Toshali plant, volume during the quarter stood at 0.03mt and it expects to ramp it up upto 0.1mt per quarter by 4QFY25. Further, there is no material progress on limestone lease transfer in the company's name, primarily due to change in government. It is now expecting this to close by Sep'25.
- Capex stood at INR1.75b in 1QFY25. It marinated capex guidance of INR19b/ INR18b for FY25/FY26.

Other highlights

- Paints revenue stood at INR570m with an operating loss of INR100m in 1Q. JKCE expects a revenue of INR3b FY25 in Paint segment.
- There is continued pressure on Putty prices, led by aggression from Paint players namely Asian Paints and low realization of putty.

JK Lakshmi Cement Buy

Current Price INR 793

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Demand and pricing

- Lower realization and lower volume hit profitability. Post-Holi, demand continued to be weak followed by the general elections. A few markets have higher dependency on migrant labour, which hurt overall demand. Further, price was under pressure and in Jul'24, prices further declined (down INR5-7/bag on an average). The company's realization drop was higher due to change in distribution mix and slightly higher clinker sales (which has lower realization). Cement demand growth is now expected 6-7% in FY25 vs. (earlier est. of 7-8%).

Operational efficiency

- Focus on geo-mix optimization, supply chain efficiency, increase in AFR, and green energy led to cost reduction. AFR share increased to 12% vs. 7% in 1QFY24. Green energy share was ~48% vs. 39% in FY24. Further lead distance declined to 372km vs. 384 in 1QFY24. Premium product share was at ~30%.
- Non-cement revenue stood at INR1.32b vs. INR1.33b in 1QFY24. RMC revenue stood at INR720m vs. INR630m in 1QFY24. Margin stood at ~5%.
- Average fuel cost stood at INR1.63/kcal vs. INR1.68/Kcal in 4QFY24. It expects fuel cost to be at INR1.62-INR1.65/kcal.
- Expects cost savings of INR50-70/t through various initiatives i.e. increasing AFR share, as Phase I commissioned at Sirohi and planning 2nd Phase to increase AFR share to 17-18%. At Durg, the AFR share stood at 10% and trying to increase to upto 12%. Further, adding more solar power plant to reduce cost and increase green power share. Working on technology side to optimize pyro process, which will drive some savings. Secondly, product mix optimization will also lead to some savings. While the company maintaining its Geo-mix strategy.

Capacity expansion and capex

- UCWL line 2 ramp up is expected to be gradual as the grinding capacity was commissioned in Mar'24 only. It expects capacity utilization to reach ~60% by 4QFY25 and further ramp-up upto 75% in FY26.
- The brownfield expansion of 1.35mtpa grinding capacity at its GU in Surat, Gujarat, is as per schedule and expected to be commissioned in CY24. Further, 4.6mtpa expansion in East and Central will be commissioned in phases. Phase-I of Durg expansion, which includes – 1) brownfield clinker/cement expansion of 2.3mtpa/1.2mtpa at Durg, Chhattisgarh; and 2) greenfield split location grinding units at Prayagraj by FY26-end. The remaining two split location GUs in Madhubani, Bihar, and Patratu, Jharkhand, are expected to be commissioned in FY27. Total project cost for 2.3mtpa clinker and 4.6mtpa cement is estimated to be INR25b.
- The company is in the process of land acquisition and getting external approvals, such as environment clearance, etc., which is expected to materialize by end-

FY25. After these approvals and land acquisitions, it will take 14-18 months to set up the cement plant in the Northeast. It expects north-east plant on stream by FY26-end vs. earlier estimate of FY27-end.

- Awaiting approval for the conveyor belt at Durg plant it is in the final stage and is expected in next one months, final approvals taking longer time.
- The company has limestone reserves at Sirohi for 15-20 years', which are due for renewal in 2030. The Udaipur limestone reserves are available until another 40-50 years and it acquired adjacent mines with a life of at least another 10 years. The company also has a limestone mine in Nagaur, with reserves of 50-60 years.
- Consolidated capex stood at INR1.5b in 1QFY25, with an expected spending of INR15-16b over 9MFY25. Consolidated gross debt stood at INR20.5b and net debt stood at INR16.5b as of Jun'24.

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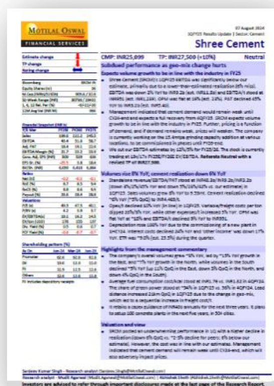

Shree Cement — Neutral

Current Price INR 24,801

Cement demand and pricing

- Cement demand was sluggish with a combined impact of the elections and extreme weather conditions (heatwaves) in 1QFY25. The company's overall volumes grew ~8% YoY, led by ~15% YoY growth in the East, and ~7% YoY growth in the North, while volumes in the South declined ~5% YoY (up 11% QoQ in the East, down 3% QoQ in the North, and down 4% QoQ in the South). SRCM's volume mix was 55% from North followed by 35% from the East and balance from the South/Maharashtra. Capacity utilization was 76% in 1QFY25.
- It expects cement demand to remain weak till CY24-end amid monsoon, slow government spending followed by festive season. It expects full recovery in demand from 4QFY25. It expects SRCM demand growth would be in line with the industry growth.
- Weak demand and higher competitive intensity led to weak pricing. Its cement realization declined 6% YoY (down ~5% QoQ) to INR4,469/t in 1QFY25 due to weak cement prices and slight change in geo-mix as the company sold higher volume in the east region (a low priced market as compared to North).

Operational highlights

- Average fuel consumption cost/kcal stood at INR1.76 vs. INR1.82 in 4QFY24. The share of green power stood at ~54% in 1QFY25 vs. 56% in 4QFY24. In Jun'24, it commissioned 19.5MW WHRS capacity in Andhra Pradesh. It is additional solar power capacity of 135MW across its plants in Rajasthan, Panipat, Jharkhand, Uttarakhand, and Uttar Pradesh. With additional investment in renewable energy capacity, green power share to further increase to ~62% by 1QFY26.
- Lead distance increased 21Km QoQ in 1QFY25 due to change in geo-mix, which lead to QoQ increase in freight cost/t. Other expenses were higher due to additional spend on store and spares of INR520m for stabilization of newly commissioned capacities (Navalgarh and Guntur) in 1HCY24.
- The company's premium cement share stood at 7.6% of the trade volume.
- The Navalgarh plant has state subsidies on the amount of GST collected from sales in the state of Rajasthan. It is selling the cement produced at the Navalgarh plant mainly in the state of Rajasthan for state incentive benefits. The Etah, UP grinding unit is likely to be commissioned by 4QFY25. It expects synergies of Navalgarh plant will be realized post commissioning of Etah, UP GU.

Capacity expansion and capex plans

- It is working on 15.4mtpa grinding capacity addition in next two years, which includes - Ras, Rajasthan (6.0 MTPA), Kodla, Karnataka (3.0 MTPA), Baloda Bazar, Chhattisgarh (3.4 MTPA), and Etah, Uttar Pradesh (3.0 MTPA).
- Maintain Capex guidance of INR40b annually for the next three years.
- In the RMC business, the company currently has 7 plants with total capacity of 624 cubic meter/h. It plans to setup 100 concrete plants over the next five years operating in over 50 cities.

The Ramco Cement — Neutral

Current Price INR 813

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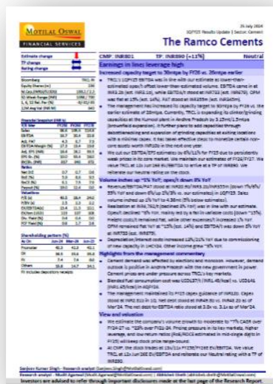

Capex and project update

- The company is expected to increase its cement capacity to 30mtpa by Mar'26 through the commissioning of line-II at Kurnool, de-bottlenecking at existing plants, and expanding grinding capacities at current locations with a minimal capex.
- A brownfield expansion of clinker/cement capacity of 3.15mtpa/1.5mtpa at Kurnool plant (including 15MW of WHRS) is estimated to be completed by 4QFY26.
- The thermal power plant of 18MW was commissioned in Jul'24. The railway siding is scheduled to be commissioned by Sep'24. The company has started to see synergies in the cost for usage of limestone mined from the lands purchased from Prism.
- WHRS plant with a capacity of 10MW in Ramasamy Raja Nagar is scheduled to be commissioned by 4QFY25.
- Expansion of the Dry Mortar Plant in Andhra Pradesh was commissioned in 1Q and Odisha will be commissioned in Sep'24.
- It has acquired 50% of the mining land for a greenfield project in Karnataka.

Cement demand trend and volume guidance

- Cement capacity utilization stood at 77% vs. 79%/96% in 1Q/4QFY24. Cement and building product volume declined 21% YoY to 4.291 m/t and 0.067m/t respectively. Volume share from South/East was 76%/24% in 1QFY25 vs. 79%/21% in 1QFY24.

Operational highlights

- The share of premium products was 27% vs. 29% in 1QFY24 in the South region. In the East region, the share of premium products was 20% vs. 18% in 1QFY24. OPC share was ~31% of total volumes in 1QFY25 vs. 32% in 1Q/4QFY24 (each).
- Blended coal consumption cost was USD137/t (INR1.49/kcal) vs. USD170/ USD137 (INR2.03/INR1.65 per kcal) in 1QFY24/4QFY24. It used 58% pet coke vs. 52%/51% in 1QFY24/4QFY24. Green energy contributed 33% of power requirements vs. 29%/36% in 1QFY24/ 4QFY24. Green power share is likely to reach 42% in FY25.
- Avg. lead distance was 273kms in 1QFY25 vs 274kms in 1QFY24 & 294kms in 4QFY24.

Debt and other highlights

- Net debt (including working capital borrowings) stood at INR49.7b vs. INR44b/ INR48b as of Jun'23/Mar'24. The cost of debt was 7.92% for 1QFY25 vs. 7.95% 1QFY24.

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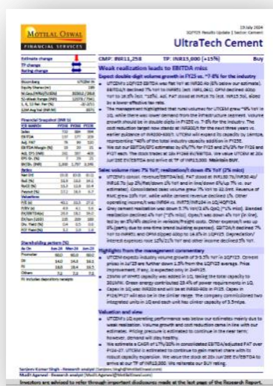

Ultratech Cement **Buy**

Current Price INR 11,203

Demand and pricing

- In 1Q, UTCEM's rural volumes grew by 9% YoY, while there was lower demand from the infrastructure segment. Demand should improve going forward as construction activities resume in Bihar and Andhra Pradesh. Demand momentum should pick up in 3QFY25.
- Industry volume growth is estimated to be 3-3.5% YoY in 1QFY25. Industry demand should grow by 7-8% in FY25, while UTCEM volume should grow in double digits.
- Cement prices in Jul'24 are further down 1.5% from the 1QFY25 average. Any price improvement will be seen only in 2HFY25. Price improvements start happening when all-India capacity utilization goes above 85%.

Industry capacities and utilization trends

- The industry started FY24 with a capacity of 585mtpa and the year-end capacity was 626mtpa. Demand in FY24 is estimated at 425mtpa and hence, capacity utilization was ~70%. However, the industry is seeing 50mtpa of inefficient capacities and hence, actual capacity utilization should be 76%.
- UTCEM's capacity addition accounted for 32% of 41mtpa grinding capacity added in the industry in FY24. UTCEM achieved a capacity utilization of 85% in 1Q on an increased base. In FY25, the company will expand its capacity by 16mtpa, representing ~40% of the total industry capacity addition. UTCEM's capacity utilization was 85-90% in the south and west regions, 82-85% in the north and central regions, while the east region had the lowest utilization of 80%.

Capex and efficiency plans

- Capex in 1Q was INR20b and will be at INR80-90b in FY25. Capex in FY26/FY27 will also be in the similar range. The company commissioned two integrated units in 1Q and each unit has a clinker capacity of 3.5mtpa. Other integrated units too will have similar clinker capacities.
- The efficiency program has started yielding benefits and the lead distance declined to 385km vs. 400km in 4Q, resulting in savings of INR45/t of cement. The lead distance will reduce further as the company increases its network of grinding units to 70 locations (considering planned expansions) vs. 59 now. The target was to reduce the lead distance by 25km, but the reduction will be higher than the target. About 73-75% of volumes were transported by road, 23-25% by rail, and 2% via the sea routes.
- 23MW of WHRS capacity was added in 1Q, taking the total capacity to 301MW. Average cost of power production through WHRS is INR0.85-0.9/unit vs. INR7.3/unit from thermal power plants. Power consumption through WHRS was 18.2%. The company has 650MW of renewable power, which will further be increased. Average cost of power generation through renewable sources is INR4.3/unit. Green energy contributed 29.4% of power requirements in 1Q, which will increase to 40-45% by FY25-end and 60% by FY26.
- Other expenses included a one-time expense, which will normalize going forward. Other expense/t was INR755 in 1Q, while FY25 average should be at INR675/t. Overall, marketing spending was higher by INR1.5b in 1QFY25.

- There should be further reduction in coal cost as pet coke usage should increase to ~45% from 37% in 1QFY25. Long-term contracts of fuel will be over by Dec’24-Jan’25 and 1QFY26 should see much lower consumption cost of fuel.
- The company consumed 1.5mt of alternate fuel in FY24 and this was consumed in 14 kilns out of 17 kilns of the company. Few plants had AFR usage of ~25%. Alternative fuel has a 50% calorific value of imported coal, but it is value accretive. AFR usage was at 6.5% in 1Q and will keep on increasing. The company consumed 33.6mt of fly ash and slag in FY24.
- Trade sales stood at 68% in 1Q, while blende cement sales stood at 71%. The C:C ratio was 1.46x and the target is to increase it to 1.54x. Overall, the cost reduction target now stands at INR300/t over the next three years vs. earlier guidance of INR200-300/t.

Other highlights

- Investments in India Cements is non-controlling financial investment.
- UTCEM has increased its holding in RAK Cement, Dubai, to 54% after an open offer in 1Q. RAK will become a subsidiary of UTCEM in 2QFY25. The company has received CCI and shareholder approvals for the Kesoram acquisition. After the approval is received from creditors, the final scheme will be filed with the NCLT of Kolkata and Mumbai. The effective date of merger will be 1st Apr’24. The company has also received an order for amalgamation of its wholly owned subsidiary, Ultratech Nathdwara.

- **Various management teams mentioned that while destocking is over for most of the companies, pricing pressure persists in the sector. Companies highlighted that they expect 2HFY25 to be better than 1HFY25. They also emphasized that the lead time has increased, which is taking longer than expected for the FG to be delivered to customers and RM to reach the plants of the companies as well. This has been creating some pressure on the margin as RM prices, freight, and container rates have also increased.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook	Quarterly snapshot
Clean Science & Tech	▪ The company anticipates improved margins within a few quarters as it scales up and covers fixed costs. Lower raw material prices are boosting the parent company's performance currently. Sustainable demand and quarterly volume growth indicate potential for increasing future volumes.	▪ CLEAN's reported EBITDA in 1QFY25 was below our estimate at INR947m (+24% YoY), with a gross margin of 65.4% (vs. 61.4% in 1QFY24). EBITDAM expanded to 42.3% from 40.5% in 1QFY24. The revenue contribution of Performance Chemicals increased 2% YoY, while that of Pharma & Agro Intermediates declined 1% YoY. PAT grew 12% YoY to INR659m.
Deepak Nitrite	▪ Management highlighted that while demand recovery in agrochemicals continues to be soft, various other end-user segments, including dyes & pigments, paper, homecare, etc., are indicating marginal signs of improving demand. There are multiple projects set for commissioning in FY25 for DN, and with the expectation of Chinese destocking getting over by the end of FY25, this positions DN well for sustained growth and profitability from a long-term perspective.	▪ Deepak Nitrite (DN) delivered a beat in 1QFY25 led by a strong performance in Deepak Phenolics (DPL) driven by improved realization. EBITDA was above our estimate by 12% in 1QFY25 and stood at INR3.1b (+47% YoY). Adj. PAT was INR2b (estimate of INR1.8b, +35% YoY). EBIT margin contracted YoY in Advanced Intermediates (AI). Management highlighted that there was continued inventory destocking while logistical challenges led to an export slowdown to the US and the EU.
Fine Organic	▪ Management highlighted that domestic demand remains quite strong, with some uptick seen in the US market, while the European market is still experiencing weakness. Prices of some vegetable oils have risen, and the company expects volatility to continue due to the weather impact on the crops. The overall lead time and freight costs are also high due to the container availability issues because of the Red Sea crisis.	▪ Fine Organic Industries (FINEORG) reported EBITDA in line with our estimate at INR1.2b (down 20% YoY) in 1QFY25. EBITDAM contracted 460bp YoY to 24%, while gross margin contracted 60bp YoY to 42.2%. PAT declined 13% YoY to INR990m (our est. INR941m).
Galaxy Surfactants	▪ A rise in rural spending owing to above-normal monsoons would drive strong demand in the Indian market. In the RoW region, improving household spending has slowly translated into strong demand for masstige categories. The management is confident of delivering high-single-digit growth in FY25 in the AMET region. ▪ Barring any further escalations in geopolitics issues, management expects 6- 8% volume growth going forward as well. Volumes are likely to tilt toward premium specialty products in 2HFY25. EBITDA/kg (including other income) guidance remains at INR20.5-21.5 for FY25.	▪ Galaxy Surfactants (GALSURF) reported EBITDA/kg of INR19.4 in 1QFY25, down 7% YoY (est. INR17.3). The company reported total volume growth of ~8% YoY to 64.1tmt (est. 64tmt), with broad-based volume growth across regions. Subsequently, EBITDA stood at INR1.2b (up 1% YoY), while PAT came in at INR797m (up 6% YoY).
Navin Fluorine	▪ Management indicated in the concall that R32 prices have shown an uptick, while R22 prices are also showing signs of improvement in the export market. R22, R32, and HFO plants are running at optimum utilization currently. The AHF and R32 capex are on track to be commissioned by end-FY25/early-FY26 and Feb'25, respectively. ▪ Management expects demand in Spec Chem to recover in 2HFY25.	▪ Navin Fluorine's (NFIL) EBITDA/ PAT in 1QFY25 came in 21%/31% higher than our estimates due to strong performance in HPP and CDMO businesses. Gross margin stood at 56%, while EBITDA margin dipped 410bp YoY to 19.2%. Earnings declined 17% YoY to INR512m in 1QFY25.

Company	Management commentary	Results
NOCIL	▪ Management is confident of the long-term prospects of the tyre industry as it looks to invest in capacity expansion, technology upgrades, and R&D to enhance product quality and sustainability. NOCIL also introduced a product in accelerators, and there have been various new products in the pipeline that it has been working on.	▪ NOCIL's EBITDA/kg stood at INR27.3 in 1QFY25, down 33% YoY, missing our estimate. Sales volumes increased 8% YoY to 14.6tmt. Realization was down at INR255/kg (down 13% YoY) due to continued pricing pressure from Chinese suppliers. Hence, EBITDA was at INR398m (down 27% YoY), while PAT was at INR272m (up 19% YoY). Management highlighted that employee expenses were higher due to the annual revision in salaries along with retiral provisions.
PI Industries	▪ Guidance: Management maintains its revenue growth guidance of 15% in FY25, with gross/ EBITDA margins of ~50-51%/25-26%. It expects the tax rate for the year to be ~22-23%. Capex: The company plans to incur a capex of ~INR8-9b in FY25 (~INR1.5b already incurred in 1QFY25). ▪ CSM: The order book position remained healthy at ~USD1.50-1.55b. Pi will focus on aggressive commercialization of new products in FY25 (~8-10 launches). Around 40% of the new product commercialization and ~40-45% of the product under development will be from the non-agrochem segment.	▪ PI Industries (PI)'s revenue grew 8% YoY in 1QFY25, led by a healthy growth in the CSM business (up 14% YoY). However, the domestic and the pharma businesses continued to see subdued demand (revenue down 8%/43% YoY). EBITDA grew 25% YoY in 1QFY25 as EBITDA margin expanded 370bp YoY on account of favorable product mix (gross margins up 530bp).
SRF	▪ The Chemical business is likely to witness a revival in 2HFY25. Despite weak 1Q, it is confident of achieving ~20% revenue growth, within chemicals business in FY25. The FY25 margin would be plus or minus 2% of FY24. ▪ Packaging business: The BOPET films segment continued to witness an oversupplied market. The business also had tough competition from the Chinese players in the Southeast Asian markets. Aluminum foil export sampling is under way, and production is expected to ramp-up from 2HFY25.	▪ SRF posted muted 1QFY25, with a material decline in operating profitability (EBIT down 20% YoY), due to the continuing weakness in the Chemical businesses (EBIT dipped 33% YoY), which offset the strong performance in the Packaging Film/Technical Textile businesses (EBIT grew 69%/12% YoY).
Tata Chemicals	▪ Demand-Supply scenario: Overall, soda ash demand is balanced and is expected to remain similar for the next couple of quarters. However, the company is watchful of demand from China, which has been fairly good so far. ▪ Guidance: The company has commissioned 230KMT/330KMT/70KMT of soda ash/salt/bicarb capacity as per its ongoing expansion plan. It expects ~INR4b of incremental EBITDA in FY26 from new capacities. It will incur ~INR20b of capex over FY25-28E to increase soda ash capacity by ~20%, bicarb by ~30% and silica by 5x.	▪ TTCH's 1QFY25 consolidated EBITDA declined 45% YoY, due to subdued operating performance across geographies, with India/US/UK/Kenya reporting EBITDA decline of 19%/58%/84%/61% YoY.

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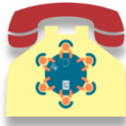

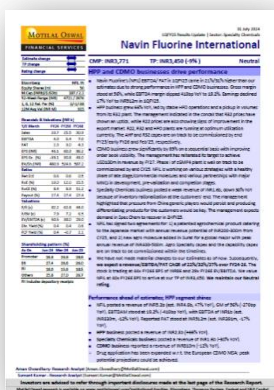

Navin Fluorine Intl — Neutral

Current Price INR 3,321

- Made progress in diversifying business portfolio in the quarter
- Adverse market conditions were seen in 1QFY25
- Revenue growth because of robust 'Orchid' operations and R32 playing out well
- 2HFY25 would be better than 1HFY25 for NFIL

HPP

- Revenue growth YoY was led by stable HFO operations and strong sales of new R32 capacity
- Order book remains strong for R32; uptick in prices seen
- R22 prices are also showing signs of improvement in export markets compared to 4QFY24
- R22, HF and R32 capacity plants ran at optimum utilization

Spec Chemicals

- Impacted because of inventory level rationalization among global agrochemical players
- Pressure from China generics will persist
- Differentiating for customers would be key
- Demand to recover in 2HFY25
- Continued to strengthen portfolio and relationships with customers
- New molecule added in Surat in 1QFY25 with peak revenue potential INR40-50cr in the next 2-3 years
- Signed a supply agreement for a patented agrochemical product catering to Japanese market with revenue potential of INR20-30cr every year from CY25

CDMO

- Revenue declined YoY; lumpy business and cannot be seen on QoQ basis
- Reiteration of USD100m revenue from CDMO business
- R&D on the Advanced Performance Materials segment continues to progress well

Capacity expansions updates

- All projects are on track
- Agro specialty is targeted to commence commercial production in Sep'24
- AHF project to be commissioned by end FY25/early FY26
- Phase-I of CGMP capex to be commissioned by CY25 end
- R32 capex is on track to be completed by Feb'25
- Additional capacities to be ramped up at a faster rate due to increased demand.

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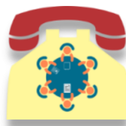
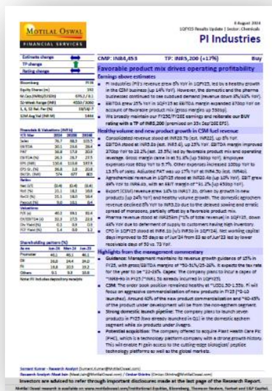


P I Industries — Buy

Current Price INR 4,364

Exports (CSM)

- Export (CSM) revenue grew 14% to INR17.2b, driven by growth in new products (up 24% YoY) and healthy volume growth
- In 1QFY25, over 20% of the revenue is coming from new products (newly commercialized products over the last three years)
- Currently, non-agrichemical revenue mix is less than 5%
- PI is the first Indian company to receive approval from the International Organization for Standardization (ISO) for an insecticide named "PIOXANILIPROLE"



- PI will focus on aggressive commercialization of new products (~8-10 launches in FY25). These new products will be mix of agrichemical, electronic chemicals and other chemicals
- Around 40% of the new commercialization is non-agrichemical and ~40-45% of the product under development is non-agrichemicals
- Out of the 30-40 products commercialized in last 7-8 year, many have the potential to cross INR5b annual revenue
- Order book as on Jun'24 stood at USD1.5-1.55b

Domestic Agri inputs

- The domestic agrochemical revenue declined 8% YoY to INR3.2b due to the delayed sowing and erratic spread of monsoon, which was partially offset by a favourable product mix.
- The domestic brand business declined marginally by 1.0-1.5% YoY in this quarter. The overall decline for Domestic Agchem is on account of the export products that has been delivered to the customer in India and is clubbed under domestic business
- Biologicals products are driving the growth (revenue increased by ~39% YoY). These products currently contribute ~10% of the segment as on Jun'24 and company expects this to reach ~15% by FY25 end.
- Company has commercialized 2 new products in Domestic Agri Brands - Pressedo and Osheen Ultra. Company will be launching another 5 products in rest of the year.
- JIVAGRO did not launched any new product in Q1. It plans to launch three products in 2Q and three products in 2HFY25. The segment witnessed healthy growth in 1Q and the growth trajectory is expected to continue for the rest of the year.

Pharma

- Pharma revenue stood at INR253m (~1% of total revenue) in 1QFY25, down 43% YoY.
- The revenues in Pharma declined due to supply deferment of few products
- Further, high inventory with some of the innovators (2 long term customers) adversely impacted revenue during the quarter (customers asked to slow down supply).
- The company is currently reviewing the inventory position in the market and will comment on FY25 growth in next quarter.
- Company has incurred capex of INR372m in 1QFY25 for the segment
- Hyderabad R&D facility is fully operational with 8 labs (6 PRD, 1 Flow Chemistry & 1 Process Safety) and 65 fume hoods
- Jaipur R&D facility Phase 1 upgradation nearing completion with 2 labs & 18 fume hoods
- New GMP Kilolab in Lodi is nearing completion
- PI is looking to cater to big pharma companies and the company is currently building the base for this by spending on technology, infra and R&D.

Capex

- Total capex for 1QFY25 stood at ~INR1.5b v/s ~INR1.2b in 1QFY24
- Company plans to incur capex of ~INR8-9b in FY25
- Company has operationalized Hyderabad R&D facility, while new GMP Kilolab in Lodi is nearing completion.

Guidance

- The management expects revenue growth of 15% in FY25 with sustained improvement in profits
- The company witnessed better margins in 1Q due to favourable product mix. The management maintains its guidance for FY25 with ~50-51% Gross Margins and ~25-26% EBITDA margins
- Management expects margin expansion from not only new products but also from the domestic business
- Management expects tax rate of 22-23% for FY25

New potential acquisition

- PI has offered to acquire PHC which is a technology platform company with strong growth history.
- PHC had consolidated revenue of ~USD11m with gross margin of 60% for the year ended Dec'23 and growing at 20%+ YoY in the current fiscal.
- PHC has industry-leading knowledge, products, IP and experience in protein/ peptide technology in the agriculture biological space.
- PI will gain access to cutting-edge biological/ peptide technology platforms as well as the global markets.
- This acquisition is expected to be completed by the end of Q2FY25**.**

Other key points

- Working capital days improved to ~55 days as on Jun'24 v/s ~83 as of Jun'23.
- Inventory days declined from ~73 days as of Jun'23 to ~50 days as of Jun'24
- Free Cash Flow generation increased 62% to INR5,067m vs INR3,132m in Q1FY24
- During 1QFY25, PI commercialized two new products in Exports and two in domestic Agri Brands
- Overall overheads expenses increased on account of scale-up of exports, higher promotion expenses due to launch of the new products (~11%) and newly acquired Pharma businesses (~5%).
- The company is continuously looking for M&A opportunity.

SRF — Neutral

Current Price INR 2,480

Chemicals business:

- The Specialty Chemicals Business continued facing headwinds during the quarter as the agrochemicals segment was sluggish due to inventory rationalization by certain key customers.
- Overall, demand was subdued for certain key Agro intermediates. The Chinese manufacturers have continued pushing cheaper Agrochemicals and intermediates within the market
- However, company expects agrochemicals segment to show improvement as demand is expected to pick up gradually
- SRF will focus on ramp-up of multiple new plants commissioned in FY24.
- SRF has multiple AIs in advanced stages of commercialization. This coupled with launch of new pharma intermediaries will also contribute to future growth of the company going ahead.

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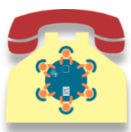

- Fluorochemicals segment was hit by low margin in the Chloromethane segment. However, the domestic refrigerant gases business improved during the quarter, boosting the overall performance.
- HFC volumes remain strong on YoY basis as the company was able to penetrate into domestic market and also grow export volumes. However, pricing remains subdued for certain key products
- The company is targeting ~70-75% utilization for the new R32 capacity (commissioned in Dec'23) in FY25
- Going ahead, global Ref gas demand is expected to remain stable to strong, with growth in India and the Middle East, while the US market may see a decline due to reduced HFC consumption
- SRF expects CMS demand and prices to be stable going ahead. It also expects healthy traction within PTFE value added grades from 2HFY25
- New HF plant will be commissioned in 2Q and should provide cost advantage post stabilization.
- Two pharma products have seen good traction in 1QFY25
- The overall chemical business is expected to revive in 2HFY25. Management believes that ~20% growth rate in FY25 is still achievable
- Margins are expected to improve as the plant ramps up. However, chemical plant takes time to ramp up leading to overall drag of ~1.7-1.8%. FY25 margin is expected to be in the similar range of FY24 (plus or minus 2%).

Packaging film business

- The business performed well on YoY basis with BOPP films witnessing higher margins led by balance demand-supply scenario.
- Company witnessed volume as well as realization growth during the quarter.
- However, the BOPET films segment continued to witness an oversupplied market. The business also had tough competition from the Chinese players in the Southeast Asian markets
- BOPET witnessed some pricing improvement towards the end of June; however, supply still outweighs demand
- The segment witnessed a spike in VAP on YoY basis. Currently, Aluminum foil export sampling is under way and company expects to ramp-up the same from 2HFY25.
- Utilization levels in Hungary has improved in 1QFY25
- Going ahead, SRF's continued focus on optimizing product mix, increase VAP sales and new product development coupled with cost efficiencies is expected to counter market challenges

Technical textile business:

- The business witnessed steady performance led by healthy volumes in Nylon Tyre Cord Fabrics (NTCF) and Polyester Industrial Yarn (PIY)
- However, belting fabrics segment witnessed lower volumes
- Going ahead, demand for NTCF likely to be stable
- Focus on high-end VAPs in Belting Fabrics and expanded capacity is likely to drive growth ahead.

Capex:

- Company expects overall capex of ~INR15-19b in FY25

- Majority of this will be towards Fluorochemicals segment (three new fluoropolymers facility for capex of ~INR6b). These facilities will come online in a phase manner by Nov-Dec'25
- Company expects to complete the earlier guided capex of ~INR120-150b in 6 years against previous guidance of ~5 years.

Tata Chemicals — Neutral

Current Price INR 1,063

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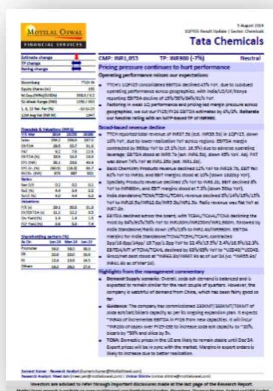

Operating Performance

- Demand has been fairly stable across end-user industries. Detergent demand moderated in monsoon, but it generally picks up after monsoon.
- Chinese soda ash demand was high during Jan-May'24.
- Imports into India were high during Jan-May'24 but have moderated now due to high freight costs.
- The Chinese soda ash facility was operating below the optimal levels due to a quality issue.
- Export volumes in the US market increased YoY and prices grew sequentially.
- Rallis witnessed a mixed quarter as the domestic business performed well but pricing in international markets was down.
- Incremental EBITDA during the quarter was largely contributed by incremental pharmaceutical salt capacity (70KMT in UK) and incremental soda ash, salt and bicarb capacity in India.

Outlook

- Overall, soda ash demand is balanced and is expected to remain so for the next couple of quarters.
- The company is currently fully sold out in terms of global capacities.
- Market conditions for some customers have bottomed out and should improve going ahead.
- However, the company is watchful of demand from China, which has been fairly good so far.
- Inner Magnolia capacity is fully commissioned. The company is facing some quality issues (Inner Mangolia soda ash has higher iron component and solar glass requires soda ash with low iron content) and is working on the same.

Geographical performance

- India inventory is lower than the previous quarter's level due to lower imports (23% vs. ~31% earlier) and better demand in some of the key regions. The region has not witnessed any disruption due to rain. The region is expected to witness INR2b incremental EBITDA from the new capacity next year.
- US: Domestic prices should remain same until Dec'24. Export prices will be in sync with the market. Export order margin is likely to increase due to better realization. The cost of energy has declined, resulting in lower power & fuel costs and better margins within the region in 1QFY25.
- UK witnessed a decline in volume during the quarter due to a drop in energy business. The company expects the region to deliver similar margins (like 1Q) throughout the year. The region witnessed a one-off expense of INR130m related to a fine paid during the quarter. The company expects a loss of ~INR300-450m per quarter for rest of the year. It expects INR2b of incremental EBITDA from the new capacity next year.

- Kenya pricing is in sync with the market. The company witnessed higher shipping and transportation costs in 1Q, which are expected to moderate going ahead.

Sodium Bicarbonate

- The company has commissioned new capacity of ~70KMT in 1QFY25 (Phase 1). Another 70KMT will come online by Oct'24.
- Incremental volume from the first phase is expected to be absorbed (optimally utilized) in FY25. Next 70KMT is expected to be optimally utilized by 1QFY26.
- Key driver for sodium bicarbonate: Feed for cattle, pharmaceuticals, desulphurization for coal plants

Debt

- Debt has increased because of higher working capital requirement due to stocking of inventory (INR8b).
- The company has stocked up some of the inventory before monsoon, as the availability is lower during monsoons.
- The company will deploy any surplus cash flow for debt repayment.

Capex

- The company will incur ~INR20b of capex over FY25-28E.
- It will increase soda ash capacity by ~20%, bicarb by ~30% and silica by 5x.
- It has already commissioned 230KMT/330KMT/70KMT of soda ash/salt/bicarb capacity as per the ongoing expansion plan.

Others

- The current global capacity is ~5.5mmtpa. Natural capacity will start to pressure synthetic capacities over the next 2-3 years (mostly pressure will be on China).
- INR1.7b was capitalized for lease of a warehouse as per accounting standards during the quarter.
- Demand for soda ash will continue to grow from the solar glass segment thanks to the strong focus of the Indian government on solar energy.
- The company has done mobile and laptop battery recycling for cobalt.
- TTCH is working on sodium-ion batteries, which are used more for stationery applications.

- **The consumer companies have experienced a sequential improvement in demand, with signs of recovery in the rural market due to price cuts and enhanced consumer offerings. However, harsh summer conditions and election-related restrictions have hurt consumption in categories such as home insecticides, beverages, alcoholic beverages, and paints. Management anticipates implementing price increases in the 2HFY25 to offset rising raw material costs and drive revenue growth. The outlook for rural markets remains positive. EBITDA margins are expected to improve at a moderate pace over the medium term, supported by operating leverage, a better product mix, and growth in the premium portfolio.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Salient takeaways from the 1QFY25 performance	Outlook for FY25
Asian Paints	■ Apr'24 and May'24 were challenging months, but Jun'24 showed signs of recovery, especially in rural demand. ■ The company delivered 7% volume growth in domestic decorative paint in 1QFY25 on the healthy base of 10% volume growth in 1QFY24. The five-year CAGR in volume is healthy at 15.3%. ■ The management observed 1.8% inflation in 1Q and implemented a 1% price increase in response. ■ New products contributed 12% to overall revenue in 1QFY25.	■ In 2Q, inflation is expected to be in the range of ~1.4% to 1.5%. Consequently, there may be further price increases. ■ The gap between value and volume is around 5% to 6%.
Britannia	■ The company has previously implemented price rollbacks but is now focusing on consolidation and may only offer occasional promotions. ■ Flour, sugar, cocoa, and milk have seen inflation, offset by a softening in the prices of palm oil, laminates, and corrugated boxes. ■ Direct reach now stands at 2.82m outlets and BRIT has also strengthened its rural distribution reach to 30k distributors.	■ The company expects inflation of 4-5% in the coming months, driven by increases in flour, sugar, and cocoa prices. ■ BRIT aims to achieve 2% cost efficiency annually.
Dabur	■ Volume growth has been increasing sequentially, with a 5.2% increase in 1QFY25 and there was no slowdown in volume growth in Jul'24. ■ E-commerce and modern trade posted robust double-digit growth and now contribute ~20% to India business. ■ Food inflation is currently high, and the company may need to take price increases in the food segment.	■ The company is committed to investing in its brands, which may impact gross margins, but expects operating margins to grow beyond 19.6%. ■ The company anticipates a deflationary environment in 2Q, which should help maintain flat inflation, but expects inflation to return in 3Q and 4Q.
Godrej Cons.	■ Organic revenue growth stood at 6%, and this quarter is expected to be the last with negative pricing. ■ The company has gained ~1,000bp of share gain in the two top modern trade channels stores. ■ The company took a month or two to respond to the palm oil price increase by adjusting its prices. ■ Godrej Pet Care (GPC), a subsidiary of GCPL, has entered the INR50b pet care market in India, which has strong double-digit growth potential in the coming decades.	■ Owing to additional expenses for RCCL, the EBITDA estimate of the company has gone down to ~INR1.5b vs. earlier estimate of INR1.6b for FY25. RCCL prior to acquisition had reported an EBITDA of ~INR600m. ■ It aims to increase EBITDA margins in Indonesia from the current 20% to 25%. ■ GUAM's EBITDA margins stood at 14% in 1Q, which GCPL aims to increase to 15%.
Hindustan Unilever	■ There was an improvement in the demand trends with UVG of 4% in 1QFY25. ■ The premium portfolio's contribution grew ~300bp over the last three years. ■ There is ~50% growth in E-commerce and 20% volume growth in high-growth portfolio.	■ HUVR expects price growth in low-single digits in 2HFY25. ■ There will be a moderate pace of improvement in EBITDA margin over the medium term with operating leverage, mix improvement, and growth in the premium portfolio.
Marico	■ There is a sequential improvement in volume growth in the domestic business. Pricing growth remained flat YoY, but both HPC and Foods saw an increase, with HPC seeing notable growth in the past six months. ■ The company had an 800bp correction in its margin in the Food business last year. ■ MRCO continues to focus on urban-centric and premium portfolios through the organized retail and e-commerce channels.	■ The company aims to deliver double-digit revenue growth in FY25. ■ The company expects volume trends to maintain the upward trajectory, supported by stable retail inflation, a favorable monsoon season, and government budget allocations aimed at boosting the rural economy. ■ The company might implement another round of price increases if copra prices rise further. ■ The digital-first brands are striving to achieve double-digit EBITDA margin by FY27. Beardo is expected to hit double-digit EBITDA margin in FY25.

Pidilite	■ UVG was 9.6% in 1QFY25, considering constant prices for all products. However, total volume growth was at 19%. ■ In the rural market, 90% of revenue growth is coming from same-store sales. ■ VAM's consumption costs stood at USD1,022/t vs. USD1,137/t in 1QFY24.	■ Management has maintained its guidance of double-digit underlying volume growth for FY25. ■ PIDI aims to achieve growth of 1-2x of GDP in its core category and 2-4x in its growth category. ■ Management has projected that rural market growth will be 1.5x of urban markets over the next 2-3 years. ■ It has maintained its capex guidance at 3-5% of total revenue.
UNSP	■ The price mix was 4.8%, contributing to an overall portfolio NSV growth of 8.3% for the quarter, with P&A growth at 10.1%. ■ New excise policies have been released across the northern, central, and eastern states. The company also received some headline pricing in a few states. ■ The company approved investments in V9 Beverages Rise Up and Indie Brews and Spirits as part of its strategy to add premium Indian provenance craft brands.	■ Revenue growth is expected to be high-single digits in 1HFY25 and double digits in 2H. Overall, the management expects to meet its double-digit growth guidance for FY25. ■ ENA continues to experience inflation, while the rest of the commodity basket remains stable. The ENA inflationary trend is expected to continue for the next couple of quarters.

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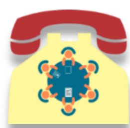

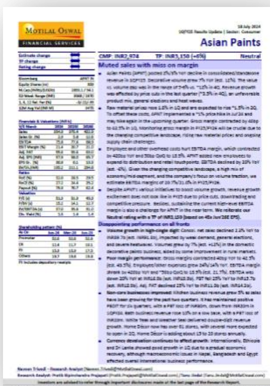
Asian Paints

Asian Paints — Neutral

Current Price INR 3,151

Business environment and performance

- Demand was affected by heatwaves and general elections for both retail and institutional businesses.
- April and May were challenging months, but June showed signs of recovery, especially in rural demand.
- T3 and T4 cities showed faster growth compared to T1 and T2 cities.
- The company delivered 7% volume growth in domestic decorative paint in 1QFY25 on the healthy base of 10% volume growth in 1QFY24. The five-year CAGR in volume is healthy at 15.3%.
- The value segment has been under pressure, down 3% vs. 7.8% growth in 1QFY24. The five-year CAGR value is 12.7%.
- Value growth was hurt by an inferior product mix and market inflation. Overall demand was weak, leading to lower value growth.
- Industrial business saw double-digit revenue growth, driven by the Automotive and General Industrial segments.
- The combined growth of decorative and industrial segments showed a value decline of 2.2% vs. growth of 8.5% in Q1FY24. Volume growth was 7% vs. 10% in 1QFY24.
- New products contributed 12% to overall revenue in 1QFY25.
- The gap between value and volume is around 5% to 6%.

Cost and margins

- The management observed 1.8% inflation in 1Q and implemented a 1% price increase in response.
- In 2Q, inflation is expected to be in the range of ~1.4% to 1.5%. Consequently, there may be further price increases.
- Employee costs have increased due to policy changes and higher investments in personnel due to the expansion of distribution and retail footprint.

Segmental performance

- Kitchen business revenue grew 5% as sales have been rising for the past two quarters.
- Kitchen business has maintained positive PBDIT for six quarters, with a PBIT loss of INR30m vs. INR20m in 1QFY24.
- Bath business revenue rose 10%, albeit on a lower base of last year. It reported a PBT loss of INR20m.

- White Teak and Weather Seal delivered double-digit growth and expanded its store count in FOFO and COCO models.
- Home Décor now has more than 61 stores, with work-in-progress for several of them, which are expected to open in 2Q.
- Home Décor is adding ~15 to 20 stores annually.
- APNT has opened its second BH studio in Guwahati, following the first in Anna Nagar, Chennai. This 16,000+ sqft store offers a premium digital customer journey, featuring high-end décor products like lighting, fabric, wallpaper, and furniture.
- SmartCare, Waterproofing, Wood Finishes, and Textures performed strongly during the quarter.
- Economy emulsions, primers, premium ranges, and waterproofing all underperformed.

International Business

- International operations posed challenges for the overall business, with a 2% decline in revenue. Adjusted for constant currency, it would have seen 1.8% growth, despite currency depreciation in Ethiopia, Egypt, and Bangladesh.
- Ethiopia showed strong performance, and Sri Lanka has recently shown significant improvement. Middle East operations have slowed down.
- In Nepal, the economic situation has been challenging for the past seven to eight quarters, affecting the overall performance.

Other

- The distribution footprint continues to expand and it has ~1.65 lakh retail touchpoints.
- The installed capacity in Mysuru increased from 3lakh KL to about 6lakh KL, contributing to a total organizational capacity of over 22lakh KL.

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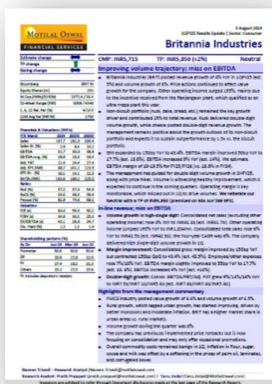


Britannia Inds — Neutral

Current Price INR 5,831

Business environment and performance

- The FMCG industry saw value growth of 6.6% and volume growth of 6.5%.
- Rural growth has started to rebound after lagging behind urban areas, driven by better monsoons and moderate inflation.
- BRIT has a higher market share in urban areas compared to rural markets.
- Volume growth during the quarter was 8%.
- The company has previously implemented price rollbacks but is now focusing on consolidation and may only offer occasional promotions.
- The distributor management system provides real-time data and actions, with retail face time up 42% since 2018.
- The rural ordering app allows direct orders from RPDs, aiming for 50% of orders to be placed digitally.
- The company is trailing its competitor in the Hindi belt, particularly in rural areas. It is concentrating on deepening its presence in urban markets, while expanding its reach in rural areas.

Cost and margins

- Overall commodity costs remained benign during the quarter. Flour, sugar, cocoa and milk have seen inflation, offset by a softening in the prices of palm oil, laminates, and corrugated boxes.

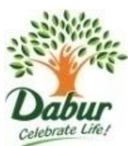
- The company expects inflation of 4-5% in the coming months, driven by increases in flour, sugar, and cocoa prices.
- BRIT aims to achieve 2% cost efficiency annually.
- The company plans to take slight price increases if inflation sustains.
- Cake and rusk have double-digit net margins.
- Bread, once negative in margins, is now nearing double digits.
- Gross margins for bread and croissants are 25% higher than the base category.

Others

- At Ranjangaon, it collects 3000k litres of milk, with 90k litres coming directly from 3,300 farmers in 105 villages. The company is increasing this by 90k litres each month, supported by 70 collection centres.
- The company has launched Pure Magic Stars, a new product with performance, which is still to be assessed. Additionally, it introduced 50-50 Golmaal, a butter garlic variant of a previous product.
- The company has consistently gained about 10bp market share per year over the past 8-10 years, bringing its current market share to 18%, while the top player holds 40%.
- In the cheese market, the company has a double-digit share but is significantly smaller than Amul, which has a 6x larger share.
- The company is the number two player in the cheese market, though many competitors are clustered with 2-3% shares.
- There is considerable room for growth, given the large gap between the company's market share and that of the leading competitor, especially in focus markets.
- Direct reach now stands at 2.82m outlets and BRIT has also strengthened its rural distribution reach to 30k distributors.
- International business remained strong during the quarter.
- Its Nepal strategy involves seeding products and then establishing a manufacturing footprint. This business has grown from INR200m to INR1,800m.
- BRIT's manufacturing footprint includes 54 factories nationwide, with 16 owned factories supplying 65% of the total requirement. The company also operates 38 third-party factories and has 154 manufacturing lines, 81 of which are in its own factories.
- B2B makes up 4% of total sales.

Dabur — Buy

Current Price INR 635



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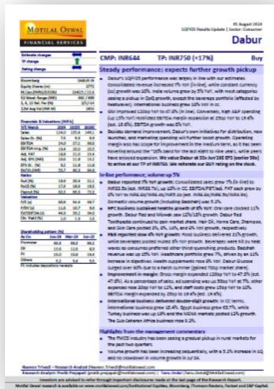
Environment and outlook

- The FMCG industry has been witnessing a gradual pickup in rural markets for the past two quarters.
- Volume growth has been increasing sequentially, with a 5.2% increase in Q1 and no slowdown in volume growth in Jul’24.
- In rural areas, consumption is recovering thanks to decreasing inflation, increasing elasticity of demand, good harvest, normal monsoon, and government initiatives.
- E-commerce and modern trade posted robust double-digit growth and now contribute ~20% to India business.



- Modern trade margins are now in line with GT margins. E-commerce margins are in line with GT margins, with some negotiation for margin reduction.
- The company has created bundles of INR10 and accessible price points across different portfolios, which have done well in emerging channels.
- The international business recorded strong growth of 18.4% in CC.
- In international markets, Dabur reported 19% YoY growth in Turkey, 64% in Egypt, 13% in MENA, 21% in SFA business, and 25% in Bangladesh.
- The international business of Badshah declined due to supply chain constraints.
- Food inflation is currently high, and the company may need to take price increases in the food segment.
- Inventory levels are gradually and slowly coming down, which had previously filled up.

Cost and margins

- Gross margins expanded by 120bp, driven by moderation in inflation and cost-savings initiatives.
- A&P expenditure increased by ~16% during the quarter, with digital spending now accounting for more than 30% of overall media expenditures.
- The company is committed to investing in its brands, which may impact gross margins, but expects operating margins to grow beyond 19.6%.
- Gross margins for Badshah have improved by 500bps.
- The company anticipates a deflationary environment in 2Q, which should help maintain flat inflation, but expects inflation to return in 3Q and 4Q.

Segmental highlights

HPC

- The portfolio achieved 8.1% growth.
- Shampoo segment grew by 14%, driven by the strong performance of the Vatika brand.
- Hair oil category grew by 3.3%, with coconut oil posting a strong 20% growth.
- Perfumed hair oils outperformed the category, gaining ~100bp market share.
- Oral care portfolio recorded a growth of 11.4%, with Dabur Red growing by 12% and Miswak growing by 18%.
- Dabur Red Toothpaste continued to gain market share during the quarter, with Dabur Oral K products reaching one out of every two households in the country.
- The company has compared and contrasted its prices with competitors' prices across all SKUs and identified opportunities to not lose share in oral care.
- Home care segment achieved 8% growth during the quarter.
- Odonil saw high single-digit growth, with particularly strong performance in aerosol and gel formats. It recently lunched Odomos liquid vaporizer.

Healthcare

- The healthcare portfolio grew by 7%, driven by an 11% increase in the digestive segment.
- Health supplements also saw a 7.8% rise YoY. Dabur Glucose, a key brand in the health supplements portfolio, surged by over 30% amid harsh summer conditions, gaining 70bp in market share.
- The OTC and ethical category, health juices, baby care, and branded ethical products all clocked double-digit growth.
- There were adverse effects of heatwaves on brands like Shilajit and Honey during the quarter.

- The company continues to focus on consumer-centric engagement initiatives, strengthen doctor advocacy channels, and launch innovative campaigns aimed at reinforcing relevance and expanding market penetration in the healthcare business.

Food & beverages

- The food and beverage segment grew by 4%, with the foods business showing exceptional performance at 21% growth.
- Badshah also reported strong YoY growth of 15%.
- The drink portfolio grew in double digits.
- The J&N segment was impacted by heatwave, leading to a shift in consumer preference toward thirst-quenching products like carbonated beverages.
- In the JNN segment, its market share expanded by 330bp.
- In Badshah, Dabur cut prices due to a softening in commodity prices.

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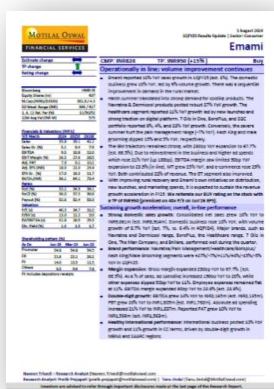

Emami — Buy

Current Price INR 812

Performance and outlook

- In 1QFY25, sequential improvement was seen in rural demand.
- The increase in food inflation will hurt the discretionary consumption.
- Due to the severe summer, healthy performance was witnessed for the summer products, while sales of non-summer products and out-of-home consumption were hit during the quarter.
- Company is optimistic about future growth, supported by a favorable economic landscape, forecast of a normal monsoon, anticipated rural market recovery, and government initiatives.
- MT grew 25% and e-commerce rose 29% YoY in 1QFY25, contributing 11% each in revenue contribution.
- The general trade has rebounded in the positive territory.
- Domestic volume grew 8.7% in 1QFY25. Excluding the strategic investment (D2C portfolio), volume growth from core business is also more than 7%.
- The company will only take moderate price increase (1-2%) in FY25.
- Summer portfolio (Navratna and Dermicool range) contribution in revenue stood at 50%.
- The International market delivered 10% YoY growth (11% in CC terms) led by double-digit growth in MENA and SAARC regions, despite the currency fluctuations and geopolitical disturbances in key geographies.

Cost and margins

- GP margin is expanded due to benign raw material prices and price action taken by company.
- The A&P spending will remain in the range of 18-19% for the full year. Normally it is higher in first quarter (20% of sales in 1QFY25).

Segmental information

- Company launched two extensions for Dermicool: Dermicool Her and Dermicool Soap in the modern trade and e-Commerce channels.
- In the Kesh King brand, Organic Rosemary Oil & Rosemary Shampoo were launched in the ecommerce space.
- The premium hair fall oil market is seeing subdued demand.
- Kesh King is a more rural-salient portfolio. With green shoots in rural areas and strategic initiatives taken by Emami, recovery is expected in the range.

- Kesh King's annual revenue contribution is over INR3b vs INR2.3b at the time of acquisition. Kesh King shampoo is one-third of the Kesh Ling's overall portfolio.
- Emami introduced five new digital-first products: Dia-BTS tonic, DiaBTS tablets, Zandu Neelibhringar Hair Oil, Zandu Ashwagandha 66 (KSM-66) and Zandu Shilajit Gold Plus Resin capsules on the Zanducare portal.
- In healthcare, OTC & Medico range posted high single digit growth while Zanducare grew strongly led by Digital first portfolio
- In male grooming range, Fair and Handsome nature first range of cream and facewash performing well.
- Google display ad-branding initiative undertaken in 7 oils in One to increase the awareness in metro cities.
- The D2C portfolio increased 23% in 1QFY25.
- In Zandu care, the focus is on the online sales. Therefore, pricing is premium than the products available on general trade, however, it is aligning with the competitors.
- Management guided double-digit growth in healthcare range going forward.
- The D2C portfolio (The Man company and Brillare) contributes ~ 5-6% in revenue in FY24.
- The overall oral care category is grew by 10% in 1QFY25.

Other points

- The tax rate was higher in 1QFY25, but will moderate in the subsequent quarters of FY25. Management maintained an effective tax rate guidance of ~10-11% for the next two years.
- The amortization will be ~INR920m in FY25 and will be ~INR800m in FY26.

Godrej Consumer — Buy

Current Price INR 1,391

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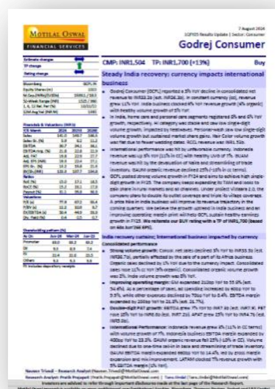

Performance and Outlook

- Organic volume growth in India was 8%, with reported growth at 10% on a high base of 10%.
- Organic revenue growth stood at 6%, and this quarter is expected to be the last with negative pricing.
- The company achieved strong share gains in modern trade, e-commerce and rural markets, but it has lost some share in urban general trade.
- The company has gained ~1,000bp of share gain in the two top modern trade channels stores.
- The company noted that it might be slightly behind the profit targets for the Raymond acquisition for FY25, but expects to achieve higher margins than those inherited.
- The company has not touched the quality of its SOAP despite extremely high prices and will not do so in the future.
- The RCCL merger involved integrating systems with GCPL, except for condoms, where a separate OTC system was created and some GCPL products were added to it.
- Owing to additional expenses for RCCL, the EBITDA estimate of company has gone down to ~INR1.5bn as compared to earlier estimate of INR1.6bn for FY25. RCCL prior to acquisition had reported EBITDA of ~INR600m.

Cost and margins

- The company took a month or two to respond to the palm oil price increase by adjusting its prices.
- It aims to increase EBITDA margins in Indonesia from the current 20% to 25%.
- GUAM's EBITDA margins stood at 14% in 1Q, which GCPL aims to increase to 15%.

International Market updates

- Indonesia volume grew by 7% despite a tough 12% comparator. Due to currency devaluation in 1Q, rupee revenue grew by 3% and EBITDA by 24%, while constant currency revenue and EBITDA grew by 11% and 32%, respectively.
- GUAM had a challenging quarter, with organic volumes down 21% and organic revenue down 25% due to currency volatility, the shipping crisis, tough pricing decisions, and a one-time distributor issue in Nigeria.
- High interest rates in African markets may continue to pressure volume growth for the next few quarters, but this does not significantly affect off-takes or profits.
- Organic growth in LATAM: 1% decline in revenue, 11% constant currency growth, and 2% UVG.
- In LATAM, despite poor revenue performance, profit growth was strong. Compared to 1QFY24, the combined revenue contribution of GUAM and LATAM fell from 29% to 21%, while profit contribution increased from 11% to 12%.

New launches

- Laundry liquid and sexual wellness are both experiencing exponential growth with strong market share gains.
- The product launch in body wash has been successful so far.
- The company has developed some muscles on category development and believes the sexual wellness category can benefit from it.
- The company has launched HITS MATIC product in e-commerce, with surprising results during Amazon's big day.

Acquisition

- Godrej Pet Care (GPC), a subsidiary of GCPL, has entered the INR50b pet care market in India, which has strong double-digit growth potential in the coming decades.
- Currently, only about 10% of Indians own pets, and just 10% of those feed them packaged foods, which is only 40% of the time.
- Calorie conversion in India for pet foods is only 4%, similar to 15 years ago when pet ownership was 20% and calorie conversion was 25%.
- Godrej Agrovet (GAVL), group company, leads in animal feeds and has expertise in pet foods, R&D, and supply chain.
- GCPL will invest INR5b in Godrej Pet Care over five years, aiming for GPC to become cash positive afterward.
- GAVL will be a manufacturing and R&D partner. With a long lead time for capex setup, it expects to begin manufacturing in the second half of next year.

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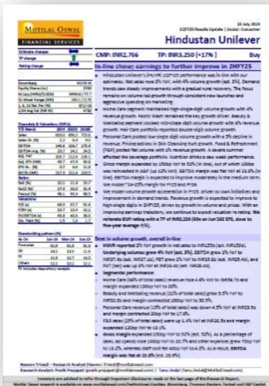

Hindustan Unilever — Buy

Current Price INR 2,790

Operational environment

- There was an improvement in the demand trends with UVG of 4% in 1QFY25.
- With the forecast of a normal monsoon and better crop realization, the gradual recovery in rural demand has been sustained.
- The RM basket remains within a range on a deflationary base.
- HUVR continues to focus on boosting volume growth, strengthening competitiveness, and maintaining healthy margins.
- Business winning shares and corporate value shares increased. The focus was on driving premiumization and reshaping the portfolio in high growth spaces.
- The premium portfolio’s contribution grew ~300bp over the last three years.
- There is ~50% growth in E-commerce and 20% volume growth in high-growth portfolio.
- HUVR's distribution channels include 70% through GT, 20% through MT, and 10% through e-commerce and quick commerce. In the top metro cities, modern trade would be ~40-50%.
- HUVR expects price growth in low-single digits in 2HFY25.
- With the total reach of over ~9m outlets, HUVR has a value-added distribution of over 95%.

Costs and margins

- Advertising and promotional investments rose to 10.7% of sales, a 100bp YoY rise. Absolute A&P investments were INR16.8b in 1QFY25 vs. INR15.1b in 1QFY24.
- Excluding the one-off indirect tax impact in Sep’23 (led ~80 bps margin expansion in Sep’23), EBITDA margin will remain at the current level for the near term.
- There will be a moderate pace of improvement in EBITDA margin over the medium term with operating leverage, mix improvement and growth in the premium portfolio.

Segmental highlights

Home Care

- Home Care delivered strong performance with 4% underlying sales growth (USG) and high-single digit underlying volume growth (UVG).
- Fabric Wash grew in high-single digits due to structural actions across the portfolio. Premiumization journey in fabric wash liquids was further bolstered by the expansion of Rin liquids.
- Household Care delivered mid-single-digit volume growth, driven by premium dishwash portfolio.
- Both categories (fabric and Household care) continued to see price declines, reflecting commodity deflation.

Beauty & Wellbeing

- Beauty and Wellbeing delivered 3% USG with mid-single digit UVG.
- Hair Care clocked double-digit volume growth, driven by Sunsilk, Clinic Plus, and Dove; good growth in large packs.
- Focus on innovations and market development actions in high growth demand spaces continues to yield results.

- Skin Care and Colour Cosmetics saw muted volume performance due to a decline in the mass portfolio. However, premium skin portfolio and new formats showed healthy results.
- HUVR launched Dove glycolic hydration range, Vaseline gluta-hya overnight lotion and a range of innovations under Lakme skin and cosmetics capturing new trends.

Personal care

- Personal Care delivered low-single digit UVG with a 5% decline in USG.
- Skin Cleansing posted low-single-digit volume growth, but revenue declined due to pricing actions.
- Lux and Lifebuoy were re-launched with superior product formulations, aimed at enhancing their market performance.
- Oral Care saw mid-single-digit growth driven by pricing.

Food & Refreshment (F&R)

- F&R saw stable performance with 1% USG and stable volumes.
- Nutrition Drinks saw subdued performance but continued competitive wins.
- Tea strengthened market leadership, and coffee achieved double-digit growth, driven by pricing.
- Tea crops were impacted by the hot summer, which led to a 15% YoY increase in prices during the quarter. However, the company will continue to gain market share both in terms of value and volume.
- Foods posted low-single-digit volume growth, led by food solutions, mayonnaise, peanut butter, and international sauces.
- Ice Cream delivered double-digit volume growth with strong summer season launches.

Indigo Paints — Buy

Current Price INR 1,470

Performance and outlook

- The company has consistently surpassed industry growth (-2% in 1QFY25, +1% in 4QFY24, +7% 1QFY24) over the past five quarters, including 1QFY25.
- Kerala sales have declined for all paint companies. However, Indigo Paints has been more impacted, as 25% of its revenue comes from Kerala.
- The company has developed differentiated products to grow its market share and expand its product portfolio on the back of inorganic growth initiatives.
- It has expanded into the non-decorative segment and forayed into adjacencies, like construction chemicals and waterproofing.
- The company is expected to take a price hike to pass on higher costs. The paint industry is going to take a ~2% price hike in Jul'24 and Aug'24.
- It has launched stain-free interior emulsion and Acrylic distemper (Bronze) during the quarter.
- Indigo Paints witnessed high sales growth in Jul'24 compared to the past 6-7 months.
- There is no pricing pressure from the new competitor and the competitive intensity remains unchanged for the company.
- The demand scenario for the paint industry has been muted for the last two quarters, leading to a minor increase (~1%) in channel discounts.
- Waterproofing and construction chemicals contribute ~5% to revenue. The company aims to increase this contribution to 8-10% by FY26.

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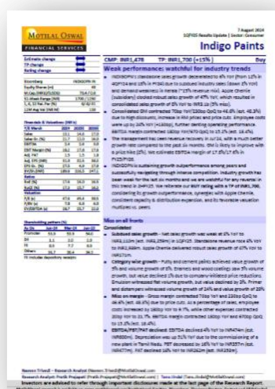

- There is seasonality in the product mix. Sales of distempers and enamels grow in 2Q, while emulsions show higher growth in 3Q and 4Q. Sales of putty and primers remain steady throughout the year.

Costs and margins

- Gross margin declined due to elevated discounts, a slight increase in RM prices and price cuts taken in 2HFY24.
- The company expects that margins will improve ahead, aided by the price hike and the upcoming festive season in 3QFY25.
- A&P expenses for FY25 are expected to decline marginally as a % of sales, despite increasing spending on digital advertising.

Distribution network

- Indigo Paints added 368 tinting machines, taking the total to 10,210 in 1QFY25.
- As of Jun'24, the number of active dealers stood at 18,500, up 395 QoQ.
- The company continues to focus on improving the throughput per dealer and giving long-term loyalty points to dealers.

Apple Chemie (acquired entity)

- Apple Chemie is expected to clock high growth in revenue in FY25 due to the expansion in sales and marketing activities in many states.
- WPCC products for the retail channel are launched and marketed under Indigo brand (Protect Plus Series), while Apple Chemie continues to target B2B, fast-growing infrastructure segment.
- Apple Chemie business expanded to Maharashtra, Telangana, Tamil Nadu, Orissa, West Bengal, Madhya Pradesh, Delhi (NCR), Bihar, and Karnataka.

Others

- In Jodhpur, the foundation work is nearing completion at new solvent plant with a capacity of 12,000 KLPA.
- The foundation work is completed and erection work progressing in full pace at the water based plant with capacity of 90,000 KLPA.
- The plan of doubling the putty plant's capacity in Jodhpur has been commenced.
- The Cochin plant caters to the Kerala region, while the Jodhpur plant covers most of western, northern, and large parts of eastern India.
- The Tamil Nadu plant will serve the southern part of India.

Jyothy Labs — Neutral

Current Price INR 566

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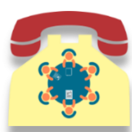
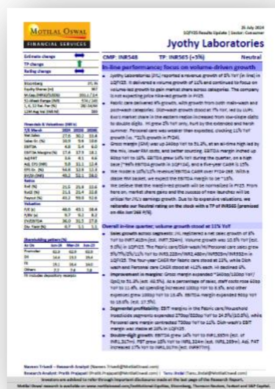


Performance and outlook

- Demand is expected to accelerate with normal monsoons. Rural demand pickup is key for positive momentum.
- JYL delivered 11% volume growth and continued focus on volume-led growth to gain higher market share for each brands.
- The value-volume gap is due to the increase in grammages and price cuts taken by the company.
- Price cuts were taken across segments, with the most significant reductions in dish-wash, followed by Fabric care, and then Personal care.
- JYL is not expecting any price hike in FY25.
- The company focuses on rural distribution, innovation, and introduction of SKU's to cater to specific consumer segments.
- The contributions of modern trade and e-commerce to revenue have increased to 15%, up from 10% two to three years ago.



Costs and margins

- Management guided double-digit sales growth mainly led by volume.
- The gross margin expanded due to a more favorable product mix and improved operational efficiencies.
- It maintains an EBITDA guidance of 16-17% for FY25.

Segmental details

Fabric care

- It delivered 9% sales growth in 1QFY25.
- Distribution, ground-level activities, and product differentiation helps in faster growth and expansion across product categories.
- The company launched More Light 5L liquid detergent pouch during the quarter at reasonable price of INR70/L.
- The liquid category will grow faster on a low base compared to powder.

Dish wash

- It delivered 7% sales growth in 1QFY25.
- JYL will continue to enhance the brand equity by driving LUP's, enhanced digital awareness, ground activations to strengthen their position.
- Pril larger packs gaining momentum in MT. Pril Tamarind delivered continuously delivered strong double-digit growth.
- Exo has 13.8% market share in dish wash bar and Pril has 14.4% market share in dish wash liquids.
- Exo's market share in the eastern region increased from low single digits to double digits.

Household Insecticides

- The sales increased 2% YoY in 1QFY25. The category has been hit by summer in North and East India.
- Strengthening the liquid portfolio by focusing on continued brand investment, and emphasizing the unique automatic feature of the Maxo machine.
- Maxo Coil and liquid vaporizer market share stood at 25.8% and 9.1%.

Personal Care

- It delivered 11% sales growth in 1QFY25.
- Neem-based Margo Soap with its natural benefits proposition delivered a double-digit growth.
- Strengthening the brand equity of Margo to venture into new formats and categories.

Other points

- Capex will be INR0.5-0.6b for FY25.
- Cash balance is over INR6.5b at the end of 1QFY25.

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Marico — Buy

Current Price INR 679

Business environment and outlook

- The FMCG sector has seen a steady increase in demand, with rural growth surpassing urban growth.
- There is a sequential improvement in volume growth in the domestic business.
- Pricing growth remained flat YoY, but both HPC and Foods saw an increase, with HPC seeing notable growth in the past six months.
- Premium segments continued to outpace mass segment.

- MRCO continues to focus on urban-centric and premium portfolios through the organized retail and e-commerce channels.
- There was a gradual improvement in core categories growth in the domestic business through the ongoing initiatives.
- Marico is actively pursuing inorganic growth opportunities to bolster its competitive position and achieve long-term value creation.
- Phase1 of Project Setu was executed in six states in 1QFY25. The new outlets have responded well to the core and new portfolios.
- The company expects volume trends to maintain the upward trajectory, supported by stable retail inflation, a favourable monsoon season, and government budget allocations aimed at boosting the rural economy.
- Over 90% of the business maintained market share and penetration on a MAT basis.
- Competitors have intensified their activity at the lower end of the market by offering attractive pricing.
- The company aims to deliver double-digit revenue growth in FY25.
- Brands, such as Aloe and Jasmine, which play in the mid and premium segments, grew well ahead of the category.

Material costs, margin and guidance

- Mild inflation is anticipated for certain commodities, especially copra, in the second half of the year.
- The company might implement another round of price increases if copra prices rise further.
- The Digital-First brands are striving to achieve double-digit EBITDA margin by FY27.
- Beardo is expected to hit double-digit EBITDA margin in FY25.
- The company had an 800bp correction in its margin in the Food business last year.
- The company is concentrating on driving growth through investments rather than engaging in BTL spending and competing on pricing at the lower end of the market.

Segmental performance

Parachute coconut oil

- Volume was up 2%, impacted due to stock adjustment in GT.
- Volume offtakes grew 8% during the quarter.
- Gained ~100bp in market share on a MAT basis.
- The company expects that Foods and Premium Personal Care portfolios contribution will expand to ~25% by FY27 in domestic revenue.
- Flanker brands, such as Nihar Coconut Oil and Oil of Malabar, compete with regional brands and some heavily discounted national players.

Saffola edible oil

- Saffola edible oils delivered mid-single digit volume growth as RM costs and consumer pricing remained stable.
- Pricing growth is likely to pick up during the year, with Saffola oil price drops moving into the base completely from 2Q.
- Revenue declined marginally YoY, due to the last leg of pricing corrections not factoring in the base.

Foods

- Foods posted robust 37% value growth YoY.
- Saffola Oats delivered 20%+ growth, while the relatively newer franchises also scaled up on expected lines.
- The company launched Saffola Muesli with Flavour Pops in three flavors during the quarter, i.e., Kesar Crunch, Berry Crunch and Choco Crunch.
- True Elements and the plant-based nutrition portfolio of Plix maintained their accelerated growth momentum.
- MRCO aims to grow Foods at 20-25%+ CAGR to 2x of FY24 revenues in FY27.
- The company believes that to scale up foods, it needs to ensure some price points to drive growth, and Indianize flavors and offerings.
- The company plans to expand its breakfast cereals and snacking portfolio with the introduction of a new INR10 snacking product.

VAHO

- VAHO declined 5% in value terms amid persistent sluggishness and competition.
- Secondary sales and offtakes grew in low single digits.
- Mid and premium segments of VAHO continued to perform relatively better.
- Gained ~60bp in market share on a MAT basis.
- There is expectation of gradual pickup in FY25.

Premium-personal care

- Premium personal care sustained its strong growth trajectory in 1QFY25, led by the Digital-first portfolio.
- Beardo continued to scale well and on track to deliver double-digit EBITDA margin in FY25.
- Just Herbs and the personal care portfolio of Plix continued to gain traction.
- The Digital-first portfolio is expected to exit FY25 with ARR of INR5.5-6b and scale to 2x of FY24 ARR in FY27.
- The collaboration with Kaya is projected to generate a revenue opportunity of INR1b over the next four years.

International business

- Bangladesh registered 10% CC growth as the business stayed resilient and sustained its momentum.
- South-East Asia was flat in CC terms, as the recovery in HPC demand in Vietnam was offset by a weak quarter in Myanmar.
- MENA delivered 20% CC growth with the Gulf region and Egypt faring well.
- South Africa registered 28% CC growth, driven by the ethnic hair care segment.
- NCD and Exports posted 14% growth.
- MRCO maintains double-digit CC growth guidance over the medium term.

Page Inds — Neutral

Current Price INR 41,551

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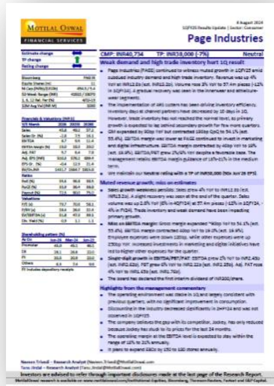
Performance and Outlook

- The operating environment was stable in 1Q and largely consistent with previous quarters, with no significant improvement in consumption.
- The company has seen better footfalls and a revival in demand.
- Discounting in the industry decreased significantly in 2HFY24 and was not observed in 1QFY25.
- Secondary and tertiary demand was ahead of primary demand.



- Inventory holding in the value chain has contributed to better secondary and tertiary numbers compared to primary.
- The company believes the gap with its competitor, Jockey, has only reduced because Jockey has stuck to its prices for the last 24 months.
- PAGE has a 17% market share, dominating the market.
- Inventory days decreased to 72 from 93 at FY24 end.
- Working capital days were 73, consistent with the end of FY24.
- The company is re-evaluating its previous guidance due to recent business turbulence and a challenging FY24.
- Accessories will contribute in high single-digits to total revenue.

Costs and margins

- Input costs, particularly for fabric and yarn, are not anticipated to put enough pressure on prices to necessitate an increase in FY25.
- Cotton prices remained stable and on the lower side.
- The operating margin at the EBITDA level is expected to stay within the range of 18% to 21% annually.
- Margins in e-commerce are comparable to those in offline business, though D2C channels typically have slightly lower margins due to higher marketing and delivery costs.

Segmental performance

- The women's innerwear market is more competitive, with a larger number of credible players in the branded sector compared to the men's innerwear market.
- To address the competitive women's innerwear market, the company has a dedicated sales vertical and an independent team for product design, marketing, management, and sales.
- The company has introduced new products, particularly in the athleisure category, at competitive price points to cater to value-seeking consumers.

Distribution channels and supply chain

- PAGE has a distribution network comprising 104,696 MBOs, 1395 EBOs, and 1,137 LFS.
- It plans to expand EBOs by 150 to 180 stores annually.
- The company is now focusing on its distribution network, with an emphasis on metros and tier 2 and 3 cities.
- Metros and tier-1 cities contribute just over 50% of the business, while tier-2 cities account for the less than 40%. The remaining business is spread across tier-3 and tier-4 cities.
- The e-commerce channel clocked 32% growth in 1Q.
- Quick commerce is a new venture for the company. Recently, it has expanded to four players and will soon start with two more.
- Since implementing auto-replenishment for primary billing to distributors, inventory levels have decreased by about six days.
- At the distributor level, inventory has decreased by over 10 days, especially for athleisure products.

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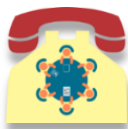

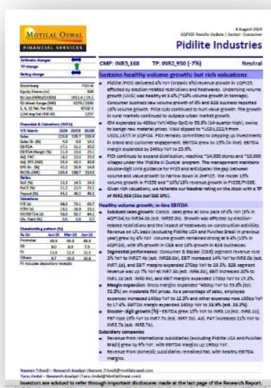

Pidilite Industries — Neutral

Current Price INR 3,059

Demand environment and outlook

- The demand has been subdued, impacted by election-related restrictions and heatwaves in many parts of the country.
- The management remains optimistic about demand, expecting a boost from a healthy monsoon season and the upcoming festive season.
- The management has maintained its guidance of double-digit underlying volume growth for FY25.
- UVG was 9.6% in 1QFY25, considering constant prices for all products. However, total volume growth was at 19%.
- There are demand challenges in Kerala, similar to those faced by the paint industry.
- PIDI aims to achieve growth of 1-2x of GDP in its core category and 2-4x in its growth category.
- The company implemented mid-single-digit price cuts in FY24 but has not made significant cuts in 1QFY25.
- Further price cuts may be considered if raw material prices decline.
- The gap between volume and value is expected to close in 2HFY25.
- Growth in emerging markets continues to outpace that in urban markets.
- There is double-digit growth in rural markets, with the B2C category performing well.
- In the rural market, 90% of revenue growth is coming from same-store sales.
- The management has projected that rural market growth will be 1.5x that of urban markets over the next 2-3 years.
- The current ratio of core vs. new category products is 55:45, compared to 80:20 about 7-8 years ago.
- In the B2B business, all three large verticals—Industrial, Pigment, and B2B projects—are performing well, with strong growth in the Pigment segment due to a low base, leading to an 18% UVG in 1QFY25. While this 18% growth is not sustainable, the company expects to deliver double-digit growth.

Cost and margin

- Gross margin expanded on moderate input prices.
- VAM's consumption costs stood at USD1,022/t vs. USD1,137/t in 1QFY24.
- EBITDA margin would be in the range of 20-24% for FY25.

Others

- Working capital remained healthy and in absolute terms, lower than Mar'24 resulting in strong cash flows.
- The company continued to invest in brands, upgrading and building new manufacturing facilities and expanding our distribution network.
- It has maintained its capex guidance at 3-5% of total revenue.
- PIDI continues to expand distribution, reaching 14,000 stores and ~10,000 villages under the 'Pidilite ki Duniya' program.

TATA CONSUMER PRODUCTS

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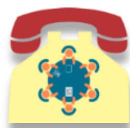

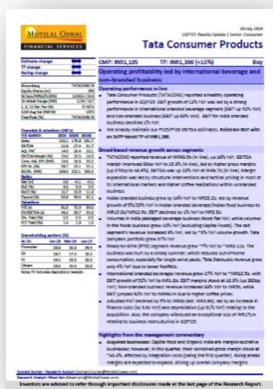

Tata Consumer Products — Buy

Current Price INR 1,177

India packaged beverages business

- The India Packaged Beverages business witnessed a revenue decline of 1% YoY in 1QFY25. Volumes stood flat on a YoY basis.
- The business was impacted by an intense summer in 1QFY25.
- Tea: Erratic weather patterns have affected tea production in India, leading to volatile prices.
- Coffee continued its strong trajectory and grew 28% YoY in 1QFY25.

India foods business

- The business registered 30% YoY revenue growth in 1QFY25, with LFL revenue growth (excluding Capital Foods) of 14% YoY. The segment recorded a volume growth (excluding Capital Foods) of 10% YoY during the quarter.
- Tata Sampann's portfolio witnessed another strong quarter with 37% YoY growth.
- The company did multiple innovations over the last few years, which are now driving strong growth (such as entering into branded dry fruit market). Currently, the company is doing INR700-800m run rate in dry fruits on e-commerce.
- Around 2/3rd of the business is coming from new launches (~12-18 months old products).
- Tata Sampann business margins are inching up every quarter.

India salt business

- The salt portfolio grew by 9% YoY during the quarter, led by ~8% YoY volume growth.
- Value-added salts grew 35% YoY, in line with the company's premiumization agenda.
- The company witnessed market share gain in salt during the quarter.

Ready-to-drink (RTD)

- RTD segment witnessed revenue growth of ~7% YoY to INR3.1b on the back of a high base (up 60% YoY in last year).
- The strong summer hurt category demand due to a reduction in out-of-home consumption, especially within the single serve packs.
- Further, in Gluco plus, the company did not react quickly on pricing (to be in line with competition), which resulted in lower sales.
- Tata Copper maintained strong growth momentum (up 22% YoY).
- TATACONS recent introductions such as Tata Spring Alive and Himalayan Saffron continued to perform well.

Capital Foods and Organic India

- Capital Foods/Organic India revenue stood at ~INR1.6b/INR0.7b in 1QFY25.
- Newly acquired businesses witnessed decent performance in 1Q despite channel inventory clean-up in Capital Foods and the integration phase in Organic India.
- Combined gross margin for both these businesses stood at ~48.4% (margin accretive for the company).

JV: Starbucks

- Tata Starbucks revenue grew 4% YoY in 1QFY25 as heatwaves affected business.

- The company added 17 new net stores in 1QFY25, taking the total count to ~438. Starbucks entered four new cities during the quarter, taking its overall presence to 65 cities.

Non-branded business

- Non-branded business (including Vietnam in constant currency) revenue grew 32% YoY in 1QFY25 on account of higher coffee realizations across soluble and plantations.
- The soluble and plantation business witnessed ~34% YoY revenue growth each in 1QFY25.
- EBIT margin for non-branded business increased by 600bp YoY on account of unprecedented coffee prices. Volatile coffee prices remain a key monitorables.

New distribution channel

- The company has brought in new distribution channels, such as pharmacies and food services.
- Pharmacies: TATACONS now has a portfolio well suited for the pharma channel. It has initiated a pilot in six cities. It is entering this channel to sell premium products such as premium coffee, tea, salt, sauces, etc.
- Food services: Key customers under this channel include HoReCa, corporate canteens, and B2B. The company has planned pilots in two cities. Noodles, Soups, Ketchup, etc. will be more suitable in this market. Companies in developed countries follow this channel.

International operations

- The international business maintained healthy growth momentum, growing 8% YoY (in constant currency) with a 420bp EBIT margin expansion, led by structural interventions and tactical pricing.
- US business – Coffee revenue declined 4% YoY (constant currency) due to category headwinds in K cups. Tea business witnessed 8% YoY growth (constant currency).
- UK business revenue grew 14% YoY (constant currency). The business saw strong improvement in EBIT margins, driven by operating leverage and structural interventions.

Other highlights

- India Foods includes Capital Foods; India Beverages includes Organic India
- Proceeds from right issue will be used to repay short-term financing raised for acquisitions
- Higher amortization due to acquisition (quarterly charge of amortization was INR550m and will continue going ahead) and higher finance costs (led by drawing up bridge financing for acquisition) led to lower profitability.
- The A&P-to-sales ratio increased to 7.8% in 1QFY25.
- Growth business is now 29% of India Business with 66% YoY growth (20% organic) in 1QFY25. Growth business mix is still lower than anticipated (30%) due to lower sales in NourishCo.
- North India tea prices were 16% higher YoY for the quarter due to drought, while South India tea prices were 4% higher YoY.
- Arabica prices continued to inflate during the quarter. Robusta prices touched record highs during the quarter due to global supply shortages. Averages prices for 1Q were 57% higher YoY.

- E-commerce business grew by 61% YoY in 1QFY25, with ~35% of business coming from quick commerce.
- India Branded margin impacted by extra A&P spending during the quarter as it added feet on the street (increasing the sales person).
- Historically, the company had ~11-12% contribution from e-commerce and 14-15% contribution from modern trade.

United Breweries — Sell

Current Price INR 2,009

Environment and outlook

- The volume growth was limited to 5% due to election-related restrictions and the lack of approval for inter-state transfers. Management believes that without these impacts, the volume growth would have been 8-9% in 1QFY25.
- Volume growth was driven by Karnataka, Andhra Pradesh, Uttar Pradesh, Maharashtra, Haryana, and West Bengal, partially offset by a decline in Telangana and Delhi.
- Price increases in multiple markets incl. Rajasthan, Karnataka, Andhra Pradesh, Maharashtra & Tamil Nadu.
- To drive volume growth, the company plans to focus on innovation, deeper understanding of consumers, and investment on stores.
- The company expects high single-digit volume growth in the category and double-digit revenue growth over the long term.
- The price of beer has increased significantly due to the duty increase, making it a challenge to price for commodity change fluctuations.
- The company is operating at a lower margin of 50-70% vs. its potential, due to the complex pricing regime with the government.

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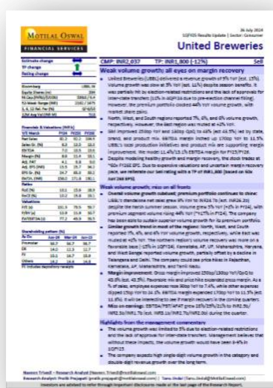
United Breweries

Costs and margins

- GP margin expansion is driven by state mix, brand mix, product mix, and strategic revenue management.
- Manufacturing locally will improve margins. The company sees potential for margin accretion with their plans to continue investing behind their brand and capabilities.
- The company's EBIT margins are currently ~6% in India, but expected to reach 10-11% in the next two to three years.

Supply chain and Market share

- The company experienced supply chain disruptions due to election restrictions in certain states, which led to a loss of market share.
- The company lost almost 200bp of market share due to election restrictions in Andhra Pradesh and other states, which prevented them from exporting and manufacturing locally.
- The company also lost market share in Telangana, Rajasthan, and Odisha due to capacity and election-related issues, resulting in a loss of almost 10bp of market share in Telangana. However, it is back on track with market share in June and ahead in July.
- The company gained market share nationally in their premium portfolio, which was less reliant on interstate transfers.

- UBBL is increasing its footprint in local production, which has led to growth in the premium segment, particularly in states where it has started producing locally, such as Odisha.
- The company's intention is to gain market share within the premium segments.

Product development

- The company launched Heineken Draft and is gaining distribution for it.
- The launch of Heineken in Karnataka was successful before local manufacturing began.
- The company is working to launch Heineken in Delhi.
- The launch of Heineken Draft is expected to drive 100-200bp of share growth every quarter in the premium segment.

Others

- The company plans to triple their investment in capex over the next 12-18 months for building their own brewery and brownfield expansion.
- In M&A, the company's focus is on backward integration opportunities to achieve a better sustainable cost structure.

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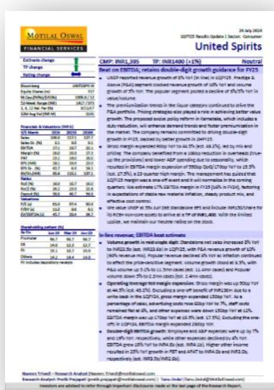

United Spirits — Neutral

Current Price INR 1,432

Operational environment and outlook

- Demand continued to moderate and remained slower than it was two years ago. However, the last couple of quarters showed slight improvement.
- In alcohol, consumer spending remains relatively slow but more selective, with a preference for brands that offer a strong price-value proposition.
- Green shoots are emerging in the economy, driven by rural consumption recovery and the expectation of a normal monsoon, which may lead to consumption revival going forward.
- The premiumization ladder is intact, but below the company's aspiration and what was experienced in FY21-22 and FY22-23.
- The price mix was 4.8%, contributing to an overall portfolio NSV growth of 8.3% for the quarter, with P&A growth at 10.1%.
- The company maintains that the price mix as a whole, the volume value delta, will stay in the range of about 6-8% on a full year basis.
- New excise policies have been released across the northern, central, and eastern states. The company also received some headline pricing in a few states.
- Revenue growth is expected to be high-single digits in 1H and double digits in 2H. Overall, the management expects to meet its double-digit growth guidance for FY25.

Costs and margins

- ENA continues to experience inflation, while the rest of the commodity basket remains stable. The ENA inflationary trend is expected to continue for the next couple of quarters.
- A&P spending during the quarter was 7.4% of net sales and is expected to increase going forward.
- The company benefited from a 100bp reduction in overheads (true-up the provisions) in 1Q. Lower A&P spending due to seasonal business trends resulted EBITDA margin expansion of 170bp YoY to 19.5% which will normalize to 16-17% going forward.
- The Supply Agility Program started delivering 40% of its benefits in FY24, with the remaining benefits expected to come in FY27-28.

Brands/new launches/re-launches

- The Antiquity trademark continues to build stronger equity with consumers.

- The company has launched the 375ml pack in the hipster format for Royal Challenge American Tribe in key markets, Uttar Pradesh, Telangana, and Assam.
- UNSP launched a renovated McDowell's Number One whiskey with a new brand world and retail toolkit.
- The company launched the McDowell trademark X series, a range of whites including vodka, Gin, Citron Rum, and dark rum, operating in the upper prestige price segment.
- Blue Label has scaled up in key markets, including Delhi, Mumbai, Bangalore, and Hyderabad.
- Don Julio has seen strong initial consumer traction and growth across states. Premiumization is evident, with Don Julio Reposado growing faster than the entry-level Blanco. Significant activations include partnerships with Marriott Bonvoy and American Express, bringing the world's number one restaurant from Lima, Peru, to India.

New policy in Karnataka

- The new policy in Karnataka suggests slab changes with a reduction in duty, which is a positive development. However, the rollout of the new policy has been put on hold as the industry awaits further clarification.
- Changes in excise policy will help to revive demand in the state and enable some premiumization of the spirits category, which is currently heavily skewed towards the lower end.
- By Aug'24, UNSP expects more clarity and a return to normal business in Karnataka.
- The policy announcement is positive and should drive some premiumization, but the product will remain relatively expensive compared to other markets.

Varun Beverages — Buy

Current Price INR 1,545

Volume Performance

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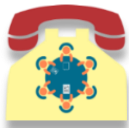

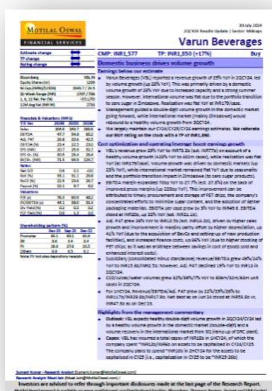

- The India market witnessed a strong volume growth of 22.9% supported by expanded capacities, enhanced distribution network, and a strong summer season. However, there is an effect of lower out of home consumption in this quarter. The company is confident of growing in double digit volume growth in India going ahead
- International markets remained relatively flat; moreover, it was a seasonally weak quarter for the African market. Besides, volume in Zimbabwe was affected due to portfolio transition to zero sugar without affecting profits. The management has guided 3Q to witness healthy volume growth
- BevCo did volume of ~28m cases in 2QCY24 vs. full year volume of ~112m cases in CY23.
- Volume mix for the quarter was 76%/ 8%/ 16% for CSD/Juice/Water in 2Q.
- Net realization per case was flat due to consolidation of BevCo (realization per case for own brands is lower). Also South Africa has lower realization while DRC will have higher realization
- ~46% of consolidated sales volumes came from Low sugar / No sugar products in 2Q. Of this, majority will be in the International market
- In 2Q, the company Increased the growth in juice and CSD while deliberately kept the growth lower in Water as it's a lower margin business. Water sales has increased only in Morocco as there the realization is high

Operational Metrics

- VBL has enhanced capacity of preform manufacturing, with majority of preform requirement now being manufactured in-house leading to shifting of conversion costs from COGS to other expenses.
- Depreciation increased by 41% in 2Q on account of acquisition of BevCo and setting-up of new production facilities.
- Finance cost increased by 86.2% in 2Q primarily due to new production facilities, acquisition of BevCo as well as increased cost of borrowing. Also, higher stocking of PET chips (~INR2.5b) was an arbitrage between savings in cost of goods sold and partial offset with enhanced interest cost. This will be normalized in couple of months
- Net debt stood at INR58.8b as on Jun'24vs INR47.3b as on Dec'23
- Working capital days increased to ~33 days as on Jun'24 from ~21 days as on Jun'23. This increase is attributed to strategic purchasing of pet chips in India and in-organic expansion in the new markets (BevCo and DRC plant).

New Ventures and International Expansion

- VBLL further expanded its partnership with PepsiCo by entering into an Exclusive Snacks Franchising Appointment to manufacture, distribute, and sell "Simba Munchiez" in Zimbabwe by Oct'25 and in Zambia by Apr'26. This follows VBL's recent announcement to manufacture and package Cheetos in Morocco by May'25. These agreements complement the company's existing distribution of PepsiCo's portfolio, marking another significant step forward in their strong, symbiotic partnership.
- In next couple of years, the company expects to earn USD100m from these geographies
- VBL would not be entering into snacking business in India on its own.
- The company commenced commercial production of CSD and packaged drinking water at greenfield facility in DRC. With the region representing an untapped market for PepsiCo, this expansion offers a huge growth opportunity for the company. DRC will be big opportunity as it's a 100m population and its situated on equator I.e. summer all year

Capex

- Total capex in 1HCY24 was INR18b of which the company spent ~INR12b for capex of CY24, ~INR6b for capex of CY25.
- During 1HCY24, the net capex capitalized amounting to INR30b (excluding BevCo assets) includes: 1) setting up greenfield production facilities for INR24.5b (location-wise split is Supa (Maharashtra) for ~INR10b, Gorakhpur (UP) for ~INR9b & Khordha (Odisha) for ~INR5.5b; 2) brownfield expansion in Morocco for INR2.5b including backward integration; 3) balance capex comprises International / visi-coolers / containers / vehicles / net of write-offs / forex fluctuation.
- As on Jun'24, the CWIP and Capital advances of ~INR12b are primarily towards: 1) INR4b for DRC plant which commenced commercial production in Jul'24; 2) ~INR2b for Phase 2 of Gorakhpur plant primarily for Juice / VAD lines expected to commissioned in 3QCY24; and 3) balance for capex for next year including brownfield expansion in other international territories.
- Net capitalization capex for CY24 is expected to remain around INR36b and capitalization in CY25 is expected to be ~INR25-26b.

- Capex outflow in 2HFY24 will be ~INR10b for capitalization to be happening in CY25

Outlook

- The company expects strong double digit growth in 3QCY24 led and indicated that the company is on track to deliver healthy double-digit volume growth in CY24.
- The company witnessed almost ~100% utilizations of plant in April'24 before commissioning of new capacities
- It maintains its long-term guidance given in the past

Others

- African market: The per capita consumption in Africa is 5-6x of India and population growth there is 2-3% p.a. (South Africa being the highest). PepsiCo is underpenetrated in Africa and VBL has only 2-2.5% market share there. Soft Drink is food in Africa vs. luxury in India, the population consume that every afternoon.
- Indorama JV will be operational next year and will supply the 30% recycled plastic requirement to VBL
- VBLL's market share: South Africa has low digit; 71% in Zimbabwe; 35% in Zambia and 30% water market share in Morocco.

- **The first quarter has seen a seasonally slow quarter, and most of the banks have reported slower deposit growth too in 1QFY25. We cut our growth estimates for several banks amid slower deposit growth and a higher C/D ratio across many banks and the system. Most of the banks have raised their deposit rate in 1Q, amid rising competition in deposits. Banks are still increasingly relying on the bulk TDs and CDs to fund their asset growth. The decline in industry-wide CASA mix led to higher funding costs. With rising costs, NIMs are likely to witness a mild moderation, albeit at a slower rate.**
- **PSU Banks have continued to report steady earnings led by improving asset quality. Opex growth normalized after elevated wage/pension provisions, which lasted until 4QFY24. The SMA pool continues to remain lower, while slippages from the restructured pool continue to remain lower. With healthy PCR and healthy contingency buffers, credit costs are expected to be lower, supporting earnings. Most of the banks have guided for lower credit costs amid healthy recoveries and contained slippages. While caution prevails on the potential increase in delinquencies for unsecured loans, it is anticipated that credit costs will remain under control in the coming quarters.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY25	Asset quality and collection efficiency
Axis Bank	▪ The corporate segment has driven Axis Bank's loan growth; bank has identified promising opportunities in corporate lending and is prepared to proceed as long as the underwriting standards are met. ▪ The bank anticipates deposits outpacing industry growth by 300-400bp in the medium to long term for deposits, targeting a 13% growth in deposits for FY25. ▪ The bank has 25bp of cushion in the NIMs, and currently it maintains a NIM of 4.05% and remains vigilant regarding deposit competitiveness in the industry.	▪ Fresh slippages were elevated as a result, GNPA increased by 11bp QoQ to 1.54%, while Net NPA inched up to at 0.34%. PCR stood broadly stable at 78%. ▪ In 1QFY25, the net credit costs did not reflect the full-year outlook due to timing differences. Approximately 55% of the increase was attributed to lower recoveries in the corporate portfolio. ▪ Excluding the 55% impact from timing differences, the effective credit costs would be 67bp (reflecting a 30bp impact).
HDFC Bank	▪ A key part of the strategy is focusing on deposits, which have fallen short of expectations due to seasonality. Net accretion is within the expected range, but there was a flow out of current accounts in 4QFY24, leading to a higher share of CA deposits. ▪ Borrowings plunged, amounting to INR750b in 4QFY24 and INR600b in the 1QFY25. Of the INR150b in commercial papers, a decrease occurred as they matured. 60% of the borrowings are scheduled to mature in the next three years. ▪ The bank is not bound by a specific LDR; lowering LDR lies in the bank's interest. ▪ In terms of the C/I ratio, it aims to stabilize the cost-to-earnings ratio with a downward trend, prioritizing longer-term targets over short-term pressures.	▪ GNPA/NNPA ratio deteriorated 9bp/6bp QoQ to 1.33%/0.39%. PCR dipped 283bp QoQ to 71.2%. ▪ HDFCB holds total provisions (contingent + floating) of INR273b/1.1% of loans. ▪ The bank holds INR50b in contingent provisions. Previous Covid provisions have been reallocated to ECL provisions.
ICICI Bank	▪ ICICI Bank has set no target for loan growth, and deposits will be sufficient to support this growth. ▪ Deposits remain tight, with wholesale deposits being even tighter, leading to some increases in deposit rates. Deposits are not a constraint for loan growth, although there is competition for advances. ▪ LDR is in the low to mid-80s and is expected to stay around these levels. ▪ Yields decreased despite an increase in the share of high-yielding products. Yields remained decreased due to high competition, with other private banks competing similarly in the corporate segment.	▪ Slippages were slightly higher at INR59.16b/ 2.2% owing to seasonal KCC slippages. GNPA/NNPA ratios stood broadly flat at 2.15%/0.43%, while contingency buffer remained unchanged at INR131b (1.1% of loans). ▪ The pace of recoveries in retail will vary, and a slowdown is expected. ▪ Credit cards make up less than 5% of the loan portfolio. The bank views this as a growth area and aims to expand in this business. Credit cost is currently at 50bp and should gradually normalize. Though predicting the long-term average is challenging, it is likely to be better than historical levels.

IndusInd Bank

- Loan growth is anticipated to be around 18-23% during the PC-6 cycle.
- IIB was cautious on disbursements in vehicle and microfinance during elections, and run rates have already picked up this month.
- NIM is expected to remain range bound at ~4.3-4.4%, and the bank will be able to manage NIM in this range.
- In other segments, the bank expects ~18-20% YoY growth in vehicle finance, 28-30% growth in retail, ~18-20% growth in mid-corporate, and ~10-12% growth in large corporates.
- The CD ratio stood at 87.2%, which IIB expects to maintain in the range of 88-90% going forward.
- Fresh slippages increased 7.6% QoQ to INR15.4b, primarily due to a rise in slippages in the consumer finance book to INR14.9b.
- GNPA/NNPA ratios increased 10bp/3bp QoQ to 2.02%/0.6%.
- The bank did not utilize any contingent provisions and held INR10b of contingency buffer as of Jun'24.
- The bank writes off loans according to the approved policy of the bank and it does not keep retail loans more than 180-240 days.
- 110-130bp is the credit cost expected by the bank, including having excess provisions on MFI and vehicles.

Kotak Mahindra

- On the RBI order, the bank demonstrated commitment, added resources, and laid down a formulated plan in consultation with the RBI.
- Due to the RBI order, there was no impact on existing business operations. However, Kotak 811 and the Credit Card business have been affected by the order. Other businesses are not entirely digital.
- Its customer assets grew 20% YoY/3% QoQ in 1QFY25. Due to leveraging on the customer side, credit card growth was not healthy for the industry.
- The bank is making efforts to build the deposit franchise across all of its businesses and get deposits at low cost with sustainable growth. A majority of the repricing has been done.
- CoF will move up, but the move will ebb gradually vs. the past trend.
- GNPA/NNPA ratios remained stable at 1.39%/0.35%. Credit costs stood at 55bp.
- The bank will maintain prudence in its underwriting approach, ensuring quality without compromising standards.
- Credit remains benign on the corporate side. On the secured side in retail, there is no issue.
- Unsecured retail advances (including retail microcredit) as a % of net advance stood at 11.6% in 1QFY25.

SBI

- Bank delivered a healthy performance with 16% credit growth and guides for 15% growth, backed by broad-based sector growth. The CD ratio is expected to be 70%, potentially rising to 72%.
- The bank is happy to garner deposits as long as the rates remain comfortable.
- The bank expects NIMs to stay at the current levels, with an expected variation of +/-10bp. In terms of asset quality, there is no sign of stress buildup, as underwriting remains strong, with some slippages in the agricultural sector.
- Infra bonds amount to INR600b, and the infra book is INR3t, with ample scope for expansion. The bank is exploring multiple channels for growth in this segment.
- The rate increase for term deposits in the past 1-2 quarters has impacted the cost of deposits, leading to an overall increase in costs.
- GNPA ratio improved 3bp QoQ to 2.2%, while NNPA ratio was flat at 0.6%.
- The restructured book declined to INR160b (0.4% of advances), while SMA 1/2 portfolio stood at INR46b (12bp of loans). The bank guides FY25 credit cost at 0.5%.
- Slippages mounted in 1Q due to aging provisions in standard assets and some delays in salary credit for unsecured personal loans. Slippages are typically higher in the first quarter, but they were lower in 1QFY25 than in 1QFY24. There are no signs of concern as underwriting remains strong, with some slippages in the agricultural sector.
- The temporary increase in GNPA in Xpress Credit should recover significantly. Digital credit in Xpress Credit is being strengthened.

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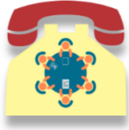
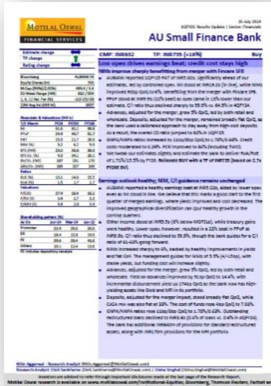
AU Small Finance Bank — Buy

Current Price INR 625

Opening remarks

- The bank has submitted an application for a universal banking license, marking a significant milestone as such licenses are hard to obtain.
- Efforts in MSME, credit, affordable housing, and skill training will benefit both the country and the bank in the future.





AU Small Finance Bank

- On the business front, the focus will be on lower-cost deposits. Deposit costs have decreased by 7bp, with the bank prioritizing cost over volume, resulting in flat QoQ deposit growth.
- The bank is on track, and the full realization of its deposit franchise will be seen over time.
- The asset strategy is well executed, with a focus on high-yield assets, targeting 60,000 disbursements, 20% of which were achieved in 1Q, yielding a higher rate of 15.8%.
- VF, SBL, MFI, and AFH have shown promising numbers, with disbursements positively surprising in 1Q.
- Asset quality remains strong, with normalized credit cost expected to be between 1.1% and 1.15%, staying within the guided range for the rest of the year.
- The merger is progressing well in terms of people, product, and technology integration.
- 1Q has been promising, and the application for the universal bank adds further optimism.
- The focus will be on branch banking, with significant efforts directed toward the deposit franchise. Feedback from the MFI business indicates a heated market, necessitating corrective measures.
- MFI will constitute 10% of the loans, with 3% provisions allocated for this segment.

Labilities

- The liabilities book remains at the same level as FY24. The decision to maintain deposits was a strategic move to improve the cost of funds in 1Q. As part of this strategy, the bank chose not to renew INR10b of deposits, mainly from Fincare SFB.
- The liquidity situation is being closely monitored and remains tight.
- The financialization of savings is in its early stages and is expected to grow. The market size in CA will continue to expand, driven by MSME and SME sectors.
- Granular savings are fundamental for overall savings.
- There is a sustainable opportunity for deposit growth in India, supported by a well-seasoned and dedicated team for raising deposits.
- The corporate deposits team has been restructured to focus on the salary and SME segments.
- Deposits are expected to grow by 25% in FY25, with close monitoring of the liquidity situation.
- The bank aims to increase CA as a percentage of overall deposits, leveraging AD1 products to improve in the SME sector.
- As part of the Fincare integration, 136 Samridhi branches have been converted into AU SFB branches, with existing customers to be migrated by the end of the year.
- 11 new branches have been opened, and new products have been launched to attract deposits.
- The bank will adapt to market conditions, closely monitoring rates and the liquidity situation.

- The focus is on raising low-cost, stable retail deposits by engaging with customers.
- At the merged level, the savings account CoF is 5.59%, down from 5.8% in Mar'24, as the bank adjusted savings rates for calibration. The term deposit (TD) rate has been reduced to 7.92% to accommodate Fincare deposits.
- The LCR is 115-120%, and the ALM is in good shape, with no large wholesale book. CASA and retail TDs, which are not callable, stand at 84%.

Advances

- The asset strategy is well-aligned, with volume, yields, and asset quality remaining stable.
- The CD ratio stands at 4%, indicating potential for deposit growth.
- The main challenge lies in cost, not deposits. The bank can build INR250b of deposits, though this may come at higher costs.
- Currently, asset growth is not facing significant risks.
- In the previous Q1, the bank did not grow deposits, but with expanded distribution, it can now grow deposits at a healthy pace.
- Throughout the year, the bank will focus on raising deposits.
- Due to the cyclic nature of the MFI business, the bank aims to maintain the MFI portfolio at 10%.
- Regarding the CD ratio, the regulator has its definition, and assets that have been refinanced are not in a safe zone. The CD ratio is 84%, and the RBI is content with it being at 85%.

Universal banking license

- The bank plans to apply as soon as possible (in Aug'24), having received board approval on 25th Jul'24.
- As SCB, the bank is already compliant with regulations, so there will be no complex regulatory changes.
- The transition guidelines are very clear, and the chairman will personally oversee the process.
- Transitioning to a universal bank will not involve significant changes, though as an SFB, there has been less trust in the franchise. The board will make the final decision.
- Brand acceptance will improve, and the bank's presence in various regions will lead to better growth in both geography and products.

Yields, cost and margins

- The bank has a healthy RoA and aims to maintain its RoA at 1.6%, with no impact of uncontrollable variables.
- The bank has successfully redeemed high-cost deposits, leading to reduced costs in 1Q.
- NIMs are expected to be in the 5.5% range (+/- 15bp).
- Yields have increased since the start of 4QFY24, particularly in Wheels and MBL segments, and other peers have also raised yields to offset rising costs.
- The increase in yields does not imply higher risk.
- Market intensity in yields has decreased. The bank has regrouped and focused on higher-yield assets, a strategy that has been effective in the past two quarters. If there are no rate cuts moving forward, the bank can improve its yields without impacting asset quality.

- The gold loan portfolio has moved to the Fincare strategy unit under Rajeev's leadership. Fincare has been building the book at a 16% rate, and the strategy is to grow this book. Gold yields have been in the 16-16.5% range, and with the introduction of technology, gold loans will be rolled out to AU SFB branches.
- Credit card yields have improved due to a better performance in the term book, with revolve rates remaining stable over the past few quarters.
- Endeavour is to sustain the disbursements, and yields should be maintained.

Asset quality

- The bank has 93% coverage on its overall MFI book, with total provisions (excluding write-offs) of INR670m, accounting for 70%.
- MFI saw cyclical trends in 1Q, with lower collection efficiency due to elections, heatwaves, and increased customer leverage.
- No state accounts for more than 12.5% of exposure, and except for one district, no district exceeds 2% of the overall exposure.
- Credit cost was at 0.22-0.23%, with an additional 0.7% set aside as a special provision. The bank expects credit cost to stabilize at 1.1%.
- The bank has been building contingent provisions, with a stringent policy of 100% provision on 180-day credit cards. The bank is comfortable with its aggressive recognition and provisioning policies.
- Contingency provisions for the MFI business have been created, with 3% set aside for MFI advances.
- Credit cost guidance was at 1.1%, with net credit cost at INR2.8b, translating to 1.28% credit cost.
- Write-offs were predominantly higher due to MFI and credit cards.
- In the last quarter, the bank mentioned calibrating the credit card business, with minimal activity of new cards issuances at 75k. The full-year target for credit cards is 500k.
- Credit card credit cost stands at 6.5-7%.

Opex and other income

- Opex is cyclical, with some appraisal costs incurred in 1Q. The CI ratio is expected to be in the range of 61-63%.
- The last quarter included one-off expenses due to the merger with Fincare, making 1Q sluggish in terms of overall opex.
- Fees: Overall fees reached 1.7% and are expected to remain at this level. Other fees are decreasing, and processing fees and AD income are also expected to increase; gaining traction in AD1.
- PSLC fees: Each quarter is evaluated, and there is an opportunity for assignment and securitization, with demand primarily from the SMF book. However, there is currently limited scope for selling SMF, as PSL offers little potential for other income.

Click below for Detailed Concall Transcript & Results Update

Axis Bank — Neutral

Current Price INR 1,175

Opening remarks by the management team

- Achieved higher growth and increased market share in certain advance segments.
- The bank remains well-capitalized and continues to pursue growth effectively.
- Management remains focused on executing the GPS strategy.

- New corporate salary accounts grew 39% QoQ.
- NTB accounts opened reached a historical high for the bank.
- The bank's ongoing focus is on driving growth in business segments.
- Open by AXSB is rated among the top mobile banking services.
- The integration of Citi Bank's business was completed in Jul'24, two months ahead of schedule, acquiring 2m customers and completing a smooth transition.
- The successful integration program demonstrates the strength of the brand.
- Open saw a 55% increase in deposits and introduced a new FD journey this quarter, achieving significant volumes.
- Rural advances rose 24%, and deposits from Bharat branches grew by 9%. The balance sheet size has doubled over the past two years.
- Management anticipates that deposit growth will drive credit growth, and it is expected to be in the range of 12-13%.
- In the first quarter, AXSB's operating performance was on track. NIMs stood at 4.05%, NII grew by 12% year-on-year and 3% quarter-on-quarter, fee income grew by 15%, with granular fees accounting for 93% of the total. Operating expenses decreased by 2% QoQ.
- Cost to Assets was 2.4%, net credit costs increased 47bp to 0.97%. The increase in net credit costs in 1Q was due to certain timing differences.
- Seasonal factors affected Agri loans, with 55% attributed to lower recovery rates, which is likely to improve.
- Profit after tax grew 4% YoY. NNPA declined 7bp, and PCR remained flat at 78%.
- ECL provisions included INR50.12b in extra provisions, providing a cushion of 40bp over the reported capital ratio.
- The bank is not in need of capital in the near term.
- Interest reversals QoQ were offset by an increase in IT refunds in 1Q.
- RIDF bonds decreased INR98.5b, comprising 1.4% of overall assets compared to 2.3% as of Jun'23.
- Fee income improved in the wholesale business, reflecting its strength.
- The bank opened 50 branches in the first quarter.
- The decline in operating expenses was due to a decrease in other operational expenses.
- The bank infused INR2.5b into Axis Securities during 1Q.
- Axis Capital completed 22 investment banking deals.
- The bank holds a 19.02% share capital in Max Life.
- Gross slippages increased due to small accounts under INR1b. Filters have been implemented for retail.
- Gross slippages breakdown: Total INR47.93b, comprising INR42.29b in Retail, INR1.78b in CBG, and INR3.86b in Wholesale. In 1Q, 32% of gross slippages were from borrowers whose accounts were upgraded during the quarter.

Margins related

- Margins experienced a normal reversal due to slippages, with any additional reversal offset by an increase in income tax refunds.
- The bank maintains a 3.80% NIMs rate and remains vigilant regarding deposit competitiveness in the industry.
- There is a 25bp cushion in the NIM. As long as the bank achieves profitable growth, it will continue to expand. Deposits may constrain credit growth. The

bank is committed to ensuring growth does not come at the expense of profitability. Improving the deposits franchise is a priority; acquiring the right deposits at the right price will sustain its growth trajectory.

- The integration has been successfully completed ahead of schedule. The bank has exceeded its previous guidance, with synergies benefiting a significant portion of the portfolio.

LDR and opex related

- There has been an expansion in the LDR, primarily driven by corporate lending. The bank has submitted its LDR strategy, which has been well-received by the RBI, and the bank is aligning its operations with regulatory guidelines.
- Cost to Assets: The bank plans to continue investing in its franchise while maintaining the ability to tighten belts. Expenses grew 29% YoY and are expected to see moderate growth through FY25.

New investment guidelines

- New investment guidelines had a net positive impact of INR12.19b, reducing the RoE by 82bp and RoA by 7bp. However, CET 1 improved 14bp.
- Investment yields have improved, with the AFS reserve now at INR 17b. This has resulted in a higher yielding portfolio.

Advances and deposits related

- Loan growth is driven by the corporate segment. The bank has identified promising opportunities in corporate lending and is prepared to proceed as long as the underwriting standards are met.
- The focus sectors are MSMEs and mid-sized corporates, which will sustain strong growth while adhering to underwriting standards. Currently, MSMEs and mid-sized corporates comprise 21% of the portfolio and are expected to expand further. Other segments of the portfolio face pricing pressures.
- Retail assets have grown by 18% year-on-year. The commercial banking business continues to show robust growth, with retail assets also poised for expansion.
- Regarding credit growth and personal loans, the bank will carefully manage growth. In the first quarter, the bank saw growth in cards, which were previously limited to customers with 1m and above. The bank will continue to calibrate growth in selected segments to enhance performance.

With respect to asset quality

- In 1QFY25, the net credit costs did not reflect the full-year outlook due to timing differences. Approximately 55% of the increase was attributed to lower recoveries in the corporate portfolio.
- The credit costs remained below the cycle average and are expected to gradually increase from these lower levels. There are currently no clear signs of stress in the portfolio.
- At the portfolio level, no thresholds have been breached in the corporate segment.
- The BB and below category has increased by INR6b; investments without ratings fall into this category. BB and below shows positive MTM value, exceeding their carrying costs.
- Excluding the 55% impact from timing differences, the effective credit costs would be 67bp (reflecting a 30bp impact). About 32% of gross slippages are linked accounts that are standard; as these slippages regularize, so do the linked provisions.

- Unsecured loans linked to unsecured accounts attract 100% provisions, leading to higher provisions.
- Slippages are uniform across various segments, with a notable increase in unsecured loans driven by high leverage. The key leading indicators remain within acceptable ranges, and the bank continues to monitor them closely.
- The credit card portfolio typically lags behind; the bank adjusts its portfolio based on RaROC and takes appropriate measures.
- The bank holds INR50b in contingent provisions. Previous Covid provisions have been reallocated to ECL provisions.

Miscellaneous

- RWAs have increased 300bp due to heightened operational risk, primarily observed in the first quarter of the fiscal year. Approximately 50% of this increase in RWAs is attributable to operational risks.
- Transaction banking fees have decreased, reflecting the proportion of clients' operational cash flows passing through these services. Many fintech customers prefer using APIs for transactions. The bank has introduced Neo for business and revitalized its corporate offerings, aligning with the evolving technological landscape rather than traditional business approaches.

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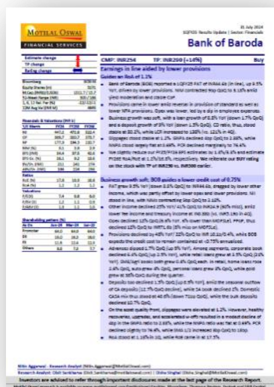

Bank of Baroda — Buy

Current Price INR 254

Opening remarks

- Global advances grew 8.1% YoY, domestic advances grew 8.5% YoY and International advances rose 6.5% YoY. Growth was muted vs. guidance.
- The percentage of investments in SLR Securities to NDTL as of Jun'24 was at 26.28%.
- BOB has continuously shed certain low-yielding assets and therefore advances growth was muted.
- Bank has reduced dependency on bulk deposits, deposit grown by 8.9% and it has grown more than advances.
- BOB is continuing with its CASA ratio at more than 40%, which is currently at 40.6% in 1QFY25.
- A dip in treasury income due to new valuation norms by the RBI led to a decline in operating profit.
- Yields on advances have moderated further whereas cost of deposits remained stable during the quarter.
- Asset quality, profitability, and growth will be the sequence of focus for BOB.

Advances and deposits related

- There is a reclassification benefit due to the RBI guidelines of ~INR20-30m and the bank has also reduced its bulk deposits in the current quarter.
- BOB has an LCR ratio of 138% in 1QFY25.
- Corporate loans declined, as BOB allowed some assets to mature. The bank has a strong pipeline in place in corporate book to expect an advances growth of 12-14%.
- Focus would be more on the retail side to protect the margins in future.
- Bank expects LDR ratio to be ~80-82% with a bias towards 80% going forward.

- ~30-35% growth in PL is expected and bank wants to grow more in Agri and MSME book. MSME will grow at ~14%-15%.
- Gold loan book base is low; focus will be more on retail gold loan as it gives more margins.
- Bank has received board approval for raising capital of INR70b in the current year.
- Deposits growth stood at 8.9% YoY as against guidance of 12%. The bank is reducing its dependency on wholesale deposit.
- RoA was at 1.13% for 1QFY25 as against the guidance of 1.1% for FY25.

Cost, margins and yields related

- Domestic Yield on investment has gone up due to new investment guidelines by RBI.
- Bank need to focus on fee based growth as processing fee has gone down and wealth business income has also seen a dip of ~30% and therefore fee based income declined.
- Recovery from written-off account last quarter was a one-off and is therefore very high which was low in this quarter.
- ~INR3b has been recovered from Government-guaranteed account and therefore provision has been reversed on this.

The RBI guidelines related

- Domestic investment book comprises 74.62% in HTM; 21.67% in AFS; 2.11% in FVTPL; 0.26% IN FVTPL-HFT and 1.34% in Subsidiaries / Joint Ventures and RRB'S.
- Adjusted for 1QFY25 profits, CET-1 would have been 13.53% and CRAR 17.27%.
- Impact on CRAR is 30bps due to new investment norms and stands at 16.82% ex-profit.
- There has been write back of depreciation and reduction in treasury gains due to new investment guidelines by RBI.
- Bank expects no substantial impact due to ECL guidelines.

Asset Quality related

- Bank's GNPA ratio improved 4bp QoQ to 2.9% and NNPA ratio stood at 0.7%.
- GNPA ratio for Housing loans (ex-pool) is 1.14%, Auto loans (ex-pool) is 1.48%; Personal loans is 2.54%; Retail Gold loan is 0.62% as of 1QFY25.
- PCR under NCLT accounts is 99%.
- PL is mostly to service class people and bank doesn't see any concern on the same. Bank has a stable outlook on asset quality of MSME.
- Slippage in retail has gone up due to seasonal factor and also one group asset which has dependency on subsidiary has gone bad.
- 1QFY25 credit cost stood at 47bps.
- Slippages guidance was 1-1.2% and current quarter slippages is at 1.05%.

With respect to Guidance

- Bank maintains previous NIMs guidance of 3.15% (+/- 5bp).
- Total advances growth is expected to be 12%-14% for FY25.
- Bank is expected to maintain CD ratio in the range of 80-82%.
- Deposit growth is expected to be ~10-12% with focus on casa deposit.
- Bank expects growth CAGR of 13.5% for next 5 years.
- Credit cost guidance is of less than 0.75%.

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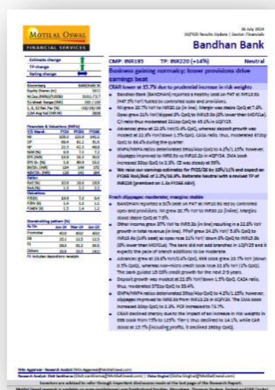


Bandhan Bank — Neutral

Current Price INR 204

Opening remarks

- Despite global uncertainties, India's macro indicators remained strong.
- Net advances grew 23.8% YoY supported by all-round growth across verticals. Deposits grew 22.8% YoY, supported by 24.9% YoY growth in retail TD.
- It added 0.8m customers during the quarter with the total customer base reaching to 34.4m (EEB – 25.8m, Non EEB – 8.6m)
- The Board is looking for a new MD and CEO; until then Mr. Ratan is appointed as the Interim MD & CEO for a period of three months from Jul'24.
- In this quarter, an all-round performance is seen in the bank led by healthy NII and other income.
- The bank has been able to protect its margin at 7.6% during the quarter.
- It focused on credit quality; especially the steps taken in Apr'23 have been seeing fruitful results.
- Launched Bharat QR code for the current and savings account customers.
- Leveraging data analytics to study customer behavior to enhance customer experience.
- The bank focuses on strengthening the senior leadership team; it has several members of experienced senior management.

Advances and deposits

- ~18-20% of credit growth guidance for the next 2-3 years and bank is aiming at faster deposits growth vs. advances growth.
- CASA growth was hit by the reduction from short-term CA balance of the previous quarter. CASA ratio stands at 33.4%.
- Focus is on growing the secured loans like housing and retail finance etc. The bank has sorted the problems in the housing book.
- Top 5 states in terms of geographical distribution of advances formed 59% of the total gross advances, of which West Bengal formed 24%
- CASA + Retail TD to total deposit continued to remained stable at 69%.
- About 39% of total deposits are contributed by West Bengal vs. 43% last year.
- Asset growth will happen both in MFI and secured books, but the % growth will be more for secured book that will led to an increase in the share in secured book.
- Stable outlook on NBFC MFI and growth there will be comparatively muted going forward.
- CD ratio stood at 94%, a key focus area. The Bank is following a liability-first approach and so expects the CD ratio to improve from hereon.

Margins, costs, and ratios

- NIMs improved to 7.6% due to reduction in slippage rate as well as due to focus on business.
- Despite pressure in Cost of funds, bank is able to protect its margins.
- RoA for 1QFY25 was at 2.5% and RoE at 18.8%.
- There were no one-offs in other income. In the market, there is pressure on cost of fund and bank is cognizant of this pressure.
- BANDHAN expects NIM to be ~7.0%-7.5% going forward.

- The yield on advances (YoA) stood at 16%. The shift towards a higher mix of secured assets led to a pressure on YoA, but this will be offset by lower slippages. YoA is expected to be ~15-16% going forward.
- As a part of the strategy, the bank will continue to invest in people, tech, branches and creating the key capabilities that are required. The bank is looking at the area of operational efficiency in the great detail. But as the operational efficient improves the C/I will gradually improve.
- INR0.6-0.7b of ARC recovery is expected in every quarter, and this includes the provision release.

CGFMU related

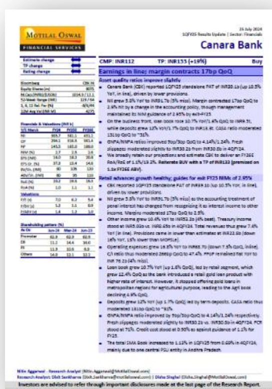
- Bank is waiting for the audit outcome and then only will take decisions on how to account for the same.
- CGFMU, the audit is in progress and should be completed very shortly. The bank is expecting the positive result.

Capital related

- In Jun'24, CRAR declined due to impact of increase in risk weights in EEB book from 75% to 125%. Impact of 362bp on capital adequacy can be seen due to this and accordingly CRAR for Jun'24 is 15.7%.
- Net worth stood at INR218.8b as on 1QFY25.
- CRAR (excl. profit) is at 15% and including profit, CRAR stood at 15.7%. Recomputed CRAR for Mar'24 will be 14.7%.
- BANDHAN is well capitalized for any further growth in assets.
- The bank found that there is a specific point for exemption of increase in risk weight for MFI in NBFC, but not for banks, and therefore BANDHAN has been conservative.

Asset quality related

- CE Pan-India stood at healthy levels of 98.7% in 1QFY25 (excluding NPA).
- CE stood at 98.5% for the EEB book.
- Bad debt recovery of INR460m is from the written-off account.
- For FY25, credit cost is expected to be ~1.8-2.0%.
- Credit cost of 1QFY25 is not indicative of full-year credit cost.
- PCR increased to 73.7% in 1QFY25 and bank is expecting it to increase this further going forward.
- Stress is coming from Punjab and Maharashtra but this is manageable.
- Steady decline in slippages can be seen and focus is to improve this from hereon but there will be an inherent risk of EEB DPD pool and therefore credit cost guidance is a little higher.
- Slippages totals to INR8.9b and EEB is INR5.43b in 1QFY25.
- In EEB segment – SMA-0 was INR5.8b an increase of 30bp due to less collection led by heat waves and general elections.
- In EEB segment- SMA 1 currently at INR4.2b/0.7% of loans, SMA-2 forms INR4.36b/ 0.7% of loans. Overall the reductions have been healthy.



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Canara Bank — Buy

Current Price INR 112

Opening remarks

- The global business touched INR23.1t growth; global advances grew 9.86% YoY; while global deposits growth stood at 11.97% YoY.
- Due to shedding of low-yielding assets and corporates, advances grew 11% YoY.
- CET-1 had 12.05% with a 55bp YoY improvement first time.
- Credit cost was at 0.9% with a decline of 20bp YoY.
- RAM sector touched 57% of the total book as RAM alone grew 12.26% YoY.
- The Bank currently has a global CD ratio at 73.04%.
- The RoA/RoE improved to 1.05%/20.88% in 1QFY25 as against the guidance of 1%/18% for FY25.
- GNPA/NNPA both improved 9bp/3bp QoQ to 4.14%/ 1.24%. PCR stood at 89.2%.

Advances and deposits related

- Retail advances grew 12.39% QoQ and agri declined 4.86% as the bank stopped offering gold loans in metropolitan regions for agricultural purposes. It has introduced a retail product in gold loan with a little higher rate of interest and lower LTV and this product received very well response in the metropolitan regions.
- The entire RAM business growth is solely derived from bank's brick-and-mortar branch outlets without portfolio buyouts or significant co-lending participation.
- Agri gold loan book yield was ~8.75%.
- The incremental deposit growth, excluding CASA, saw retail term deposit growth at ~7% and bulk deposit growth at ~7.5%-7.8%. The average cost of incremental deposits has risen above 7.5%, and is expected to persist for the next few quarters amid ongoing liquidity concerns and competition from mutual funds.
- Despite higher costs, deposits have grown over 11%, supported by the central government's sovereign guarantee. Meanwhile, the yield on advances has seen minimal change, primarily due to reclassification of penal interest income, resulting in a slight 6bps reduction to 8.66%. Further improvement in advance yields hinges on potential repo rate, as current corporate sector yields have peaked at an all-time high of 8.21%.
- ~INR190b is there under retail gold loan. ~INR960b in housing loan and INR170b in vehicle loan, INR160b under educational loan.
- 51% of the loan book is linked to MCLR, 38% RRLR, and the remaining is staff loan and loan against deposits.
- The savings bank initiative has started generating results and SB individuals have gone up at a healthy pace.
- The bank received funds of INR150b in the current account in the March quarter, which has been converted into bulk deposits now.
- CBK has already raised INR100b against infra bonds as approved by the Board.
- ~INR480-520b comes from institutional deposits, out of which ~INR220b will be of government.
- In case of NPL, we are making 100% provision specially in case of doubtful and loss asset, but if there are good security then they can make less provisions if new accounting system comes.
- Investment in MF of INR75b has led to increase in non-SLR as bank has surplus fund so they had put that in MF and CD.

Yield, costs, and margins related

- NIM in 1Q was low as it was calculated on the basis of the hour's business with initial quarter reflecting higher figures that tapered gradually. Management expects NIMs to be ~2.95% by exit-FY25.
- One accounting policy has changed and therefore Yields and NII were affected; earlier, the penal interest was shown in interest income and now it is shown in other income, and difference due to this has been ~INR1.5-1.6b.
- Last quarter, interest income from overnight deployment of surplus funds was INR20b, which has decreased to INR18b this quarter, resulting in a shortfall of INR2b that has affected NII.
- C/I have reduced to 47% as staff cost was very high in March quarter and all arrears has been paid at that time and now this has improved.
- The staff cost, as per the bipartite settlement, has been fully provisioned by the bank based on a 17% rate, and all associated expenses have already been accounted for.

Asset quality related

- Slippages break up: INR9b in Agri, INR12.2b in MSME, INR5b in retail and INR6b from Corporate including existing NPA.
- O/S restructured book is INR160b, out of which INR110b are standard asset and ~INR49b are ~5000days under NPA.
- SMA-0 increased due to one account which is central public sector undertaking based in Andhra Pradesh.
- Bank is trying of further reduction of ~INR1-2b reduction in slippages QoQ and is confident of reaching that.

Impact due to the RBI's investment guidelines

- Impact on yield on investment due to guideline is increase of 3bps to 6.94% from 6.91%.
- INR14b that got added due to guidelines, out of this INR11b is added on reserve and INR3b has gone to HTM.
- CET-1 is healthy and so bank has no need to raise capital, bank has taken approval of board to raise capital through AT-1 bonds of INR40b and tier-2 bonds of INR45b.
- Canara Robecco disinvestment is expected to come in 4Q which will support CET-1 further.
- Due to new investment guideline, there is no chance of shifting periodically from healthy maturity to available for sale and therefore investment has shown an improvement but at the same time treasury yields have to come down.

Guidance

- CBK gives guidance on a conservative basis and the bank wants to outperform on the guidance.
- CBK aims to maintain the guidance of 10% growth on advances and deposits.
- The bank guided NIM to be at 2.95% by exit-FY25.
- Management guides GNPA/NNPA of 3.5%/1.1% in FY25 and global PCR of 90%.

DCB Bank — Buy

Current Price INR 123

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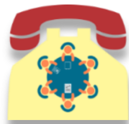

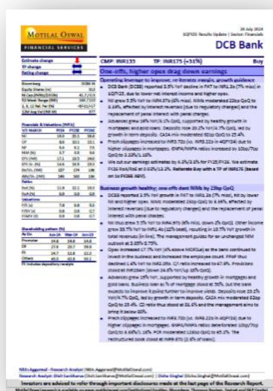

Opening remarks

- In 1Q, the bank's advances grew 19% YoY, while deposits grew 20% YoY.
- Mortgages (Home Loan + LAP), MSME/SME, Gold Loan, Co-lending, AIB, Construction Finance are expected to lead the growth.
- In CASA, the focus is on savings accounts; savings growth was 21% YoY. CASA improvement would be led by the digital channel and relationship manager-led engagement.
- LCR was well above 120%, which is the threshold use internally.
- On the non-financial front, the bank had two very important technology upgrades: 1) it upgraded the treasury system, and 2) from a cyber-security perspective, the bank upgraded the SIEM system.
- Mortgage products are undergoing a revamp. They will be reoriented to business loans. Moreover, the bank is reclaiming the INR5m-INR10m space very well within the MSME self-employed segment.
- Top 20 deposits came down to 6.88% of total deposits in a tight liquidity market.
- SME book will be more focused on the overdraft product than what it is currently.

Advances and deposits

- On the deposit front, the bank aims to focus on CASA, for which the bank has launched new products and announced an effective fintech tie-up, which resulted in an increase in SA deposits.
- DCBB has always been a playing key role in alliance and partnership and is involved in more than 10 co-lending partners. It also has relationships with many financial institutions.
- The bank has not seen any deterioration in the MFI book and the repayment is consistent.
- ~1.5-2% will be the yield difference between the customer taking business loan and the customer taking home loan.
- If EBLR rate is cut going forward, the bank will have savings deposits, in which rates can be cut to maintain margins.
- The transition from home loans to business loans is in process, which gives the bank additional yields.
- Construction finance book is ~4-5% of the total book.
- Bulk of SA account balances for the bank come at the lower bucket of the pricing band. The bank offers higher rates on higher ticket size to attract customers for SA.
- Repricing of long-tenor term deposits will continue until the middle of 3Q, after which there will be a stabilization in the cost of deposits.
- Movement from 50:50 business loans to higher business loans and a reduction in thread SME will lead to higher yields going forward.
- CD ratio stands at 81.6% currently and there is sufficient cushion. The bank expects it to be under 80% in the short term to have strong liquidity.
- Improving liability profile by focusing more on individual, then on institutions and entities.

- Business loan as % of mortgage is 50% currently, but the bank expects to improve it going further.

Cost and income

- NIMs moderated 23bp QoQ to 3.39%. NIM compression was a result of two components. One is that the bank is in the last leg of term deposit renewals and the other is that some regulatory changes in loans resulted in interest reversal, which was a one-time event and included replacement of penal interest with penal charges.
- Also, the bank has ensured that loan disbursal interests are accrued from the handover date and not necessarily from the disbursal date, and so on an ongoing basis, NIM is expected to go up as the bank expects this one-off to get eliminated.
- The pace of increase in the cost of deposits has come down and is expected to stabilize by the middle of third quarter.

Three drivers for NIM expansion going forward are:

- Rejig of the mortgage book, which would lead to higher quantum of business loans over home loans. The onboarding rate on business loans is significantly higher than that on housing loans.
- Focusing on overdraft SME at the expense of SME thread, which is a smaller-tenor loan at a lower yield. It will compensate with SME overdraft facility and a difference in the yield can be seen.
- As and when hybrid loans come up from fixed to floating, the bank gets the benefit of the increased EPLR, which is not being passed on because of the benchmark changing.
- The cost-to-avg assets is expected to come down to 2.5% in the near future.
- There has been a considerable usage of capital as the bank works on 53% RWA, which resulted in RoE being ~12.5x RoA.
- If the bank expects 20% growth, then the fresh infusion of capital would certainly happen.
- In case of a rate cut, the bank will ensure that there is a simultaneous drop in a similar rate on a savings account book, where the proportions would be similar. The bank has ~INR110b book on savings accounts and if that particular portion of INR420b of asset book were to have a benchmark-related reduction, the bank would see a similar reduction in a similar timeframe happening on the savings account book too.
- INR1.14b of fee income was primarily due to some good performances from the third party, distribution, processing fee, etc. It was also due to the penal charges coming to play instead of penal interest, which would otherwise come in as fee income.
- Salary increases were done in 1Q. The incremental frontline workforce hiring resulted in cost increases.
- Income coming from IPO financing also helped to increase core fee income, along with many one-offs. Core fee income is expected to reach the 1% mark going forward.
- The bank's hiring strategy is a lever to maintain productivity.

Asset quality

- GNPA/NNPA ratios deteriorated 10bp/7bp QoQ to 3.33%/1.18%. PCR stood at 76%.

- The bank has guided for GNPA of below 2.50% and NNPA of 1.00%.
- Fresh slippages increased due to higher slippages in mortgages; however, recoveries are expected to pick up.
- Collection efficiency is improving and the bank expects this to continue.
- DCBB has a vintage tool from which a recovery is expected to happen; ~INR7b of mortgage and SME recovery tool is there.
- The bank expects RWA to be in range of 53-54% going forward as well.
- It guides for credit cost at ~45-55bp.

Guidance

- The bank guides for RoA of 1% or above and RoE closer to 14% in the near term.
- It expects C/I ratio of 55% or below in the near term and the cost-to-average assets of 2.4% to 2.5%.
- DCBB aims to double the book in the next 3-4 years.
- The bank expects NIMs to be ~3.65%-3.75% going forward.
- Comfortable 19-20% growth in advances expected.
- The bank will continue to add the headcount to continue to fund the growth. The bank plans to add branches every year.

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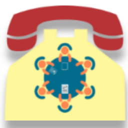

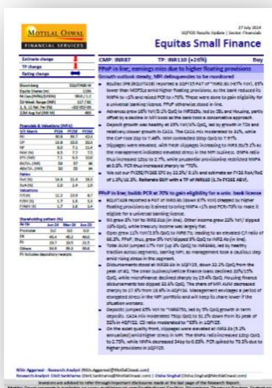

Equitas Small Finance Bank — Buy

Current Price INR 84

Opening remarks by the MD & CEO Mr. P. N. Vasudevan

- Deposit growth was healthy, with a surge in retail deposits. CASA growth remained robust.
- SBL experienced a 27% YoY increase, while MFI growth was subdued at 6% YoY; the bank was consistent with its strategy to keep MFI growth below 20%.
- The CD ratio was 86.75% and may slightly decrease in the coming period.
- The mobile banking app is starting to show results and has become a valuable source of leads.
- Disbursements were lower, resulting in a slow loan growth. Non-MFI loans grew 27%. July looks promising and should see improvements.
- Credit cost is elevated, with PCR rising to over 70% to meet the requirements of having NNPA below 1% and applying for the universal banking license.
- Adjusted for PCR, credit costs remained high due to weaker collections and the seasonally weak first quarter.
- 4.49% of slippages were from MFI and CV, with MFI contributing INR850m compared to INR350m in 1QFY23. Slippages in CV are expected to rebound, and MFI will need to be monitored.
- Slower disbursements in MFI have led to a decline in NIMs and yields.
- Credit cost for the first quarter stood at 1.44%, excluding floating provisions.
- Loan growth guidance is 25%, with 1Q at 17%. The rest of the year should achieve the 25% target.
- CI is expected to remain at last year's levels.
- For SBL, 45% of the book grew by 27%, with CE remaining at 99.3%. Micro LAP should be expanded.
- VF's used car segment grew by 59% to INR13.39b, with CE at 96.4%. Credit costs are slightly elevated.
- AFH grew 35% YoY, with CE at 99.2%. The second quarter, being the festive season, is expected to improve AFH performance.

- Mass banking and existing customers have led to an increase in retail TD.
- The NR book displayed positive signs and has deepened relationships, with the fee-based activity gaining attention.
- The AD1 license is seen as a key opportunity for increasing deposits.
- PCR is at 70.29%, up from 56% QoQ, and the management aims to maintain these levels.
- The total CRAR was 14.99% in 1Q.

Assets related

- In housing finance, disbursements occur in tranches based on the progress of construction, which generally results in smaller ticket sizes.
- There is a significant concern regarding MFI, and vehicle finance should return to more reasonable levels. Advances growth is not an issue, and PL and CC will be introduced once they are ready.
- MFI slippages are not showing any signs of improvement. If current practices continue, industry-wide challenges are expected, and greater discipline across the board is essential.
- If slippages remain high over the next 2-3 months, the bank may reduce its MFI share.

With respect to Yields, CoF, and margins

- NIM contracted due to an 11bp drop in the portfolio.
- Yields on housing finance book are at 12%.
- The goal is to achieve an RoA of 2.25%.
- The CoF is influenced by the cost of savings accounts and the volume of retail deposits, which have been repriced at higher rates. Consequently, the impact on CoF is only 2bp. In 1QFY25, the bank reduced interest rates by 200bp in some segments.
- Disbursement yields have increased; SBL was at 16.29% in 4QFY23 and has risen to 17.49%. VF was at 16.69%. This increase is primarily due to changes in the product mix.
- Yields on advances: Micro LAP yields are similar to those of the MFI book. A 5% decrease in MFI disbursements could lead to a 1.5% drop in yields. However, the bank plans to offset this by focusing on other high-yielding businesses.
- MFI yields stood at 25% for personal loans.

On Asset Quality

- The PCR was at 70%. While the bank had previously projected a credit cost of 1.25%, it expects to provide a more accurate forecast post-2Q.
- In response to collection stress, the bank increases its investment in collection resources. The SBL segment is performing well, but VF requires attention.
- Collection in July, excluding the bucket, remains stable. VF collection rates range between 95-99%, with the 94% rate in 1Q attributed to seasonal factors.
- MFI delinquencies are elevated. While MFI performance was stable last year, the past 10 months have seen increased delinquencies spreading to other regions. This issue may be linked to the recent RBI guideline changes, which could have led to over-leveraging and higher customer eligibility, resulting in increased delinquencies. A similar issue occurred in 2010. Maintaining discipline is essential in the MFI business across peers.

- Current slippage levels have not been seen since the demonetization period. Even during COVID, collections improved once the moratorium ended. However, recent months have experienced significantly higher slippage rates.
- Stress is observed in Punjab, Haryana, Gujarat, and some branches in Tamil Nadu and Maharashtra.
- The CE for July, excluding the bucket, has been 98.8%, and efforts are being made to increase it.

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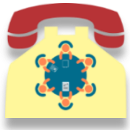

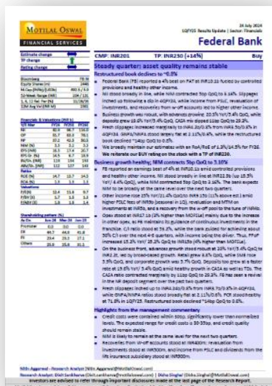

Federal Bank — Buy

Current Price INR 203

Opening remarks

- FB has achieved the highest ever PAT, NII, and other income during the quarter.
- The first quarter sets a strong foundation for FY25, with the bank experiencing significant business growth despite the challenging environment.
- Deposits growth was robust, driven by the launch of several new products.
- The environment is becoming more challenging, yet the bank has managed to grow and gain market share.
- Deposit growth outpaced peers, with NRE-led deposits growth rebounding and gaining momentum.
- The successor has been identified, ensuring the franchise will continue to grow at a solid pace.

Opex related

- The long-term target for the C/I ratio is 50%. Some costs, such as technology, personnel, and expansion, are considered beneficial. Income is expected to improve and approach the 50% C/I target over the next few quarters.
- The bank has invested in IT and distribution, focusing on making investments in the right areas.
- There are no one-off expenses in terms of non-staff operating costs.
- The new high-margin businesses are still growing slowly. The bank has a cautious approach to these parts of the business and is investing in collection costs. These businesses are not large enough to significantly increase costs.

Deposits related

- The bank added 114 branches last fiscal year and plans to add 100 branches this fiscal year, aiming to add about 40 in the first half and the remainder in the second half. BC and other models will help expand the bank's reach into deeper geographies.
- Deposits growth is very strong, at twice the system rate. Although NR deposits declined in the last two quarters, the bank is now back to growth path. Over the past 3-4 quarters, the bank has focused on frontline initiatives, with most deposits being branch-led. Various process improvements, digital advancements, and new products have also contributed to deposits growth.
- FB will launch new products every quarter and continues to gain market share in the deposits segment.
- Deposits growth has been strong while the cost of deposits has been declining. The bank aims to grow credit at a pace that does not exceed deposit growth. It avoids bulk deposits and has been successful in this strategy. The bank is also retiring high-cost borrowings, which is beneficial.

- Management is targeting high-quality deposits, maintaining an LCR band of 105-120%. It continuously calibrates its LCR and CD ratio.
- NR deposits decreased in the past few quarters, but the situation has improved as employees now target bringing funds into deposits rather than other instruments. Remittances, which previously did not convert into deposits, are now being deposited. FB's strong customer ownership has benefited this trend.

Asset Quality

- Credit costs were contained within 30bp, significantly lower than normalized levels. The business was undervalued for its conservative approach, which proved beneficial during difficult times. The expected range for credit costs is 30-35bp, and credit quality should remain stable.
- The mix of retail slippages was between INR2,100m and INR2,400m despite significant growth in the denominator. Book slippages were 0.8% in the first quarter, which were well below 1%. Of the total slippages, 60% was primarily from retail and nothing substantial that could harm the bank.
- The bank has not encountered any issues or triggers in the FLDG segment of microfinance.

Yields, costs, and margins

- Yields on advances decreased 5bp, although the high-yielding portfolio has increased. Comparisons with the first quarter are not applicable due to higher recoveries in the fourth quarter.
- FB has worked hard to balance risk and growth, aiming to be a banker rather than just a lender. In terms of margins, the bank is competitive with its peers.
- The cost of deposits has been reducing, largely due to a rise in the fourth quarter.
- NIMs are expected to remain at the same level for the next two quarters.
- The bank is targeting an RoA of 1.35%, up from the current 1.27%.

Co-branded cards

- For co-branded cards, the bank is in discussions with regulators and expects to receive the majority of clearances by the second and early third quarters. The bank is also working organically with its existing business.

New investment guidelines

- Between the investment revaluation and PSL, the net benefit is approximately INR900m, with investment revaluation netting INR450-500m.
- Recoveries from w-off account stood at INR400m, revaluation from investments stood at INR500m, and income from PSLC and dividends from the life insurance subsidiary stood at INR900m.
- New investment guidelines had an INR3,350m impact on reserves and surplus, net of tax, and resulted in an ~10bp improvement in investment yields.

Others

- The total number of employees stood at 15,500, with the majority being IBA-linked and only 10% not linked to IBA.
- The successor is of high quality, appointed by the RBI to the bank. His presence will greatly benefit the bank.
- Every first quarter sees inflows of PSLC and dividends, and this quarter did not record any significant amounts from the write-off account.

- The BBB and below ratings have decreased, as there were no revisions in the last quarter, which appears to have positively impacted this quarter, leading to improvement in the A and above book.
- Mr. Shyam Srinivasan does not intend to pursue roles at any other institution, after retiring from the bank.

HDFC Bank — Buy

Current Price INR 1,627

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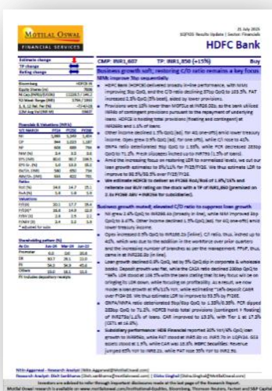

Opening remarks by the MD and CEO Mr. Sashidhar Jagdishan

- The bank is in a period of transition following the merger.
- A key part of the strategy is focusing on deposits, which have fallen short of expectations due to seasonality. Net accretion is within the expected range, but there was a flow out of Current Accounts in 4QFY24, leading to a higher share of CA deposits.
- Emphasizing period-end numbers creates unnecessary pressure, and the bank aims to avoid this. There is a steady secular trend in deposit momentum. The longer average tenure in deposits indicates stronger resilience.
- The bank will grow at a slower pace compared to deposit growth. Over time, the focus has been on profitable growth rather than just growth.
- The bank aims to reduce its LDR faster than market expectations.
- Since the merger, most metrics have remained stable, including NIMs, C/I, and GNPA. RoA has been in the range of 1.8% to 2.1%.
- Despite changes in the environment, such as competition and liquidity, and efforts to reduce the LDR, the bank has remained stable and delivered consistent performance.

Yields, cost and margins

- The bank does not engage in rate competition to attract deposits. Instead, it focuses on engagement and service delivery, emphasizing that the environment is more important than rates.
- The bank maintains disciplined pricing and wins customers through engagement and service delivery.

Deposits

- The bank added 2.2m relationships in the quarter.
- Monthly inflows, compared to last year, are 20% higher across savings, salary, and current accounts.
- Deposit market share has increased by 50-60bp annually over the past 3-4 years. Distribution market share stands at 6%. Half of the branches with a 10-year history have 30-40% higher market share than the average, and the goal is to further enhance this market share.
- eHDFCL has seen INR 1.5t in corporate, trust, and institutional deposits. Term deposits have decreased by INR 160b, which are rate-sensitive. The bank will allow these deposits to flow out as they are influenced by rates.
- This quarter saw growth only in term deposits, with CASA deposits absent in 1Q. The CASA mix is affected by a 3-4% impact due to merger-related factors.

Borrowings

- Borrowings saw a substantial decline, amounting to INR750b in the fourth quarter and INR600b in the first quarter of FY25. Of the INR150b in commercial papers, a decrease occurred as they matured.

- There remains an outstanding maturity profile, with INR650b still pending from the INR250b matured in the 1Q, and additional maturing liabilities expected in the upcoming year.

Loans

- The growth in advances during the first quarter is not aligned with the bank's strategic objectives. The resilience of the organization over the next three quarters will demonstrate its strength in maintaining customer relationships. Although the bank has adjusted its mix, this strategy is not intended for the long term.
- In the SMF category, the target remains at 10%, and there has been little change observed as of June.
- The Home Loan franchise aims to increase the primary account relationships of home loan borrowers. Currently, 85% of home loan borrowers maintain savings accounts with HDFC Bank.
- Growth in unsecured personal loans has been deliberately slower, reflecting a conscious decision made early within the internal system. This adjustment aligns with regulatory requirements.
- Market Linked Loans constitute 36% of the total, Mortgages account for 27%, and Non-mortgage loans make up the remaining 40%.

PSL

- PSL – The RIDF covers the entire book, while PSLC impacts the profit and loss statement as it flows through.
- Within the SMF category, vehicle finance is identified as a weaker section that requires increased loans. The bank is adequately positioned in other PSL segments. Due to loan term constraints in the agricultural segment, the bank is exploring non-organic acquisitions for the SMF segment.

LDR

- The bank is not bound by a specific LDR; lowering the LDR lies in the bank's interest.
- The bank maintains a robust funding capability to provide loans to customers and serves as a source for primary banking and liabilities. Despite a tight liquidity environment, there has been a notable increase in gross deposit inflows, though the bank lacks control over flows in current accounts.
- The bank has internal benchmarks guiding its actions and is motivated to decrease the LDR swiftly while ensuring profitability. The bank is mindful of existing risks within the system.

Opex Related

- C/I ratio: There is a period of adjustment ahead that the bank must unfortunately endure. It aims to stabilize the cost-to-earnings ratio with a downward trend, prioritizing longer-term targets over short-term pressures.
- Staff costs have increased due to recent additions to the workforce, along with ongoing compensation adjustments that are being implemented.

Miscellaneous

- HDB credit cost: GNPA remained stable at 1.9%, with higher credit costs attributed to seasonal factors such as reduced repayment ability and heatwaves. Early defaults resulted in increased provisions.
- INR4.8b of profits are allocated to reserves as per RBI's investment classification.

- The bank has observed positive progress in the distribution of AMC and general insurance products, with business shares increasing significantly and moving in a favorable direction. There is a positive trajectory in these developments.
- EPS was INR24.4 during the merger and stood at INR24.3 this quarter, which was in the range of INR21.
- Fee income from third-party products shows seasonal variations, as does recovery income, while dividends also contribute to the seasonal nature of earnings.

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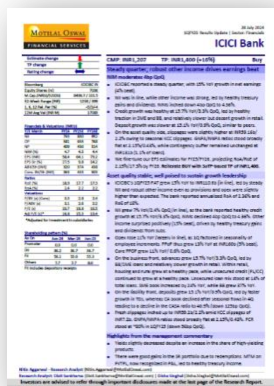

ICICI Bank — Buy

Current Price INR 1,175

Opening remarks

- The Indian economy showcases resilience with strong performance indicators.
- The bank focuses on increasing profitability, excluding treasury gains.
- PAT, excluding treasury gains, increased by 11% YoY, with core operating profit up 11%.
- Deposits grew by 15.1% YoY and 0.9% QoQ. Time deposits increased by 19.9% YoY. Average deposits grew by 17.8%, and average CASA grew by 9.7% YoY.
- The LCR stood at 123%.
- Loans grew, with retail loans increasing by 17.1% YoY and 2.4% QoQ. Retail loans comprised 46.3% of the total portfolio. Business banking grew by 35.6% YoY, SME by 23.5% YoY, rural loans by 16.9% YoY, and domestic corporate loans by 10.3% YoY.
- Overall loans grew by 15.7% YoY and 3.3% QoQ.
- The net NPA ratio was 0.43%, with higher slippages due to seasonal factors.
- PCR stood at 79.7%, with the bank holding INR131b/1.1% of loans.
- CET-1 was at 15.92% (including profits), and CAR at 16.63%. These ratios reflect the impact of new investment guidelines and increased operational RWAs.
- "One bank, one team" will continue to drive business operations.
- In the retail portfolio, mortgages grew by 14.2% YoY, vehicle finance by 13.3% YoY, personal loans by 24.9%, and credit cards by 31.3%. The overseas loan portfolio grew by 5.9% YoY.
- Non-India corporate-linked loans declined by 9%, with 92% comprising Indian corporates.
- Gross NPA additions were INR59.1b, with KCC accounting for about INR7.21b, showing seasonality in 1Q and 3Q. Net additions stood at INR26.24b.
- Non-fund-based O/S to NPAs was INR35.43b, with provisions of INR19.64b.
- NIMs were 4.36% compared to 4.4% in 4QFY24. Interest on IT refunds was zero in 1Q and 4Q.
- The cost of deposits was 4.84% compared to 4.82% in 4Q.
- Of the total domestic loan book, 31% has a fixed interest rate, 50% is linked to the repo rate, 2% is linked to other external benchmarks, and 17% is linked to MCLR and other older benchmarks.
- 58% of fees are from retail, rural, and business banking.
- Dividends came from ICICI Securities, ICICI Lombard, and ICICI Prudential Life.
- Employee expenses increased by 12.5% due to salary increments, with tech comprising 9.3% of total opex.

- The bank opened 64 branches in 1QFY25.
- INR3.89b of provisions were released in 1Q due to AIF provisions. Credit cost stands at 50bp, excluding the reversal of AIF and seasonality in KCC.
- From 1Q, revised investment guidelines were applicable, and future treasury actions will depend on market movements. The revised norms led to MTM flows in equity through P&L now.
- Other than two accounts, the maximum single borrower exposure in the business banking and below portfolio was less than INR5b in 1Q. Total provisions for the business banking and below portfolio were INR8.49b.
- The builder portfolio is 4.3% of the total loan book, with 0.2% of builder loans being BB and below or non-performing.

Advances and Deposits related

- There is no target for loan growth, and deposits are sufficient to support this growth. Deposits remain tight, with wholesale deposits being even tighter, leading to some increases in deposit rates.
- Deposits are not a constraint for loan growth, although there is competition for advances.
- LDR is in the low to mid-80s and is expected to stay around these levels.
- There has been no significant tightening in personal loans and credit cards. Some actions taken in the personal loan segment last year have slowed growth, while credit cards continue to undergo refinements and are expected to grow.
- A few banks are expanding in the corporate segment, and the bank has seen growth in both the NBFC and corporate portfolios. The corporate book is growing steadily, with considerable intensity in this area.

LCR Impact

- LCR will impact advances and deposits, with an estimated 10-15% effect on LCR.
- There will be efforts to refine both the advances and deposits sides of the balance sheet.

Other income and opex

- There were good gains in the SR portfolio due to redemptions. MTM on FVTPL, now recognized in P&L, led to healthy treasury income.
- Opex growth has been decreasing, with adjusted growth at 10% YoY, which is a fair indicator; it should not increase further.
- The new investment guidelines have increased the AFS reserve by INR32b. Additionally, earnings have been added, leading to a better increment in reserves.

Margins and yields

- Yields decreased by 8bp in 1Q, partly due to the non-accrual of the KCC portfolio. Other movements are minor and not noteworthy. There is high competition in lending rates.
- Yields decreased despite an increase in the share of high-yielding products. Yields remained decreased due to high competition, with other private banks competing similarly in the corporate segment.
- For products like home loans and various asset classes, yields had increased but are now stable and not rising further. The competitive intensity remains high in corporate and mortgage segments. The bank remains competitive in terms of yields for high-quality customers.

Asset quality

- The pace of recoveries in retail will vary, and a slowdown is expected.
- Credit cards make up less than 5% of the loan portfolio. The bank views this as a growth area and aims to expand in this business. Credit cost is currently at 50bp and should gradually normalize, though predicting the long-term average is challenging but it is expected to be better than historical levels.
- Overall credit cost has been steady, though there may be some fluctuations in recoveries.

Subsidiaries

- ICICI Pru Life reported VNB of INR4.72b in 1QFY25 vs. INR4.38b in 1QFY24. VNB margin stood at 24.0% in 1QFY25.
- ICICI Lombard's gross direct premium income grew by 20.4% YoY to INR76.88b in 1QFY25.
- ICICI Securities total assets grew 20% YoY to INR7.4t in 1QFY25.
- ICICI AMC's AAUM grew by 40.7% YoY to INR7.5t in Q1FY25. It has a market share of 13.1% as of Jun'24.

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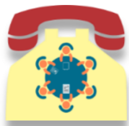

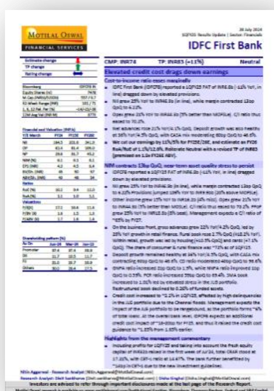

IDFC First Bank — Neutral

Current Price INR 74

Opening remarks by the management

- The bank's total deposit stood at ~INR2t. About 80% of total deposits have been retail in nature.
- Retail deposits grew 44% YoY; the bank reduced the rate in retail savings account to 3% for up to INR0.5m.
- CASA ratio stood at 46.6% vs 47% last quarter.
- Incremental CD ratio is 72.1% (from Jun'23 to Jun'24).
- It was able to meet its PSL requirement by generating its own organic PSLC.
- The bank transformed the liability profile in five years from wholesale to retail, to diversify the deposit base.
- It has a Google Play store rating of 4.9 currently.
- 92% of the fee income & other income is from retail banking operations, which is granular and sustainable.

With respect to costs, yields, and margins

- The bank has done massive digitalization across all business which are leading to increased income.
- C/I ratio of ~65% expected in three years as going forward the pace of increase in branches will come down.
- CoF increased 4bp; CoD was higher by 11bp due to the repricing effect on FD.
- The NIM drop was primary due to higher sequential increase in average investment book by 11.8% vs. 4.6% in average advances that impacted NIM by ~8bp.
- CoF would be ~6.36% if adjusted for legacy high-cost borrowings, which will be replaced by the bank's deposits at normal rate.
- The fee & other income as a % of total average assets was stable at 2.12% in 1QFY25.
- Opex is expected to grow by 20% YoY in FY25. Income to go up by 23-24% YoY expected in FY25.

- C/I ratio in credit card stood at 104.1% in 1QFY25, will reduce to ~75% with scale by FY27.
- The bank has given NIM guidance of 5.0%-5.5% for FY25.
- There is an NCLT hearing which is expected to be completed by 2Q.
- C/I ratio improvement to be coming from retail liabilities.
- The bank has opened 10 branches in current quarter and currently at 955 branches.
- The RoA/RoE stood at 0.91%/8.32% for 1QFY25.

With respect to loan and deposits

- Bank has broadly retained its CASA ratio sequentially, if it is excluding temporary inflow from one government account, which was called out last quarter.
- JLG outstanding portfolio was only 6.1% of the overall loan book.
- The expected impact of JLG portfolio is rangebound, and is likely to additionally impact credit cost at overall bank level by about 18-20bp for FY25.
- 94% of the book (non-JLG), the asset quality is steady and on expected lines, even factoring in the recent seasonal impacts.

Asset quality

- GNPA has come down to 1.9%, NNPA is 0.59%. GNPA without infra is 1.6%, NNPA at 0.43%.
- Credit cost is expected at ~1.85% (including JLG book), and without JLG, it is expected to be ~1.65% going forward.
- Post-Jan'24, the bank has insured incremental JLG loans with credit guarantee from CGFMU. Bank pay 1% premium from CGFMU book. All the MFI are the JLG.
- Credit cost to start normalizing going forward.
- PCR after excluding infrastructure finance book was at 73.5% as on 1QFY25.
- ~0.26% of funded asset is restructured book. ~95% of restructured book is secured in nature and bank hold ~20% provisions on this.
- SMA book has gone up by 16bps in 1QFY25, SMA stood at 0.95% ex-JLG book.
- The significant and growing part of the book, i.e. the Retail, Rural and SME business financing business has low NPA levels because of high-quality underwriting, credit bureaus, technology, cash-flow based lending capabilities.
- Gross slippages of the bank stood at INR16.57b and net slippages of ~INR11.32b.
- Collection efficiency also remains stable at 99.5%. The bank is quite comfortable on their asset quality and slippages front.
- Early bucket Collection Efficiency in JLG has reduced from 99.7% in Jun-23 to 99.2% in Jun-24, down by 50 bps.
- Increase in credit cost is coming from JLG, due to heat wave, due to elections and some effect in collection efficiency can be seen.

With respect to capital and investment guideline

- Including profits for 1QFY25 and taking into account the fresh equity capital of INR32b raised in 1st week of July 2024, total CRAR as on 1QFY25 would have been 17.21% with CET-1 ratio at 14.67%.
- Benefit of ~14bp which is included in CET-1 can be seen due to new investment guidelines.

Guidance

- RoA expected at ~1.2% in next year and flat in current year.
- The bank has guided GNPA/NNPA ratio to be ~1.5%/0.4% by FY29.

- The bank expects a consistent balance sheet growth of ~20% with profit of INR120b-130b by FY29.
- In the next five years, the bank expects to open ~1,700-1,800 branches.
- CASA ratio is expected to be ~50% going forward.
- C/I ratio to be flattish for next quarter and is expected to go down from 3QFY25.

Indian Bank — Buy

Current Price INR 552

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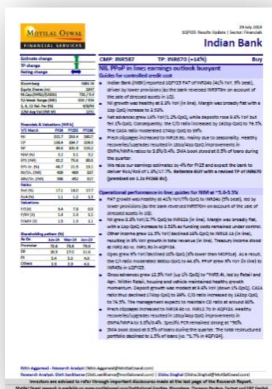

Balance sheet and P&L

- Business grew 11%, deposits up 10%, and advances rose 12%. CASA increased by 6% with a stable ratio of 41%.
- Among segments, RAM grew 13%, with Retail up 14%, Agri rose 18%, and MSME up 6%.
- PAT increased by 41%, and operating profit grew by 9%, driven by NII growth.
- Bad debt recovery was INR 5.04b. PSLC amortized, and the income for the current quarter was INR1.57b.
- NIMs improved from 3.52% to 3.53%.
- RoA was 1.02%, and the CI ratio was 44%.
- Yields have decreased due to penal charges now being recognized in other income, interest reversal, and lower recovery in the MOI.
- Yield on investments increased to 7.15%.
- Collection efficiency stood at 95%.
- Slippages were at 1.5% due to seasonality, with INR9b from MSME, INR6b from the retail book, and the rest from other segments.
- Recovery stood at INR19.37b compared to INR20.17b in 4Q.
- CAR is above 17%, indicating strong capitalization.
- Digital transactions account for 90% of the total, with 18.2m UPI users. The number of transactions grew by 56% YoY.
- The bank completed six digital journeys and plans for 44 more this fiscal year.
- INBK launched an omni-channel app, which is on-boarding 2.37m customers.

Advances and deposits

- There is no RBI prescription for LDR. Both deposits and advances have grown by INR600b. The bank aims to maintain LDR at around 80%.
- There are challenges in raising CASA deposits, and multiple steps have been taken to address this.
- The bank holds an excess SLR of INR440b and maintains LCR of 120%.
- Garnering deposits is a challenge as competition is intense, while credit growth is high.
- In retail, 70% of the portfolio consists of housing loans, with 80-90% of customers having a good CIBIL score. Retail repayments are steady, and the bank is actively sanctioning loans, ensuring growth in retail and agriculture segments.
- The bank is performing well in the SHG segment, where asset quality is also strong.
- It focuses on robust underwriting, often on-boarding low-risk assets.
- The international book is growing well, with advances up 27%. The focus is shifting from buyer's credit/trade finance to loan syndication due to better margins.

Yields, costs and margins

- Since 61% of the loan book is based on MCLR, an increase in MCLR will help to offset the rise in costs.
- Interest rates will take time to decrease. If they do, the cost of deposits will decline. With a significant portion of the book linked to MCLR, the bank will be better positioned to maintain its margins.
- The cost-to-income ratio has decreased to 44%. The goal is to reduce it further, ideally below 40%. However, the bank will need time to see the benefits of its technology investments.
- The cost of deposits may increase by 3-5bp. The bank's higher share of MCLR, which was raised by 5bp in the previous two months, ensures that NIMs remain stable.

Investment re-valuation

- AFS stands at INR2.04b, with a decline of INR2b of general reserve.
- Investment yields have risen, partly due to amortization allowed in AFS.
- AFS is contributing to the AFS reserve. The bank has reclassified its investment book. The HTM yield is 7.08%, the AFS book is INR650b, and there is an excess SLR of INR440b available for use. The FVTPL yield is 7.79%.

Other income

- PSLC has an amortization cost of INR6.27b, with INR1.57b booked and the remaining to be recorded in subsequent periods.
- INR420m of penal interest has been shifted from interest income to other income.

Asset quality

- Slippages are higher due to seasonality, elections, and heatwaves. The bank has recovered INR3.12b of slippages, mostly from farm credit.
- The bank has guided for AUCA recovery of about INR20b (INR5b already recovered). The remaining INR15b is expected to be recovered, mainly from the TWO book.

RBI new draft paper on LCR

- The RBI has raised its 5% run-off factor for deposits linked to IMB. The market value of the excess SLR is higher than its book value.
- The bank may see a 4-5% impact on its LCR, resulting in a new LCR of 115%.

ECL

- The guidelines are still in draft form and their impact is expected to be minimal. The bank will also pass on charges to customers. The ECL impact is spread over a five-year period, resulting in a minimal effect.

Budget announcement related to loans to MSMEs

- In the budget proposal for MSME loans, the bank uses GST returns, CMR scores, and various models to determine loan eligibility for customers. This model is being improved further to enhance asset quality stability.
- For MUDRA and Tarun loans, the bank can always extend additional loans as long as previous loans have been repaid.

Guidance

- Deposits are expected to grow by 8-10%.
- Advances are projected to grow by 11-13%.
- The CD ratio will be maintained at around 80%.
- NIM guidance is 3.4% (±10 bp), with the bank aiming to exceed this guidance.

- The current credit cost is 0.71%, and is expected to decrease in the future.
- The goal is to maintain or improve the current RoA level.

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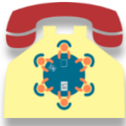

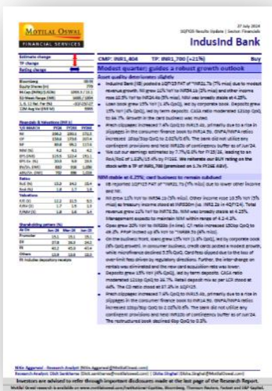

IndusInd Bank — Buy

Current Price INR 1,385

Opening remarks

- The bank navigated a challenging quarter, which is typically a seasonal and weak quarter. The challenges were further fueled by issues from heat waves and election-related disruptions.
- Retail as-per-LCR deposits grew 10% YoY, above loan growth.
- Increases in cost of deposit at 5bp QoQ, also remained under control despite the ongoing liquidity conditions.
- IIB was cautious on disbursements in vehicle and microfinance during the election phase and run rates have already picked up this month.
- Digital banking offering (Indy) continues to receive strong traction and has 1.3m customers on the Indy app.
- IIB's liability initiatives of Affluent and NRI Banking maintained robust traction, growing at 23% and 33% YoY, respectively.
- The bank did not use any contingent provision in 1QFY25. Adjusted for this, the core profitability remained resilient for a seasonally weak quarter.

Margins, yields, costs, and return ratios

- PSLC fee stood at INR2.6-2.7b this quarter.
- ~INR300m for the quarter was the impact due to penal interests on yields.
- ~12.9% was the vehicle disbursement yield, ~22-23% was MFI yield and there was a dip in disbursement yield, as it was more tilted towards secured loans.
- NIM is expected to remain range bound at ~4.3-4.4% and the bank will be able to manage NIM in this range.
- C/I increased due to slower revenue due to seasonally weak disbursement in vehicle and MFI.

Deposit and loan related

- The spends market share has further improved to 5% as per the latest available RBI data. IIB has been cautious in maintaining share of unsecured card and PL shares of 5-6% of the overall loan book.
- It is well capitalized as of now and there is no need to raise capital as of now.
- In 1QFY25, the bank lost in MFI as it was cautious. Growth slowdown in vehicle finance was due to the slow growth in rural.
- In Odisha, IIB has seen a slowdown in MFI and INR30b exposure has been reduced by the bank in this state two quarters back. Further, in UP and Jharkhand, it has reduced its exposures.
- Good business in Rajasthan and Maharashtra. Bank is range-bound in its credit cost.
- CD ratio at 87.2%, IIB expects this to remain in range of 88-90% going forward.
- ~4-5% impact is expected to be the effect from new guidelines on LCR.
- No further improvement in heavy commercial vehicle will be seen, rest will be a healthy growth.
- During the T-20 World Cup, IIB mobilized INR70b of term deposits; impact of this has been taken in 1Q itself
- ~55% will be corporate and ~44-45% will be retail.

- ~18-20% YoY growth in vehicle finance, in retail at 28-30%, ~18-20% mid-corporate, ~10-12% large corporate growth is expected going forward.
- The card business is a concern for the management.
- ~18-22% growth is expected in advances by the bank for FY25.
- The card fees dropped in 1QFY25 as: 1) the Regulator has come up with a directive that over-limit fees cannot be charged, and this led to a INR240m drop in card fees; 2) the new card acquisition rate was lower, and 3) the interchange on rentals was eliminated, which resulted in a slight fee income loss (INR100m) for the bank.

Asset Quality

- Slippages breakup: INR6.6b for vehicle finance, INR3.38b for Bharat Financial, INR480m for corporates, INR4.9b for other retail.
- The bank writes off loans as per approved policy of the bank and it does not keep retail loans more than 180-240 days.
- 110-130bp is the credit cost expected by the bank including having excess provisions on MFI and vehicle.

MFI business

- MFI disbursements were typically lower due to election activity, with average loan outstanding per customer reducing by 4% QoQ.
- However, collection intensity remains high, and bank aims to normalize the overdue book in a few months, expecting stable YoY MFI credit costs.
- Bharat Super Shop now has 700,000 merchants with a loan book growing 25% YoY.
- Bharat Money Stores have increased to 88,000, providing banking in remote areas, and have sourced 2.6m savings accounts, growing 68% YoY. Bank’s focus is on asset quality and restoring center-meeting discipline amid improving monsoon conditions positions them well for future opportunities.

Vehicle segment

- VF disbursements grew 15% YoY/2% QoQ, totaling INR112.6b for the quarter.
- Despite the typically weak first quarter and challenges such as election-related disruptions and extreme heat, bank saw sequential growth in commercial vehicles, cars, and construction equipment, though two-wheeler and tractor segments declined.
- Asset quality remained stable with gross slippages improving to 0.75% YoY, and the restructured book reduced from INR 5.47b to INR 4.17b due to upgrades and recoveries.
- Looking ahead, IIB anticipates vehicle loan growth to accelerate as government spending resumes post-budget and post-monsoon season.
- Bharat Financial Inc.'s loan book grew 17% YoY, with microfinance and merchant loans increasing 16% and 25% respectively.
- Despite collection efficiency being impacted, the focus on collections helped contain forward flows, resulting in a gross leverage of INR3.38b for the quarter. Total liabilities sourced through BFIL now stand at INR 23.5b, with 93% of loan disbursements made to interested accounts.

Retail

- Retail assets grew 23% YoY. MSME book under business banking reached grew 13% YoY, and the lab book maintained steady traction with 12% YoY growth.

- Bank tweaked its branch operating model last year to facilitate sourcing MSME asset customers and redefined SME branches, enhancing capabilities and upscaling the branch scope, resulting in increased contribution by branch-led organization.

Corporate segment

- Large corporates grew 10% YoY, mid-corporates rose 14% YoY, and small corporates jumped 22% YoY, driven by increased coverage and focus on select industry segments.
- The diamond business showed sequential growth after previous contractions due to weak global demand, with pristine asset quality and no NPA or SMA-1, SMA-2 customers.
- The proportion of A and above-rated customers improved to 79% from 76% YoY, with the weighted average rating increasing to 2.48% from 2.61% YoY.
- Gross slippages in the corporate book were only INR480m for the quarter, and net slippages were just INR40m

Miscellaneous

- The bank is set to elevate Affluent banking with the launch of Pioneer Private Banking next month, targeting customers with over INR30m network relationship value, further boosting the Affluent franchise's growth.
- IIB is launching a revamped Wealth Management offering, Indy for Business, and an enhanced NRI client experience on the Indy app, which continues to scale, with Indus Mobile achieving a 30% YoY growth in recurring bill payments and ratings of 4.5 on the App Store and 4.3 on the Play Store.

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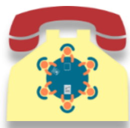

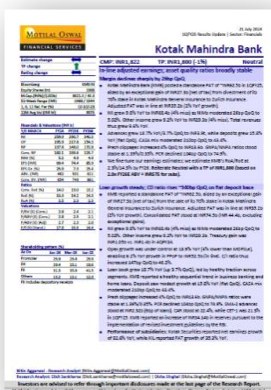
Kotak Mahindra Bank

Kotak Mahindra Bank — Neutral

Current Price INR 1,815

Opening remarks

- The bank reported 1QFY25 standalone PAT of ~INR62.5,b aided by an exceptional gain of INR27.3b (net of tax) from the sale of its 70% stake in Kotak Mahindra General Insurance to Zurich Insurance. Adjusted PAT stood at INR35.2b (2% YoY growth).
- Advances/deposits grew 18.7%/15.8% YoY.
- On 18th Jun'24, Kotak General Insurance (KGI) ceased to be a wholly-owned subsidiary and became an associate of the bank.
- The bank's holding in KGI has now come down to 30%.
- The reversal of KGI investment in consolidated book stands at INR2840m.
- The new investment guideline led to a post-tax gain of INR34.14b, which was accounted for in reserves.
- RoE/RoA at consolidated level (ex of KGI investment) stood at 13.12%/2.3%.
- NIM moderated 26bp QoQ to 5.02% in this quarter.
- Due to excess liquidity at the end, the bank provided credit lower yields, with slower disbursements in micro-credit loans.
- CASA ratio moderated 210bp QoQ to 43.3%. SA growth remains a challenge for the bank.
- The acquisition of Sonata Microfinance was completed in the fourth quarter by the commercial bank.
- The bank has a strong bench strength and people are stepping up in roles.

The RBI order and technology

- In 1Q, the bank demonstrated commitment, added resources and laid down a formulated plan in consultation with the RBI.
- The bank has achieved all its targeted milestones.
- Due to the RBI order, there was no impact on existing business operations.
- However, Kotak 811 and the Credit Card business have been affected by the order. Other businesses are not entirely digital.
- Technological changes are underway.
- Demand is increasing at a favorable pace.
- The focus has been shifted from customer acquisition to the enhancement of existing customer relationships.

Business related

- The bank's customer assets grew 20% YoY/3% QoQ in 1QFY25.
- The mortgage lending business grew by a healthy 17% YoY/4% QoQ, reporting improved yields and robust performance while maintaining strong asset quality.
- Mid-market and SME segments witnessed faster growth compared to others.
- Unsecured book grew 25% YoY, with credit cards growing 29% YoY mainly led by card spending as the bank cannot issue new cards due to restrictions.
- Due to leveraging on the customer side, credit card growth was not healthy for the industry.
- Demand was robust, especially on the manufacturing side. Demand was good in both secured and unsecured segments in business banking.
- Stable demand in rural and semi-urban areas. Portfolio matrix remains healthy with negligible credit cost.
- Savings deposits continue to be a challenge for the bank. ActivMoney was flat in this quarter.
- The bank has bundled proposition for certain key segments and has re-launched ActivMoney with an outreach program.
- Deposit growth is in focus, mainly CASA and ActivMoney.
- In LAP and home loans, yield has increased. Significant pressure in yield can be seen in corporate segment.
- Growth in unsecured advances affected the yield, but the bank expects the unsecured lending trajectory to remain stable with mid-teen growth.
- The bank aims to expand across various segments while maintaining business as usual.
- Risk-reward balance is closely monitored, with conservative provisioning, ensuring full provision for anything overdue beyond 180 days.
- Disbursements in the construction equipment segment increased by 16% YoY, with further growth anticipated. Collection efficiency remains stable.
- The tractor industry experienced stable growth; used tractor industry grew well.
- The acquisition of Sonata has extended its presence to 16 states with a customer base of 2.7m.
- TDs saw a significant 28.5% growth, with wholesale deposits increasing alongside a focus on customer segmentation and flow.
- In terms of network expansion, the bank opened 150 branches last year and plans to do the same this year, with a gradual expansion in the future. Branch expansion will continue alongside a focus on digital initiatives to drive growth.
- The bank expects to add 3,000-3,500 branches in five years.

CoF, yields and margins

- The bank is making efforts to build the deposit franchise across all of its businesses and get deposits at low cost with sustainable growth. Most of the repricing has been done.
- The bank does not expect a pickup in C/I ratio but expects this to moderate in 3-4 years.
- The bank will continue to spend on IT.
- CoF will move up but the move will slow gradually vs. the past trend.

Asset quality

- The bank will maintain prudence in its underwriting approach, ensuring quality without compromising standards.
- Credit remains benign on the corporate side. On the secured side in retail, there is no issue.
- In unsecured retail, there is stress in lower-ticket unsecured credit cards.
- GNPA/NNPA ratios remained stable at 1.39%/0.35%. Credit costs stood at 55bp.
- Unsecured retail advances (incl retail microcredit) as a % of net advance stood at 11.6% in 1QFY25.

Subsidiaries

Kotak Securities:

- Kotak Securities PAT grew 83% YoY to INR4b.
- A revamped demat account opening journey is creating a seamless flow for users and will boost acquisition conversion rates.
- Derivate market shares at 12.1%.
- Revamped NEO mobile app homepage featuring dedicated sections for Stocks, F&O & MF with enhanced customer experience.

Kotak Mahindra Life:

- Gross written premium grew 8.3% YoY and Individual APE NB premium grew 13.2% in 1QFY25.
- 1Q PAT declined 9.8% YoY, affected by higher distribution costs.
- Overall protection premium stood at 43.1% of Individual new business and Group premium in 1Q.

Other Subsidiaries:

- Kotak Prime posted a PAT of INR2. It is well capitalized with a CRAR of 24.6%.
- BSS microfinance clocked a PAT of INR0.5b due to higher branch expansion cost.

Punjab National Bank — Neutral

Current Price INR 116

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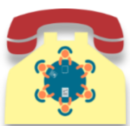

Opening remarks

- This quarter was one of the best quarters of the bank. And PNB delivered better than what was previously guided.
- Deposit grew 8.5% YoY/2.8% QoQ, while advances grew 12.2% YoY/4.6% QoQ in 1QFY25.
- The Board has approval to raise funds: AT-1 – INR75b (which is reduced to INR55b), and Tier I – INR100b.
- CAR – 15.79%, CET 1 – 10.95%. PNB is not in an immediate need of capital.
- CASA guidance is 42% for FY25, current CASA stands at 40.08%.
- RAM is 55.5% of the total overall advances, bank aims to bring RAM to 60% in next 2-3 years.
- Net profit for 1Q was INR32b with growth of 159% YoY.

- GNPA and NNPA have reduced and are below the earlier guidance and the bank has well achieved this guidance.

Yields, Costs, and Margins

- Current NIM stands at 3.25% and the bank expects 2.9-3.0% of margin in FY25. PNB aims for the absolute number for NII from hereon.
- In net interest income, the impact of recovery has been in the range of ~INR6-7b every quarter.
- ~INR130m is booked in penal interest in other income.
- Cost of deposits is increasing due to tight liquidity conditions and increase in the deposits rate.

Advances and Deposits

- Credit growth guidance is at 11-12%, credit growth was more than the guidance in all previous quarters.
- PNB is not deliberately raising deposits through bulk deposits. Bank will continue to focus on garnering CASA deposits.
- LCR stood at ~125% in 1QFY25, the impact will be 10% due to new guideline on LCR and expected to be ~115% due to this.
- Short-term advances are also available in the book and therefore the bank has given conservative credit growth guidance at 11-12%.
- 4.76 was the modified duration for the entire portfolio and 3.76 was the modified duration for AFS and HFT.
- Unsecured book stood at INR276.3b; of which, Credit Card was INR9.3b, Education loan – INR49b, personal loan – INR44.5b and other personal loans – INR180.2b, of which PAPL – INR43b and remaining – INR137b.
- In fixed rate loan, ~10% comes from agriculture. PNB aims to increase share of RAM from 55% to 60% going forward.
- Bank has INR1t of excess SLR and the bank has other levers to deposit this money.
- PNB remains opportunistic to the corporate growth.
- The bank is maintaining its market share in the current account segment, boosted by the launch of a corporate mobile app.

Asset Quality

- Slippages Break-up: Agri – INR3990m, MSME - INR6,370m, retail – INR4,930b, INR1,020m increase in existing slippages.
- Slippage stood at 0.76% as against guidance of 1%, this is the lowest in last 12 quarters.
- From the new book, NPA: Retail - 0.27%, Agri – 0.52% and MSME – 1.47%.
- Of the PAPL book, NPA is 1.86% whether digital or non-digital
- Recovery from NCLT book is INR2.9b, for the balance of the year expectation is Q2 – INR12b, Q3 – INR9.97b, Q4 – INR5b
- Recovery in 1QFY25 was impacted as 60% of the staff was involved in elections.
- In NCLT, ~813 accounts applied, ~790 accounts are admitted, ~23 account remaining to be admitted and ~307 accounts are under liquidation.
- ~INR30b+ recovery from NCLT is expected for FY25 and which is normally corporate in nature.
- Recovery in 1QFY25: INR4.49b is Agri, INR9b is MSME and ~INR10b is in corporate.
- SMA 1 and 2 total stood at INR230b.
- SMA-0 breakup: INR200b in retail, INR160b in Agri and INR8b in MSME.

Opex related

- ~INR5.58b is for purchase of PSLC and therefore opex has increased but this is a non-recurring expenses.
- Discussions with tax consultants are underway for transitioning towards the new tax regime, while the bank continues to benefit from certain provisions of the old tax regime.

The RBI guidelines on investment

- Due to revised guideline, yield on investment in not impacted.
- ~INR3.99b of investment depreciation has come from one account of a subsidiary as bank is required to revalue subsidiaries as per new investment guideline.
- Due to change in investment norms – addition to CET -1 – INR3.7b, to General Reserve – INR2.99b and INR2.57b is MTM through P&L.

Guidance

- NIMs domestic stood at 3.21%, NIM global is 3.07% for 1QFY25. NIMs guidance stands at 2.9-3%, the bank will aim for better NII improvement in every quarter.
- Bank expects GNPA/NNPA ratio to be below 4%/ below 0.5% respectively by FY25.
- The bank guides credit cost <0.5%.
- FY25 slippages ratio will be <1%.
- CASA ratio guidance is 42% for FY25.
- Credit growth guidance is 11-12% for FY25
- Bank guides for RoA of 0.8% but bank aims to take it to 1% by exit of FY25.

RBL Bank — Neutral

Current Price INR 228

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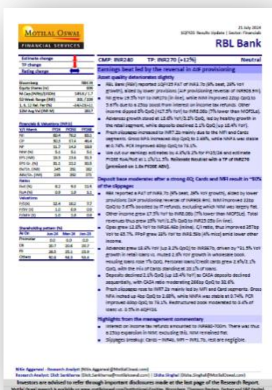


Opening remarks by the MD and CEO – Mr. R Subramaniakumar

- The bank is on track to achieve its 2026 mission.
- Retail advances increased by 30% YoY, with housing and business sectors growing by 19% YoY.
- The housing and business sectors saw good yields with a 50bp improvement.
- The focus remains on granular deposits, which grew by 25% YoY.
- CASA experienced a decline due to seasonal flows in 4Q, particularly in CA deposits. The focus is still on granular deposits.
- The LCR stands healthy at 137%.
- Disbursements showed decent traction in HL and LAP. However, there were lower disbursements in MFI due to 1Q weakness and the general election.
- Non-BFL cards now account for 52% of the share. The bank signed five new partnerships this quarter and aims to scale this.
- Asset quality in credit cards saw some slippages in transition cards, with a INR160m increase in slippages and a potential spillover into 2Q.
- MFI slippages remain lower, though collections faced some disruptions due to elections.
- PCR and NPA levels are steady, with CC and MFI contingent provisions at INR1830m.
- The bank received a tax refund in Q1, reflected in NII.
- Operating expenses grew by 13% YoY, with the CI ratio at 65.7%.
- Operating expense growth is expected to be lower compared to advances.

- There was a recovery from the written-off account, with INR900m provisions reversed on AIF provisions. The negative provisions of AIF in Q3 are now neutralized.
- RoA stands at 1.14%.
- Asset quality metrics include GNPA at 2.69%, NNPA at 0.74%, and PCR at 73.1%. Slippages in wholesale were negative.
- Net restructured assets stood at 0.44% in Q1 FY25.
- Total capital is at 15.56%, with CET 1 at 13.85%. There was a one-time impact due to an increase in RWAs.
- There is some pressure from slippages due to migration, but improvement is expected from the second half of FY25 onwards.
- The focus will be on secured retail, with newer retail businesses growing and impacts expected to be seen from FY26 onwards.
- The bank is well capitalized, with no immediate plans for raising capital in the near term.

Yields, cost and margins

- Interest on income tax refunds amounted to INR680-700m. There was a 25bp increase in NIMs; excluding this, NIMs remained flat.
- NIMs are expected to remain flat in Q2 and slightly improve thereafter due to better risk-adjusted returns, with a focus on retail rather than pursuing growth beyond 19%.

Deposits and advances related

- Deposit growth saw a decline due to CA inflows in 4Q.
- Deposits are expected to grow by 18-20%, with a focus on granular deposits achieving 23-25% growth. The bank's market share is 0.4-0.5%, indicating room for improvement.
- The LDR will range between 83% and 85%.
- MFI growth was impacted in Q1 due to heatwaves and the general election, but average growth is expected to return in Q2.
- Gross acquisitions in cards and MFI are lower as the bank diversifies its pool.
- Rural VF has declined, and some IBPC sell-offs have occurred, but the underlying platform has grown well.
- Credit card spending is higher in 3Q and 4Q due to cyclical factors affecting the industry. The revolve rate and revolve income are decreasing, with a larger portion shifting to EMI finance.
- Term deposit rate is at 8%, and large private deposits are at 7.5-7.7%. The aim is to grow deposits by 18-20% YoY.

Opex and provisions related

- The transition in cards had some impact, and higher collection efforts led to an increase in opex.
- Provision breakdown: Total at INR4600m, including NPA at INR5130m, recovery of INR700m in write-offs, standard asset provision at INR180m, INR900m write-back in AIF, and INR200m still remaining outstanding provision in AIF.

Asset quality

- Slippages breakdown: Cards – INR4000m, MFI – INR1750m, rest are negligible.
- SMA in MFI: SMA 2 is INR600-650m and SMA 1 is similar. The focus is on early buckets, with efficiency in 0 buckets progressing well.
- MFI GNPA: An increase of INR900-950m, with slippages of INR1,350m, representing 7-8% of the MFI portfolio.

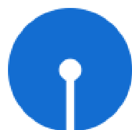
- MFI slippages are trending up and similar trends are expected in Q2. Improvement is anticipated in the second half if all goes well.
- Transition collection, previously managed by a Bajaj Finance group entity, is now controlled by the bank, temporarily increasing costs. New employees and a new telecom agency were added, impacting slippages.

Others

- There is a INR750m impact on capital, corresponding to a 7-8bp impact due to new investment guidelines. The bank will burn 20bp of capital annually.
- Capital was last raised after COVID-19 and the challenges in the wholesale business. There is a 1% cushion.
- The bank plans to raise Tier 2 capital this year. The QIP resolution will be relevant at the AGM, allowing capital to be raised within the current year from the date of resolution.
- RWA increased due to higher operational risk. The step-up increase is not expected for the rest of the year and will decrease as the balance sheet grows, resulting in a 20-25bp capital burn annually.
- The aim is to reduce dependence on DSA-based sourcing and achieve 50% non-DSA-based sourcing.

Guidance

- The target is to achieve an exit RoA of 1.15% by 4Q FY25.
- C/I ratio: Income is expected to grow faster than costs, with the C/I ratio anticipated to decrease by 2-3% annually.
- Credit cost: The first half of the year is expected to be similar to 1Q.
- Achieving a 15% RoE is unlikely without raising additional capital.



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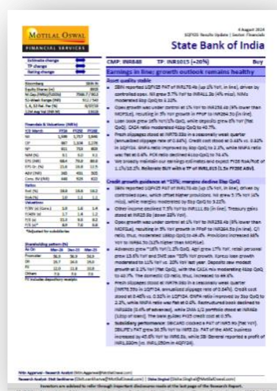

State Bank of India — Buy

Current Price INR 816

Opening remarks

- Inflation is nearing targets, and the rate of disinflation is decelerating.
- The US Fed is expected to cut rates by 25bp in Sep'24, which is positive for the global economy.
- A favorable monsoon and its distribution should help keep inflation in check.
- Credit growth has outpaced deposit growth for three consecutive years.
- The budget was market-positive, with infrastructure boosts benefiting the banking industry.
- RoA of over 1% is favorable for the bank. RoE stands at 20.98%, the C/I ratio is 42.95%, and NII has increased by 5.7%.
- Deposits grew by 8.18% and CASA rose 2.6% YoY, aided by various measures taken this year.
- The corporate segment grew by 16%, and foreign advances also performed well. LCR was 129% as of Jun'24, well above the regulatory benchmark.
- Progress in digital banking is good, with 63% of regular savings accounts opened via YONO.
- GNPA improved by 55bp YoY, reaching the lowest level in 10 years. The slippages ratio improved by 10bp YoY, with PCR at 91.76%.
- CET 1 was 10.25%, excluding profits, and well above regulatory requirements.
- Subsidiaries are performing well and adding value for stakeholders.

Advances and deposits

- The bank has increased deposit rates in certain categories.

- LDR was at 68%, and the cost of raising funds is another aspect.
- The bank has excess SLR of INR3.7t and opens 60k savings accounts daily, with 30k-40k opened via YONO. SA deposits reached INR17t, 3x higher than the next competitor.
- The daily average balance has been improving as the bank implements various initiatives on the ground.
- The bank's SA market share is 27%. It has consistently gained market share, and significant efforts have been made to achieve this.
- Deposits could grow at 12%, but the cost is a crucial factor.
- The composition of Xpress Credit has remained stable, and the bank is cautious with this segment. RWA consumption is only 53%, and RoA should be considered alongside RWA. There are ample opportunities.
- Advances Book breakup: MCLR linked – 36%, EBLR linked – 27%, Fixed book – 20%, T-bill + Others - 14%.
- In terms of the pipeline, there are pending disbursements of INR4.6t, with 66% from the private sector. The mid-corporate segment is showing promising trends.
- The retail book is growing at 16%, with sufficient demand expected to continue. Retail growth will remain intact across all segments.
- Infra bonds amount to INR600b, and the infra book is INR3t, with ample scope for expansion. The bank is exploring multiple channels for growth in this segment.
- The bank is happy to garner deposits as long as the rates remain comfortable.

Yields, cost and margins

- There are no interest reversals from IT refunds.
- The rate increase for term deposits in the past 1-2 quarters has impacted the cost of deposits, leading to an overall increase in costs.
- The C/I ratio is below 50%, with the bank aiming for income growth. The bank is addressing wage increases, which represent the new normal for operating expenses, and expects opex to decrease.
- NIMs should stay at current levels, with an expected variation of ±10bp.

Asset quality

- Slippages increased in 1Q due to aging provisions in standard assets and some delays in salary credit for unsecured personal loans.
- Slippages are typically higher in the first quarter, but they were lower in 1QFY25 than in 1QFY24. There are no signs of concern as underwriting remains strong, with some slippages in the agricultural sector.
- The temporary increase in GNPA in Xpress Credit should recover significantly. Digital credit in Xpress Credit is being strengthened.
- SBI Card faced some issues in stress, but this does not reflect the overall economy.
- Home loans and unsecured loan slippages are INR30b, with a substantial amount recovered. SMA1 and SMA2 have decreased to INR70b.
- Slippages by sector: SME – INR20b, Retail – INR30b, the rest in agriculture, and INR20b in CBG.
- Provision breakdown: Provision due to increase in slippages – INR9.14b, Aging provisions – INR2.47b, Agricultural provisions – INR1.06b.

- The target for Xpress Credit is different, focusing on salaried accounts, leading to distinct trends in credit cards. The average ticket size in Xpress Credit is INR710k.
- Credit cost guidance is 0.5%.

Capital raising

- The bank has board approval to raise capital of INR250b, with INR100b in Tier-1 and INR150b in Tier-2.
- The bank has ploughed INR1.14t of capital in the last three years through profits, and this strategy has proven effective.

Investment guidelines

- With the implementation of new investment guidelines, the net benefit is INR36.73b on reserves and 10bp on CET-1.
- The revision of investment guidelines has resulted in a decline in other income.
- In 1Q, there were lower gains, and provisions increased.
- Yes Bank and others have not contributed to CET-1 additions.

Miscellaneous

- Regarding LCR guidelines, the bank has its own observations and will be reaching out to the IBA and the Government of India.
- SBIN is monitoring developments related to Yes Bank.
- Subsidiaries have created value for the group.
- Prudence is essential in managing risk. Price risk in long-term projects is always considered and factored in.
- The RBI, as a regulator, wants all entities to be well-positioned in the LDR.
- The standalone LCR is 129%.

Guidance

- Credit growth guidance is 15%, with broad-based growth across all segments.
- The CD ratio is expected to be 70%, potentially rising to 72%.
- Credit cost guidance is 0.5%.

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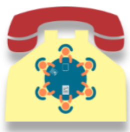
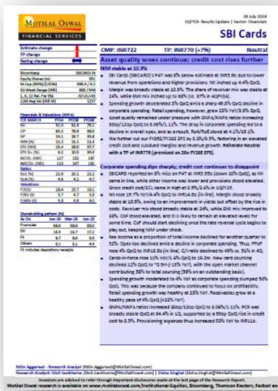


SBI Cards & Payment Services — Neutral

Current Price INR 709

Opening remarks

- Real GDP is projected to grow at 7.2%, and India has surpassed 100m credit cards. Monthly card spending for the industry reached INR1.58t as of Jun'24.
- SBIC's CIF was 19.2m, with an 11% YoY growth. SBIC remained the second-largest player with an 18.5% market share.
- Banca experienced a seasonal effect in the first quarter.
- SBICARD has been selective in acquiring new customers.
- It has launched the instant card journey on the SBI platform via Yono and SBI digital banking and plan to leverage this further.
- The company's focus is on digital journeys to help acquire new customers.
- Card spending reached INR771.3 b with a 4% YoY growth, despite a 66% decline in corporate spending. Retail spending stood at INR708.9 b, with a strong 23% YoY growth. Market share of spending was 15.9%.
- Jewelry spending saw an 11% YoY growth, and consumer durables experienced an 85% growth. Online spending accounted for 57% of total retail spending, with 50% of customers making new purchases every month.
- Corporate spending reached INR52.49b, showing a MoM increase, with June contributing 55% share.



- SBICARD has introduced several new products, such as SBI Miles, which focuses on travel benefits and has received very positive customer feedback.
- Monthly average UPI spending is INR12,800. Tier 2 city customers continue to use this facility, and Rupay card spending has consistently exceeded INR10b per month.
- SBICARD partnered with Apple to offer an instant discount of INR6,000 on certain products.
- Receivables grew 22% YoY to INR527b. Receivables per card increased 8% YoY to INR27,395.
- RoA stood at 4.1%.
- Revolvers remained steady at 24%, with EMI assets in the range of 38-40%.
- CoF increased by 13 basis points to 7.5%, and expect it to remain at this level. However, NIMs were stable at 10.9%.
- CAR 20.6%, RoA is 4.1%, RoE at 19.1% during 1QFY25.
- Anticipate card growth at 17%, spending growth at 22-23%, and asset growth at 15-18%. Aim to achieve this growth in a low-risk category.

Asset quality

- Vintage customers generally show good behavior, but delinquencies are shifting across segments with no identifiable cohort. Accounts that performed well over the past 4-5 years are now becoming delinquent. Once delinquent, recovery is rare, suggesting a lifetime event. Delinquencies are seen across various employment types, city tiers, and last year, a geographical delinquency pattern was noted and addressed. Overall, delinquencies appear to result from customers' inability to pay.
- As a result, corrective actions including decreasing credit lines, blocking cards, enhancing analytical capabilities, leveraging data, reducing limits, and intensifying collection efforts were implemented.

Credit Cost and delinquencies

- Guidance: Credit cost will be in the range of 7-8% for FY25.
- Interest rate for revolvers will not increase. Healthy revenue is coming from installments. Fee income can act as leverage, and certain fees can be examined. The goal is to keep credit cost under control.
- Delinquency trends are in line with the industry and below the industry average for 30 and 90 days.
- If more customers are unable to pay, delinquencies may increase.
- Credit cost cannot be linked to new accounts. New account acquisitions are based on experience and actions taken based on that experience. Expected behavior, delinquency patterns, and impacts on total borrowings and lifetime events were considered. Improvements will be limited unless the ecosystem improves further.
- Delinquency is 19-20% lower for SBI customers. Card behavior differs from unsecured loans, and personal loans may perform relatively better.
- Asset quality can be cyclical. While asset quality needs to be managed, business operations will continue as usual. The company will address delinquency and credit cost while maintaining business continuity.
- Delinquency began in the previous fiscal year, and the company will continue operating.

- Delinquency is spread across both lower ticket sizes as well as higher ticket sizes of INR0.2-0.4m.

Sourcing Related

- For the banca channel, the company examines banking and cash flow information to underwrite customers.
- In existing card customers, a model is in place. Of the 60% of carded customers, 10% come from the banca channel, while the rest come through other channels like co-branded cards.

Over-leveraging of the Customers

- Interest from new customers remains consistent, and people are applying for cards. 60% of the customers are carded. The rest of the non-carded customers should come through the banca channel.
- The problem lies with over-leveraging. A customer might have 0 active trade lines initially, but by the time of write-off, it can increase from 1-5 up to 10 trade lines. Customer behavior changes post-onboarding.
- Delinquency is moving across segments with no identifiable cohort. Accounts becoming delinquent rarely recover, and collection efforts often coincide with lifetime events. Delinquency occurs across salaried, self-employed, and other groups without clear patterns.
- Pin-code analysis helps in identifying these trends.

Reducing the Limits of the Customers

- About 0.5m customers have had their limits reduced by up to 25%; the average limit stood at INR0.1m.
- Customers on the watch list have utilized their limits and have a mechanism in place for monitoring.
- The limit reduction applies to existing customers. For new vintages, limits have not been reduced. A watch list has been created to take early actions and address problems within this fiscal year.

Interest and Revolver Rates

- The share of interest-earning assets has not increased. The revolver remains stable at 24%, and maintaining it at 23-24% would be beneficial.
- EMI and installments run off within 9-12 months.
- There is no intention to increase the revolver rate, but there is a focus on expanding the EMI book.

Union Bank of India — Buy

Current Price INR 125

Opening remarks

- The bank's GNPA stood at 4.54% and the bank expects it to reach below 4% by FY25.
- Credit growth has been outpacing deposit growth in the banking industry, as well as for UNBK.
- NIM stood at 3.05%, surpassing 2.8-3.0% guidance for FY25.
- CASA + retail TD formed 72% of overall deposits.
- Implementation of new investment norms benefited the bank’s portfolio.
- UNBK has introduced new initiatives targeting CASA and RUSU sectors, identifying growth opportunities to drive traction.
- It has opened 12 premium branches in RUSU locations.

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- The bank was not affected by the Microsoft outage.
- Both gross advances and deposits saw muted growth, with advances increasing by 11.5% YoY and deposits growing by 8.5% YoY. The CD ratio was at 71.8%.
- The ratio of RAM loans to corporate loans in the bank's portfolio stands at 56:44.
- The bank's CAR is robust at 17.02%, with Tier 1 capital at 15%.
- In 1QFY25, RoA remained robust at 1.06%, accompanied by RoE of 15.7%.
- The board has approved the bank's plan to raise INR60b through equity and INR20b through tier-2 and AT-1 each.
- Strengthening its digital capabilities enabled profitable growth across various business segments of the bank.

Advances, deposits and provisions

- Domestic CD ratio of the bank stood at 73.63% in 1QFY25. Average LCR stood at 138.45%.
- The bank has intensified its focus on CASA growth by targeting new-to-bank clients. Premium branches dedicated exclusively to CASA clients have been established to enhance service and retention.
- Growth in the corporate book has moderated following the closure of low-yielding assets. Conversely, the RAM book has demonstrated robust growth, reflecting strategic adjustments.
- The bank has considered some accounts with potential stress, which are primarily domestic accounts, and has made additional standard provisions this quarter.
- About 99% of the NBFC portfolio comprises assets rated A and above, with only 1% rated BBB and lower.
- Loan growth is expected to remain similar to deposit growth in the next few quarters.
- Consultants have been engaged to advise on strategies for fostering healthy deposit growth, underscoring a proactive approach to balance sheet management.
- Agri book is growing at 21.5% YoY, within which Agri SSG saw 30% growth.
- ~59% of branches are in the RUSU region and this has led to healthy growth in Agri book. UNBK expects it to increase at ~21-23% YoY going forward as well.
- Gold loan book stands at INR780b, out of which INR660b is Agri book. GNPA in Agri gold loan stands at 0.02%.

Yield, cost, margins and tax

- Swap income in NII is INR7-8b in the current quarter.
- The cost of deposits slightly reduced by 5bp as the bank has enough liquidity. However, going forward, the bank will raise more term deposits, which can put upward pressure on the funding cost.
- Growth in fee income was led by ~INR9.55b PSLC income, which will not be recurring in the next quarter.
- The bank aims to recover INR31b in the dummy ledger interest, with INR6.1b recovered this quarter.

Impact of new investment guidelines

- A sharp reduction has been observed in both SLR and non-SLR components of the AFS book. AFS book is now treated akin to a banking book rather than a

trading book, aligning with revised investment guidelines. Consequently, the bank has shifted its trading positions to the HFT book.
- The MTM gain of INR1506m has been recognized in the HFT book and subsequently added to the P&L.
- Due to the new investment guideline, UNBK added INR17.02b and INR0.2b to General and AFS reserves, respectively.
- Provision on NPI of ~INR3b is reversed as previously any MTM gains were directed to the AFS reserve; however, under the new guidelines, these gains are now directly reflected in the P&L.

Digital initiatives and investments
- ~33% YoY growth in FD amount sourced digitally with ~3.6x YoY growth in Fresh KCC accounts sanctioned digitally.
- About 70-80% of fraud are digital fraud. The bank has taken many initiatives, including creating a reconciliation department and opening 24/7 cyber security platform to address the digital and transaction fraud.
- The bank is investing in the digital platform and creating the digital platform of its own. The bank is making 11-12 journeys in the digital side.

Asset quality
- The bank does not anticipate a significant jump in GNPA due to the recent farm loan waivers. About 36% of restructured book has turned NPAs.
- Agri NPAs are coming down as the focus is now on SSG, where delinquency rates are very low and also the bank has changed from farm credit to investment credit, wherein NPAs used to be more.
- PSLC in small and marginal farmers was healthy in this quarter and the bank will be able to meet the PSLC requirement in small and marginal farmer going forward as well.
- TWO recovery is expected to be ~INR40b+.
- Credit cost is expected to be below 1% going forward.
- The gap between ECL requirement and current accounting treatment has narrowed down significantly and ECL will not have a major impact on the bank's balance sheet.
- Demand in PSLC income was higher in this quarter and it is traded on a platform where anyone can buy it. Mostly private sector banks saw a short fall in this area.

FY25 guidance
- Expects loan growth of 11-13% YoY and deposit growth of 9-11% YoY.
- C/I ratio is expected to remain at ~45-45.5% going forward.
- ~200-250 branches to be opened in FY25 and the bank ensured that the locations of these branches should be premium.
- Expects slippages below INR115b and recoveries of INR160b.
- Guidance for GNPA stands at below 4%.
- The bank guides for >1% of RoA with NIMs of 2.8-3%. The bank aims to surpass the RoA guidance.

FINANCIALS/NBFC

- **Within NBFC/HFC, various management teams highlighted the following: 1) disbursements in the mortgage segment were hit by the RBI Fair Practices Code circular in addition to 1Q being the seasonally weakest quarter; 2) asset quality deteriorated across most product segments because of elections, heat waves, higher attrition rates, and even the impact on customers' earnings; 3) the MFI segment, in particular, is experiencing lower collections and slippages into forward buckets due to customer over-leveraging, 4) borrowing costs largely peaked out and everyone is looking forward to repo rate cuts; and 5) competitive intensity in gold loans, from both Banks and NBFCs, moderated. Difficulty in getting unsecured credit (either personal loans or MFI loans) could result in higher demand for gold loans.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY25	1QFY25 Highlights
360 ONE	▪ 360 One expects overall net flows in the range of ~12-15% ARR AUM and asset management net flows at INR80-100b by the end of FY25. ▪ The RMs will be increased to ~70-75 in the mid-market segment by the end of FY25 (currently at ~35-40). ▪ The new businesses should end the year with an AUM of INR80-110b. ▪ The launch of Global Platform is expected by mid Sep'24.	▪ Strong growth in TBR AUM was on account of increased brokerage, deals unlisted, and credit side. ▪ Wealth management ARR AUM rose to INR 1.41t (+39% YoY) supported by robust growth across segments. ▪ In Jun'24, 360ONE WAM entered into an agreement to acquire wealth-focused ET MONEY, subject to regulatory approvals. ▪ During the quarter, it entered into a settlement deed and paid GBP11.1m to settle the proceedings. The company has provided INR1.1b for this settlement, with INR876.3m disclosed as an exceptional item in 1QFY25.
Angel One	▪ Angel One is in the final process of getting approval of AMC license and in the beta testing stage to launch credit products and fixed income products. ▪ With regards to SEBI action on restricting F&O volumes for retail segment, it is confident of offsetting the volume impact via several levers, including pricing action. ▪ EBITDA margins are likely to sustain at current levels (ex-IPL) in case of no action from the regulator. In case of an adverse impact of regulatory changes, the management believes it has levers to offset the impact, but margins can be hit for a short term. ▪ The company will not consider dividend payments in the near term for sustainable business growth.	▪ With respect to 'True to Label' charges regulation, Angel One had a revenue of INR3.5b in FY24. The company has levers to offset the same and will implement in due course. ▪ The company, with its various pricing and tech initiatives, is capitalizing on its position in the equity cash market. The major customer acquisition (~90%) is done from tier 2-3 and beyond cities. ▪ The size of the client funding book has doubled to INR34b. The exposure per client has increased to INR0.18m from INR0.11m. ▪ Angel One Wealth Management team is in place and has experience in catering to these clients. It is building a technology platform to enhance its reach.
Bajaj Finance	▪ For FY25, management guided an AUM growth of 26-28%, but it will monitor the higher delinquencies in certain product segments. ▪ Management expects COF to peak by Aug'24. It also expects the portfolio mix to stabilize in Oct'24; thus NIMs are likely to stabilize going forward.	▪ Guided credit costs of 1.75%-1.85% with a slightly upward bias. ▪ The default rate across portfolio and bounce rate have not increased but collection efficiency dipped, which resulted in a slight rise in Stage 2 assets. ▪ Bounce rate has not increased significantly. However, recovery is slower, which led to customer migration from stage 1 to stage 2.
BSE	▪ BSE shall be appealing to the regulator in order to reconsider the regulatory fees payable and also appeal to the SEBI to review the fees charged by other clearing exchanges. ▪ With regards to consultation papers, BSE will be working closely to assess the impact of the same on the total volumes. ▪ BSE is working on uniform charges across client segment, and the same shall be declared separately. The charges will be closer to the unit realizations earned currently.	▪ BSE recorded the highest-ever quarterly revenue in 1QFY25. This was a result of increased growth in transaction charges, treasury income, and investment related income ▪ There are no regulatory targets for SGF contribution from the F&O volumes. ▪ In the MF Segment, it maintains market share of ~85-90%. It is looking to launch Star MF 2.0 in 2QFY25. ▪ BSE has opted to shift to a new regime of taxation. Thus the tax rate was higher in the previous year.
Mahindra Fin	▪ The company transmitted rates in the last two quarters, which will boost yields for the rest of the year. ▪ Management guided for business asset growth in 17%-20%.	▪ Management guided for credit costs of ~1.4% in FY25 and expects credit costs of 1.2-1.3% in FY26 and beyond. ▪ The company is focused on reducing inter-quarter volatility in asset quality and has delivered on that front. Confident of ensuring that both GS3 and GS2 will remain range-bound in

	■ A corporate agency license will be a big enabler for improving the fee income. ■ The incremental CoB was ~7.8%-8.0% and it guided borrowing costs to remain in the same range for the rest of the year.	the year going forward.
MCX	■ MCX is seeing healthy traction from FPIs and expects more participation (currently has 100 FPIs i.e. 90 in CAT 1 and 10 in CAT 2). ■ The management has guided for ~INR100m in voluntary contribution to SGF every quarter. ■ Company will soon be launching some products as they are under the testing phase. ■ The regulatory requirement to redesign the existing charge structure and make it uniform for all its members will be in effect from Oct'24.	■ MCX clocked its highest single day turnover of INR3.8t on 15th May'24. Total number of traded clients grew ~6.4% QoQ to ~0.57m as of 1QFY25 (vs. 0.39m in 1QFY24, 40% YoY). ■ The company holds a 20% stake in the GIFT City IFCI as it has an investment of INR4.3m. It was making losses until last year, but there was positive traction in 1Q, with accretion of INR20m included in P&L. ■ New options contracts were launched in Apr'24 – Crude Oil Mini Options and Natural Gas Mini Options. The cotton candy contract was amended and relaunched.
Muthoot Fin	■ MUTH continued to guide for ~15% gold loan growth, and the company will review its guidance after 1HFY25 results. Trends in July/August are continuing just like in the prior quarter. ■ MUTH guided for a ~35bp increase in the CoB from current levels of 8.75%. ■ Management guided NIM to remain stable in the current range.	■ Higher credit costs were because of higher ECL provisions on the standard loan book. There is also an increase in Stage 3 assets by ~INR9b on which it made provisions of ~10%. There will not be any cash loss on account of this increase in NPA. ■ The company will strive to keep the GNPA below certain threshold. The company has also been making efforts to ask the customers to close the existing loan and take a new loan. ■ There is stress in the MFI sector but Belstar's asset quality performance is better than many of its MFI peers.

360 ONE

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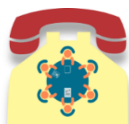

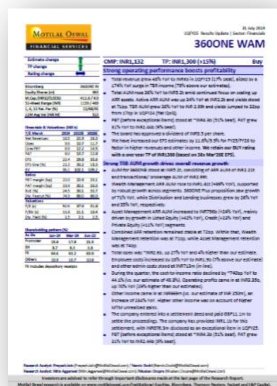

360 One WAM — Buy

Current Price INR 1,093

Net flows and yields

- Total net flows for the quarter stood at INR55.5b, with ~INR 47b coming from Wealth Management and INR9b from Asset Management. ~65% of the Wealth Management net flows have come in 360ONE plus proposition.
- Overall net flows are expected at ~12-15% of ARR AUM (INR250-300b of net flows expected in FY25). In Asset Management, 360ONE expects to end the year with INR80-100b in net flows (INR130-140b of gross flows).
- Active ARR AUM yields are expected to remain at 70-72bp. Active ARR yield includes lending revenues and is a function of mix between distribution and advisory assets and the mix of the size of clients (retentions on large clients can come off). 360ONE expects yields to settle around ~67-68bp in the long run.

Alternates

- On the pre-IPO side, 360ONE has a good track record. It will soon be closing its fourth pre-IPO fund of ~USD500m. The retention ratio is ~70-73%; most of them were investors in earlier pre-IPO funds.
- The tenure of the product is more structured ~4-7 years with a sharper focus on ARR than only the multiple of capital invested. Even the fees on the pre-IPO funds are on drawdown and not on commitment, and even the carry is without catch-up.
- In the healthcare fund, 360ONE collected ~USD65-70m, which will rise to ~USD100m. 360ONE launched a credit fund, which should attract USD200-250m in the next three to four months.

MF business

- On the MF listed side, 360ONE has invested a lot in distribution side over last 6-12 months. The team size has increased from 20-22 to 28 now. It is expected to increase to 40 by end of FY25.
- 360ONE has appointed Mr. Raghav Iyengar as CEO designate of its asset management business (360ONE Asset). Mr. Iyengar has a rich experience of over three decades in the financial services sector. Prior to joining 360ONE Asset, he served as the President and Chief Business Officer at Axis Asset Management.

New business

- The new businesses should end the year with AUM of INRINR80-110b.
- Mid-market segment: Total strength of RMs should be ~70-75 by end of FY25 (~35-40 from current team). The corporate team, product team, and investment team on the business are ready to go. By the end of next week, 360ONE will be in launch mode from a distribution perspective. The monetization of the business starts in Aug’24.
- Global Platform: The launch of Global Platform is expected to go live by mid Sep’24. Key objectives: 1) to become the preferred advisor for the India allocation part of the client's portfolio and 2) to become an advisor and effectively be able to help manage the entire global portfolio as an advisor rather than as a pure executor.

Business

- In 1QFY25, 360ONE Wealth successfully on boarded 150+ clients (with more than INR100m ARR AUM). During this period, clients with ARR AUM above INR0.5b increased by 50+. Overall, the segment manages assets for 7,400+ relevant clients.
- RM productivity is improving. ~70-80% of the new teams hired will breakeven within 18 months.
- Strong growth in TRB AUM was seen across asset classes, mainly due to increased brokerage, deals unlisted and credit side.
- Lending book is witnessing some compression as the cost has moved higher. NIM of ~4.7-4.9% is a more realized number and on a steady state basis, it is expected to be above 5%.
- In Jun’24, 360ONE WAM entered into a definitive agreement to acquire wealth-focused ET MONEY, subject to regulatory approvals.
- The acquisition allows 360ONE and ET Money to leverage their product suite, domain understanding of the business, portfolio advisory solutions, brokerage services and credit solutions to a large user base. Value addition for 360ONE – 1) Growth of NBFC and Loan against MF and 2) Increase in advisory portion (direct MF can be seen client acquisition channel).

Financials

- AUM for 360ONE stood at INR5.2t, consisting of ARR AUM of INR2.21t and transactional/brokerage AUM of INR2.99t.
- Wealth Management ARR AUM rose to INR1.41t (+39% YoY), supported by robust growth across segments. 360ONE Plus proposition saw growth of 71% YoY, while Distribution and Lending businesses grew by 26% YoY and 35% YoY respectively.
- Asset Management ARR AUM increased to INR796b (+24% YoY), mainly driven by growth in Listed Equity (+42% YoY), Credit (+23% YoY) and Private Equity (+11% YoY) segments.
- Combined ARR retention remained stable at 72bp. Within that, Wealth Management retention was at 71bp, while Asset Management retention was at 74bp.
- EBIDTA margins are expected to settle around 44-46% for 360ONE WAM. Higher revenues led to a decline in C/I for 1QFY25.

Aavas Financiers — Neutral

Current Price INR 1,700

Business update

- PAT in 1QFY25 grew 15% YoY to INR1.26b
- Aligned with the target of growing its AUM by 20-25%
- There are consistent efforts to optimize costs with opex-to-average assets declining to ~3.3% in 1QFY25 (PY: ~3.8%)

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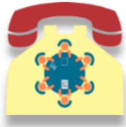

- 1+dpd: 3.65% (down 3bp YoY). Credit costs at ~20bp
- Opex to assets improved ~50bp YoY in 1QFY25. Committed to bring down opex to assets to 3% in the medium-to-long term.
- 1QFY25 RoA stood at ~3% and RoE stood at ~13.14%
- CRAR stood at 44.5%

Disbursements

- 1QFY25 disbursements grew ~13% YoY to ~INR12.1b
- Sanction growth of ~25% in 1QFY25. The sanction-to-disbursement ratio declined to ~77-78%, which resulted in muted disbursements.
- Disbursal yields improved ~17-18bp YoY; less than INR1.5m ticket size loans will be higher in the incremental disbursements – it has been trying to increase the disbursement yields (which increased 17bp YoY in 1QFY25)
- It is confident of delivering an AUM growth of 20-25% aided by controlled foreclosures (BT-OUTs) and better disbursements

Impact of the Union Budget-related announcements on Housing

- CLSS, in the past, had a positive impact on both AUM growth and asset quality because of the improvement in affordability of housing and home loans

Spreads and NIM

- Spreads stood at ~5%. Guided that it will be able to maintain its spreads around 5% despite competitive pricing pressures
- Endeavor is to maintain spreads at ~5% - Transmission of increasing CoB has not been possible on the ground
- 17-18bp higher yields in the newer businesses which will help it maintain spreads of >5%
- NIM compression was driven by lower assignments, higher CoB and lower spreads driven by pressure on yields. There was interest income reversal because of the RBI circular which also contributed to NIM compression

Technology Update

- Adoption and stabilization of Salesforce has been completed. ~INR190K applications processed through Salesforce.
- Oracle Fusion has also now stabilized.
- Oracle Flexcube (LMS) is in advanced stages of implementation and will go live in the next quarter.
- TAT has declined to 8 days in 1QFY25

Liabilities

- Incremental COB rose ~18bp QoQ and ~30bp YoY. Incremental CoB stood at 8.13% and portfolio CoB increased by ~1bp QoQ to 8.08%
- NHB Contribution in 1Q always remains low; Contribution of NHB will increase in the overall liability mix.
- Incremental bank borrowings are linked to T-Bills, Repo and MCLR. Incremental bank borrowings stood at ~8.4% (PQ: ~8.3%)

Opex

- Employees stood at 5904 (v/s 5700 in Jun'23) - Employee expenses declined because of long-term incentive and ESOP expenses which were reversed.
- Total expenses of ~INR450-500m towards technology have been capitalized

Asset Quality

- 1dpd improved by 3bp YoY to 3.65%
- Gross Stage 3 stood at 1.01% and NS3 at 0.72%
- 1+dpd and GNPA in its core markets remained well below 4% and in its other states it remains below 3.5%
- Total ECL provisioning stood at INR908m (ECL/EAD: 0.62%) as of Jun'24
- AAVAS is strongly positioned to continue delivering industry-leading asset quality

Others

- Overall BT-OUT stood at 5.6% (on an annualized basis) which is within the assumptions of ~6%
- Has entered into co-lending tie-ups with PSU Banks
- Total Live accounts stood at 223.6K
- Home Loan ATS has grown by 6-8% YoY and for MSME/LAP ATS has grown by 10% YoY
- Share of AUM with ticket size above INR2.5m is between 5-6% (basis number of loan accounts)

Aditya Birla Capital — Buy

Current Price INR 222

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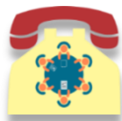

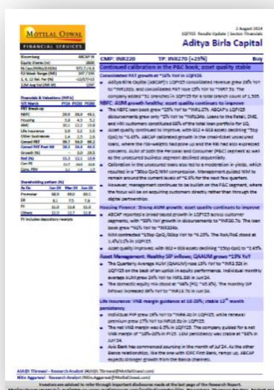

Business Update

- Calibrated the sourcing of personal loans from digital partners over the last few quarters. As a result, this portfolio has declined in the current quarter.
- Mutual fund quarterly average assets under management (QAAUM) grew 6% QoQ and 19% YoY to INR3.52t, with the equity mix at ~ 46%
- Monthly systematic investment plan (SIP) flows grew 39% YoY to INR13.7b in Jun'24.
- Individual First Year Premium (FYP) grew by 19% YoY to ~INR6.4b. Muted growth seen with one of its banca partners. With a new banca relationship going live, it expects the growth momentum to get better.
- The new surrender guidelines from IRDAI is expected to make the life insurance products simple and transparent and will help insurers with high persistency

Equity Raise

- AB Capital had raised ~INR30b last year and infused ~INR16b in NBFC and ~INR3b in HFC. It further raised ~INR6b from the OFS in Aditya Birla AMC. It also got IRDAI approval for monetizing the stake in Insurance broking which will fetch ~INR2b.
- The company has ~INR19b of Equity capital which will suffice for the next 12-18 months of growth

Merger Timelines

- Received in-principal approval from BSE and NSE: Proposed amalgamation has received no adverse observation from BSE and no objection from NSE. It is now awaiting other approvals.
- Now it has to get a no objection from RBI and it will then have to file a merger proposal in NCLT Gujarat. Since it is the merger of a 100% subsidiary into ABCL, it should be simpler.
- Endeavor will be to complete the process by March 2025.
- Unlike Banks, regulations do not prohibit NBFC from having subsidiaries of AMC, LI or Health Insurance.
- In Insurance companies, it is allowed to hold above 50% after getting approval from RBI

NBFC

- AUM grew ~25% YoY and ~2% QoQ to ~INR1.07t.
- Loans to Retail, SME and HNI constituted ~66% of the total portfolio.
- It now has more than 1m MSMEs registered on the platform.
- Credit costs was stable at 1.43% (which is well within its guidance of ~1.5%)
- Stage 3 PCR has been maintained at ~50%
- RoA stood at ~2.41% and RoE stood at ~16.1%
- Focus will be on developing a granular portfolio and increasing business loans to the MSMEs
- Guided ~35% AUM growth over the next 2-3 years

- Small-ticket unsecured loans where the risk-weights had gone up and RBI had also expressed concerns, it has calibrated the growth.
- Built a direct Sourcing channel for open market acquisition and ABCD app will help it again grow its personal and consumer businesses
- Guided that NIM should remain around current levels of ~6.9% for the next few quarters
- Continues to be bullish on the personal and consumer (P&C) segment. Focus will be on acquiring customer directly rather than through partnerships. Direct sourcing channel and branches have started yielding results. These platforms and engines will fire up in the P&C segment. Unsecured business loans segment - last year it launched its B2B platform Udyog plus and growth will resume in both these segments.
- Loan purchases were primarily in secured loans and a very small part will be unsecured. Portfolio interventions - both buyouts and sell-downs of the portfolio - are evaluated by AB Capital. Portfolio has to match with the credit quality/underwriting of ABCL.

Housing

- The highest-ever disbursements and book-growth in a quarter
- Disbursements grew ~90% YoY and 5% QoQ to ~INR30.7b
- AUM grew ~41% YoY and 11% QoQ to ~INR204b
- RoA stood at 1.44% and RoE stood at 11%
- ~95% of the retail disbursements were towards 700+ CIBIL or new to credit
- ~100% adoption of unified digital lending platform Finverse.

Life Insurance

- Individual First Year Premium (FYP) grew by 19% YoY to ~INR6.44b; Proprietary channels saw a robust growth
- Axis bank has commenced souring in the month of July. As the banca relationship with IDFC First Bank ramps up, it expects stronger growth from the banca channels.
- Net VNB margin was 6.5%. Guided for Net VNB margin of 18-20% for FY25.
- 100% of its new business customers are now on boarded digitally and customer self-service ratio stood at 93%
- Impact on VNB margins on PAR products will be 150-200bp because of the new surrender value guidelines from IRDAI.

Health Insurance

- Market share among standalone health insurers (SAHI) increased by ~92bp YoY to 12.5%
- Combined ratio improved to 112% from 118% in 1QFY24.

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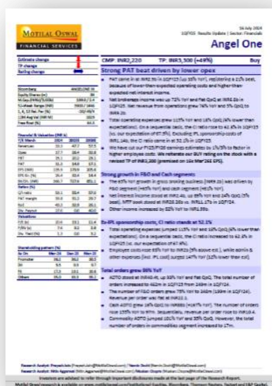
Angel One — Buy

Current Price INR 2,698

Regulations

- With respect to 'True to Label' charges regulation, Angel One had a revenue of INR3.5b in FY24. The company has levers to offset the same and will implement the same in due course.
- With regards to NSE stopping 1,000 stocks from being allowed to pledge, a minimal impact is expected, which can be offset via new pledges.
- With regards to SEBI action on restricting F&O volumes for retail segment and the measures being discussed in the media, the management is confident of offsetting the volume impact via several levers, including pricing action.
- Data shows that customers lose less when they trade 2-3 days prior to expiry, and hence, any regulations to curb the number of expiry will enhance customer longevity as they would start trading more 2-3 days prior to expiry.



- In the past, changes in F&O lot sizes did not affect volumes materially and the impact was recouped in a short period.

Business

- Angel One is in the final process of getting approval for AMC license.
- Angel One is the only broker to provide seamless digital opening of a joint broking account. Social media initiatives are being pushed to enhance the content.
- It executed 30m orders in a single trading session, which indicates strength of the business model.
- The company, with its various pricing and tech initiatives, is capitalizing on its position in the equity cash market. The major customer acquisition (~90%) is done from tier 2-3 and beyond cities.

MTF

- The size of client funding book has doubled in a quarter to INR34b. The exposure per client has increased from INR0.11m to INR0.18m.
- ~84% of the total MTF book comprises less than INR0.1m of client exposure, ~9.6% of the clients have exposure of around INR0.1-0.5m and the rest of them have more than INR0.5m exposure.
- The total industry MTF book would be INR730b, with ~50% upside expected in the next 12-15 months.
- Interest cost for Angel One was stable during the quarter, owing to QIP proceeds.

Loan and fixed income product distribution

- Angel One is in beta testing stage to launch credit products and fixed income products (starts by offering unsecured consumer loans).
- For distribution of loans, it has tied up with one partner and is expected to add 3-4 partners in the near term.
- The beta version launch has been to a limited set of employees and the response has been encouraging so far.
- As a distributor, Angel One does not need more approvals from the RBI. Angle One is building proprietary AI/ML models using internal and external consumer data, to help lending partners underwrite and collect better.
- For fixed-income products, Angel One leverages technology to provide a seamless experience to clients.

Wealth management

- Angel One is witnessing a great response in acquiring talent. The Indian wealth management industry faces tailwinds in emerging market for HNIs and Ultra-HNIs.
- Angel One Wealth Management team has experience in catering to these clients. It is building a technology platform to enhance its reach.
- The customer base will be across HNIs and UHNIs. The company is in the process of building an advisory offering.

SIP

- Unique SIPs have been increasing for Angel One. The average SIP value has increased compared to last one year.
- There is improved discoverability of MF led to greater engagement and higher traction with zero marketing spending.
- Angel One witnessed ~0.5m unique SIP registrations in Jun'24 and ~1.5m in 1QFY25. It is now the 2nd largest player in incremental SIP investments.

Financials

- ~28% sequential growth in employee costs was due to increments and implementation of variable pay. 12% QoQ growth in ESOP costs was due to the issuance of fresh annual grants.
- Other opex declined 6.4% QoQ, primarily due to lower gross client acquisition.

- EBIDTA margins are likely to sustain at current levels (ex-IPL) in case of no action from the regulator. In case of an adverse impact of regulatory changes, the management believes it has levers to offset the impact, but margins can be hit for a short term.
- Ex-regulatory changes, the management is confident of reaching pre-QIP level RoE in the medium term.
- The company will not consider dividend payments in the near term to shore up its net worth for sustainable business growth.

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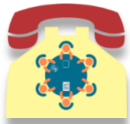

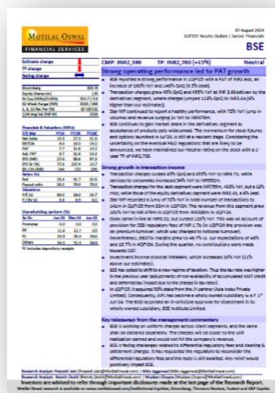

BSE Neutral

Current Price INR 2,690

Financials

- BSE recoded the highest-ever quarterly revenue in 1QFY25. This was a result of increased growth in transaction charges, treasury income, and investment-related income.
- Revision in transaction charges for derivatives positively impacted the 1Q results. Overall operating margins expanded to 47% in 1QFY25.
- Other securities charges increased to INR610m in 1QFY25 vs. INR350m in 1QFY24. This mainly included data dissemination fees, co-location charges, and book-building fees.
- BSE's ADTO in the cash segment increased to INR90b in 1QFY25 from INR40.3b in 1QFY24.

Business

- BSE's total market capitalization crossed INR450t, with Sensex surpassing the 80,000 mark.
- The total unique client code (UCC) increased to 184m from 121m in Jan'23.
- BSE forays into single stock derivatives (w.e.f. 1st Jul'24), with mid-month expiry on second Thursday of the month. So far 35 members have participated in single stock options and futures.
- BSE is working on uniform charges across client segment and the same shall be declared separately. The charges will be closer to the unit realizations earned closer to the announcement and would not hit the company's revenues.
- Not entire of the treasury income earned from clearing and settlement funds will qualify for returning to investors. Only excess funds that are not being utilized for any positions currently will qualify.
- With regards to the SEBI action on restricting F&O volumes for the retail segment and the measures being discussed in the consultation paper, BSE will be working closely to assess the impact of the same on the total volumes.
- During the quarter, BSE has acquired control of Asia Index Private Limited (AIPL) by acquiring the 50% stake from its JV partner. Consequently, AIPL has become a wholly owned subsidiary w.e.f. 1st Jun'24.
- The reversal of SGF is governed by regulatory clarifications. Lower currency derivatives volume led to zero contribution to SGF in 1QFY25. There are no regulatory targets for SGF contribution from the F&O volumes.
- BSE is facing challenges related to differential regulatory fees and clearing & settlement charges. It has requested regulators to reconsider the differential regulatory fees and the reply is still awaited. Any relief would positively impact BSE.
- Regulatory fee was INR120 per million of premium turnover, and clearing & settlement charges were INR120-130 per million of premium turnover.

Star MF

- Star MF recorded a jump in total number of transactions to 141m (up 72% YoY) in 1QFY25. The revenue from this segment grew 101% YoY to INR 479b in 1QFY25.

- BSE will launch Star MF 2.0 (more from functionality perspective) 2QFY25. Star MF continues to maintain ~85-90% market share in this segment.

Bajaj Finance — Neutral

Current Price INR 6,734

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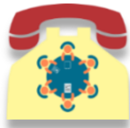

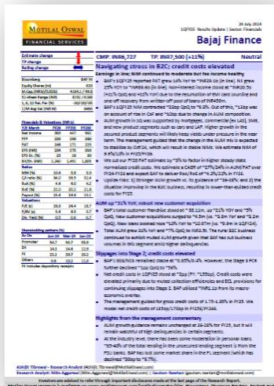

Business Update - BAF

- Customer franchise stood at ~88m.
- CoF stood at ~7.95% in 1QFY25.
- Deposits grew by ~26% YoY to INR627b.
- Gross loan loss (as % of AUF) was 2.1% and net loan loss (as % of AUF) stood at ~2%. BAF utilized ~INR1.05b of management overlay during the quarter.
- GNPA/NNPA stable at ~85bp/40bp.
- 1QFY25 PAT grew by 14% YoY by ~INR39b.
- Other income increased due to the resumption of EMI card sourcing and a one-time gain from the write-off of INR450m.

Business Update - BHFL

- AUM grew 31% YoY to INR970b.
- HL grew 25% YoY and LAP grew by 21% YoY.
- GNPA/NNPA at 30bp/10bp.
- Annualized ROA and ROE stood at 2.35% and 14.3%, respectively.
- CRAR stood at 23.82% (Tier1: 23.26%)
- Filed DRHP for BHFL on 8th Jun'24.
- As per the principal business criteria of the RBI, ~60% of AUM has to be housing and ~50% should be individual home loans. Depending upon risk and return, the company decides the composition of LAP and LRD. Currently aggressive on LRD because of better risk-return profile.

Guidance

- Guided for RoA of ~4.5%-4.7%
- Guidance for AUM growth remains unchanged at 26-28% for FY25 but it will remain watchful of the higher delinquencies in certain product segments
- Guided for credit costs in the range of ~175-185bp with a slight upward bias.
- Expects CoB to peak by Aug'24.

Asset Quality

- Loan loss provisions are higher due to ECL provisions. Segment-wise credit quality remained healthy.
- Started to cut exposure in segments where the portfolio asset quality is deteriorating.
- In last one year, there has been no change in the write-off policy.
- Default rate across portfolio and bounce rate have not increased but collection efficiency declined, which resulted in Stage 2 assets inching up.
- Expects collection efficiency to improve from 2QFY25 onward.
- Bounce rate has not increased significantly. However, recovery is slower, which led to customer migration from stage 1 to stage 2.
- BAF has utilized all the management overlay which was created during Covid.

NIMs

- NIM compressed by ~23bp QoQ. Out of this, ~13bp was on account of a rise in CoF and ~10bp due to a change in AUM composition.

Car Loan Financing

- Started the business with focus on used car financing and now started focusing on new cars as well.
- ~65% of the portfolio is used cars financing and ~35% is new car financing. Expects to achieve mix of 55:45 between used and new cars in the medium term.
- Threshold level of delinquency is extremely low in car loan financing.

MSME Loans

- Captures the full MSME space through business loans, LAP etc.
- Does not pursue supply chain financing in MSME segment and only offers this product to emerging corporates.

B2B Businesses

- In the B2B businesses, it has maintained its market share, which has remained range-bound over the last four quarters.

Personal Loans

- At the industry level, there has been some moderation in personal loans.
- ~35-40% of the total lending in the unsecured lending segment is from the PSU banks.
- BAF has lost some market share in the PL segment (has declined ~30bp to 6.7%).

Others

- Resumed EMI card in May'24 and launched the ECOM card in Jun'24.
- The AUM growth rate is expected to decelerate for the industry.
- Before Covid, ~63% customers had no unsecured loan. 57% and 58% of customers had no unsecured loans as of Mar'23 and Mar'24, respectively.
- BAF has never capitalized penal income and its fee income had no impact from the RBI circular on penal income.
- Urban sales finance declined due to decline in e-com and should pick up again within the next 4-5 months.

Can Fin Homes — Neutral

Current Price INR 846

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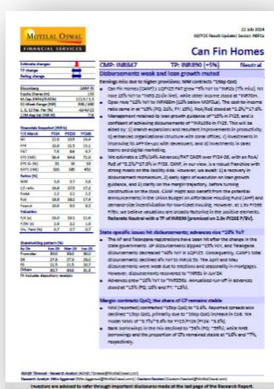

Disbursements

- April and May disbursements were weak because of elections. Disbursements recovered in Jun'24 and stood at ~INR8b in Jun'24
- The AP and Telangana registrations have been hit after the change in the state governments. AP disbursements dipped ~15% YoY, and Telangana disbursements decreased ~40% YoY in 1QFY25. Telangana had contributed 25-27% of the 1QFY24 disbursements.

Guidance

- CANF guided AUM growth of ~15%, spreads of ~2.55-2.60%, NIM of ~3.5%, and a cost-to-income ratio of ~16-18% in FY25.
- Expects GNPA to decline to ~0.8% by Mar'25. Credit costs have been front-ended because of the increase in the GNPA levels in the quarter. Guided actual costs of ~12bp in FY25
- Guided FY25 disbursements of ~INR105b, run-down of ~INR50b, and net-accretion to loan-book of INR55b
- CANF is confident that it should be able to touch ~INR25b of disbursements in 2QFY25. Expects disbursements to improve to INR28-29b in 3Q and ~INR31-33b in 4QFY25
- Guided for LAP in the loan mix to increase from ~5% now to ~7% over the next 12-24 months
- Guided an RoA/RoE of 2.1%/17%

Asset Quality

- There is a cyclical trend in asset quality deterioration. Across the board there has been an increase in the GNPA. Telangana and AP disbursements were impacted but there was no geographical color on recoveries/asset quality.
- Does not expect NPA to go up further from here.
- ~INR5.8b of restructured portfolio on the Balance Sheet (18% of the GNPA is from the restructured pool). Restructured account (excluding NPA) is classified under Stage 2.

Liabilities and CoF

- Decline in spreads is because of the higher rate borrowings in 4QFY24. CANF will see a repricing benefit of ~30-40bp on ~INR22b of CP borrowings
- ~40% borrowings were linked to the MCLR
- Incremental CoB on different instruments: Long-term - 7.95%-8.0% | Banks have been giving short-term lines of credit at 7.4%-7.5% | CP: 7.2-7.25% | NCD: Last raised in Mar'24 at ~8.2% and NHB Refinance - expects at 6.75%

Expectations on Housing from the Union Budget

- CANF had received ~INR9.75b of CLSS subsidy under the prior CLSS scheme
- ~45% of the outstanding portfolio is below ATS < INR2m and ~34% of the incremental disbursements (in FY24) were below <INR2m
- Under the AHF, NHB gives funds at very attractive rates which can be lent to customers at spreads to upto 4%
- Last year, there was a very small component of AHF in the NHB refinance. There is a likelihood of AHF funds again being reintroduced that can provide much cheaper funds to the AHFCs
- AHF is funding which is given to AHFC for on-lending to customers. Spread cap is proposed to be increased to 4.5% (v/s 4.0% earlier).
- CLSS is also a possibility in the Budget. However, most of the recent discussions with the NHB and the Ministry have revolved around the AHF Fund which can bring down the cost of borrowings for the AHFCs.

Improvements done at CANF

- Moved from a two-tier structure to a three-tier structure. Introduced the Zonal layer structure which is handling 2-3 states. Positioned senior people in the Zonal offices that have higher sanctioning authority.
- Carved out a separate sales team which will be focus on direct sourcing - Strengthening the team - Started digital marketing - Last year, CANF started APF product sourcing and the company has been building up on that
- Disbursements and reconciliations have now been centralized

Others

- Total CSR expenses stood at INR138m and will be INR160m in FY25
- Incremental disbursements have been mainly in the INR2-3m and >INR3m customer segment. CANF charges ~50bp higher interest rates to the SENP customer.
- CANF now does quarterly reset of lending rates
- The company is looking at a slightly higher growth in the self-employed customer segment. Salaried segment customer mix (~now at 73%) would remain >70%.
- CANF will be looking at opening 15 branches in the Tier 2 towns in FY25 wherein the ticket sizes will be <INR2m
- It does not lend to customers who are under the appraised income or surrogate income category.

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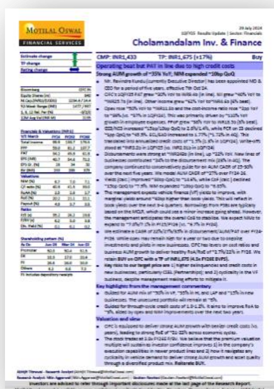

Cholamandalam Inv. & Finance — Buy

Current Price INR 1,400

Guidance

- CIFC targets an AUM CAGR of 25-30% and aims to improve the RoA (PBT) to ~4%.
- Guided for through-cycle credit costs of 1.0-1.2%
- SBPL RoA should remain at current levels, while RoA for CSEL, SME and HL could be in the range of 0.5%-1.0%.
- AUM mix: Unsecured portfolio (CSEL) will remain at ~8%; Newer businesses in the mix will improve to ~15% (compared to ~13% now). Guided for AUM mix of ~50% in VF, ~35% in HL and LAP and ~15% in the newer businesses.
- The management is experimenting with financing mobiles and consumer durables. Opex in new businesses is declining and it expects CSEL opex to decline to ~3%. Opex improvements will come within two years.

Business update

- Mr. Ravindra Kundu (currently ED) has been appointed MD & CEO for a period of five years, effective 7th Oct'24.
- Growth is coming from across all segments, including LAP and HL, which are growing much faster than the VF business. Longer tenor of the mortgage business will also lead to mix change of this business.

Home Loan and LAP

- In LAP and HL, it has resolved a lot of old NPA cases, which carried higher provisions. As the legacy NPA cases have ended, the PCR coverage is seemingly coming off.
- Last year, there were provision write-backs in HL and LAP. CIFC expects steady-state credit costs of ~20-30bp in HL and LAP.
- For HLs, FY25 will be a year of consolidation - improving productivity and keeping the asset quality stable. Ramp-up in HL volumes will happen in 2HFY25 and HLs will deliver better than industry growth in FY25.

Vehicle Finance

- There is room for further improvement in VF yields. Marginal yields are higher by ~40bp compared to book yields. This will reflect in book yields over the next 3-4 quarters.
- Delinquency is seasonal in nature from 4Q to 1Q. Over the next three quarters, the asset quality will improve. From 2Q, the asset quality will improve and the credit costs (NCL) in VF will be at 1.2-1.3%. However, it expects NIM to improve and PBT-RoTA to be higher YoY in FY25.
- NCL in VF will decline in 2Q since CIFC expects good collections amid good monsoons.
- The total number of loans booked in 1QFY25 stood at ~265k (v/s ~240k loans in 1QFY24).
- Wholesale numbers published by SIAM have gone up by 16% and FADA (Retail) number have grown by ~9%. Inventory has piled up for 65 days. Expecting VF disbursements to move up in 2Q/3Q.
- CIFC is currently focusing on higher-yielding VF products and smaller ticket sizes. It will move to higher ticket size vehicles in the second half.
- Predominantly, fleet owners were buying CVs; when SRTOs also start buying new CVs, CIFC might increase the proportion of HCVs.

CSEL

- Bounce rates are below 10% and CIFC has not seen any abnormal behavior in the portfolio.
- Business loans are being done in select markets and select customer segments. Within business loans, ~83% of customers have a credit score of 725+ and ~13% of customers have a CIBIL score of ~700-725.

- Disbursements of ~INR34.9b, out of which the traditional business stood at ~INR20b (~72% of business loans, ~15% of professional loans, and ~13% of personal loans to the salaried segment).
- FLDG income of ~INR130m was booked during the quarter.

Liabilities and CoF

- Private bank borrowings are linked to T-Bill and external benchmark rates. PSU bank borrowings are linked to MCLR, where the company continues to see minor increases.

Newer Businesses

- New businesses were added, so that the disbursements do not suffer because of cyclicality. Growth rate can be sustained since the product mix change is an intentional shift. Some of the products tend to be more operationally intensive, which is why opex has been high.
- With new businesses becoming more efficient operationally, RoTA (PBT) can improve to ~3.8%

Asset Quality

- Write-offs stood at ~INR3.22b in 1QFY25 (vs. INR2.04b in 1QFY24).
- In CSEL, it started doing write-offs and recognizing FLDG from 2QFY24 onward. hence, NCL numbers are not comparable YoY.

Branch Network

- CIFC has 594 resident locations (RLs) and 1438 branches. In FY25, CIFC plans to convert 150-200 well-performing RLs into physical branches.

Others

- CIFC has a comfortable level of Tier 1 at ~14%, which will increase in FY26 after the conversion of CCDs of ~INR20b.
- CIFC is one of the largest players in the used vehicle business. Opex goes up when a lender focuses more on used vehicles, 2W and Tractors; CIFC is trying to maintain growth as well as improve profitability.

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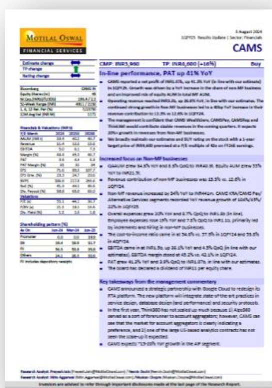

Computer Ages Management — Buy

Current Price INR 4,490

MF Business

- CAMS has crossed the AUM mark of INR40t, up 35% YoY, aided by the solid performance of equity assets (up 56% YoY).
- Its market shares in equity assets continued to climb steadily to 66% in 1QFY25 vs. 65% in 1QFY24.
- CAMS serviced funds garnered all-time high equity net flows of over INR0.9t during the quarter, representing 71% of industry equity net flows of INR1.27t (a new record witnessed by the industry).
- New SIP registrations hit a new life-time high of 9.3m. The total number of SIPs witnessed nearly 100% growth YoY. This has taken CAMS live SIP book past the 50m mark.

Redesign RTA platform with Google

- CAMS announced a strategic partnership with Google Cloud to redesign its RTA platform. The new platform will integrate state-of-the-art practices in service design, database design (and performance) and security protocols.
- The platform would be implemented in a phased manner and the entire project would take 4-5 years to complete.
- On net basis, it will reduce margins by 0.5% for the next 1-2 years, and scale benefits would kick in thereafter.
- Gradually, the investments in data centers will decline. CAMS does not expect any salvage value from these data centers.

Non-MF business

- The continued expansion of non-MF businesses led to a 40bp YoY increase in their revenue contribution to 13.3%. CAMS expects a 0.5% improvement in non-MF revenue every year.

CAMS KRA

- It continues to bolster its product superiority and is emerging as a preferred KYC service provider, with robust 101% YoY revenue growth in 1QFY25 (+11% QoQ).

CAMS Alternatives

- It has won 36 new mandates, including the first overseas fund administration mandate from a UAE-based fund for GIFT City.
- Fintuple's new unified platform integrates all of Custody, Clearing, Fund Accounting, Treasury & Forex services digitally under one roof. The platform will be extended to FPIs, FDIs and capital markets groups in banks.
- CAMS expects ~15-20% YoY growth in the AIF segment.
- In the case of closed-ended funds, the market preference is for revenue charging based on the number of customers. The slab-based fee is linked to the number of customers rather than AUM-based pricing.

CAMSPay

- It posted 44% revenue growth YoY and is emerging as one of the top-3 players in the BFSI segment for UPI auto-pay. With CAMSPay now authorized to operate as a payments aggregator, it has opened doors with banks.
- Canara Bank, Indian Bank and HSBC have empaneled CAMSPay as PA to onboard and support the bank's merchants.

CAMSRep

- CAMSRep has its best-ever addition of over 1m eIAs and 1m policies in 1QFY25 (40% market share).
- Bima Central platform goes live for eIA users; 40k+ downloads, 150k unique active users on Web app. One of the leading insurers has migrated the entire in-force policy base to CAMSRep.

Account Aggregator (AA)

- Revenue grew 300% YoY.
- 16% market share of customers successfully linked to AA ecosystem, growing from 13% in past quarter.
- Volumes from top-tier fintechs continue to scale; business aided by enhanced value proposition through Aamaze.

AI - driven solutions

- Think360 wins the first mandate for Affluence 360, a data analytics platform for mutual funds – first of a kind data-driven market expansion strategy initiative. In the first year, Think360 has not scaled up much because 1) Algo360, which served as a sort of forerunner to AAs, was anticipated by CAMS to have a market for both AAs and Algo360 for some time. As of right now, CAMS can see that the market for AA is clearly indicating a preference; and 2) one of the large US-based analytics contracts has not seen the scale-up it expected.
- The company has completed multiple scorecard validation engagements for its clients, in line with the RBI's overall guidance to the industry around robust credit risk assessment.
- Kwik ID has successfully expanded CKYC modules to AI augmented upload automation for clients in the insurance industry and deployed newly developed Aadhar Vault solution for clients.

Financials

- Employee costs grew 19% YoY on account of increments of ~INR80m.
- The opex run rate increased significantly due to high data-entry costs and the inclusion of cloud-based model for all Non-MF businesses.

- Cash and cash equivalent stood at INR7.2b before div payout. Of the total balance, INR810m will be distributed as dividend.
- CAMS continues to make investments in Non-MF business and it does not expect any material changes in overall costs for FY25.
- Out of total non-asset MF-based revenue of INR460m, ~INR112m is recoverable from OPE, INR180m is transactional revenue (~40% of total non-asset MF-based revenue), INR85m from applications, and INR75m from call centers.

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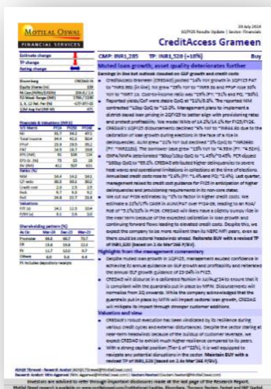

CreditAccess Grameen — Buy

Current Price INR 1,223

Performance update

- AUM grew ~21% YoY to INR263b. Despite severe heat waves and operational limitations, the company has done reasonably well.
- It added nine new branches in 1Q and the total branches stood at 1,976
- CoB was stable QoQ despite the tightening liquidity scenario in the banking system and it guided that the CoB will remain in the range of 9.8-9.9%
- Operating leverage and improvement in interest income resulted in CIR of 29.2%

Guidance

- Management exuded confidence of achieving its annual guidance on GLP growth and profitability
- Reiterated the annual GLP growth guidance of 23-24% in FY25 (within which MFI will grow ~20% in FY25)
- Expects the delinquency trend to stabilize in the coming quarters
- Guided for customer franchise growth of ~13-14%
- PAR 0 should be stable at current levels for some time, and then start declining in 3Q/4Q.

Impact of MFIN guardrails

- MFIN imposed a cap on total borrower indebtedness of ~INR200k and restricted total number of lenders to an MFI customer at four
- There could be some stabilization because of the new guardrails introduced by MFIN. CREDAG should not be significantly impacted since it was already following those guardrails.
- CREDAG will grow in a calibrated fashion in Jul/Aug'24 to ensure that it is compliant with the guardrails put in place by MFIN. Disbursements will normalize in 3Q/4Q.
- Because of the MFIN guideline of ~INR200k on customer indebtedness, there could be an impact of ~8%, but with higher new customer acquisitions, CREDAG should be able to mitigate the impact.
- MFIN has come up with guardrails to make the industry more resilient going forward. Because of these guardrails, however, there could be some moderation in loan growth for the industry.
- Given the MFIN guardrails, GLP growth has to come from higher customer acquisitions and not from growth in the ticket sizes.

Transitory increase in delinquency trend

- ~1.5% QoQ GLP reduction marginally impacted the PAR %, in line with the company's internal estimates
- Extended impact of low rainfall during last year followed by a severe heat wave during Apr'24 and May'24 across several regions
- Operational limitations during general elections impacted regular collections and follow-ups in delinquent buckets

Expected increase in business-as-usual delinquencies over the past three quarters

- There were temporary customer migrations, rising customer leverage, and third-party loan utilization issues
- There were higher steady-state delinquencies outside Karnataka

Asset quality and delinquency

- June and July had stable CE and the delinquencies are slightly elevated. Delinquency might remain elevated but the ability to collect new PAR accretion is higher compared to the PAR 60+ customers. Fresh accruals should come down in 2Q; the ability to collect was better in Jun/Jul compared to Apr/May'24
- Last 3-4 quarters, there has been an increase in the credit costs in the non-core markets; currently seeing little higher delinquencies than what it had earlier anticipated
- CE is lower in states like Rajasthan, Kerala, Jharkhand and some pockets of TN.
- CREDAG has not seen any impact from heavy rainfall or floods on the asset quality or collections during 2QFY25.
- It had anticipated at the beginning of the year that there will be little higher credit costs in the non-core states because of overleveraging, customer migration, and local political interventions.

ECL provisioning

- The company has further strengthened its ECL provisioning policy in 1QFY25 by aligning the provisioning rates basis district-specific risk (vs. state-specific risk earlier) along with customer vintage
- The granular risk assessment helps to build adequate provisioning buffers as the Company expands its presence/acquires new customers across existing / newer geographies
- When CREDAG migrated from a state-level provisioning to a district-level provisioning, there has been a minor change in the PCR at various loan stages.

Pricing

- CREDAG plans to implement the district-based loan pricing in 2QFY25, leveraging the business rule engine. This would help in aligning the loan pricing with the loan provisioning rates, thus protecting the overall profitability.

Retail Finance

- Individual retail finance has better asset quality than JLG customers
- By 2028, it expects the non-MFI loans to grow to 15% of the GLP Mix. ~40-45% will be secured product and remaining 55-60% will be unsecured business loans.
- Unique to CREDAG, the Vintage customers have a great repayment track record and are being considered for non-MFI retail Loans

Regulatory Environment

- There are no further regulatory actions except for pricing, which the regulator has been monitoring. MFIN is reacting much more proactively to the market conditions.

Others

- There is no communication from the RBI to any MFI to calibrate growth in Bihar and UP. CREDAG will continue to watch the industry and risk of each district and grow in a calibrated fashion. It is not planning any branch openings in Bihar, but it expects to add some more branches in UP. New branches should come from AP, Telangana, and WB.
- Management does not expect any significant variation in yields as it implements district-based loan pricing.
- CREDAG has already come back to normalcy in terms of new customer acquisitions and going forward, it expects to acquire 100K new customers every month
- NTC customers at CREDAG: 30-35% | Unique customers have been declining as CREDAG keeps acquiring customers from other MFIs - currently at ~29%
- MFI customers have retail loans like Gold Loans, 2Ws, and Home Loans
- On a sample basis, leverage of customers has gone up by ~15% and FOIR has gone up by ~12%

- KAR, MAH, Chattisgarh, MP - have good center meeting attendance. ~50-60% center meeting attendance at the national level and ~70-72% attendance in KAR.

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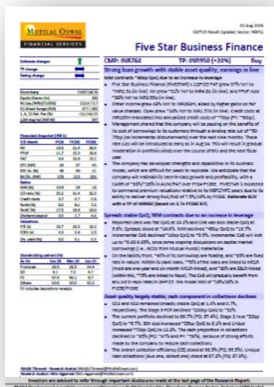

Five Star Business Finance

Five-Star Business — Buy

Current Price INR 722

Guidance

- Guided for disbursements growth of 25-27%, Loan accounts growth of 20-22% and cost-income ratio of ~35-36% in FY25
- Disbursement growth will decelerate being mindful of how regulator also wants NBFCs/Banks want to approach growth
- FIVESTAR will maintain 15-17% of the AUM (in a steady state) in the form of cash and liquid investments on the balance sheet.

Business Update

- The Jun'24 quarter was muted for all lenders; despite that, FIVESTAR has done reasonably well
- FIVESTAR's AUM surpassed ~INR100b in the June quarter. Disbursements stood at ~INR13.2b (~INR13.4b in 4QFY24).
- NIM declined ~45bp QoQ because of increased debt and increase leverage
- PAT crossed ~INR2.5 which is the highest quarterly PAT for FIVESTAR
- RoA stood at ~8.2%; Return on Equity is at an all-time high of 18.95% (PQ: 18.65%) and the company will comfortably cross RoE of ~19% for FY25

Yields

- No discussion between FIVESTAR and Regulator happened on the pricing front. Pricing is based on risk underwriting and market-driven.
- The company will be passing on the benefits on its cost of borrowing to its customers in due course. It will be looking to pass on 50-75bp in rate cuts over the next nine months. It will introduce lending rate cuts as early as in Aug'24.

Cost of funds

- The CoB stood at ~9.6%. Incremental CoB declined ~10bp QoQ from 9.58% in 4QFY24 to 9.47% in 1QFY25.
- Incremental CoB will inch up (to ~9.60-9.65%) once some ongoing discussions on Capital Market borrowings (NCDs from Mutual Funds) materialize

Liabilities and credit rating

- Borrowings from banks declined to 74% (PQ: 79%) of the borrowing mix
- Liabilities mix: ~65% floating and ~35% fixed-rate liabilities. Within bank loans, ~70% are linked to MCLR (most of it are one-year and six-month MCLR-linked) and ~30% are EBLR-linked (within this, ~75% is linked to Repo). From the date of the rate cut, 60% of its borrowings will benefit over the next 12 months.
- Best-case for a credit rating upgrade is towards the end of the calendar year and fiscal year. A Credit Rating upgrade is around 2-3 quarters away.

Asset Quality

- Gross Stage 3 assets moved to 1.41% (v/s 1.38% in 4QFY24 and was stable YoY). It was a tough quarter for all lenders in 1QFY25. Prolonged elections and heat waves had an impact on the cash flows of the customers. FIVESTAR has a very strong collection infrastructure at the ground level and it had a good collection strategy in May/Jun'24.
- Minor deterioration in asset quality will get corrected during the course of the year.
- In Jul'24, the collections were better than Jun'24.
- Write-offs stood at ~INR70m (~30bp of ECL provisions and ~30bp of write-offs). Will continue to do some technical write-offs for tax purposes. Comfortable

holding Stage 3 PCR at >50% and ECL/EAD of 1.5%-1.6% (over a steady state basis)

- LGD is 10-12%; There is also a regulatory expectation of keeping the PCR above ~50%
- Write-offs (credit losses) tend to be 20-25bp of the opening book. Technical write-offs could be 35-40bp.
- Some seasoning of the portfolio happens around 3.0-3.5 years and on a static pool basis, the lagged NPA tends to be 2.0-2.5%

Collections

- CE in Jun'24 was lower than Mar'24, because of usual seasonality of 1Q of the fiscal year. Elections and heat waves further led to the lower collections.
- Unique CE stood at 97.2% (v/s 97.8% in 4QFY24)
- Penetration of digital payments in collections continues to improve - 65% non-cash collections and ~35% cash collections. Company guided for cash proportion in collections to decline to ~30% by Mar'25.
- Introduced a payments app where the customer can login and make a payment (in partnership with RazorPay). Now a customer can login into any popular BBPS app and make payment using UPI. Customers can now also make payment using the QR codes (starting from Jan'24).
- UPI Auto-pay sign-up is mandatory for the customer effective May'24 for any disbursements. The company has made it a pre-condition prior to the disbursement.

Growth

- It has been Business as Usual (BAU) in TN but growth in TN was not catching up with growth in AP and TS. In this fiscal year, both TN and KAR will catch up with AP and TS.
- Across all states, many companies have been entering small business loans (SBL). However, this does not have any significant impact on FIVESTAR.
- In Central India, the ticket Size is ~40% lower than in South. Productivity is higher but ticket sizes are lower in Central India. The proportion of Central India will gradually start improving and there are enough investments happening on the ground.
- AUM mix between loans deployed for [Business purpose] and [Housing, Construction and Personal use] stood between ~55% and ~45%

Number of loans and ticket sizes

- Active loans stood at ~410K (up ~29% YoY). Ticket Size remained largely flat at INR350K.

Branches

- Opened 27 branches in the quarter and total branch count stood at 547. Split branches constituted ~50% of the new branches in 1QFY25 and remaining ~50% of the branches were newly opened (from scratch)
- Guided for ~200 additional branches in FY25. Out of this, 80-90 will be new branches and ~100 branches which will be split in FY25.
- FIVESTAR will bring down the number of employees per branch to 8 (v/s 15 earlier)
- FIVESTAR has always been strong in Tier 4, 5 and 6 cities. More and more branches in Tier 5 and 6 are being split.

Others

- Fees that it gets from the customers for storing their documents. These fees are up-fronted.
- Origination tenor is 6.0-6.5 years and behavioral tenor is around 4.0-4.5 years
- Top-up Loans are ~8-10% of the total AUM and ~4-5% of the disbursements. Customers can apply for a top-up loan after 2 years of seasoning with FIVESTAR.

A fresh re-evaluation of the customer is done when the customer applies for a top-up loan.

- ~90% of the disbursals happen to the newer customers from the branches. Leverage of the customer is checked at the time of underwriting a customer and sanctioning a new loan.

Fusion Micro Finance — Neutral

Current Price INR 285

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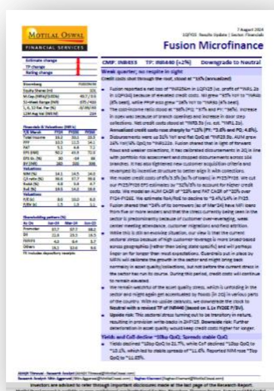

Business Update

- The ticket size has grown by 9.5% YoY. The company has the lowest outstanding among MFI peers at the customer level.
- ~50% of the new branches opened in 1QFY25 were split branches.
- Opex, in the quarter, saw an increase because of new branch openings and should normalize in the later part of the year.

Challenges faced by Fusion

- Slight moderation in collections with concerning trends in some pockets.
- When the collection efficiencies deteriorated, Fusion did a deep-dive, which highlighted increasing leverage among its customers.
- Customers having more than 4 loans have increased significantly, suggesting that customers on-boarded by Fusion have taken more number of loans.
- Lower center meeting attendance and increase in door-to-door collections
- Attrition in some of the geographies has been higher

Steps taken to address the challenges

- Calibrated disbursement in 2Q in line with portfolio risk assessment
- Stopped disbursements in 104 branches
- New customer sourcing criteria tightened
- Rationalized customer handling at RO level from ~540 to ~440. Field officer rationalization has helped reduce the burden by ~20%
- Revamped incentive structures/more aligned with collections
- Strengthened dedicated collections team, targeting 60+ customers

Guidance

- Situation is dynamic and fluid, it will see how 2Q pans out and then guide for credit costs

Asset Quality

- MFIN guardrails (capping of borrower leverage at INR200k and maximum 4 lenders per borrower) will moderate the loan growth in the sector.
- Fusion management did early recognition of the stress and has proactively moved ~INR2.2b of Loans (~55K customers) from Stage 1/2 to Stage 3. Higher impact in Tamil Nadu, Rajasthan, Odisha, Jharkhand & Madhya Pradesh. 94% of these ~55K customers are 2nd cycle and above customers. This led to additional provisions of ~INR1.4b in the quarter.
- Bureau data suggests that these customers have taken loans from >6 lenders and also defaulted with other lenders. These customers are overleveraged and have made part payments in June and NIL payments in July. Also, this pool of customers has low centre meeting attendance.
- Macro-environment might have accentuated the problem during 1Q; Situation is transient and the company is watchful.
- Fusion is slightly more prudent and believes that it should call out early - the company will be able to tell things with more clarity in the next quarter.
- Steps taken will start showing results; Engaging with those customers to make sure that these things are arrested - still hopeful that these customers earmarked in Stage 3 will start repaying and all efforts will be made to start recoveries in 2-3 months.

- Tightened the ECL coverage based on updated flow and recovery data. This led to additional provisions of ~INR660m. Annual review of the ECL model is done with the auditors. Earlier, Fusion used to take 5 years average for its ECL model and now it takes 3 years' average.
- Some segments doing well and some still struggling. As the dynamics are still evolving on the ground, it is difficult to guide for anything at this juncture. Remains watchful of the situation on the ground. Hopeful of situation to normalize in 2QFY25 and normalize in 2HFY25.
- The company has been guiding for a K-Shaped recovery. Customers have not suddenly taken more loans in the last quarter alone but this over-leveraging problem seems to be building up for the last few quarters. Flows from these customers who are over-leveraged were high and that there was no payment from these customers in July.
- These customers have taken loans not just from MFIs - they have taken loans also from other NBFCs and Fintechs - these customers' likelihood of default will be high.
- PAR 60+ stood at ~5.6% (3.1% as on Mar'24); PAR 30+ stood at 6.37% (3.44% as on Mar'24)

Collections

- There has been moderation in the Collection efficiencies from April to July. CE in June stood at ~96% and July was also in a similar range.

Financial Performance

- Average cost of funds has decreased by ~9bp QoQ. NIM expanded ~75bp YoY and ~5bp QoQ
- Operating costs have also increased because of 1) branch openings, 2) increase in door step collections, 3) rationalization of number of clients per RO
- PAT was impacted by early recognition of risk in the portfolio.
- Credit costs stood at ~13% (annualized). Net Credit Costs (excluding ECL tightening and conservative/proactive Stage movement) were ~1.3%.
- Write-offs stood at ~INR584m.
- Assignments of ~INR4.8b during the quarter; DA outstanding stood at ~10.5% of the AUM and the company will be looking to continue off-book mix at the same rate.

Loan growth and disbursements

- Demand is robust and it has actually calibrated its business. Fusion has already calibrated its sourcing: It is still sourcing ~200-250k applications per month despite the branch infra having gone up by ~25-30% over the last 6-8 months.

State specific commentary

- Both Bihar and UP are behaving well, better than some of the other stressed states.
- 95% of the customers, who have been moved to Stage 3, are from higher impact states like Tamil Nadu, Rajasthan, Odisha, Jharkhand & Madhya Pradesh.
- TN contributed ~6% and Rajasthan contributed ~12% to the AUM mix. These highly impacted states contributed 25-28% to AUM mix.

Covenants breached from deterioration in Asset Quality

- There is breach of covenant on the Gross NPA but no breach on 90+dpd. Very few banks have objected to the branch in covenant.

Others:

- Retail overlap has gone up in the MFI customers. For Fusion, customers in Southern India have an overlap of ~61% and Northern India customers have an overlap of ~15-20%
- For the last 6-8 months, it has been rationalizing its field officers per customer.
- Revamping its collection team and it has hired senior management personnel who will be joining Fusion in Aug'24.

- New MFI norms were meant for making sure that customers are not over-leveraged. Earlier there used to be a cap on the number of lenders - Customers were also given loans under the non-qualifying criteria, which has resulted in over-leveraging of the sector.
- Fusion has been proactive and has been taking all the steps to manage all these risks. This could be a temporary phenomenon and it was accentuated in this quarter.
- Fusion has not increased the ticket size, instead disbursements were higher toward matured customers, who were eligible for higher ticket loans.

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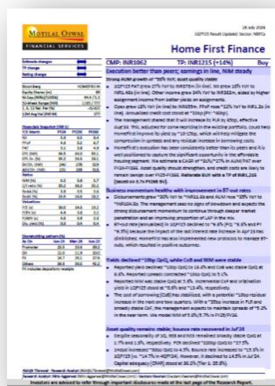

Home First Finance — Buy

Current Price INR 1,045

Financial Update

- Home First crossed the INR100b milestone in AUM in 1QFY25.
- 1Q disbursements grew ~30% YoY to INR11.6b.
- Maharashtra and Karnataka have shown notable performance, and expansion into UP, MP, and Rajasthan has been successful.
- AUM grew ~35% YoY to INR105b.
- Delivered ROA of ~3.6% and ROE of ~16.3%.

Yield, CoB & Spreads

- Plans to increase PLR by 35bp from 1st Aug'24. Will get lesser benefit on the portfolio yield since the company is losing one month in quarter.
- Portfolio under NHB schemes and pools with good track-record customers will impact yield by 10-15bp due to risk-adjusted pricing.
- The origination yield and LAP ratio will remain stable, with the yield between 13.4% and 13.6% and the LAP share between 15% and 20%.
- Overall marginal CoB has improved slightly.
- CoB has stabilized with a possible 10bp increase. Efforts are in place to manage rising deposit rates and MCLR.

Guidance

- Expects Opex-to-Assets of 2.8%/2.9% in near future.
- Expects spreads of ~5.2% for next two quarters.
- HFFC expects disbursement of INR48b for FY25, indicating AUM growth of 30%.
- Aiming for co-lending to contribute 10% of disbursements.
- Confident of maintaining yields of ~13.5% through expansion into smaller markets and increased LAP contribution in AUM mix.
- Guided ROE in range of 16.2-16.5% for FY25

Co-Lending & DA

- Did DA of INR1.5b during the quarter and co-lending volume stood at INR420.
- Co-lending business is growing and expects it to contribute 10% of disbursements.

Technology

- Technology remains central to their strategy. Account Aggregator adoption has reached 41% for new proposals, up from 36% QoQ.
- Digital penetration is robust, with 95% of customers registered on their app. 90% of service requests are raised on the mobile application.
- Future spending will focus on enhancing mobile apps, cybersecurity, and MIS applications, but core applications will not need significant additional costs.

Borrowings

- Borrowing mix: 59% from banks of which 30% is from private and 29% from public banks. NHP refinance share was 19%, 14% is from direct assignment and 3% from co-lending.
- HFFC has NCD from IFC at 3%. Zero borrowing through commercial paper.

Disbursements

- Negligible impact of the RBI's Apr'24 circulars because majority of disbursements are done electronically through RTGS payments. Further, a small set of payment for resale transactions done through demand drafts.
- No current signs of slowdown; strong demand observed. Expects disbursement rate to continue through a) potential for deeper penetration in central and northern parts of the country, as well as in existing markets, and b) low contribution from LAP currently; significant growth potential in this segment.
- Will be targeting growth in ATS segment of INR1.5m-INR3m.
- Incremental disbursement ticket size is INR1.35m.

Balance Transfer (BT-Out)

- The increase in BT-out is relatively small compared to the changes customers have experienced over the last two years.
- ~90% of the increase in PLR will be managed through an extension in tenure rather than an increase in EMIs. Thus, there should not be any significant increase in BT-OUTs.
- BT-Out rate rose by 1.25% over the past two years, but the current proposed increase is much smaller. Given that rate previously climbed from 5-5.5% to around 8% before stabilizing, a 35bp increase over 10 years is expected to have minimal impact.
- BT-out rate declined because impact of last rate increase from Apr'23 ended. Further, new protocols implemented to manage BT-outs have shown positive results.

Asset Quality

- Post-Covid, portfolio performance has improved, leading to lower ECL provisions.
- Ongoing management overlay is applied, but ECL is naturally reflecting lower numbers. Efforts are made to apply additional overlays beyond what ECL suggests.

Vision

- The company will focus on deepening its presence in the west and south. It plans to expand significantly in UP, MP, and Rajasthan. The growth strategy involves using a granular distribution model with connectors, branches, and a hub-and-spoke approach.
- The primary product will be housing loans.
- The company will invest in collections infrastructure and technology for long-term growth.
- The goal is to achieve an opex-to-AUM ratio of 2.5% and a cost-to-income ratio of 30% over the next five years.

Others

- Discussion going on with credit rating agency for a rating upgrade. However, the company expects that it will take another 12 months.
- Expects fee income from insurance licenses to accrue from next quarter.
- HFFC has 3500 active connectors.

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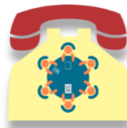

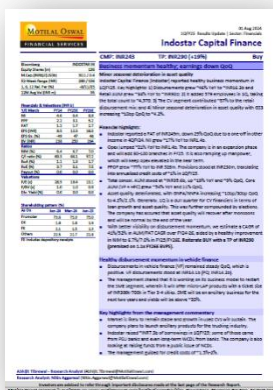

Indostar Capital Finance — Buy

Current Price INR 288

Demand Outlook

- The cost of new vehicles has been going up and the company expects the trend to continue as it will benefit the used CV industry.
- Scarcity and unavailability of old vehicles should further result in good demand for used vehicles.
- Market is likely to remain stable and growth in used CVs will sustain. It plans to launch ancillary products for the trucking industry. The company is trying to increase the well-being of its customers and will be expanding its lending operations.
- Rural demand will pick up on the back of good monsoons and will result in good demand for CVs.

Guidance

- Guided for standalone AUM of ~INR95b and consolidated AUM of ~INR120b.
- Guided for credit costs of 1.5%-2.0%
- Credit cost was ~40bp in the HFC business and it is expected to remain at the current levels.
- The company has started getting insurance income from the preceding quarter and the yields have also improved. In terms of expenses, Indostar is in an expansion phase and will add 80-100 branches in FY25. It is also ramping up manpower, which will keep opex elevated in the near term.
- Guided for M&HCV share in the vehicle mix to decline to ~35% from ~45% now.

Financial Update

- Actively pursued goals to improve GNPA
- GNPA stood at ~4.19% (consolidated) and ~4.97% (standalone)
- April/May are dull months for CVs, and this time it was compounded by elections. Indostar assured that asset quality will recover after monsoons and will return to normalcy by the end of the year.
- Legacy loan book stood at ~INR2.1b and it will be resolved over the next 2 years. The company carries provisions of ~60% on this book.

SR Book

- Gross SR stood at ~INR11.75b as of Mar'24. Indostar collected ~INR530m in 1QFY25. Gross SR declined to ~INR11.25b and Net SR stood at ~INR7.66b (PCR of ~32%). SRs will get resolved over the next 2-3 years.

SME Product

- New SME product targeted at Tier 3 and 4 markets.
- Indostar is leveraging its existing branches for the new MSME product. There will be some increase in the operating expenses from the increase in manpower.
- Ticket size around INR300-700K - Micro LAP product. The company has started piloting in TN - predominantly targeted toward business people.
- SME will be an ancillary business for the next 2 years and yields will be above ~20%.

Consolidated Financial Performance

- NII stood at ~INR1.86b (up ~29% YoY) and NIM stood at ~6%.
- Operating expenses stood at ~INR1.39b (vs. INR1.15b in 1QFY24 and INR1.39b in 4QFY24).
- Non-recurring one-time income of ~INR1.16b in 4QFY24, which was absent in the current quarter.
- Consol. AUM stood at ~INR95.65b, up ~11% QoQ.

Standalone

- Standalone disbursements stood at ~INR14.2b and standalone AUM stood at INR71.7b (up ~13% QoQ).

- CE (including overdue) stood at 95%.

Vehicle Finance

- AUM stood at ~INR63.23b.
- Guided for overall income to start improving and NIM to expand in the coming quarters.
- Earlier Indostar used to focus predominantly on M&HCVs. It has now started focusing on pickups and small CVs - 60% of the units are coming in small ticket sizes, which pulled down ATS.

Affordable Housing (HFC)

- AUM stood at ~INR24b. The average ticket size is INR900k.
- Total branches stood at 132 and will continue to expand through digital locations.
- 1+dpd of 3.95% (marginally higher than last quarter)
- GS3 stood at 1.34%. GNPAs are slightly higher in 1Q of the fiscal year, but they will moderate in the rest of the fiscal year.
- Gone live with end-to-end digital and paperless journeys.
- PAT stood at INR140m; RoA stood at 3% and debt-equity ratio of 2.6x; CRAR was healthy at ~56%.

Liabilities and CoF

- Higher-cost NCDs will be repaid over the next three quarters and will be replaced with lower-cost liabilities.
- Overall CoB declined to 10.8% and incremental CoB declined to ~10.5%.
- Raised ~INR7.3b of borrowings in 1QFY25- some of those came from PSU banks and long-term WCDL from banks.
- Confident that in 2Q, it will have substantial sourcing of borrowings from banks.
- It is also looking at raising funds (INR1.5b + INR1.5b) from public issue of NCDs.
- Large sanctions from PSU banks are in the final stages of documentation.

L&T Finance — Buy

Current Price INR 168

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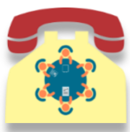


Business update

- Highest-ever quarterly PAT of ~INR6.86b (up 29% YoY) and the steady-performance trajectory will continue through the course of FY25.
- Retail quarterly disbursements at INR148.4b (up 33% YoY). Disbursements remained almost at the same levels as the last quarter.

Quarterly performance

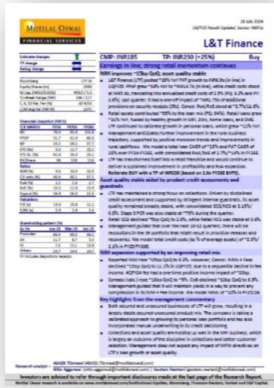
- Retail mix stood at ~95%
- Retail loan book grew 31% YoY
- Consol. GS3/NS3 stood at 3.14%/0.8% as of Jun'24
- Consol. RoA stood at 2.7% in 1QFY25. LTF is working towards improving the consol. RoA to be in the range of 2.8-3.0%
- NIM + Fees rose ~145bp YoY
- Weighted CoB remained stable
- Retail book stood at INR844b, up 31% YoY; Consol. loan book grew 13% YoY

Outlook on monsoons and rural/urban consumption

- Urban consumption is expected to remain steady and there should be buoyancy in rural consumption
- Rainfall in Jul'24 has wiped out the ~10% deficit of Jun'24.

Rural business finance

- Highest-ever quarterly disbursements of INR57.7b
- With the current positive monsoon trajectory, the business should improve



Urban business finance

- 2W business: Disbursements were up 52% YoY, aided by activation of new dealership points.
- LTF achieved ~150% YoY growth in electric 2W finance
- Personal loan disbursements stood at INR11.78b. Book size was ~INR66.6b, up 11% YoY. Risk calibrated growth was focused on salaried prime customers through addition of DSAs.
- SME finance stood at INR44.7b

MFI business

- Collections efficiency and collections discipline are a culture.
- Prudent credit assessment and various guardrails which have been put in place
- ~40% of LTF's customers are exclusive customers who are non-leveraged.
- Guided for portfolio quality to remain stable and confident of delivering strong loan growth. Asset quality metrics are quite satisfactory.
- It keeps a watch on the leverage levels of the customer - this has helped LTF maintain high CE on the ground.
- TN, KAR, and Bihar are the top 3 states. Asset quality, in all these states, was stable. It is trying to reduce the over-dependence on all its three states.

Personal loans (PL)

- Focused on prime and near-prime for salaried individuals. Being very cautious and judicious on personal loans.
- Earlier used to do machine learning algorithm-based underwriting and has now introduced even manual underwriting in PL.

Home loans

- Average yields in Home Loans are in the range of ~9% (prime and near-prime segments).
- Launch of complete Home Loan offering by LTFH - Home Decor Finance has witnessed good customer acceptance

Two-Wheelers

- India sells 1.2-1.4m two-wheelers per month; LTFH is present in the prime and near-prime segments and it weeded out the sub-prime segments.
- Currently, it has ~75% penetration of the dealer universe and it wants to increase the penetration to ~85%. It is also working on introducing the loyalty program for its dealer partners so that it gets the leads on a preferential basis.
- Focus area is to reduce the "approved but not disbursed" cases
- Has put up a separate EV channel and a separate Superbike channel.
- ATS of 2W Finance has been going up
- It is increasing distribution, improving customer quality, and raising the 2W ticket sizes.
- 2W demand should do well on the back of good monsoons and demand should further improve by the festive period
- Prime IRR: 15% and Non-Prime IRR: 19% and Blended IRR in 2W is 17.5%

Five Pillar Strategy

- Customer acquisition: Deepening the customer acquisition funnel both horizontally and vertically
- Sharpening Credit Underwriting: Deployment of beta version of proprietary credit underwriting engine called 'Cyclops'
- Implementing Futuristic Digital Architecture: Optimizing digital journeys to eliminate chokepoints

- Heightened Brand Visibility: Integrated Home Decor Finance is the first in the industry. Marketing Campaign for the 2W business is next-in-line
- Capability Building: 3-Tier Compliance structure reporting to Chief Compliance Office

Security Receipts

- Over the next 10-12 quarters, there will be resolutions in the SR portfolio, which will result in provision releases and recoveries.

Liabilities

- Average borrowings in 1QFY25 stood at INR691b (Average borrowings stood at INR705.6b in 1QFY24)

Yields and Margins

- Wholesale (portfolio) yields stood at 11.5-12.0%; Retail yields (portfolio basis) stood at 16%
- Yields will be maintained at levels so that there is no impact on NIM + Fee income.

Others

- Investments in technology and brand building will continue for the next couple of quarters.
- Sustained focus on improving the credit parameters
- Calibrating the secured: unsecured loan mix. For the next couple of quarters, there will be growth across both secured and unsecured businesses.
- Piloted microLAP and it has been scaling up - current mix of secured and unsecured will continue for the next few quarter.

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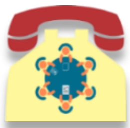

LIC Housing Finance — Buy

Current Price INR 679

Business Update

- As announced in the Union Budget, the government will continue to focus on affordable housing.
- In terms of interest rates, a gradual downward trend is expected in the coming year. RBI August MPC will provide clarity on the way forward.
- Outstanding loan portfolio grew ~4% YoY, individual loan portfolio grew 7% YoY, individual home loan disbursements grew 16% YoY, and project disbursements grew ~108% YoY.
- PAT stood at ~INR13b, down 2% YoY.
- CoF remained stable QoQ at 7.76% (despite elevated yields in the market in 1QFY25).

Guidance

- LICHF guided for stronger growth in Retail Finance and Project Finance and maintained its guidance of double-digit loan growth in FY25.
- The company aims to increase its other loans (NHI, NHC and Project Loans) to ~20% of disbursements by FY25 (vs. ~13% in FY24).
- Confident of achieving its NIM guidance of 2.7%-2.9%; the NIM decline was because of lower NPA recoveries of ~INR900m (vs. INR2.3b in 4QFY24). NIM has hit rock bottom and is expected to improve in the coming quarters.
- 1QFY25 credit costs stood at ~19bp and the company guided for FY25 credit costs of ~25-30bp.

- Stage 1 PCR should remain in the band of 18-20bp; Stage 2 PCR will remain between 4%-5%; Stage 3 PCR will remain around ~50% and ECL/EAD will remain around ~2%.

Disbursements and Loan growth

- Total disbursements stood at ~INR130b, up 19% YoY.
- Portfolio run-off rate is ~4% (~16% annualized). There is still re-writing pressure (i.e. repricing of loans), with faster rewriting in higher RoI loans.
- The company is taking a re-look at interest rates and expects this exercise to bring down the repayments and re-writing of loans.

Asset quality

- As a practice, the provision cover is retained at Stage 2 levels for a curation period of a quarter. About ~INR2b of Stage 2 assets were upgraded to Stage 1 in
- Mar'24. However, provisions were retained at same levels as Stage 2 for one quarter (curation period). In 1QFY25, the requisite provisions as per Stage 1 were restored, which led to a decline in Stage 2 PCR.
- In the builder segment, LICHF recovered ~INR900m in 4QFY24, which declined to ~INR100m in 1QFY25. In 4QFY24, there were ~INR700-800m of lumpy recoveries (one-offs) from project loans. The company guided for quarterly recoveries of ~INR1.4b-1.5b.
- Guided for write-offs of ~INR4-5b in the remaining part of the year. LICHF expects two projects of ~INR2.5b and ~INR3.75b which are in NCLT, to get resolved over the next two quarters.
- Some wrong decisions were taken in Non-Housing Individual/LAP. LAPs were sold incrementally; not many NPAs. Those mistakes will not be repeated. There was a particular phase between 2016 and 2019, wherein more than ~60-65% of project loans became NPAs. LICHF has learnt its lessons from the past. Now it will lend only to good quality and top builders.
- There was no monitoring aspect earlier; it has now built a strong monitoring team.
- Out of total ECL provisions of ~INR56.7b, the management overlay is ~INR17.7b.

Yields

- Lowering interest rates is out of question. LICHF is looking at smaller ranges of CIBIL score, so that it can price customers better. It will not impact the company's growth but will give it better margins.
- LICHF will be looking to penetrate the self-employed segment – Risk-based pricing is revisited and it will price the products based on the creditworthiness of the borrower.

Liabilities

- Out of ~INR820b Bank borrowings, ~INR400b linked to external benchmark rates, ~INR250b linked to the repo rate and ~INR170b linked to MCLR rates.
- The company has seen improvement in liquidity. A decline in G-Sec yields and global benchmarks in 1QFY25 will augur well for CoF.
- About ~INR75b of liabilities (at CoF of ~8%) will get re-priced in the current quarter at incremental CoF of 7.5%-7.6%.

Product mix

- Diversify from IHL to the other Loans - Lending to corporates, non-housing loans to individuals; it is also looking to grow its builder book. It expects to increase other loan disbursements (ex of Home Loans) to ~20% of total disbursements (vs. ~13% in FY24).

- Competitive intensity remains the same; Banks have increased their lending rates slightly by 10-15bp. LICHF is trying to be competitive but also diversifying its product mix to improve its margins.

Project Loans

- It will target large builders and good projects. It plans to increase the proportion of project loans in the loan mix.
- Project loans have bottomed out and the company will look to start increasing it now.

Others

- Individual retail sanctions were up ~30% YoY.
- ~85% of the book is individual home loans (IHL); Segment is mostly salaried with excellent CIBIL scores - cream of the market - lot of competition from banks and it needs to be competitive to get this segment on the book.
- Whenever write-offs happen, the Stage 3 account related management overlay gets released. When Stage 2 accounts move to Stage 1, there is again a commensurate adjustment in the required PCR.
- Collections overall dipped in 1Q; In 1QFY25, there was a reduction of ~INR3.5b from Retail book in Stage 2 EAD - Part of which moved from S2 to S3 and part of it moved from Stage 2 to 1.

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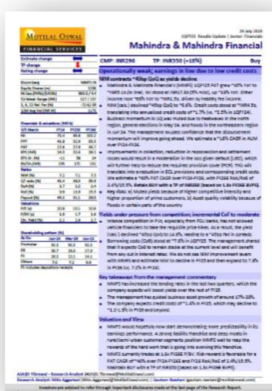

M&M Financials — Buy

Current Price INR 308

Guidance

- Transmitted rates in the last two quarters, which will boost yields for the rest of the year.
- Guided for business asset growth in 17%-20%.
- Guided for credit costs of ~1.4% in FY25 and expects credit costs of 1.2-1.3% in FY26 and beyond.
- Business models are predicated to improve NIM to the guided levels of ~7%. However, it is a tough task.

Disbursements and loan growth

- Acknowledged that disbursement growth of ~5% YoY was weaker than expectations. However, MMFS aims to accelerate business growth for the rest of FY25.
- Disbursement growth and business asset growth were moderate in 1Q, but this is not reflective of the rest of the year.
- MMFS is moving to high-value vehicle loans as well, which will keep MMFS in good stead for delivering disbursement growth.

Commentary on vehicle product segments

- PVs comprise ~40% of the product mix. Macros in PVs have not been great.
- Tractor is a fine balance between growth, margins and profitability.
- MMFS is ranked third in 3Ws and the growth has been mute.

Yields

- The company has hit the ceiling on low NIM and affluent product threshold.
- 4Q is much stronger in yields because of interest write-backs from a sharp improvement in Stage 3 numbers. Penal charges are also higher in 4Q.

Fee income

- Corporate agency license will be a big enabler for improving the fee income. The company has already done six insurance tie-ups - two each in life, non-life and health. Fee income will strengthen going forward.
- Looking at sweating out fee-based income - Corporate agency license was obtained in 1QFY25.

Liabilities and CoB

- CoF remains elevated and it is taking steps to see that CoF moderation continues to happen going forward.
- Will aggressively look to add CPs over the next couple of quarters.
- Incremental CoB was around 7.8%-8.0% and it guided for the borrowing costs to remain in the same range for the rest of the year.

Asset quality

- Focused on reducing inter-quarter volatility in asset quality and has delivered on that front. Confident of ensuring that both GS3 and GS2 will remain range-bound in the year going forward.
- Expects to keep write-offs at similar levels or bring it down.
- Aims to keep Stage 2 + Stage 3 at Mar'24 levels or slightly lower.

Provision coverage

- LGD declined because of improvements in collections and it will continue to decline. Benefit on the ECL coverage was because of a decline in the LGDs, which is further a reflection of collection intensity over the last few quarters.
- LGD/PD are influenced by the collection throughput. MMFS has seen strong collections over the last eight quarters. Settlement losses have declined.
- Early bucket movements are contained and the management guided that the LGDs will only decline from hereon.
- LGD benefit, which is there in Stage 3, is also there in Stage 1. Focus on early bucket collections is helping to bring down the delinquencies and PD assumptions.
- Going ahead, MMFS expects an improvement in LGD assumptions (because some of the troubled portfolio, which was there during Covid, will move out of the 42-month ECL model). It expects further moderation in LGD and PCR.
- MMFS did an ECL model refresh - moved from one vehicle cohort to vehicle sub-segments based ECL provisioning and introduced other macro variables - this refresh will be done once a year, typically every 3Q of the fiscal year.

Competitive Landscape

- In PVs, MMFS is ranked No. 3 and faces competition from PSU banks.
- Fleet operators are moving to banks - NBFC share in CV has been coming down; used CV is still a segment where NBFCs are able to do well.

Opex

- Will not compromise on investments for reducing opex.
- Two biggest costs - branch costs and employee costs - are under control, which should help MMFS reduce opex.

Tractors and CV

- Tractors and CVs are cyclical businesses; MMFS is making interim corrections in specific locations, where it foresees stress on a cross-cycle basis.

Aspirational RoA of 2.2% in FY25

- Opex and credit costs are operationally moving down and there are levers on NIM for the next three quarters.

Capital Raise
- Does not anticipate the need to raise equity capital in FY25; It could contemplate raising capital in 2Q/3Q of FY26.

Others
- Pre-owned vehicle segment, which is 17-18% of the incremental sourcing, has to be increased to ~20% of the disbursements.
- Prime vehicles and affluent customer segment: MMFS has already hit the upper threshold on the PV segment as well as the affluent customer segment. There will be no negative drag on NIM because of higher ticket size vehicles.
- The number of contracts was lower YoY in 1Q because the company has stopped doing CD and personal loans.
- SME business grew 68% YoY. SME contributed ~5% to the incremental disbursements.

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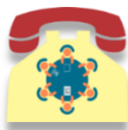

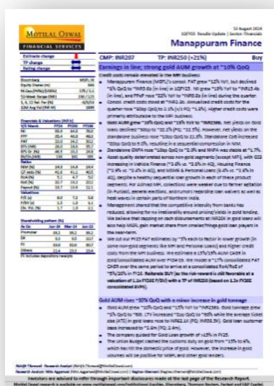

Manappuram Finance — Buy

Current Price INR 212

Business update
- Standalone AUM at ~INR310.4b, grew by ~21% YoY and consolidated AUM stood at INR449.3b grew 21% YoY
- Gold AUM grew ~15% YoY and ~10% QoQ for the quarter
- Gold holdings grew ~1.3% QoQ during the quarter despite tightened competition
- The Union Budget slashed the customs duty on gold from ~15% to 6%, which has hit the domestic price of gold. However, the increase in gold volumes will be positive for MGFL and other gold lenders.
- The Board declared an interim dividend of INR1/share

Financial Performance
- Consolidated AUM stood at INR449.3b, up ~7% QoQ and ~21% YoY
- Consol. PAT declined ~1% QoQ and grew 11% YoY
- Standalone PAT grew ~3% QoQ and grew ~16% YoY
- Standalone GNPA at 1.96% (v/s 1.93% QoQ)

Guidance
- MGFL guided for FY25 Gold Loan growth and growth in customer acquisitions of ~15%+ YoY
- Borrowing costs will continue at similar levels now and MGFL is also looking forward to interest rate/repo rate cuts.

Gold loans
- Gold Loans contributed ~53% of the Consolidated AUM and grew ~15% YoY
- Gold loans are prone to seasonality during quarters; Compared to the same period last year, the gold loan demand has been better YoY in July/August
- Gold auctions stood at INR120m. Gold auctions were at similar levels as last quarter.
- With gold loans, customers with INR200K ticket size has increased from ~33% to 35%
- New customer additions stood at ~420K in 1QFY25 and existing customers have also started coming back for gold loans.
- Net Gold loan yields declined from 22.5% to 22.2%

Competitive landscape and the impact of a ban on a large gold loan peer

- Post-Covid, demand from the target audience reduced but it has now recovered. Ban on gold loans for a large gold loan peer has not had any material impact since it is getting distributed across so many gold lending players, and customers from that gold loan peer are predominantly going to banks.
- Earlier, the old traditional players did not have a level playing field in gold loans. Even after the ban on the gold loan peer is revoked, it might be difficult for them to come back since it will be a level playing field for everyone now.

MicroFinance

- There are some challenges in collections - Punjab (Farmer Agitation), general elections and rumours spreads about interest parties of loan waivers, and heat waves led to a hit on business and collections. Productivity loss also led to a loss of income for the customers.
- Climatic challenges such as floods and heat waves affected the income of customers and caused delay in repayments. Taking all possible steps to identify the bottlenecks and improve the collections.
- Some states which are exhibiting higher stress are Punjab, Gujarat, Rajasthan, MP - even in these places, there are branches that are showing good collections.
- SROs have guided Asirvad to reduce the maximum loan per borrower to INR200K and maximum number of lenders to be capped at four. Asirvad has now become compliant with MFIN guidelines.
- Asirvad AUM stood at INR123.1b and grew 21% YoY
- Asirvad PAT stood at INR1b (v/s INR1.02b QoQ)
- NNPA stood at ~1.36% and CRAR stood at 21.8%; Write-offs in Asirvad stood at ~INR700m

Vehicle Finance

- VF AUM grew 10.5% QoQ and 64% YoY; GNPA at 3.6%

Home Loans

- AUM stood at ~INR15.9b, up ~5% QoQ and ~32% YoY
- PAT of INR60m in 1QFY25; GNPA at 2.88%; Mix between Home Loans and LAP of ~72% and ~28%
- Closely monitoring the affordable housing segment for opportunities from PMAY and CLSS

MSME and Allied

- GNPA stood at 2.7% excluding digital personal loans and this portfolio is largely secured.
- ~95% of the loans are Micro-LAP with ticket sizes of INR500-600K. ~93% collections happen through the NACH presentation itself.
- Stress is in the unsecured MSME lending segment but it has now reduced it further and it will increase the secured book to ~97-98% over a period of time.
- Only a small proportion of the business is sourced through DSA. Acquiring majority of the customers directly from customers who walk into the branches. Earlier this product was done by gold loan branches and its employees. Now there is a specialized team who are co-located with gold loan branches.

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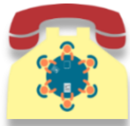

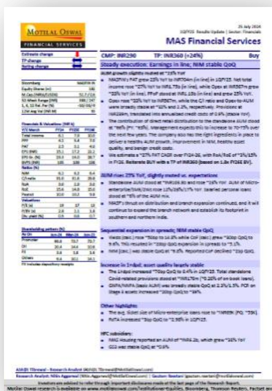

MAS Financials — Buy

Current Price INR 285

Business Update

- Micro-Enterprises grew ~12% YoY, SME loans grew by 23% YoY, 2Ws grew 17% YoY and CV grew 82% YoY
- Major growth is contributed by the MSME segment, which contributed ~62% to the incremental AUM growth in the last 12 months
- Management overlay in the standalone book stood at ~INR176m (0.22% of the on-book assets)

Guidance

- Continues to guide for AUM growth of ~20-25%. 1Q is typically the seasonally weakest quarter - ideally, it would have wanted to grow the AUM between 3.5%-4.0% but it was slightly lower than expectations
- Guided NIM at ~7% and RoA at 2.8%-3.0%
- Guided Wheels to become ~25% of the product mix, over the next 3-5 years. Wheels portfolio comprises of used CV, used cars and 2W. Yields range between 15-21% and the average yields in this segment is 19-20%.

Liability management

- Company was able to maintain its cash and cash equivalents of ~INR8b (excluding the QIP proceeds) and unutilized facilities of ~INR6b
- Capital adequacy stood at ~28.6% (25.4%) and debt-equity of ~3.1x
- MASFIN is making efforts to reduce its CoB by 25-30bp but since the MCLR of Banks is also going up, it guided for CoB to remain stable for the next few quarters

Asset Quality:

- It will take one or two quarters before the slippages in the 30+dpd bucket completely normalizes. Further, as it increases the retail distribution, there could be some re-calibration in the 90dpd bucket.

Geographical Expansion

- Trying to set-up its base for growth over the next four/five years in Southern and Northern India.
- In Southern India, it has started setting up its footprint in TN, Karnataka, and AP/Telangana.
- There are a lot of opportunities in Southern India with multiple private financiers and MASFIN has started working on increasing its penetration in Southern India.

Salaried Personal Loans

- Salaried personal loans are ~6% of the total AUM and will be <10% of the total AUM
- ~35-40% of the business is generated from the Fintech partnerships
- Salaried PL: Stage 3 of 3.38% and Stage 1 of 92%
- Salaried PL yields of ~21%.

Commercial Vehicles

- Stage 3 of ~4.12% and Stage 1 of ~91%
- CV yields of ~19-21%

Others

- Overall yield on the AUM is ~17%

- TAT for bigger ticket SME Loans is 3-5 days while those for Housing Loans is 5-7 days.

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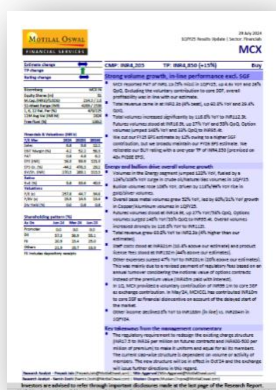

MCX — Buy

Current Price INR 4,796

Business:

- MCX market share in commodity futures stood at 98% as of 1Q end.
- Currently, it has 100 FPIs actively trading, with around 90 in CAT 1 and 10 in CAT 2. They are currently allowed to trade on only two commodities, crude oil and natural gas. The company is seeing healthy traction from FPIs and expects more participation from them.
- MCX clocked its highest single day turnover of INR3.8t on 15th May'24.
- Total number of traded clients grew ~6.4% QoQ to ~0.57m as of Q1FY25 (vs. 0.39m in 1QFY24, 40% YoY).
- The company holds a 20% stake in the GIFT City IFCI as it has an investment of INR4.3m. It was making losses until last year, but there was positive traction in 1Q, with accretion of INR20m included in P&L.

Financials:

- The combined ADT stood at INR1.7t (up 32% YoY), comprising INR1.5t from options and INR260b from futures as of 1QFY25.
- Of the total transactional income, INR1.3b came from options and INR710m from futures.
- Float income stood at INR200m for the quarter.
- The cash balance was INR9.6b as of Jun'24 vs. INR8.b as of Mar'24.
- The outstanding margin money collected as of Mar'24 was INR9.17b.
- The management has guided for around INR100m in voluntary contribution to SGF every quarter.

New launches:

- Two new options contracts were launched in Apr'24 – Crude Oil Mini Options (10 barrel as underlying) and Natural Gas Mini Options (250mmbtu as underlying).
- The cotton candy contract has been amended and the new series contract of November has been launched, where the only change is the reduction in the trading and delivery unit from 100 to 25 days.
- Crude sunflower, Gold 10 gram (monthly futures) and cotton wash sheet oil will be launched soon as they are under the testing phase.
- Electricity futures contract is in the pipeline, pending for approval from the regulators.

Regulations:

- The recent changes in regulatory guidelines on commodity derivatives are likely to support MCX's aim of achieving expansion and enhanced participation.
- The regulator has revised the minimum duration of staggered delivery period of commodity derivative contracts to three working days from five working days. MCX will bring this change in near future for all their participants.
- The regulatory requirement to redesign the existing charge structure (INR17.5 to INR26 per million on futures contracts and INR400-500 per million of premium) to make it uniform and equal for all its members. The current slab-

- wise structure is dependent on volume or activity of members. The new structure will be in effect in Oct'24 and the exchange will issue further directions in this regard.
- On the Budget day (23rd Jul'24) due to a cut in customs duty - MCX recorded ADT of INR715.2b in gold 1kg options. This rate cut will have a neutral impact on MCX contracts.
- The company is awaiting the appointment of a new MD & CEO as the term of the existing CEO is about to end.

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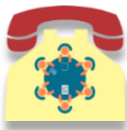
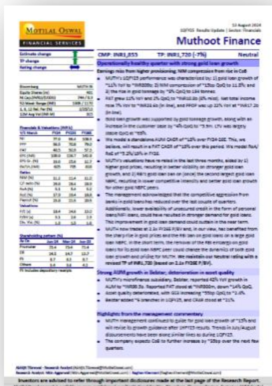




Muthoot Finance — Neutral

Current Price INR 1,916

Guidance

- Continued to guide for ~15% Gold loan growth and the company will review its guidance after 1HFY24 results. Trends in July/August are continuing just like before.
- MUTH does not see anything negative on the horizon.
- The company guided for a ~35bp increase in the CoB from current levels of 8.75%; ECL borrowings raised by the company came at ~9.6%

Asset Quality

- Higher credit costs were because of higher ECL provisions on the standard loan book. There is also an increase in Stage 3 assets by ~INR9b on which it makes provisions of ~10%. There will not be any cash loss on account of this increase in NPA.
- Generally, MUTH fixes the PD/LGD in March and keeps it the same through the course of the year.
- ARC transaction was done for 80,000 customers and more than 60,000 customers have taken back their gold jewellery. ARC was done for ~INR7b and ~INR2b of principal is still outstanding. It does not plan to do any additional ARC transactions in the near future.
- MGFL is not seeing much stress among customers but deterioration in asset quality is because MUTH is not doing aggressive auctions.
- It will endeavor to keep the GNPA below certain threshold. The company has also been making efforts to ask the customers to close the existing loan and take a new loan.

Gold Loans

- MUTH continues to see good gold loan disbursements in Jul/Aug.
- There has been caution from the RBI on unsecured personal loans and because of lower availability of unsecured loans, the demand for gold loans has improved.
- MUTH had shared in the past that the banks were not fair in gold loans. However, the aggressiveness of banks has eased.
- Gold prices have been steadily going up because of geo-political tensions. Domestic gold prices declined ~8-9% when there was a customs rate cut on gold in the Union Budget.
- In mature markets, there are repeat customers of gold loans. In newer markets, there are customers who are favorably looking at gold loans.
- Gold tonnage growth is inversely correlated to the gold price.

- Customer takes top-up loans when his/her eligibility goes up with higher gold prices. As long as the customer is below the 75% LTV threshold, MUTH is not worried about giving additional loans to the existing customers.
- LTV stood at ~63% as on 1QFY25.

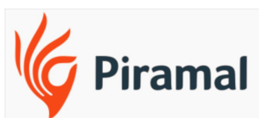
Margins
- NIMs are reasonable now. Occasionally it has also seen the incremental cost of borrowings going up. It will absorb a part of this increase in CoB and the remainder will be passed on to customers through increase in yields, to protect its NIM.
- Guided for NIM to remain stable in the current range (+/-50-100bp).

Microfinance
- There is stress in the industry but Belstar's asset quality performance is better than many of its MFI peers.

Personal Loans
- Within Personal Loans, ~50-60% of its PL portfolio will be open-market sourced and ~40-50% will be cross-sell to existing customers.

Branch Expansion
- It has been adding branches wherever the regional office feels there is an opportunity. MUTH plans to add another 100-150 branches in this fiscal year.

Others
- Accrued interest stood at ~INR19.8b as on 1QFY25
- Gold auctions stood at INR680m in 1QFY25 and ~INR1.62b in 4QFY24
- PD stood at ~8.59% and LGD stood at ~9.96%
- Gold Loan per gram offered to customers is basis the moving average of 30-day gold loan prices.



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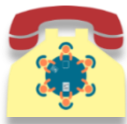

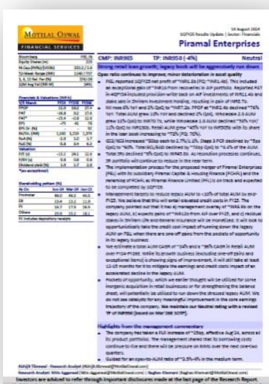

Piramal Enterprise — Neutral

Current Price INR 1,004

Financial and Business Highlights
- Growth business, which comprises Retail and wholesale 2.0, sustained healthy momentum during the quarter.
- PAT stood at ~INR1.8b vs. ~INR1.4b in 4QFY24.
- Total AUM grew ~10% YoY ~INR706b.
- Growth business grew ~51% YoY to ~INR576b. It now accounts of 82% of total AUM.
- Within growth business, retail business grew ~42% YoY to ~INR505b.
- Wholesale 2.0 AUM grew ~132% YoY to ~INR71b.
- GNPA was ~2.7% and NNPA was ~1.1% as on Jun'24.
- CoB was flat at ~8.9% QoQ.

Growth Business
- NII rose ~34% YoY, led by ~51% YoY growth in AUM.
- Increase in cost of funds along expected lines. NIMs across business segments stood at ~6.7%.
- Opex to AUM declined by ~104bp YoY to ~4.6%.
- 90+ delinquency at ~0.6% for retail business and there is no 90+dpd for wholesale 2.0 business.
- Credit cost stood at ~1.6% vs. (~0.8% in Q1FY24). Credit cost in 1QFY24 has benefitted from one-time write-back due to a change in ECL policy.

Borrowings:

- Securitization is now ~12% of overall borrowings
- Successfully raised first ever USD300m dollar bond in Jul'24
- Continues to look for diversification in borrowings with Securitization and International borrowings.

Retail Business:

- AUM grew by ~43% YoY and disbursements stood at ~INR68b, up ~19% YoY.
- Housing and LAP grew ~37% YoY to ~INR34b, contributing ~67% to retail AUM.
- There was a temporary impact of ~INR2.5b on mortgage disbursements due to regulatory Fair Practices code circular.
- 90+dpd in the retail business stood at ~30bp.
- AUM in car business up ~150% YoY. Salaried personal loans up ~195% YoY and business loans up ~62% YoY.
- Calibrated disbursements in digital loans led to benign risk performance. Digital loan volumes are down ~50% from 1QFY24 peak.
- Increase in yield in retail is due to price increase across products, effective April 1.

Wholesale lending and legacy business

- Wholesale lending 2.0 AUM grew 11% QoQ to ~INR71b. The ATS in the wholesale 2.0 business is ~INR740m.
- There is not even a single delay in Wholesale 2.0 business since the inception of the business.
- In wholesale legacy business, ~INR2.6b management overlay was utilized during the quarter.
- Legacy discontinued AUM declined by ~INR16b to ~INR130b. The book is down ~50% YoY. Legacy AUM is ~18% of total AUM and the company guided for legacy AUM to decline to <10% of total AUM by Mar'25.

Guidance:

- Company guided for Opex/AUM of ~3.5%-4% in the medium term.
- Management aims to reduce legacy AUM to <10% by year end.
- Company to focus more on cross selling during the year.
- The company has taken a PLR increase of ~25bp effective August 1 across all its product portfolios.
- COB continued to rise and hence there will be pressure on NIMs for the next 1-2 quarters.

Others

- The merger process of PEL and PCHFL is on track. The scheme has been filed with stock exchanges after Board approval.
- Company is working towards recoveries from AIF of ~INR12b during the year.
- There is a higher 90+dpd in Business loans at ~140bp. The same is priced in yields of ~20%.

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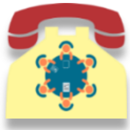

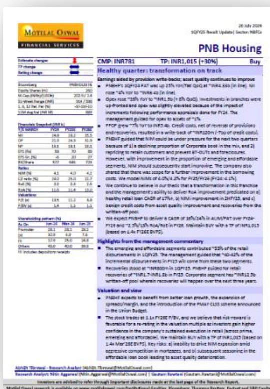

PNB Housing Finance — Buy

Current Price INR 893

Guidance

- 33% of the retail disbursements were in the emerging and affordable segments. Guided that 40-42% of the incremental disbursements will come from the emerging and affordable segments in FY25.
- Guided for retail loan growth of ~17% and retail disbursement growth of ~25% in FY25.
- Continued to guide for NIM of ~3.5%; might face NIM pressure in the short term, but with a higher proportion of emerging and affordable, NIM will improve after a few quarters.
- Expects NIM to remain broadly stable for the next two quarters (with minor variation). In about two quarters, PNBHF will reach a point where there will be no NIM compression and it will start improving.
- Guided for retail recoveries of ~INR1.7-1.8b in FY25. Corporate has ~INR12.5b written-off pool wherein recoveries will happen over the next three years.
- Investments in branches have been up-fronted and guided for opex to assets of ~1%.
- Working toward improving RoA to ~2.4-2.6% in the medium-term.

Business Update

- Retail disbursements grew ~19% YoY
- Disbursements grew ~157% YoY in affordable, 18% in Emerging and 8% in Prime.
- Retail mix improved to ~97.3%
- Moving down the affordable pyramid with increased focus on affordable and emerging markets.
- Affordable book stood at ~INR23.6b as of Jun'24 and affordable contributed ~13% of the retail disbursements in 1QFY25.

Financial Performance

- 1QFY25 PAT grew 25% YoY and remained flat QoQ at INR4.33b.
- NII grew ~3% QoQ to INR6.5b
- Yield was 10.03% (PQ: 10.08%) because of run-off of higher yielding business and repricing of retail loans
- Incremental CoF was 7.75% (PQ: 7.93%); NIM stood at 3.65%
- Opex included the impact of annual performance appraisals done for FY24 and the increments effective Apr'24.
- One corporate account was resolved through settlement.
- 1QFY25 RoA of 2.38% and RoE of 11.4%

Decline in yields and impact on NIM because of…

- Corporate book declined. PNBHF will be re-starting the corporate business within the next 3-4 months.
- BT-OUTs are high in the Prime book (even despite coming down compared to the last year).
- Re-pricing to retain the customers and prevent foreclosure

Asset quality

- GNPA declined 240bp YoY to 1.35% | Guided for GNPA of ~1% by FY25-end
- Considerable recoveries from written-off accounts and total recoveries of ~INR810m from written-off pool in 1QFY25. Retail recoveries of ~INR280m and Corporate recoveries of ~INR530m, resulted in total recoveries of ~INR810m from the written-off pool
- Written-off pool stood at ~INR12.5b in Corporate and ~INR5b in Retail

Liabilities

- CoB declined ~6bp QoQ to 7.92% | Ability to borrow at competitive pricing from debt markets and better rates from banks

- Negotiating with banks for a lower rate on new lines, which should benefit the borrowing costs.

Impact of announcements on Housing in the Union Budget

- Expects scheme details within the next 3-4 months | Expects the scheme to be really beneficial on companies focusing on emerging and affordable segments
- All 300 branches will be geared to take advantage of the PMAY scheme
- PMAY will help in better loan growth and yet to see how the scheme will get rolled out; Lot of customers even on the prime and emerging side will qualify for the PMAY scheme
- Expects the spread caps to be increased to ~4.0-4.5 (compared to 3.5% earlier), which will result in incremental margins.

Retail Prime and Emerging Business

- Loan-book grew 11% and disbursements grew 10% YoY
- Emerging markets loan book grew 18% YoY and disbursements rose 18% YoY
- Prime Loan-book grew 10% and disbursements grew 8% YoY
- Emerging markets loan-book stood at ~INR119.7b (18% of retail assets) and expects it to improve to 22-25% by FY25

Affordable

- Profitable on a standalone basis in the affordable housing business
- Affordable book stood at >INR23b, up ~32% QoQ
- Disbursements grew by 157% YoY to ~INR6b in 1QFY25
- Yields - Continuing its focus on informal income customers - developed expertise on underwriting the informal income profile
- Self-employed sourcing increased to ~41% (PQ: 37%)
- Implementation of new loan origination (LOS) platform on Salesforce - 135 out to 160 branches are now live on the new platform. Expects the new system to stabilize in the next few months and then it will start contributing to productivity.
- Out of 160 branches, ~60 branches were opened in 4QFY24. Those branches are now operationalized - Branches opened in T2/T3 cities have started contributing to disbursements and they will see higher yields.

Collections

- De-centralized underwriting has been adopted by the company for better business control.
- Legal actions to resolve delinquencies and greater success in property auctions.
- Repossessed 155 properties by enforcing SARFAESI and 98 properties were sold through auctions.
- INR280m were collected from the total written-off pool.
- ~18% of service requests are serviced using the self-service platform
- Cloud-based LOS on Salesforce platform
- Introduced chat-bots for customer service

ARC Sale

- ARC sale transaction done in 1QFY25 was ~100% provided for and for the other one, it is carrying a PCR of ~70%.
- One Corporate NPA was sold to ARC wherein it received the proceeds in the form of cash and SRs

Affordable Segment

- BT-IN was ~25% of disbursements in the affordable segment
- Most of the disbursements in affordable were from sanctions that happened in 4Q. Yields will keep improving on incremental disbursements for the next few quarters.

Branch Expansions

- Will open ~40 more branches in FY25 in the affordable segment. Expansion will be in South, West and North. Plans to keep adding ~50 branches every year. It takes around 9-10 months for a branch to break-even.
- Branch expansions will be primarily in the affordable and emerging segment.

Others

- Affordable business will focus on both income and assessment-based products.
- Prime and Emerging are rule-based and primarily comprise accounts on income-based sanction model.
- Under affordable, every branch has a credit manager who does the assessment of the customer based on field visits.

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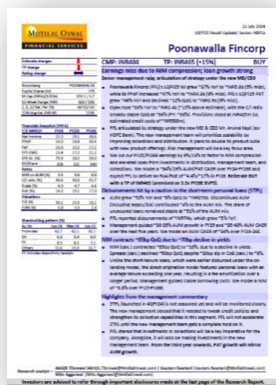

Poonawalla Fincorp — Buy

Current Price INR 400

Brief about Arvind Kapil, MD & CEO

- He had been associated with HDFC Bank for over 25 years and got the opportunity to launch various industry-first products. Prior to his exit, he was handling around INR7.5t of advances at HDFC Bank.

New management team

- Chief Credit & Analytics Officer - Sriram Iyer: Experience of over 25 years in credit and processes - which will add immense strength to the Poonawalla franchise
- Two Chief Business Officers - Vikas Pandey and Mr. Veeraraghavan Iyer - in-depth knowledge of building quality portfolio and cross-selling products
- Chief Human Resource Officer - Harsh Kumar - In his last assignment, he was the Chief Human Resource Officer of CSB Bank. Prior to that, he was associated with HDFC Bank as Vertical Head HR- Retail and Employee Engagement for ~13 years.
- Appointed seasoned professionals for Head of Compliance, Head of Internal Audit and CRO, who will be joining within the next 2-3 years

Guidance

- Guided a 30-35% AUM growth and 35-40% CAGR over the next five years. Aspires to get to 5-6x AUM within the next 5-6 years.
- PFL shared that investments in collections will be a key imperative for the company. Alongside, it will also be making investments in the new management team. From third year onwards, PAT growth will mirror AUM growth.

Margin compression

- 4Q was the first quarter where it started on-boarding customers outside the co-lending arrangement. Under the co-lending model, it used to do short-tenor loans but the average tenor of personal loans (being done now) is more than 1 year in the direct origination model. Amortization of fees also happens over a longer-tenor.

Strategy for the next 5-10 years

- The new management is in the process of taking over. Management acknowledged that for scalability, it needs to strengthen the collections and infrastructure framework of the company
- Doubling the product bouquet through the introduction of newer products
- Risk management in any finance business is going to be a key focus area
- Fundamental guiding philosophy for all its businesses - Predictable, Productive and Sustainable

Short-term Personal Loans (STPL)

- STPL is not seasoned yet, and will be monitored closely
- Closely review and measure - both and credit and collections - asked the team to review it intensively
- Management sensed that it needed to tweak credit policies and strengthen the collection capabilities in this product segment.
- Chief Credit Officer, Sriram, who has joined one month back, has started making changes in this product and it has seen some promising results already in the last two weeks.
- No concerns or red flags in this product segment - these are mere observations because this book is unseasoned
- Have asked the team to not accelerate STPL further until the time the new management team gets a complete hold on it

Consumer durables (CD)

- CD will open many doors to the middle-class India and will be used as a customer acquisition funnel.
- CD will create a strong high-yielding cross-sell model.
- Expects substantial strength from this business at the end of the second year

Shopkeeper loans

- Evaluating both physical and digital options of financing Kirana and Mom-Pop stores
- Arvind Kapil started this business in HDFC Bank - Veeraraghavan Iyer (CBO) has run it with his team in HDFC Bank

PL Prime

- Will be targeting employees of Top 100-200 Corporates - it will be looking to lift the quality of the unsecured book.

Used CVs

- Incubate for the first eight months and then start ramping it up
- Profit Maximizer, Enhancing MSME portfolio, and Secured businesses

Asset quality

- Legacy and discontinued book of ~INR3.5b and DA acquired loan-book of INR7.7b; ~80% of the write-offs pertain to this book

Risk management

- Unsecured lending also has various categories of risk tolerance. Certain categories of unsecured products show better asset quality and credit costs than secured products.

Liabilities and CoB

- Guided CoB to remain in a similar range
- 70% of its liabilities are variable and ~30% is fixed-rate borrowings. ~20% of the total borrowings are linked to external benchmark rates (EBLR). Well placed to take advantage of the expected cut in global and domestic interest rates.
- Fixed-rate liabilities are largely from capital markets and are shorter-term.

Financial Performance

- AUM grew 52% YoY and 8% QoQ to INR270b
- MSME Finance contribution is at 35% followed by Personal and Consumer Finance at 28%
- Unsecured: Secured Mix – 51%:49%

- CoB remained flat QoQ at 8.16%. Debt-Equity ratio (D/E) rose from 1.9x to 2.1x QoQ - this resulted in an increase in the interest expense.
- Asset quality improved with GS3/NS3 at 0.7%/0.3% and the PCR on S3 loans rose ~3pp QoQ to ~52.5%.
- Stopped co-lending from 4QFY24 onwards and is only doing direct originations now
- Technology stack is a major enabler to business. 40% of the new business is via straight-through-processing.

Others

- Plans to use physical and digital distributions extensively across all its product lines
- Endeavor will be to build the organization for scale, step-by-step and process by process
- Expects the market share of PFL growing, year over year, for the next 5-10 years
- Consumer durable is the fastest and surest way to enter middle-class India
- Almost doubling the range of businesses - will end up putting more investments over the next four quarters.
- LAP operates only out of 35 locations and it expects to roll it out to 2x-3x locations in the near-term
- Wants to consolidate for the next two quarters - optimize the existing strengths of PFL.

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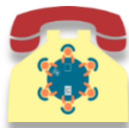

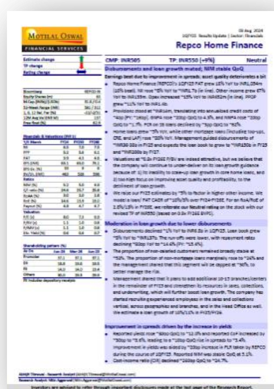

Repco Home Finance — Neutral

Current Price INR 494

Business update

- Sanctions and disbursements in 1QFY25 were at the same levels as 1QFY24. Internal movement of staff and relocations along with impact of elections/heat waves contributed to muted sanctions/disbursements.
- Ratio of salaried to non-salaried customers stood at 52:48 and proportion of non-Housing Loans stood at ~24%
- As of Jun'24, REPCO had ~INR5.1b of restructured loans and out of which, ~INR1.68b is in Stage 3 and the remaining are in Stage 1 and 2
- 1QFY25 NIM stood at ~5.14% (v/s 5.13% YoY), Spreads were stable QoQ at 3.4% and RoA/RoE in 1QFY25 stood at ~3.1%/16.3%
- CIR declined to ~24.7% (v/s 27.3% QoQ)
- New Software development: Phase 1 of the software is stabilized. The Phase 2 relating to support functions is in various phases of development and testing. ~INR260m has been spent so far on technology.
- Guided that it will expand the branch network to 235 branches by Mar'25 (v/s 223 in Jun'24)
- GS3 stood at 4.25% and NS3 stood at 1.67%
- REPCO has started recruiting experienced people in sales and collections vertical, across geographies, across branches and in the Head Office as well
- Remains steadfast on delivering its guidance on growth and reduction in NPA

Guidance

- Guided for disbursements of ~INR36-38b in FY25 and expects the loan book to grow by ~INR15b to reach ~INR150b by Mar'25 and ~INR200b by Mar'27
- Guided for ~15% Loan growth and credit costs to remain negligible in FY25

- Guided for GNPA to decline to ~INR4.5b by Mar'25, which will translate into GNPA of ~3%
- Home Equity will be capped at ~30% (v/s ~25% currently).
- REPCO expects to add another 10-15 branches in the rest of the fiscal year.
- REPCO will be applying for NHB Refinance in this year and is confident that it will get the sanction from NHB this year.
- Guided that the proportion of Tamil Nadu in the Geography Mix could decline to ~50% over a course of time
- Shared that it will be difficult for the company to maintain the spreads at the same levels if the CoB continues to increase. Any compression in spreads can be offset by write-backs in provisions/credit costs.

Shriram Finance — Buy

Current Price INR 3,158

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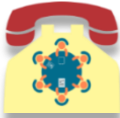

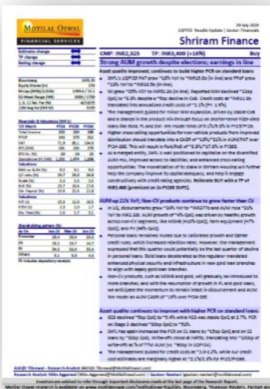

Guidance

- SHFL maintained its guidance of 15-20% AUM growth.
- Guided for a stable cost-to-income ratio over the next few quarters.
- Credit costs likely to remain at current levels going forward as well.

Business Update

- Elections did not have any significant impact on the overall business momentum since they were spread out across two months.
- Good monsoons will help to sustain the business momentum.
- Credit costs were better than last year. 1QFY25 credit costs stood at ~1.9% (compared to ~2% for FY24).
- CoB declined by ~5bp QoQ.
- Deposit growth was healthy at ~25% YoY.

Gold Loans

- Conservative in increasing its gold portfolio.
- It is gradually increasing the number of branches, in which gold loans will be offered to customers. It will keep adding gold loan offering to about 150 branches every quarter. It extended gold product to ~45-50 new branches in 1QFY25.
- The cap on cash disbursements in gold loans at ~INR20k did have an impact on disbursements for the first few weeks and it normalized thereafter.
- ~80% of the gold loan customers have ticket sizes below ~INR100k
- Gold loans growth decelerated after the company was asked by the regulator to improve the physical security and infrastructure in new branches that offer gold loans.

NIM

- SHFL shared that there is scope for NIM expansion from hereon. This will be through a combination of stable CoB and improvement in yields from the product mix (in favor of short-tenor higher yielding loans).

Asset Quality

- Split of credit costs in the quarter: ~INR5.99b was on account of bad-debt write-offs and ~INR5.88b was on account of ECL provisions.
- Repossessions have declined significantly across financial institutions both in vehicle finance as well as in loans secured by property.

Focus on short-tenor products

- SHFL will focus more on short-tenor products (like Gold, PL and 2W) since it is more focused on profit rather than revenue.

Personal Loans

- The company wanted to address all the concerns that the regulator had regarding the PL portfolio (in general and not for SHFL in particular).
- It has tightened the credit rule engines so that rejection rates go up and volumes moderate (even though ~90% of its personal loans are toward existing customers).
- The management suggested that this quarter could potentially be the last quarter of decline in personal loans.
- PL is a cross-sell product directed toward existing 2W customers; 60-65% customers are self-employed having small businesses. Going forward, it will be a mix of personal loans and small-ticket business loans (for MSME customers with Udhyam registration since it aids PSL borrowings).
- MSME customers are typically not eligible for personal loans.
- Partnership with FinTechs for Personal Loan is with CreditMantri (from SCUF days). It also has a partnership with PayTM for business loans wherein the portfolio is between INR2.5-3.0b.
- Working with PhonePe for establishing the credentials of the businesses of PhonePe merchants.

Synergy from SCUF Merger

- It is a continuous process and to achieve complete synergy, it will take another 18-24 months.

Fee Income

- Insurance income has been improving for SHFL, which does Credit Shield insurance, Business Insurance and Vehicle Insurance.

Liabilities

- Few banks have increased their MCLR by ~5bp, while few others have not. Capital market rates have declined from Jan-Feb levels.
- Incremental CoB is ~8.8% and the portfolio CoB stood at ~8.96%.
- CoB should not go up further but there is not much scope to reduce it either. In this quarter, a higher-cost debt matured, which aided CoB. There is not much higher cost debt sitting on the balance sheet now.
- Bank borrowings are ~24% of the liability mix. ~50% of the bank borrowings are from PSU banks, which are linked to MCLR. Private banks offer market-linked term loans.

Others

- Gold and MSME will grow faster than the overall book.
- Replacement cycle has become longer because of the higher cost of the assets.
- Prices of used vehicles have grown by 12-15% YoY (25-30% increase in prices of used vehicles in the last year).
- Average tenor is 6 months in gold loans, 18-19 months in PL and 20-22 months in 2Ws
- Guided for IT costs and compliance costs to go up because of RBI's expectations that the technology needs to be robust.
- SHFL does not offer large-ticket unsecured MSME loans. Unsecured MSME loans are capped at INR500k.

SPANDANA

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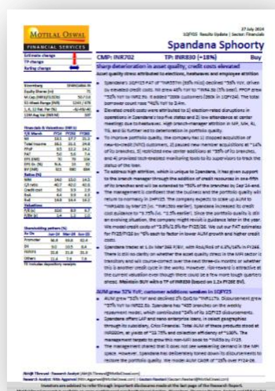

Spandana Sphoorty — Buy

Current Price INR 618

Guidance

- Revised its AUM target to ~INR140b by Mar'25 (vs. ~INR150b earlier) and expects a higher credit cost of 3.75% in FY25. It is an evolving situation and if the improvement is better than expected, then the company will revisit its credit cost guidance.
- Guides for NIM of 13.5%-14%.

Impact on portfolio quality

- While the seven-phase election was largely normal - it disrupted the operations of Spandana in UP, Bihar, Madhya Pradesh, Maharashtra and Odisha.
- Holiday was given on the voting day and branches were closed.
- Heatwaves also led to much lower attendance in center meetings.
- Unusually high attrition in MP, Maharashtra, Rajasthan, Telangana and Gujarat. These five states have cumulative AUM of ~32%, but BM attrition was ~10.5% (vs. ~5.9% in the rest of India).
- Attrition affected its portfolio quality and the team is focusing on bringing back normalcy to the portfolio quality. The team is confident of achieving BAU.

Plans to tread cautiously over the next few quarters

- Stopped lending to NTC customers
- Paused new member acquisitions in ~14% branches (230 branches)
- Restricted new center additions in ~39% of the branches
- All supervisors have been given tech-enabled monitoring tool
- These key steps are going to immediately ensure that the portfolio comes back on track

Attrition

- Significantly higher attrition in Madhya Pradesh, Maharashtra, Rajasthan, Telangana & Gujarat
- One of the reasons was higher workload. In ~20% of the branches, it has given support to branch managers through the addition of credit resources and by Sep'24-end, it will be extended to ~50% of the branches.
- As a pre-emptive measure to address attrition, it has enhanced its bench strength by 20% in ~60% of its branches.
- Spandana was reasonably strong in these states, which led to some poaching from peers.

Business Updates

- Disbursements grew 37% YoY; It does not see weakening demand in MFI - Spandana has toned down the disbursements so that the quality is restored
- NIM stood at 15.2% (rose ~60bp QoQ).
- Stopped lending to NTC borrowers - Taken the tactical step and once things improve, it will resume lending to NTC borrowers.

Asset Quality

- Stage 3 rose to ~2.6% and S3 PCR maintained at ~80%.
- Jul'24 CE is better and it will improve in the next few quarters - There is no further stress building up - Spandana is in a reasonable position as far as customer indebtedness is concerned.
- Green shoots visible in collections in Jul'24 and it expects improvements in Aug'24 onward.
- From 3Q/4Q onward, it should completely be back to BAU and 2HFY25 will have lower credit costs.

- There could be incremental flows in 2Q and the flows could stabilize from thereon. In the interim, there are likely to be some flows. There has been a reduction in overall business numbers, which will have a denominator effect on higher GNPA.
- Micro-monitoring at the customer level is what each of the branches is exposed to; Branch Manager and Credit Resource teams together engage with the customer so that a sufficient traction is built for recoveries.
- Difference in CE of ~300bp between the impacted States and the national average CE.
- Spandana acknowledged that there are challenges (at the industry level) in some of the locations like Rajasthan, Gujarat, Maharashtra and MP. These states have higher problems compared to the rest of the country.
- PAR 1-30 stood at 3.2%

Liabilities

- Marginal CoB declined to 11.4% (~50bp lower QoQ).
- The bank's contribution increased to ~59% (guided to increase to 60-70%)
- The company did quite a few PTC transactions in 1QFY25, which aided the lower cost of incremental borrowings.

Project Parivartan

- Parivartan branches are not very different from non-Parivartan branches. The company changed the operations from "date to day" and it has not even initiated weekly loans in the Parivatan branches.
- CE across the non-Parivatan and Parivatan branches does not have much difference.
- ~48% of the total portfolio is under the Parivartan branch portfolio, which contributes ~65% of the GNPA.
- Across its 1500-1600 branches, it wants to normalize the disruptions that happened because of the introduction of Parivartan branches.

Credit Rating

- During the quarter, India Ratings and ICRA upgraded the company's credit rating to A+ (Stable).

Criss Financial

- Criss Financial offers LAP and nano loans, wherein the book stood at ~INR880m and has crossed ~INR1b in 2Q so far. Predominantly secured loans, with ~20-25% mix of unsecured loans.
- Book is delivering a yield of 23.75% (CE of ~100%).
- Ambitious plans for CRISS Financial; expects it to scale up to INR5b by Mar'25

Others

- Average customer indebtedness at Spandana stood at INR42k. Spandana measures customer indebtedness and the maximum ticket size is INR80k.
- ~25% of the disbursements and ~15% of the AUM are under the weekly model
- Reduced the lending rate by ~1% for customers who are in the sixth cycle.
- Rejection rate is ~51% because of higher customer indebtedness and higher FOIR.
- Spandana has followed its strategy of lending short tenors and muted ticket sizes.
- Bureau data and interactions with customers do not suggest higher indebtedness at the industry level.

- Industry has to ensure that it looks at attrition across levels (including branch levels) and puts in requisite controls/supervision to ensure that the instances of fraud/misappropriations are minimized.
- Spandana has not stopped lending to its existing customers. New member acquisition has been stopped in 223 branches.

INSURANCE

- **The general insurance players have seen decent growth in premiums driven by the strength of auto sales, sustained high demand for health insurance, and commercial lines growing in line with economic growth. Motor segment profitability improved, but health segment loss ratios remained elevated. Star Health's increased claims ratio pushed the combined ratio up by ~350bp above estimates. ICICIGI and STARHEAL saw a 16% YoY NEP growth each, with PAT up 49%/11%, respectively. Life insurers (excluding Max) reported healthy premium growth led by ULIPs. However, adverse product mix led to pressure on VNB margins. IPRU/SBILIFE/HDFCLIFE reported APE growth of 34%/20%/23% YoY, with VNB margins contracting 590bp/200bp/120bp YoY.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY25	1QFY25 Highlights
HDFC Life	■ The company expects moderation in share of ULIPs to continue as new product launches in other segments pick up momentum. ■ It is confident of growing premium at 20% CAGR over the medium term, with an increased share of HDFC Bank, new product launches, limited impact in the new regulatory environment, and a pickup in the agency channel. ■ Under GIFT City, HDFCLIFE plans to launch new products, and enhanced LRS will allow higher sales ■ HDFCLIFE does not expect margins to fall in near term as attachment of terms to other products will increase, product mix is favorable, and higher agency channel investments (18.5k hired during the quarter)	■ HDFCLIFE reported strong business growth, with 31% growth in individual APE, ~22% increase in the number of policies (NOP), and a 7% increase in the average ticket size. ■ Fall in VNB margins was because of product mix and investment in branch expansion, increasing employee count and training/IT initiatives. ■ The surrender charge impact would be very low (100bp) on the VNB margins (due to very low surrender profit assumption in margin calculations) considering no changes in the new environment. HDFCLIFE has received board approval to raise sub-debt of INR20b in one or more tranches over the next 12 months.
SBI Life	■ SBILIFE remains more focused on the individual annuity business. Overall annuity segment is expected to pick up in the coming quarters. ■ The company is planning to revamp its par portfolio and rider portfolio (attachments will be available to all products). ■ For FY25, the company has guided for 18-20% premium growth and ~28% VNB margins. ■ For new products, SBILIFE is not planning any commission changes for distributors.	■ The protection sales were weak due to focus shifting towards ULIPs. However, protection continues to be a focus area, and it is looking to launch new products in the segment. ■ Under surrender charges, SBILIFE expects a very low impact (much lower than 1%) owing to its product mix and conservative assumption on surrenders. ■ Lower VNB margin in 1QFY25 was due to: 1) a lower share of protection and 2) a reduced margin on non-par products.
Ipru Life	■ For FY25, business growth is expected to be ahead of the industry, and VNB growth is likely to be in line with business growth. ■ Business growth will be primarily driven by proprietary channels of Agency and Direct, which have delivered better growth than the company level. If the product mix stays stable, VNB margin would be similar.	■ ULIP and protection dominate in the ICICI Bank channel, and there is no change in the strategy; ■ Slow growth was led by multi-insurer banks and non-bank partners, which focused on the non-par segment. ■ Of the 740bp dip in VNB margin for FY24, 410bp was due to the change in operating assumption, which was primarily on account of higher operating expenses. ■ Sensitivity of acquisition costs has gone up because of increased unit economics, and that of mortality has gone up due to a higher share of retail protection.
Star Health	■ Regarding composite licenses regulation, company is ready to come up with newer protection plans in life and non-life plans. ■ Inward porting - Company has been a bit conservative and accounts for less than ~10% of the fresh business. The management is turning aggressive in this area. ■ Guides to achieve GWP of INR300b by FY28 and PAT of INR25b by FY28.	■ More than expected frequency on account of fever and other cases resulted in higher loss ratios in 1QFY25. ■ The factors driving growth in market share are strong fresh business across channels, a wider distribution network, an innovative product portfolio, and digitization initiatives. ■ Fresh-to-renewal business improved to 25:75 in 1QFY25 from 23:77 in 1QFY24

HDFC Life — Buy

Current Price INR 725

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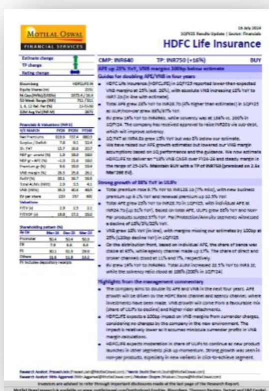

Business

- HDFCLIFE reported strong business growth, with 31% growth in individual APE (vs. 2-yr CAGR of 21%), a 22% increase in the number of policies (NOP), and a 7% increase in the average ticket size.
- Strong growth continued in lower-tier cities, with two-thirds/three-fourths contribution in APE/NOP.
- Share of new-to-HDFCLIFE customers is now 70%+.
- Sum assured growth was 46%, driven by robust rider attachment, strong growth in retail protection and higher SA with linked policies.
- 13M/16M persistency stood at 88%/56%, improved by 108bp/282bp YoY

Products

- The company expects moderation in share of ULIPs to continue as new product launches in other segments pick up momentum. Strong growth was seen in non-par products, especially in new variants in click-to-achieve segment (Raised INR1b in 16 days in one of the latest product launches).
- Retail protection registered strong growth of 28%. However, credit protect business momentum was weak given competitive intensity in the segment and lower disbursements in certain pockets.
- Annuity business is in the early stage for the industry, but aggressive pricing by peers has restricted growth.
- Under credit life, HDFCLIFE has more than 200 partners across banks, SFBs, NBFCs and MFIs and has products across many lines of businesses, including mortgage, personal loan and vehicle loans. Competitive intensity is increasing in simpler products, but HDFCLIFE with the lowest claim repudiation and wide product bouquet is win-win for partners.
- Group term business intensity continues to be high in the industry.
- Protection pricing is reviewed periodically like any other product. The recent price hike (5%) was in the above 60-year cohort. This segment contributes less than 1% to overall volumes.
- Under ULIPs, term attachments are increasing and crossing beyond 20x and 30x. The company believes that there is huge scope to increase the same.
- Exit share of ULIPs in the overall business was 35%.

Distribution

- HDFCLIFE wallet share in HDFC Bank was 66% vs. 56% in 1QFY24.
- The company is investing in agency channel growth and improving productivity. It hired 18.5k agents during the quarter.
- Added 60 new locations, taking the total count to 600.
- Added new partners, which will enhance reach in new customer segments.

VNB/EV/Solvency

- Fall in VNB margins was because of product mix and investment in growth, including infrastructure (branch expansion), employee count and training/IT initiatives.
- HDFCLIFE is flexible to let go of VNB margins within a range to ensure stronger growth.

- It expects a 100bp impact on VNB margins from surrender charges, considering no changes by the company in the new environment. Impact is lower due to very low surrender profit assumption in margin calculations.
- HDFCLIFE has received board approval to raise sub-debt of INR20b in one or more tranches over the next 12 months.
- Confident of growing premium at 20% CAGR, with an increased share of HDFC Bank, new product launches, limited impact in new regulatory environment, and pick up in agency channel.
- HDFCLIFE does not expect margins to be lower as attachment of terms to other products will increase, product mix can be favorable, and agency channel investment has been high and are expected to fructify over the medium term.
- The YoY change in VNB was mainly due to the product mix (1.3% hit) as scale benefits yielded gains of 0.3%.

Surrender charges

- Regulatory measures, such as mandatory policy loans, extension of free-look period and new surrender values, are favorable and will strengthen the industry.
- Deferment and clawback for commissions may be used to offset the impact of new surrender charges.
- Product competitiveness goes up in new surrender charge norms. Some calibration in IRRs can be expected.
- The impact on HDFCLIFE margins will not be material.

Others

- HDFC Pension posted 67% growth in AUM to reach INR880b, with a market share of 43%.
- Under GIFT City, HDFCLIFE plans to launch new products, and enhanced LRS will allow higher sales.
- Under the inspire transformation project, the group business transformation is expected to start in 3Q/4QFY25.

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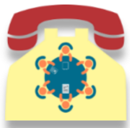


ICICI Lombard — Buy

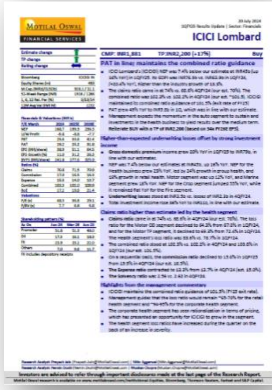
Current Price INR 2,060

Industry

- Overall, the combined ratio for the industry was at 112% for FY24 vs 115.8% for FY23. For motor segment combined ratio was at 118.5% for FY24 vs 121.1% in FY23.
- During the quarter, ICICIGI has gained market share across segments such as fire, marine Cargo, engineering and liability.
- GWIP growth seen in the industry in Private/2W/CV – 51.5%/26%/22.5%
- Overall industry GDPI grew ~13.3% for 1QFY25.

Motor Segment

- In the auto industry, decent growth of ~3.0%/20.4%/7.8% was seen in the private car/2Ws/CV segments. During the quarter, ~1m private cars, ~5m 2Ws, and ~0.4m CVs were sold.
- However, retail growth remained muted in 1QFY25 for private cars at 2.5%, 2Ws at 12.6%, and CVs at 6%. Despite lower retail sales during the quarter, the company expects the festive season to work out well for the auto industry.
- On the GDPI basis, ICICIGI grew at ~26.3% vs. the industry growth of ~12%.



- The overall growth in motor segment for the company was aided by strong growth in the old vehicle business, i.e., at ~33% vs. ~16-17% seen in the new vehicles business in 1QFY25.
- The new private car business grew at 13.4% is as against SIAM volume growth of 3%. The two-wheeler segment registered growth of 21% in 1QFY25 which is in line with the SIAM volume growth.
- During the quarter, the company continued to maintain a balanced portfolio with private cars, 2Ws, and CV mix at 51.5%, 26% and 22.5%, respectively.
- Based on the regulatory flexibility outlined in Master Circular on General Insurance, it introduced long-term product offerings for private cars and two-wheelers during the quarter
- There is no revision in the base premium for Motor TP for FY25 and management is positive on this segment growth
- Around ~69.9% of the Agency and Direct claims serviced during the quarter were done through PPN (vs ~56.3% in Q1FY24)

Health

- The GDPI of health segment grew at 28.5% in 1QFY25, against the industry growth of 16.6%.
- In group health employer-employee segment, it grew 31.1% YoY in 1QFY25. The retail health business grew 12.6% YoY (lower than the guidance) and the industry grew 19%. However, with the launch of a new health insurance solution 'Elevate' Powered by AI, the growth reached to 14.4% in the month of June.
- The new product has a wide entry age but the focus is to get healthy lives. Younger lives have a relatively lower persistency.
- Management guides for loss ratio to range in ~70% for retail health segment and 94-95% for corporate health segment
- The corporate health segment has seen rationalization in terms of pricing, which has presented an opportunity for the company to grow in the segment
- The health segment's loss ratios have increased during the quarter on the back of an increase in severity.

Distribution

- Bancassurance and key relationships grew 7.5% YoY. The ICICI group distribution grew ~31.4% for 1QFY25 due to strategic focus on branch banking business.
- The customer-facing retail business grew by 20.7% in Q1FY25, constituting 4.9% of our overall business.
- The IL TakeCare app has surpassed 10m+ user downloads till date and ~98.9% polices were issued electronically.

Financials

- The combined ratio was 102.3% for 1QFY25, as against 103.8% for 1QFY24. ICICGI maintains its guidance of 101.5% combined ratio for 4QFY25.
- Investment assets rose to INR510.04b as at Jun'24, up from INR489.1b as at Mar'24 and the investment leverage was 4.14x, as at Jun'24, as against 4.09x as at Mar'24.
- Investment income was at INR11.3b in Q1FY25 as against INR8.4b in Q1FY24. The capital gains net of impairment on investment assets increased to INR2.8b in Q1FY25 as compared to INR1.23b in Q1FY24.
- The Ind AS adoption for FY 25-26 is still in progress. The company is still waiting for guidelines and standards to be introduced and implemented.

- The synergies from One IL one Team cannot be quantified but overall has contributed to performance improvement and cost reduction.
- Return on average equity for Q1FY25 was 19.1% as against 14.7% in 1QFY24.

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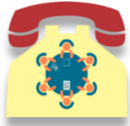

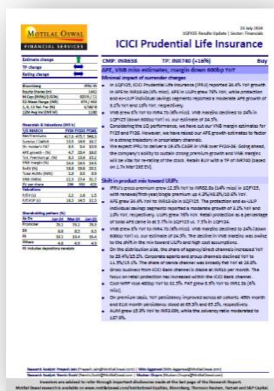

ICICI Prudential Life **Buy**

Current Price INR 742

Business

- During the quarter, IPRU witnessed 15.1% growth in No of policies.
- RWRP growth of 46% was better than that of the industry and private players and was driven by the direct and agency channels (up 41% and 62%, respectively). In terms of products, growth was driven by annuity and linked, which saw 135% and 78% growth, respectively.

Surrender charges

- The regulation is a customer-centric measure and will support long-term growth. IPRU has already launched a product that has full money back in the annuity segment.
- IPRU has recently launched a product in ULIP that will have claim-based commissions and the product has seen good acceptance.
- The impact of surrender charges is not likely to be material as the share of non-linked business, and non-par within that, is significantly lower than the industry level. Any impact would be absorbed through changes in products and commissions.

Product

- Recently, there has been an increase in customer demand for products that give immediate liquidity.
- Credit life for IPRU is growing at twice the rate of credit growth in the system.
- Retail protection saw APE growth of 1.8% but registered 6.7% growth in the number of policies. The two-year CAGR for retail protection is 28.3%.
- IPRU's own online channel and web aggregators are significant contributors to retail protection and this channel is seeing a high degree of competition. Pricing has been changed, which has affected the demand in the short term. IPRU expects growth to come back in the medium term.
- On the Annuity front, contribution increased to ~10.9% from ~6.2%. Within annuity, there has been a tilt toward regular-premium annuity over single-premium annuity. Single-premium annuity has seen a relatively slower growth because of competitive products available in the industry.
- For annuity business, IPRU sees a huge opportunity in the 50-year age cohort. It has fully hedged the annuity business.

Distribution

- Agency growth was driven by 1) the addition of more than 12k agents, 2) the launch of new products: trail-based ULIP and 100% money-back annuity product, and 3) improvements in productivity led by tech initiatives.
- The company has tie-ups with 43 banks (with 29% channel mix based on APE) and 1,159 partnerships (47 added in 1Q), contributing 12% of channel mix based on APE.
- The ICICI Bank channel is stable with INR1b per month revenue and performing well on retail protection.

- Banks, other than ICICI and Standard Chartered, grew 31%, led by newly created partner stacks enabling them to efficiently operate end-to-end business aspects from lead generation to policy servicing.
- Other partnership channels are prioritizing non-linked products, and hence the growth is lower than company-level growth.
- Multi-insurer banks and partnerships contribute 23% to APE.
- It has integrated with central agencies for simplified digital customer on-boarding, with ~85% of policies issued using digital KYC and ~48% of savings policies issued on the same day in 1QFY25.

Financials

- As compared to FY24, the decline in VNB margins in 1Q was due to the product mix, wherein the share of ULIPs has increased.
- The option of sub-debt is available and the company will consider it when needed.
- The life insurance industry is awaiting instructions from the regulator for IFRS implementation. IPRU expects the release of capital under IFRS.
- IPRU has not seen any major changes in product-level margins in the recent past and it is adding riders to enhance margins.

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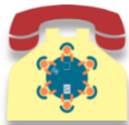

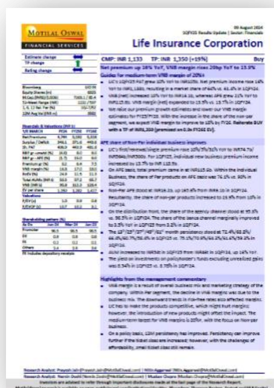

Life Insurance Corporation

Life Insurance Corporation — Buy

Current Price INR 1,084

Business

- LIC maintains its market leadership in the Indian life insurance business with a market share of 64%. In 1QFY25, LIC had a market share of 39.3% in Individual business and 76.6% in the Group business.
- Total premium income in 1Q was INR1,137b vs. INR983.6b in 1QFY24, up 15.7%. Total individual business premium increased to INR671.9b from INR627.7b in 1QFY24, up 7%. Group Business total premium income was INR465.8b vs. INR355.9b in 1QFY24, up 31% YoY.
- A total of 3.56m policies were sold in the individual segment in 1QFY25 vs. 3.21m in 1QFY24, up 11%.
- The total expense ratio was 11.8% as compared to 12.9% in 1QFY24, down 95bp.
- LIC has introduced some products with high margins. It has launched new products, namely LIC's Yuva Term, LIC's Digi Term, LIC's Yuva Credit Life and LIC's Digi Credit Life available for sale from 6th Aug'24.
- The company has renewed and revised the rates in 2Q in the annuity segment.
- LIC, in partnership with A.T. Kearney, launched 'Jeevan Samarth' to transform the agency channel, in line with global practices.
- The total number of agents increased to 1.425m in 1QFY25. The number of agents activated in ANANDA App increased 88% YoY to 0.12m agents. LIC has now integrated the ANANDA App with WhatsApp.
- LIC plans to take the acquisition route to get into the health insurance business.
- Surrender charges
- The highest surrendering in policies is seen with small ticket sizes.
- The customer behaviour under the new surrender charges regime cannot be predicted yet and hence deciding on specific measures is difficult.

- All measures are on the table, including altering commission structures (trail based or claw back) and product constructs.

APE

- On APE basis, total premium was INR115.6b in 1QFY25. Of this, 58.4% was accounted for by the Individual Business and 41.6% by the Group Business.
- Within the Individual Business, the share of Par products on APE basis was 76.1% and the balance 23.9% was Non Par products.
- Non Par APE has increased from INR6.1b for 1QFY24 to INR16.2b for 1QFY25, registering a growth of 165.6%. Therefore, on an APE basis, Non Par share of Individual business, which was 10.2% for 1QFY24, grew to 23.9% in 1QFY25. The momentum in the non-par segment is expected to continue.

VNB margins

- VNB margin is a result of the overall business mix and marketing strategy of the company. Within Par segment, the decline in VNB margins was due to business mix. The management at times takes decisions to spend on marketing, which impacts margins. The downward trends in risk-free rates also impacted the margins.
- The major impact comes from the movement in the risk-free rate, which resulted in changes in assumptions in the VNB margins. However, there is
- improvement in the withdrawal assumptions and improvement in the mortality assumptions in the term and group business. ▪ Akin to FY24 trajectory, wherein the VNB margins were the lowest in 1Q and improved thereon, management aims for a similar trend.
- The management focuses on growing the absolute VNB, which will be a combination of APE growth and VNB margins.
- LIC has to make the products competitive, which might impact margins; however, the introduction of new products might offset the impact.
- Medium-term target for VNB margins is 20% plus with the focus on Non-par business.

Persistency

- On policy basis the 13M persistency has seen improvement. Persistency can be improved if the ticket sizes are increased; however, with the challenges of affordability, small ticket sizes still remain.
- Management has seen high persistency in the term plans. It is closely monitoring the persistency and incentivizing the distributors based on the persistency.
- Overall the Non-par saving and term products have seen the best persistency. Par business has seen lesser persistency, while ULIPs have also seen lower persistency. However, LIC has seen high persistency in the newly launched products.

Max Financial Services — Neutral

Current Price INR 1,047

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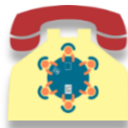

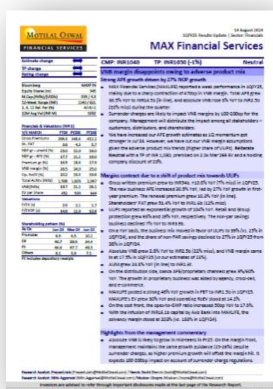

Business

- In 1Q, New Business Premium for MAXLIFE grew by 12% to INR 20.8b and Individual Adjusted First Year Premium grew by 27% to INR 12.6b leading to private market share gain by 22bp to 8.8%.
- Number of new retail policies grew by 27%. Further, the renewal premium rose10% YoY to INR 33.23b, taking the Gross Written Premium to INR 54b, an increase of 11% YoY.
- MAXLIFE registered a strong increase in PBT, which grew 46% YoY to INR1.5b in1QFY25. MAXLIFE's EV rose 30% and operating RoEV stood at 14.2%.
- The new business growth was fueled by strong growth in Protection & Health, Group Credit Life and Retail Annuity business.
- Multiple products have to be refiled. If the replacement products are not launched by 30th Sep'24 then have to go via file and use.
- Non-operating variances grew to INR2.76b, with more positive contributions coming from the equity segment and debt was positive too. The operating variance is also marginally positive
- Focusing on product innovation, MAXLIFE launched a Flexi Cap Fund predominantly for the E-Commerce and Banca Customers in 1QFY25 designed to capitalize increasing interest in Index funds.
- The Company also introduced the Max Life Smart Wealth Annuity Guaranteed Pension Plan - Limited Pay variant with a feature to personalize retirement planning, an industry-first initiative.
- Commission increase of 60% in first year because of strong sales in e-commerce and strong growth in credit life with new partners.

Distribution

- In 1Q, MAXLIFE's proprietary channels' APE grew by 60% YoY in 1QFY25. The contribution of Proprietary channels to total new sales increased from 40% in 1QFY24 to 49% in 1QFY25.
- Protection & Health grew by 53%, Group Credit Life grew 49%, and Retail Annuity business rose 42% on a YoY basis.
- Though the share of Banca channel declined in 1QFY25 but the growth has picked up pace in Ju'24 with Axis bank leading the pack (Axis bank channel grew 45% YoY). Aim to be at 65-70% range as wallet share at Axis Bank. Inclusion of other partners has not impacted the wallet share.
- MAXLIFE has successfully on-boarded 7 new partners in 1QFY25, including CSB Bank

APE and VNB

- The company's VNB grew 3% YoY to INR 2.5b during 1QFY25, vs INR 2.47b in 1QFY24. Further, the Total APE rose by 31% to INR 14.5b in 1QFY25.
- Absolute VNB is expected to grow in mid-teens in FY25.
- On the Ecommerce platform, the majority ULIP products sold are capital guarantee ULIP products as the preposition is better. E-commerce has a strong margin profile.
- The product mix is expected to get re-balanced in coming quarters.
- Management maintains the same growth guidance in spite of surrender charges as higher premium growth will offset the margin hit.

Surrender charges

- Max expects 100-200bp impact on account of surrender charges regulations.
- Max believes that the entire life insurance industry will take 3-6 month time to settle as the impact of surrender charges regulations on VNB margins remains dynamic.

SBI Life Insurance — Buy

Current Price INR 1,800

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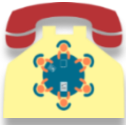

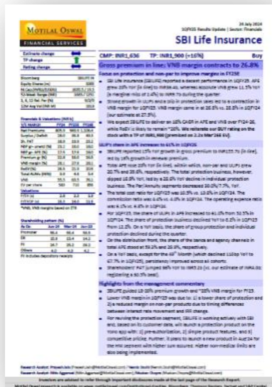

Business

- During 1QFY25, SBILIFE issued 0.425m policies with total ~4m lives covered.
- The Gross Written Premium grew 15% YoY to INR155.7b in 1QFY25 mainly due to 19% YoY growth in new business regular premium and 16% growth YoY in renewal premium in 1QFY25.

Product

- The protection sales were weak as customers have been focusing more on ULIPs given the strong market environment.
- For reviving the protection segment, SBILIFE is working actively with SBI and, based on its customer data, will launch a protection product on the Yono app with: 1) pre-authorization, 2) simple product features, and 3) competitive pricing. Further, it plans to launch a new product in Aug'24 for the HNI segment with higher sum assured. Higher non-medical limits are also being implemented.
- Credit protection products are growing strongly on the back of disbursements. Education loan customers will be targeted by focusing on young customers.
- Credit protection APE stood at INR470m in 1QFY25.
- Annuity business contributed 16% to the total NBP. Within this, ~90% was contributed by the individual annuity business.
- SBILIFE remains more focused towards individual annuity business and overall annuity segment is expected to pick up in the coming quarters.
- The company is planning to revamp its par portfolio and rider portfolio (attachments will be available to all products).
- Composite license has been in talks for more than a year. Contours in life and general business are different. SBI has both life and general insurance companies. As and when the announcement made the parent will take a call.

Surrender charges

- Under surrender charges, SBILIFE expects a very low impact (much lower than 1%) owing to its product mix and conservative assumption on surrenders. For new products, SBILIFE is not planning any commission changes for distributors.
- The impact of surrender charges will be more than offset by favourable product mix (pick up in protection and annuity).

Finance

- For FY25, the company has guided for 18-20% premium growth and ~28% VNB margins
- Lower VNB margin in 1QFY25 was due to: 1) a lower share of protection and 2) a reduced margin on non-par products due to timing differences between interest rate movement and IRR change.
- Higher commission costs in 1QFY25 were owing to the EOM adjustments, which were missing in 1QFY24.

Distribution

- APE channel mix for 1QFY25 is banca channel at 59%, agency channel at 30% & other channels at 11%.
- SBI productivity per branch stood at INR4.8m.
- Banca has seasonality wherein 2Q and 3Q will see relatively stronger growth. The company expects a strong recovery with new product launches.
- In tier 2 and 3, SBILIFE has been strong penetration level, and company is aiming to increase penetration further.
- Agency channel has been strong on back of accretion of agents in past few quarters and improving productivity of existing agents. Agent Productivity stands at INR 0.17m on individual APE basis. SBILIFE added 11,188 agents in 1QFY25 taking the total count over 0.257m agents.
- For other channels, it's a mix of bank partners (some banks have shown weakness and expected to recover in the quarters going ahead), online channel (strong growth), and some other partners (strong growth).

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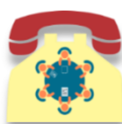

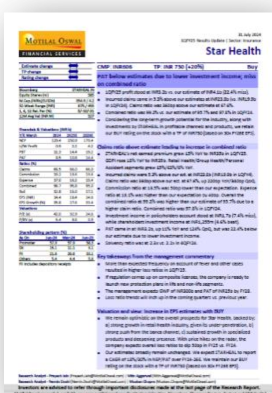

Star Health — Buy

Current Price INR 602

Business

- Strong headroom for growth in the health insurance segment; however, climate change is one of the biggest concerns, which needs to be addressed by the Health Care Industry through innovative products.
- The company holds a 42% market share (GWIP basis) in the standalone health insurance sector, with an overall share of 4.8% among all general insurance companies, an increase of 20bp from the previous year. The factors driving growth are strong fresh business across channels, a wider distribution network, innovative product portfolio and digitization initiatives.
- The company has been able to keep expenses of management well below 35% as mandated by IRDAI.
- Fresh to renewal business improved to at 25:75 in 1QFY25 from 23:77 in 1QFY24
- If regulation comes up on composite licenses, the company is ready to come up with newer protection plans in life and Non-life plans.
- Added 165 sales managers during the quarter in tier 2 and tier cities, taking the total to ~1,310 (rural agents increased 30% YoY).
- The company has presence in 17,253 pin codes out of 19,000 with 887 branch networks.
- Home health care service facility newly introduced, which is freely available to existing policyholders. Any further expenses on the same will be deducted from sum assured (available to more than 50 cities in the country).
- Equity as % of the investment book stood at 12% in 1QFY25 and MTM gains at ~11.5%. CG proportion in P&L is ~120m.
- The average sum assured of new policies grew 8% YoY to around INR1m. INR5 lakh and above sum assured now constitute ~81% of retail health portfolio from 76% in 1QFY24.
- Share of long-term policies has increased to 7% vs. 5% in 1QFY24.
- Digital issuance as % of premium selection stood at 72% in 1QFY25 vs. 65.5% in 1QFY24.

- Investment assets grew by 19% YoY to INR158b, with investment income of INR2.95b, up 18% YoY, with yield at ~7.5% (vs 7.4% YoY).
- 92% of claims are now settled in less than two hours, with healthcare provider network of over 30,000. It has saved ~2.4% of the total claims through various preventive measures.
- The proportion of cashless claims rose to 74% from 61% YoY.
- Of the total claims ratio of 67.6% in 1QFY25, OPD and preventive health check contributed around 0.66%. A 63bp impact on claims ratio was due to wellness program.
- More than expected frequency on account of fever and other cases, which resulted in higher loss ratios in 1Q. Non Health part of the portfolio has resulted in ~1% increase in the overall loss ratios. Further some increase in preventive health measures contributed to the increase. On Health Loss ratio, the management stated that the claims ratio has increased by just ~1%.
- The lower NWP sequentially was due to reinsurance contract; however, the benefit has been seen in the reinsurance commission.
- Inward porting - Company has been a bit conservative and is less than ~10% of the fresh business. However, the management is turning aggressive in this area and there could be some action in this area.
- Portability is a high-risk business but with the kind of data available the company is aware of high-risk location with respect to portability.
- Health loss ratios have increased ~1.3%. There is good benefit coming with the price increase and hence resulting in controlled claims costs.
- App downloads have increased to 6.6m+ from 5.4m+ in 4QFY24, with 843,000 monthly active users.
- In 9MFY24, Star Health has registered 33% market share in Retail Health (flat YoY), which is more than 3x the second largest player in the industry.
- The average sum insured of new policies has increased by 11% YoY.
- Total long-term policies sold by Star Health increased to ~6% (includes benefit and indemnity products) vs. 4% earlier.
- Star Health, being risk averse on long-term policies, has entered into reinsurance for Health Quota Share Treaty. Star intends to grow its long-term portfolio.
- Increase in shareholders investment was on account of capital gains booked during the quarter (~INR 300m).

Distribution:

- Agency business contributed around 80% to overall business in 1Q. Agency's strength has increased to 718,000 in 1QFY25 from 701,000 in 4QFY24.
- Banca channel, including alternate channel, contributed around 8% of overall GWP in 1QFY25 (has tie-ups with 61 banks and NBFCs). Fresh banca channel grew 25% YoY. Share is expected to increase in coming quarters.
- Corporates agent contributed around 5% of overall business in 1QFY25. Fresh Corporate agent channel grew 110% YoY.
- Digital business (comprising of own direct to consumer channel and online channel) contributed around 7% of overall GWP in 1QFY25. Fresh digital channel grew 25% YoY.

- At a granular level, own direct to consumer channel contributed around 70% of the total business vs. online brokers and web aggregator channel (~30%).

Guidance:

- Guides to achieve GWP of INR300b by FY28
- Expects PAT of INR25b by FY28
- Renewable premium ratio likely to remain in range of ~93%-95%
- Loss ratio trend to see slightly higher levels than last year
- The management is seeing continuous focus on attempts to increase revenue from the health care sector. Hence, the larger issue of pricing the products is expected to increase.

HEALTHCARE

- **In Healthcare, companies indicated sustained growth momentum in the chronic category of therapies in the DF segment for the quarter. The weak seasonality hit the off-take of products in acute therapies as per the management teams. Interestingly, raw material costs are likely to sustain at lower levels over the near-to-medium term and drive better gross margins for companies having exposure to the branded domestic formulation segment. For the US generics space, management indicated that while price erosion is limited on the base portfolio, the cost of logistics/supply chain has increased due to geopolitical turmoil. The filings are inclined towards complex products, and thus, there is a reduction in the overall pace of filings according to the management teams. On the hospital front, companies are implementing efforts towards adding beds and treating more number of in-patients as well as out-patients. Management indicated about some more scope of improving ARPOB based on the case mix/payor mix. Some companies indicated that they have scaled-up efforts towards increasing international patient flow considering the locational advantage and availability of strong clinical talent. Overall, the pharma space continues to witness tailwinds led by niche pipelines in the US and EU. Hospitals remain poised to benefit from the considerable demand-supply gap by not only adding infrastructure but also nurturing the doctor-nurse resources.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY25	Other key Updates
Aurobindo Pharma	▪ ARBP is confident of achieving a 21-22% EBITDA margin in FY25. ▪ While injectable sales were impacted due to remediation measures in 1QFY25, ARBP aspires to achieve USD600m sales for FY25. ▪ ARBP is expected to file b-Trastuzumab/ b-Omalizumab) / b-Denosumab in 3QFY25/3QFY26/2QFY26. ▪ It plans commercialization of the China plant in 3QFY25, with a ramp up expected in 4QFY25.	▪ The remediation cost for Eugia III plant stood at USD9m, impacting EBITDA for 1QFY25. The company expects a remediation cost of USD2m in 2QFY25. ▪ The US price erosion stood at low single digits. ▪ The company received final approvals for 10 ANDAs, including one specialty and injectable product, in 1QFY25.
Cipla	▪ It has guided an EBITDA margin of 24.5-25.5% in FY25. ▪ It expects the US generics quarterly sales run-rate at USD230- 245m for the remainder of FY25. ▪ The company would be filing g-Advair from the Invagen plant before the end of CY24 with launch expected in 4QFY25.	▪ The company has changed its distribution model in the trade generics segment by increasing direct touchpoints with the stockiest and positioning closer to the market. ▪ The chronic therapies formed about 61.5% of total prescription sales for 1QFY25.
Dr. Reddy's Labs	▪ Expects SG&A spends to be ~25-27% of FY25 revenue. ▪ DRRD expects to launch Abatacept Dec'26. DRRD indicated 8.5-9% of sales as R&D spent for FY25 with ~20% of it spent towards biosimilars. ▪ DRRD launched three products in the US, whose momentum is expected to be robust in FY25.	▪ The company launched 13 products in DF segment, 12 products in EU, and 3 in the US in 1QFY25. ▪ DRRD filed 11 DMFs in 1QFY25.
Gland Pharma	▪ GLAND maintained its guidance of mid-teens YoY growth in revenue (ExCenexi) for FY25. ▪ It expects lower sales in Cenexi in 2QFY25 due to the European holiday season and planned summer maintenance shutdowns. ▪ It expects a positive EBITDA in 4QFY25 and subsequently in FY26 as well for the Cenexi business.	▪ GLAND is witnessing inquires at its biologics facility at Genome Valley for CDMO of monoclonal antibodies and novel plasma-based proteins. Further, it is in discussion with large biologics companies for commercial CDMO and in licensing the molecules for key markets. ▪ Tender procurement by partners has been delayed, affecting 1QFY25 performance in the EU. It launched eight molecules, including Eribulin mesylate, Plerixafor, Nelarabine, and Edaravone, in the US market.
Sun Pharma.	▪ The topline readout of phase II for SCD044 is expected in 1HCY25, Phase-III for MM-II to start in 1HCY25 and phase-II of GL0034 to start in 2HCY24. ▪ A motion seeking preliminary injunction has been filed in a US court to prevent the launch of Leqselvi (Deuruxolotinib). SUNP intends to rigorously oppose the motion and action.	▪ SUNP is conducting phase-3 clinical trials of Ilumya. ▪ Nidlegy is filed with EMA (EU) for treaing locally advanced, fully resectable melanoma in the neoadjuvant setting.
Divi's Lab.	▪ The Kakinada facility will start operations in 4QFY25. ▪ Di is planning to file DMFs for the products which are going to expire in FY25 which aid the growth from FY26 onwards.	▪ Two reactors of 500L capacity is ordered to cater to peptide manufacturing (GLP1 products). ▪ Divi has commercial scale contracts for Iodine- based contrast media products. The gadolinium based products are under clinical development. ▪ The overall capacity utilization is about 82%. ▪ Generic: CS revenue mix 51:49 for 1QFY25.

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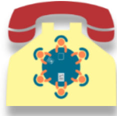

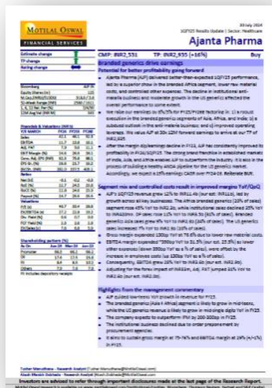

Ajanta Pharma — Buy

Current Price INR 3,061

- AJP guided low-teens YoY growth in revenue for FY25.
- The branded generics (Asia + Africa) segment is likely to grow in mid-teens, while the US generics revenue is likely to grow in mid-single digits YoY in FY25.
- The company expects to outperform IPM by 200-300bp in FY25.
- The institutional business declined due to order preponement by procurement agencies.
- It aims to sustain gross margin at 75-76% and EBITDA margin at 29% (+/-1%) in FY25.
- AJP plans to file 8-12 ANDAs in FY25.
- The company expects price erosion to be stable and sustain at 8-10% levels in the US generics segment.
- The company witnessed 1.3x growth in new launches compared to the domestic industry in 1QFY25.
- Cardiology therapy growth was low at 5% YoY compared to IPM YoY growth of 11% in for MAT Jun'24 due to significant price reductions in the MET XL brand.
- However, the drug was out of NLEM in Mar'24, and hence, the company expects the therapy to outperform IPM.
- The Asia segment growth was supported by 18 product launches in FY24, volume growth in existing products, and MR addition.
- Expect increased freight costs to hurt profitability to some extent in FY25.
- R&D expenses would be 5% of sales in FY25.
- Capex for FY25 to be INR1.75b, including maintenance capex.

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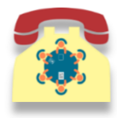

Alembic Pharma — Neutral

Current Price INR 1,107

- It would be launching 10 products in 2QFY25 in the US generics segment.
- With respect to G-Entresto, ALPM has settled with the innovator. ALPM is in a wait-and-watch mode for launching this product. The court hearing is underway, and the company will have clarity in a couple of weeks.
- The API business was hit by regulatory issues for its customer. ALPM expects this business to revive in the coming quarter.
- The ROW business was muted in 1QFY25 due to supply constraints.
- The G-Revlimid launch is a couple of years away in the US market.
- ALPM expects the gross margin to be north of 70% going forward.
- The company expects that R&D expense to be ~INR5.5b for FY25.
- Management guided API business growth to be 10% YoY for FY25.
- ALPM guided the US business to grow ~10-15% for FY25.
- It continues to witness double-digit price erosion in the US generics segment.
- ALPM delivered robust growth in the specialty portfolio and better-than-market growth in the Acute portfolio of the DF segment. Therapy-wise, Gynecology, Gastro-intestinal, and Anti-diabetic grew 12.5%, 11.8%, and 18.4% YoY, respectively.
- ALPM has 5,200 MRs with 21 marketing divisions for the DF business

- A basket of strong brands continues to drive outperformance in the animal health segment.
- Gross borrowing was INR5.9b in 1QFY25 vs. INR4.3b in Mar'24.
- ALPM had a cash of INR1.5b in 1QFY25 vs. INR1.2b in Mar'24.

Alkem Labs — Neutral

Current Price INR 5,794

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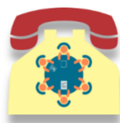

- Product mix, controlled costs, favorable RM costs, and better productivity should drive profitability ahead. However, due to expenses related to new growth drivers, EBITDA margin guidance remains at 18% for FY25.
- Guided for 8-10% YoY growth in DF, in line with industry
- ALKEM has launched g-Suprep and plans to launch Dabigatran shortly in the US generics segment.
- It has responded to a Form 483 issued by USFDA for its Baddi site.
- ALKEM is setting up a plant for the bio-CDMO segment in the US. The plant would be operational by the end of FY25. Annualized operational expenses for this facility would be INR1.2b.
- Pen-G prices have increased marginally in recent times.
- Larger therapies like pain/anti-Infective saw muted growth in 1Q, due to industry slowdown. ALKEM expects a revival in the coming quarters.
- ALKEM reported YoY growth of 1.5%/2.5%/2.5% in volume/new launches/price.
- R&D spending would be 4.5-5% of sales in FY25.
- During the quarter, the company launched one product in the US and received approval for three ANDAs from the USFDA, including one tentative approval.
- MR strength stands at 12,700.

Apollo HOSPITALS

Apollo Hospitals — Buy

Current Price INR 6,766

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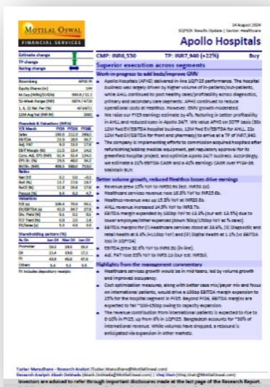

- GMV is expected to grow ~50% YoY in FY25 for Healthco, led by an increase in private labels and customer acquisitions. The company expects EBITDA breakeven for Apollo 24/7 in the next four to six quarters, driven by lower customer acquisition costs (INR800mn currently vs. INR1.5-1.7b marketing expenses earlier) and focus on the omni channel.
- Occupancy is likely to improve to ~68-70% in FY25, led by international patients, a change in the payor mix, partnerships with private insurance, and increased insurance penetration.
- APHS plans to operationalize 1,500 beds across four hospitals - Gurugram, Hyderabad, Kolkata, and Pune, in CY25-26. The company also plans a brownfield expansion of 140 beds in Mysore in FY26.
- Cash and insurance revenues grew by 17% YoY and contributed to 85% of hospital revenues.
- The company plans to launch its life insurance business in FY26/FY27 and is in the process of obtaining IRDAI approval by Oct'24.
- APHS expects online pharmacy distribution margins to grow to ~20% (vs. current 13.6%) in FY25.
- Online Pharmacy discounts stood at 13-13.5% (vs. industry standard of 15-15.5%), while offline discounts were ~11%.

- For 1QFY25, the contribution of cash/insurance/international/government stood at ~38%/47%/6%/10%.

Other operational highlights

Hospitals segment (52% of sales)

- Hospital EBITDA grew 15% YoY to INR6.2b. EBITDA margin was flat YoY at 23.6%.
- ARPOB grew by 2% YoY to INR59,073. Effectively, volume of patients treated grew ~11% YoY.
- Occupancy was 68% vs. 62% in 1QFY24.
- ALOS stood flat at 3.3 days.

Healthco (offline/online pharmacy and Apollo 24/7; 41% of sales)

- Healthco posted EBITDA of INR225m vs. INR566m loss in 1QFY24.
- Platform GMV grew 9% YoY to INR7b.
- Pharma average order value (AOV) increased 15% YoY to INR1,072.
- Opened net 44 stores during the quarter, taking total stores to 6,074.

AHLL (7% of sales)

- Non-Covid diagnostics revenue (excluding Covid Testing) grew by 10% YoY to INR1.2b.
- Revenues of primary care grew 14% YoY to INR964m.
- Revenues of specialty care rose 21% YoY to INR1.7b.
- Network collection centres increased by 420 centres YoY to 2,330 centres.

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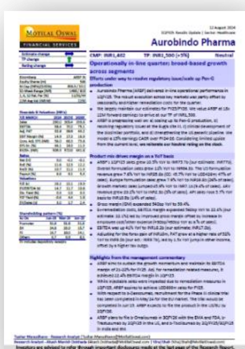

Aurobindo Pharma — Neutral

Current Price INR 1,510

- ARBP aims to sustain the growth momentum and maintain its EBITDA margin of 21-22% for FY25. Adj. for remediation related measures, it achieved 22.4% EBITDA margin in 1QFY25.
- While injectable sales were impacted due to remediation measures in 1QFY25, ARBP aspires to achieve USD600m sales for FY25.
- With respect to b-Denosumab, recruitment for the Phase III clinical trial has been completed in May'24 for the EU market. The trial would be completed in Jun'25. ARBP expects to file the product in the US/EU by 2QFY26.
- ARBP plans to file b-Omalizumab in 3QFY26 with the EMA and FDA, b-Trastuzumab by 2QFY25 in the US, and b-Tocilizumab by 2Q/FY25/3QFY25 in India and EM.
- ARBP completed the Phase I study for Omalizumab in Australia. It is undergoing large-scale Phase III clinical trials in the EU market. The completion of trials is expected by 2QFY26. Subsequently, the filing is expected in the US/EU by 3QFY26.
- ARBP expects a revenue run-rate of USD850m, with mid-teens profit margins in Europe.
- The company plans commercialization of the China plant in 3QFY25, with a ramp up expected in 4QFY25.
- ARBP expects the Eugia Vizag plant to start European filings from 3QFY25, while the US filings are on track. Revenue from the facility is expected in FY26.
- Remediation cost for Eugia III plant stood at USD9m, impacting EBITDA for 1QFY25. The company expects a remediation cost of USD2m in 2QFY25.

- Management expects a 10-15% higher revenue contribution from Revlimid from 2QFY25 onwards.
- The US price erosion stood at low single digits.

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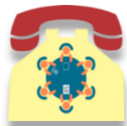

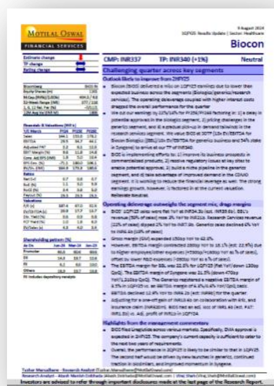

Biocon — Neutral

Current Price INR 355

- BIOS filed Liraglutide across various markets. Specifically, EMA approval is expected in 2HFY25. The company's current capacity is sufficient to cater to the next two years of requirements.
- Overall, the performance in 2QFY25 is likely to be similar to that in 1QFY25. The second half would be driven by new launches in generics, continued traction in biosimilars, and improved momentum in Syngene.
- Pricing challenges hurt API/formulation generics business in 1QFY25. Generics business is expected to be muted in 2Q as well. New formulation launches (incl. the launch of Liraglutide in UK) are likely to drive better performance in 2HFY25
- Biologics: Higher b-Bevacizumab, rh-insulin, and B-Etanercept sales were witnessed in emerging markets. It launched 12 new products in the EM.
- BIOS witnessed a gradual traction in b-adalimumab for the US market. It expects a meaningful benefit from this product from CY25.
- BIOS responded to the regulatory observations at Malaysia. BIOS awaits response from the USFDA for subsequent steps.
- Its net debt stood at USD1.2b at the end of 1QFY25 at BBL level.
- R&D expenses were 8% of sales for the Biocon biologics segment.
- BIOS signed an exclusive licensing agreement with Handok for synthetic Liraglutide to supply to the Korean market.
- The company will start the supply of Abflibercept in Canada in Jun'25.
- BIOS guided that the generic business growth to be in high-single digit for FY25.
- Management expects to launch Hulio in 2HFY25.

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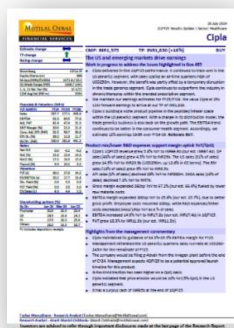

Cipla — Buy

Current Price INR 1,594

- Cipla maintained its guidance of 24.5%-25.5% EBITDA margin for FY25.
- Management reiterated the US generics quarterly sales run-rate at USD230-245m for the remainder of FY25.
- The company would be filing g-Advair from the Invagen plant before the end of CY24. Management expects 4QFY25 to be a potential approval/launch timeline for this product.
- G-Revlimid traction has been higher on a QoQ basis.
- Cipla indicated that price erosion would be 10% YoY/5% QoQ in the US generics segment.
- It has a surplus cash of INR85b at the end of 1QFY25.
- Management guided 5-6% of sales to be spent on R&D for FY25.
- Cipla worked with external consultants on the observations highlighted by the USFDA on the recent 483 with respect to the Goa site.
- The transition of the India Trade Generics business into a new distribution model is fully completed. This change will enable Cipla to enhance control, increase direct touchpoints with distributors, and deepen the channel connect.

- The chronic therapies such as respiratory, urology, and cardiac witnessed 9%/ 15%/11% YoY growth for the quarter.
- Gross margin improvement was largely led by a better product mix.

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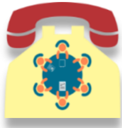

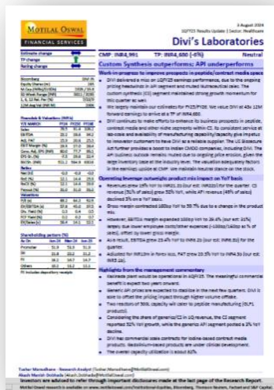

Divi's Lab — Neutral

Current Price INR 4,899

- Overall CWIP is about INR10.5b. Kakinada CWIP is about INR 8.bn.
- RM prices were being stable in 1QFY25. DIVI is implementing measures to not only maintain safety stock but also diversify the supply base.
- The generic/CS revenue mix was 51%/49% for the quarter.
- Nutraceutical revenue for the quarter was INR1.8b.
- Exports accounted for 86% of total revenue. The US and EU accounted for 70% of total exports business.
- For the quarter ending Jun'24, CWIP was INR10.6b, out of which Kakinada was INR8.6b.
- The total capex for the Kakinada plant is INR10.8b so far.
- DIVI has guided that the maintenance capex for the year is INR2.5-3b.

CS outlook robust; API outlook to improve gradually

CS: Building strength in peptides/contrast media space

- In 1QFY25, CS sales grew by 52% YoY to INR10.2b. Client enquiries improved for products under development thanks to the US Biosecure Act.
- DIVI continues to move further in the manufacturing value chain in the peptide segment.
- In addition to having an established manufacturing presence on Iodine-based contrast media products, DIVI is supporting innovators in gadolinium-based products at clinical development currently.
- The long-standing relationship with innovators and consistent service should boost growth potential of the CS segment.
- Additionally, it has received a long-term contract from an innovator, for which DIVI is incurring a capex of INR7b, which would drive growth over the medium to long term.
- Accordingly, we expect a 22% CAGR in CS sales to INR52b over FY24-26.
- Generics: new launches/capacity enhancements to fuel growth
- In 1QFY25, the generic API segment declined 3.3% YoY to INR8.6b due to persistent pricing pressure. However, it was offset by increased volume off-take of key products.
- Interestingly, DIVI has gained market share in several large-volume APIs. It has also increased capacity for several APIs.
- Moreover, there are multiple products coming off patent over the next four years. DIVI plans to file DMFs for the products that are going to expire in FY25, which should drive growth from FY26 onward.
- Further, DIVI plans to supply seven molecules over the next 3-5 years.
- DIVI is also backward integrated, which will be a key differentiator vs. peers.
- Accordingly, we expect DIVI to post an 11.5% revenue CAGR to INR45b over FY24-26.

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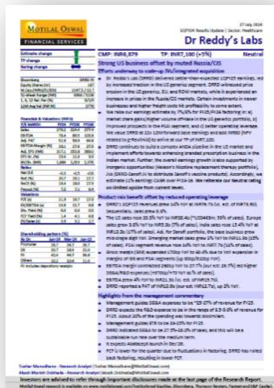

Dr. Reddy's Labs — Neutral

Current Price INR 7,060

- Management guides SG&A expenses to be ~25-27% of revenue for FY25.
- DRRD expects the R&D expense to be in the range of 8.5-9.0% of revenue for
- FY25. About 20% of the spending was towards biosimilars.
- Management guides ETR to be 24-25% for FY25.
- DRRD indicated SG&A to be 27.5%-28.0% of sales, and this will be a
- sustainable run rate over the medium term.
- It expects Abatacept launch in Dec'26.
- FCF is lower for the quarter due to fluctuations in factoring. DRRD has rolled
- back factoring, resulting in lower FCF.
- The NA sales growth was largely led by volume, partly offset by price erosion. DRRD launched 3 new products in 1QFY25.
- DRRD launched 12 products in the EU region. DRRD's sales grew 9% in CC terms in the EU region.
- The company filed 11 DMFs during the quarter.
- The Russia business was hit by unfavorable currency movement. This was offset by the price increase/higher base business volumes.
- The CIS business for the quarter was hit by the deterioration in base business volumes.
- Capex for the quarter stood at INR4.9b.
- Net cash surplus at the end of 1QFY24 was INR67.3b.

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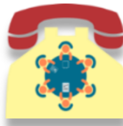

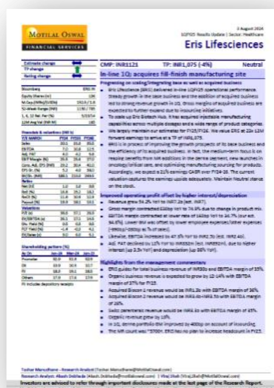

Eris Life Science — Neutral

Current Price INR 1,212

- ERIS guides for total business revenue of INR30b and EBITDA margin of 35%.
- Organic business revenue is expected to grow by 12-14% with EBITDA margin of 37% for FY25.
- Acquired Biocon 1 revenue would be INR1.3b with EBITDA margin of 36%.
- Acquired Biocon 2 revenue would be INR3.4b-INR3.5b with EBITDA margin of 28%.
- Swiss parenterals revenue would be INR3.3b with EBITDA margin of 35%.
- Organic revenue grew by 10%.
- In 1Q, derma portfolio GM improved by 400bp on account of insourcing.
- The MR count was ~3700+. ERIS has no plan to increase headcount in FY25.
- Cardiac therapy growth was affected by genericisation of sacubitril valsartan and insufficient stock resulting in loss of business. However, in 2Q, ERIS plans to launch dapaglifozin and combination products, which would further drive growth in Cardiac therapies from 3QFY25 onward.
- ERIS indicated that the combined revenue from Basalog and insugen to reach ~INR2.8b, representing 40% growth for FY25.
- Additionally, it expects revenue from insulin franchise to reach ~INR3.5b in FY25.
- ERIS to launch Swiss injectable portfolio in India from 2QFY25 onward.
- Export business accounted for 10% of the total business for the quarter.
- 11 new products filed in 1Q in Ophthalmology, CNS and Antibiotics
- ERIS aspires to increase the throughput to 70% in FY25 from Ahmedabad.

- The gross block of Chemman labs is INR650m and net block is INR560m.
- ERIS aspires to achieve 80% in-house manufacturing from 60% currently.
- ERIS will incur a capex of INR1-1.2b in FY25 for Hormones, insulin and mAbs. It expects that the vials capacity would be operation by 3Q and cartridge over the next 1-1.5 years.

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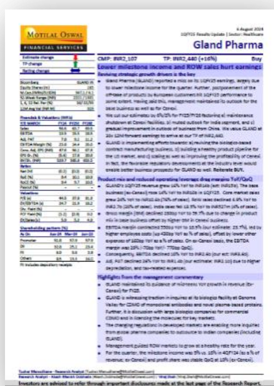

Gland Pharma — Buy

Current Price INR 1,929

- GLAND maintained its guidance of mid-teens YoY growth in revenue (Ex-Cenexi) for FY25.
- GLAND is witnessing traction in inquires at its biologics facility at Genome Valley for CDMO of monoclonal antibodies and novel plasma-based proteins. Further, it is discussion with large biologics companies for commercial CDMO and in licensing the molecules for key markets.
- The changing regulations in developed markets are enabling more inquiries from global pharma companies to outsource to Indian companies (including GLAND).
- Management guided ROW markets to grow at a healthy rate for the year.
- For the quarter, the milestone income was 9% vs. 16% in 4QFY24 (as a % of revenue; ex-Cenexi) and profit share was stable QoQ at 10% (ex-Cenexi).
- The 2QFY25 sales of the Cenexi would be impacted by lower activity levels due to the European holiday season and planned summer maintenance shutdowns. The Fontenay plant will have an extended three-week shutdown for the new ampoule line installation.
- For the quarter, the milestone income was 9% vs. 16% in 4QFY24 (as a % of revenue; ex-Cenexi) and profit share was stable at 10% QoQ (ex-Cenexi).
- Management guided that EBITDA to be positive in 4QFY25 and subsequently in FY26 as well for the Cenexi business.
- Tender procurement by partners has been delayed, affecting 1QFY25 performance in the European segment.
- It launched eight molecules in the market, including Eribulin mesylate, Plerixafor, Nelarabine, and Edaravone in the US market.
- Out of 61 ANDAs pending for approval, most of them would be its own.
- Net cash at the end of 1QFY25 stood at INR27.4b.

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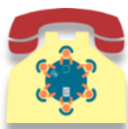
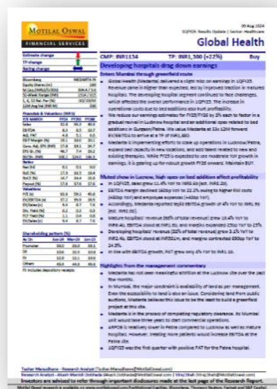


Global Health — Buy

Current Price INR 1,080

- Medanta has not seen meaningful attrition at the Lucknow site over the past few months.
- In Mumbai, the major constraint is availability of land as per management. Even the accessibility to land is also an issue. Considering land from public auctions, Medanta believes this issue to be the least to build a greenfield project at this site.
- Medanta is in the process of completing regulatory clearance. Its Mumbai unit would take three years to start commercial operations.
- ARPOB is relatively lower in Patna compared to Lucknow as well as mature hospitals. However, treating more patients would increase EBITDA at the Patna site.



- 1QFY25 was the first quarter with positive PAT for the Patna hospital.
- The share of PPP patients at the Patna facility was 25% in payor mix. However, the majority of patients visit for complex procedures, which attract higher realizations.
- The share of PPP patients in volumes grew to 5-7% in Patna over past one year.
- Medanta started Ayushman Bharat scheme in 1QFY25. To allocate more beds to scheme patients, Medanta plans to add CGHS patients as well.
- During the year, 165 new beds were added, up 6.1% YoY, comprising 49 census beds in Gurugram, 98 beds in Lucknow and 18 new dialysis units at Patna hospital.
- Medanta has faced a delay in the Delhi project. The management plans to start construction on one part of the land soon.
- For the Indore projects, the company wants to clear all regulatory hurdles first.
- In 1QFY25, IPD and OPD volume increased by 10% YoY each. From FY25 onward, the company expects growth to be led by an increase in IPD and OPD volume.

Other operational highlights

- ARPOB grew 1% YoY to INR64k, mainly driven by a change in the case mix.
- Specifically, ARPOB of mature hospitals increased 3% YoY, whereas ARPOB of developing hospitals fell 1.7% YoY in 1QFY25.
- Occupancy stood at 58% vs. 60% in 1QFY24 and 63% in 4QFY24. Specifically, occupancy of mature hospitals expanded 300bp YoY to 63%, while occupancy of developing hospitals dipped 200bp YoY to 52% in 1QFY25.
- Mature hospitals' revenue (68% of total revenue) grew 10.4% YoY to INR6.4b, EBITDA stood at INR1.6b, and margins expanded 25bp YoY to 25%.
- Developing hospitals' revenue (32% of total revenue) grew 3.1% YoY to INR2.4b, EBITDA stood at INR581m, and margins contracted 690bp YoY to 24.5%.
- International patient's revenue stood flat YoY at INR475mn.
- ALOS stood at 3.1 days (vs. 3.1/3.2 days in 1QFY24/4QFY24).
- IPD/OPD volumes increased 10% YoY.
- OPD Pharmacy revenue rose 26% YoY to INR334m.
- The share of cash and insurance in the payor mix declined from 86% in 1QFY24 to 82% in 1QFY25.

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Granules India — Buy

Current Price INR 695

- GRAN indicated a 20% YoY growth in the US sales for FY25.
- The company expects EBITDA margin to improve QoQ and anticipates FY25 EBITDA margin to be ~22-23%.
- GRAN has launched five products in 1QFY25 in the US market. Further, it expects to launch 3-4 more products in the remaining of FY25.
- It expects that paracetamol would not contribute meaningfully over the next two quarters due to inventory buildup at the customers end.
- The sales of new products contributed ~35% in 1QFY25 vs. 25% in FY24 and 15% in FY23 in the FD segment.

- While GRAN commissioned the DCDA pilot plant, it had some teething issues. It expects to resolve soon. Having said this, it has already ordered equipment for commercial scale manufacturing.
- For the full year, management expects gross margin to be ~60%.
- The company is focusing on building manufacturing infrastructure for the enzyme and fermentation segments. The capex would be completed within the next 14-18 months in this segment.
- It expects to start the validation of three molecules in enzymes from 3QFY25.
- GRAN expects API sales to pick up from FY26.
- R&D expenses were INR620m for the quarter. GRAN expects that R&D costs would increase going forward.
- The Red Sea issue affected the inventory days, resulting in the increase in working capital days.
- OTC sales witnessed double-digit growth, which was 15% of the overall formulation sales.

IPCA Labs — Neutral

Current Price INR 1,404

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- IPCA is expanding Unichem's business across various geographies and expects benefits in 2HFY26.
- IPCA plans to launch 5-6 products in FY25 and 6-7 products in FY26 in the US. Having said this, new filings are 6-8 months away, considering work in progress on new products.
- As per IQVIA, IPCA delivered 15% YoY growth in the DF segment vs. IPM growth of 9% in 1QYF25. IPCA's Acute grew 12% (vs. IPM growth of 8%), while chronic therapy grew 20% (vs. IPM growth of 12%).
- As of MAT Jun'24, IPCA's market share grew to 2.01% from 1.91% in MAT Jun'23.

Growth in DF/generic exports to be partly offset by challenges in branded exports

Superior execution/additional MR force to drive the DF segment

- In 1QFY25, the DF segment grew 12% YoY to INR8.7b, led by growth across key therapies.
- Additionally, IPCA continues to implement efforts toward increasing its field-force productivity.
- Accordingly, we expect a 12.5% sales CAGR in the DF segment to INR39.1b over FY24-26, led by increased traction in key therapies and MR productivity.

API segment to be driven by capacity expansion

- In 1QFY25, API sales declined 2.4% YoY to INR2.9b due to a sharp reduction in prices.
- The prices are now stabilized for major APIs supplied by IPCA.
- We expect a 5.4% sales CAGR in this segment to INR13.8b over FY24-26.

Portfolio expansion/synergies with Unichem to drive export growth

- In 1QFY25, export sales declined 0.6% YoY to INR4b, led by subdued performance across generics as well as branded. However, this was partially offset by robust growth in institutional business.
- It is also working on multiple aspects to improve business prospects as well as build synergy with the Unichem acquisition.

- Accordingly, we expect overall export formulations to clock a 22% sales CAGR to reach INR26.6b over FY24-26.

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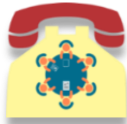

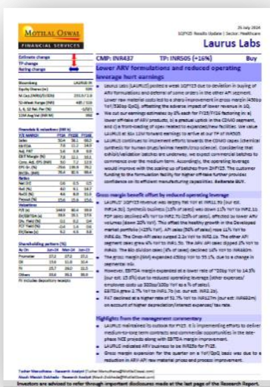

Laurus Labs — Buy

Current Price INR 445

- LAURUS maintained its outlook for FY25. It is implementing efforts to deliver medium-to-long term contracts and commercial opportunities in the latephase NCE projects along with EBITDA margin improvement.
- LAURUS indicated ARV business to be INR25b for FY25.
- Gross margin expansion for the quarter on a YoY/QoQ basis was due to a reduction in ARV-API raw material prices and process improvement.
- From the current net Debt: EBITDA of 3.3x, LAURUS intends to lower it to 2.5x by Mar’25.
- Capex of INR18-INR20b would be incurred over the next two years. The majority would be towards the CDMO/FDF segments. This also comprises the capex that would be funded by its customer.
- LAURUS has completed validation batches for certain Onco-APIs and await regulatory approval to start commercial supplies.
- It would be investing INR2b for setting up a large-scale commercial fermentation facility and it would be operational from Jun’26.
- LAURUS would be expanding its tablets manufacturing facility at Unit 2 (funded by the customer) for generic formulations.
- The Animal Health API block 1/2 is operational and capex has been incurred in the drug substance facility (block- 3/4).
- The second GMP CAR-T facility building is on track, which would be operational from the middle of the next year, while 28,000sft GLP lab (Vectors/Gene products) Phase 1 is likely to be delivered by the end of FY25.

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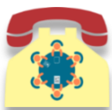

Lupin — Neutral

Current Price INR 2,117

- LPC expects high-single digit YoY growth in US generics segment for FY25. This guidance excludes Mirabegron (50mg), given the pending litigation outcome.
- FY26 growth prospect is also expected to be robust in US generics given the products like g-tolvaptan and other niche products.
- LPC completed phase III clinical trial for biosimilar Lucentis (Ranibizumab).
- R&D spending will be INR18b for FY25.
- The potential launches for FY25 are Doxycycline, g Pred Forte, Doxorubicin HCL and couple of ophthalmic products.
- LPC continues to address regulatory issues related to g-Dulera.
- LPC continues to address regulatory issues related to g-Dulera.
- It has about 30% market share in g-Spiriva. LPC has a higher share in commercial segment and lower share in Medicare/Medicaid segments.
- The company may add 100-200 MRs for RX business.
- In Rx business, LPC’s volume/prices/new launches grew 5%/3%/2%.
- Guides for ETR of ~20% for FY25.
- Expects DF business to grow 20-30% higher than IPM for FY25.
- Plans to launch 20 products in FY25 in DF business. .
- Net cash at the end of 1QFY25: INR195m.

- Capex for the quarter was INR1.1b.
- Operating working capital as of Jun'24 was INR61.7b.

Mankind Pharma — Buy

Current Price INR 2,281

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- Mankind guided 25-26% EBITDA margin for FY25
- The company has reduced the stockiest by almost 60% to channelize the efforts and enhance productivity. Mankind expects consumer healthcare business growth to improve going forward.
- Management indicated gross margin to sustain at ~70%.
- The Panacea business is at 30% EBITDA margin now, post-takeover and after the execution efforts by Mankind.
- Other expenses are higher despite adjusting for the one-time cost, due to launch of four new divisions.
- The volume growth in the prescription segment is muted at the industry level largely due to seasonality and the increased share of trade generics business. Further, the hospital prescription is not captured by IQVIA, affecting the volume growth at the industry level.
- Metro and tier 1 cities witnessed 9.6% YoY growth at industry level in the Rx segment. Mankind exhibited 10.6% YoY growth in the same space.
- Mankind witnessed good traction in Ova News, which has the potential to grow as big as the Prega News.
- Mankind launched Symbicort Turbuhaler (in-licensed from Astra Zeneca) in Apr'24, which registered a healthy growth in 1QFY25.
- Mankind in-licensed Inclisiran from Novartis to further strengthen its specialty Cardiac (lipid-lowering) portfolio.
- Growth in the DF segment was partly impacted by the delayed season in anti-infectives and certain product withdrawals in 1QFY24.

Max Healthcare — Buy

Current Price INR 869

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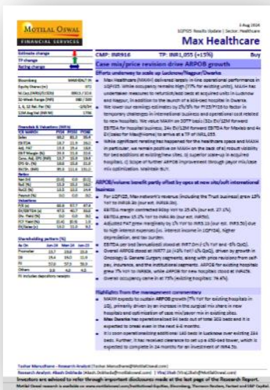
- MAXH expects to sustain ARPOB growth (7% YoY for existing hospitals in 1Q), primarily driven by an increase in the surgical mix share in new hospitals and optimization of case mix/payor mix in existing sites.
- Max Dwarka has operationalized 94 beds out of total 303 beds and it is expected to break even in the next 6-8 months.
- It is soon operationalizing additional 140 beds in Lucknow over existing 234 beds. Further, it has received clearance to set up a 450-bed tower, which is expected to complete in 24 months for an investment of INR4.5b.
- Work has commenced at the Nagpur hospital to add 25 beds through internal reconfiguration by 3QFY25 and another 115 beds by end-FY26.
- Lucknow and Nagpur: The company acquired the facilities in 4QFY24. ARPOB at these hospitals is low at INR45.3k, which is expected to grow to INR60-65k by FY25 end.
- Out-patient volume growth was soft at 4.5% YoY, owing to visa issuance challenges in Canada, the UK and Australia.



- MAXH plans to expand its bed capacity by ~50% or 2,570 beds in the next 2-3 years to ~6,900 beds.
- The company expects to commission the 250-bed Mohali hospital by FY28. 155 beds are expected to be commissioned by 1QFY26. The hospital will be an asset-light model leased out for 50 years.
- 329 beds at Max Nanavati are scheduled to be completed by 4QFY25.
- The project to add 375 beds at Max Smart in the Saket Complex has been fast-tracked and is expected to be completed by 1QFY26.
- 300 beds at Sector 56 Gurgaon are expected to be completed by 2QFY26.
- Phase 1 completion for a 250-bed hospital at Patparganj received NoC from the fire and water department.
- It expects delay at its 415-bed Vikrant Saket hospital owing to ongoing litigation between Delhi Development Authority (DDA) and Delhi Government regarding tree felling in the eco-sensitive zone.
- Growth from international patients was slower at 11% YoY (8.3% of revenue) owing to political tensions and credit risk management related actions by the company.

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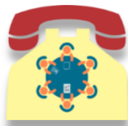

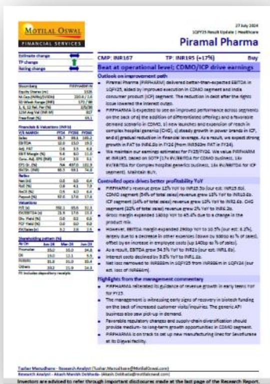

Piramal Pharma — Buy

Current Price INR 187

- PIRPHARMA reiterated its guidance of revenue growth in early teens YoY for FY25.
- The management is witnessing early signs of recovery in biotech funding on the back of increased customer visits/inquiries. The generic API business also saw pick-up in demand.
- Favorable regulatory changes and supply-chain diversification should provide medium- to long-term growth opportunities in CDMO segment.
- PIRPHARMA is on track to set up new manufacturing lines for Sevoflurane at its Digwal facility.
- PIRPHARMA is exploring licensing deals to have differentiated products in CHG segment and leverage its extensive distribution network.
- The company is making calibrated investments in differentiated areas like ADCs, peptides and non-patented API development/manufacturing.
- It witnessed strong demand for Sevoflurane/Isoflurane in the US, emerging markets and ROW. However, volume growth was offset to some extent by lower prices in the US market.
- New launches and growth in power brands led to healthy growth in ICP segment. The company launched seven new products and 10 SKUs in 1Q.
- The growth of brand 'i-range' was impacted as the product was included in the controlled price list.
- PIRPHARMA continues to spend majorly on advertising of power brands, thereby enhancing franchise value.

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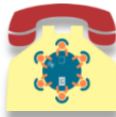

Sun Pharma — Buy

Current Price INR 1,764

- A motion seeking a preliminary injunction has been filed in a US court to prevent the launch of Leqselvi (Deuruxolotinib). SUNP intends to rigorously oppose the motion and action.
- Except Levulan, all specialty products posted growth for the quarter.
- Nidlegy is filed with EMA (EU) for treatment of locally advanced, fully resectable melanoma in the neoadjuvant setting.
- For GL0034, SUNP has completed Phase-I clinical trials and would start phase-II in 2HCY24.
- SCD-044 topline data readout would be 1HCY25 compared to 2HCY24.
- R&D spending would step up in subsequent quarters, with products progressing in clinical development.
- Winlevi sales have been witnessing fluctuation in prescription. SUNP continues to grow its revenue from this product.
- Net cash at the end of 1QFY25 was USD2.3b.
- SUNP launched 6 new products in India for the quarter.
- SUNP filed 1 ANDA and received approval of 3 ANDA in US for the quarter.

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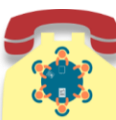

Torrent Pharma — Neutral

Current Price INR 3,351

- DF business growth (+14.7% YoY) is sustainable over the medium term.
- TRP expects 7-8 approvals in FY25, driving better business prospects in US generics segment.
- While Brazil performance was affected by floods in 1Q, TRP indicated a 12-13% annualized growth rate in this business.
- TRP plans to add one more product in OTC segment by the end of the year.
- On the current MR base of 5,700, TRP would add 300-400 in FY25.
- For the year, R&D expenses would be ~5% of sales.
- The one-off expense of INR200m for the quarter was related to exploring an international opportunity.
- Shelcal brand grew by 17% YoY for the quarter (Consumer+RX); high-teen growth is sustainable going forward as well.
- The company is de-risking the Losar brand in cardiac due to lower growth and expects that the rank of the product would decrease from 1 to 3 next year.
- TRP expects Unienzyme and Vizylac to grow at low-teens on a YoY basis.
- US business breaks even at the pre-R&D expense level.
- TRP witnessed mid-single digit price erosion in its US portfolio.

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Zydus Lifesciences — Neutral

Current Price INR 1,206

- Expects EBITDA margin of 28-29% in FY25
- Guides for healthy double-digit YoY growth in US revenues in FY25
- R&D spending to be 8% of sales in FY25
- Expects G-asacol HD to witness competition in the coming quarters
- Launched 7 ANDAs in 1Q; on track to launch 25+ ANDAs in US generics in

- FY25.
- ZYDUSLIF has 505b2 approval for all three (New Drug Application) NDAs related to Sitagliptin.
- Mirabegron can be an opportunity in US generics market for at least a couple of quarters.
- Beyond g-Revlimid and Mirabegron, ZYDUSLIF has certain products/exclusive settlements that can sustain the growth prospects in US generics.
- USFDA has classified 2 injectables sites as OAI. It is working with USFDA to implement necessary CAPA to resolve the issues.
- ZYDUSLIF is yet to resolve issues with respect to scaling up g-Vascepa sales.
- Clinical trials for Sarglitazar PBC indication are expected to be complete by 2QFY26.
- The share of its Chronic portfolio has gone up consistently over the years and stood at 41.3% in 1Q, up 430bp over the last three years.
- Net cash stood at INR18b as of 1Q end.

LOGISTICS

- **In the logistics sector, demand activity was subdued primarily due to general elections, high inflation impacting MSME customers, and e-commerce volumes during 1QFY25. E-commerce and express logistics companies continued to report sluggish growth during 1Q due to high competitive pressure. Multi-modal logistic companies performed better than pure-play freight operators and express logistics players. Management anticipates improved operational performance with the onset of festive season, particularly with reduced fuel charges and stable operating costs. In the long term, companies are optimistic about sector growth, driven by e-way bills, GST implementation, expanded routes on the Dedicated Freight Corridor (DFC), and enhanced connectivity of major ports, which are expected to encourage businesses to move towards the organized sector.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY25	Highlights – 1QFY25
Adani Ports & SEZ Ltd	■ During FY25, cargo volumes are expected to range from 460 to 480 MMT, with revenue projected to be between INR290b and INR310b. ■ EBITDA is estimated to be in the range of INR170b-INR180b, with a net debt-to-EBITDA ratio of 2.2-2.5x. ■ APSEZ has a capex target of INR115b in FY25, of which ~INR74b will be for the Ports business (including marine services capex), INR23b for the Logistics business, and ~INR15b for renewables (for decarbonization).	■ Adani Ports & SEZ (APSEZ) reported a revenue growth of 11% YoY to INR69.6b in 1QFY25. Cargo volumes grew 8% YoY to 109mmt. Volumes at Gangavaram port were affected by a worker strike in Apr-May'24; however, the operations returned to normalcy in Jun'24. ■ EBITDA margin came in at 61% (est. 58.7%), up 90bp YoY/240bp QoQ. EBITDA grew 13% YoY to INR42.4b. ■ Port revenues grew 13% YoY to INR55.4b and EBITDA margins stood at 72% (flat YoY). Logistics revenues grew 13% YoY to INR5.6b and EBITDA margins stood at 25% (vs. 28% in 1QFY24). ■ In 1Q FY25, APSEZ managed ~27% of the country's total cargo and ~46% of container cargo.
JSW Infrastructure	■ Cargo growth of 10-12% is expected in FY25. ■ The entire shutdown period at the Dolvi facility is now over, and volumes should recover from 2QFY25 onwards. ■ The management sees many opportunities in the government's port privatization scheme and aims for a long-term cargo volume CAGR of 15-17%. ■ Due to the Navkar acquisition, RoCE may be hit in the short term, but long-term RoCE would be 18-19%. ■	■ JSW Infrastructure (JSWINFRA) posted 15% YoY revenue growth to INR10.1b in 1QFY25. Cargo volumes rose 9% YoY to 27.8MMT, of which third-party cargo grew 48% YoY to 13.8MMT (50% of the total cargo in 1QFY25 was from third parties). ■ EBITDA margin dipped ~40bp YoY/~200bp QoQ to 51.0%. EBITDA grew ~14% YoY to INR5.1b. EBITDA growth was hit by higher operating expenses. ■ APAT rose 17% YoY to INR3.0b. ■ Volumes in 1QFY25 (from Dharamtar/Jaigarh ports) were hit by the maintenance-related shutdown at JSWINFRA's Dolvi facility.
Container Corporation	■ EXIM volume is projected to grow 15% in FY25 and domestic volume by 25%, resulting in an overall 18-20% volume growth. ■ Management is expecting margins around 25% for FY25. ■ The rail coefficient is expected to grow in the coming months as rice exports increase and imports of commodities that move primarily by rail rise due to softening ocean freight rates. ■ Connecting the DFC to Nava Sheva will also contribute to the improvement of the rail coefficient.	■ Revenue grew 9% YoY to INR20.1b during 1QFY25. Total volumes increased 6% YoY to 1.16m TEUs, with EXIM/domestic volumes at 0.87m/0.29m TEUs (+3%/+15% YoY). EXIM volumes in 1Q were hit by high ocean freight rates and shortages of containers. ■ EBITDA margin improved 20bp YoY to 20.6%. EBITDA grew 10% YoY and was 16% below our estimate. Lower EXIM volumes and high operating expenses impacted EBITDA during the quarter. ■ In line with the operating performance, APAT increased 5% YoY to INR2.6b. ■ The land license fee for 1QFY25 stood at INR1.1b
Transport Corporation	■ In FY25, TRPC expects revenue/PAT growth of 10-15%, although 1QFY25 may be weaker due to elections. ■ Margins are expected to see slight improvement in FY25, driven by growth in the supply chain and freight businesses. ■ TRPC plans to open 75 new freight branches in FY25, building on the 30 added in FY24. Freight rates are expected to rise with the festival season kicking in, although fuel prices are a concern.	■ Revenue grew 10% YoY to ~INR10.5b in 1QFY25. ■ EBITDA margin came in at 9.9% (down 70bp YoY/20bp QoQ). ■ EBITDA increased 3% YoY to INR1b, while APAT grew 11% YoY to ~INR910m ■ Supply chain revenue grew 12.9% YoY, while freight/seaways revenue rose 8%/13% YoY. ■ EBIT margins for Freight/Supply Chain/Seaways

Company	Management commentary	Results
	■ TRPC has entered into an agreement with a Chinese shipbuilding company, to build, equip, and commission two cellular container vessels with a dead weight capacity of ~7,300mt each. The vessels will be delivered to the company before 26th Dec'26.	contracted 30bp/30bp/60bp to 3%/6%/28.6% during the quarter.
Blue Dart Express	■ PBT margins are expected to be in the range of 7-8% going forward. No margin impact is anticipated from the expansion of hubs. ■ Investments will yield returns in subsequent quarters. ■ The management expects a healthy demand outlook to translate into better profitability.	■ Revenue grew 8% YoY to INR13.4b in 1QFY25. BDE handled 0.31m tons of cargo volume (+9.6% YoY). The realization decreased 1% YoY to INR42.9/kg. It carried 90.2m shipments in 1QFY25. ■ EBITDA margin came in at 8.1% in 1Q, down 100bp YoY and ~240bp QoQ, due to a spike in freight handling costs as a percentage of revenue. ■ EBITDA decreased by 3% YoY to INR1.1b. ■ APAT declined 14% YoY to INR515m.
Mahindra logistics	■ MLL aims for revenue of INR100b and RoE of 18% by FY26, with a focus on growing the 3PL business in the mid-teens. This involves generating INR65b of revenue from the 3PL business as well as rapidly expanding its network services. ■ MLL now expects EBITDA breakeven by end-1HFY25 and PAT breakeven by end-FY25 for the MLL Express business (Rivigo). ■ The express business is likely to achieve 15% QoQ growth, with 8-9% volumes returning from existing customer (which were lost in 1Q FY25) and 7-8% from new accounts. Almost half of the growth is expected from the FMCG segment.	■ MLL's 1QFY25 revenue grew ~10% YoY to INR14.2b ■ EBITDA margin came in at 4.7%, down 50bp YoY but up 80bp QoQ. EBITDA was flat YoY at INR663m. ■ MLL posted adj. net loss of INR93m in 1QFY25 vs. adj. net loss of INR86m in 1QFY24 (our est. of INR19m profit). The higher tax outgo hit APAT. ■ The supply chain management recorded a revenue of INR13.4b (+10.4% YoY) and an EBIT loss of INR42m. Enterprise Mobility Services (EMS) reported a revenue of INR800m (+0.7% YoY) and an EBIT of INR17m. ■ Despite a muted demand environment, 1QFY25 saw healthy order bookings in the 3PL and cross-border businesses.
TCI Express	■ TCIE aims to achieve a double-digit growth in FY25 with a margin of ~14%. ■ Management expects 20-25% contribution to revenue from new value-added services by FY25. ■ The automation of the Pune Sorting Centre, spanning 0.14m sq ft has been completed. TCIE plans to expand this automation strategy to its sorting centers in Ahmedabad and Kolkata within the next three years.	■ Revenue decreased 4% YoY to ~INR2.9b, while volumes declined 2% YoY. ■ Volumes stood at 0.23m tonnes (-2% YoY), while realization was INR12,467 per ton (down 2% YoY). Volumes were temporarily hit by the general elections. The quarter also saw several challenges, such as higher costs from multimodal enhancements, and high inflation affecting customers. ■ EBITDA came in at INR327m with a margin of 11.2%. Margin was hurt by the weakness in volumes handled, high charges by airport operators, and increased costs from multimodal enhancements. In line with weak operating performance, TCIE's APAT dipped 31% YoY to INR223m.
VRL Logistics	■ Driven by branch network expansion, management expects volume growth in the range of 10% in FY25 and 12-14% in FY26. ■ Management is targeting adding minimum 100 branches in FY25, with a concentrated focus on Eastern and North-eastern markets. ■ With price hike kicking-in, management expects margins to improve back to 15-16% levels in the next few quarters.	■ VRL Logistics (VRL)'s 1QFY25 revenue grew 8% YoY (-5% QoQ) to ~INR7.3b. ■ Volumes increased 7% YoY to 1.07m tons in 1QFY25. Volumes were hit by general elections and sluggish demand in the southern states. Realization per ton stood at INR 6,723 (flat YoY and QoQ). ■ EBITDA margin stood at 11.9%. The margin was adversely impacted YoY by an increase in operating expenses and staff costs.

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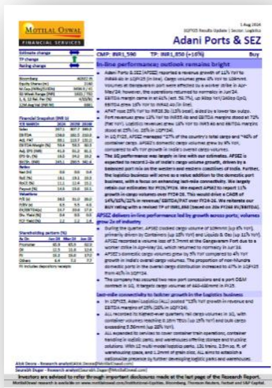

Adani Ports & SEZ — Buy

Current Price INR 1,503

Operational highlights

- APSEZ domestic cargo volumes grew 9% YoY vs. 4% growth in India's cargo volumes in 1QFY25.
- In 1QFY25, port revenues rose 13% YoY to INR55.4b and EBITDA margins stood at 72% (flat YoY). Logistics revenues grew 13% YoY to INR5.6b and EBITDA margins stood at 25% (vs. 28% in 1QFY24).
- The net debt-to-EBITDA ratio improved to 2.1x from 2.3x in Mar'24 despite a capex of INR20b.
- In 1QFY25, APSEZ managed ~27% of the country's total cargo and ~46% of container cargo.

Port Vertical

- During the quarter, APSEZ recorded 109mmt of cargo volume, up 8% YoY, driven mainly by 18% YoY growth in container volumes and 11% YoY growth in liquids and gas. The company saw a temporary disruption at Gangavaram Port, resulting in a loss of 5.7mmt, but this has now been fully restored.
- Mundra recorded its highest-ever quarterly volume of 51.5mmt (up 23% YoY) and EBITDA margin stood at 69% (vs. 65% in 1QFY24). The proportion of non-Mundra domestic ports in the overall cargo distribution increased to 47% in 1QFY25 from 41% in 1QFY24.
- APSEZ signed a 30-year concession with the Tanzania Ports Authority to manage Container Terminal 2 (CT2) at Dar es Salaam Port, which has a 1m TEU capacity.
- APSEZ received a letter of Intent (LOI) for a five-year operation and maintenance contract for the container facility at Netaji Subhas Dock, Syama Prasad Mookerjee Port, Kolkata. As the largest container terminal on India's eastern coast, it handled 0.63m TEUs in FY24. APSEZ's involvement is expected to create synergies with upcoming transshipment hubs at Vizhinjam and Colombo.
- With the acquisition of Gopalpur and Karaikal ports, the total count of ports in India portfolio increased to 15 with total capacity of ~627mmt as of Mar'24.
- Gopalpur will start contributing to volumes in 2Q. Vizhinjam Port will start contributing in Oct'24, with full capacity utilization expected only from FY26 onward.
- Tension in the Middle East and its impact on Haifa: APSEZ teams are highly engaged, and ports are running 24/7. The challenges at Haifa Port are due to geopolitical sanctions on Israel. Some countries have stopped cargo shipments to Haifa, but car imports into Israel have increased significantly, allowing the company to capture car cargo volumes.

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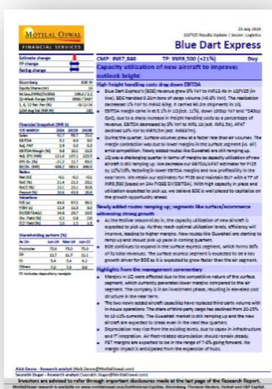

Blue Dart Express — Buy

Current Price INR 8,018

Volume:

- BDE handled tonnage of 0.31m tons and 90.2mn shipments in 1Q.
- The two newly added aircraft capacities have replaced third-party volume with in-house operations. The share of third-party cargo has declined from 20-25% to 10-11% currently.
- The Guwahati market is still ramping up and the new aircraft are expected to break even by Sep'24.
- The new aircraft capacity helped BDE improve utilization in the northeast region.
- There has been no significant change in BDE's market share, which remains strong.

Operations

- Surface volumes increased at a faster rate compared to air volumes. E-commerce has been the main driver of growth. The Air Parcel and Documents business is also doing well for the company.
- Margins were affected due to the competitive nature of the surface segment, which currently generates lower margins compared to the air segment.
- The company is in an investment phase, resulting in elevated cost structures in the near term.
- The management expects to prioritize capex for the surface segment and building infrastructure for competitive advantages.

Guidance:

- PBT margins are expected to be in the range of 7-8% going forward. No margin impact is anticipated from the expansion of hubs.
- Investments will yield returns in subsequent quarters.
- The management expects a healthy demand outlook to translate into better profitability.

Container Corp — Buy

Current Price INR 989

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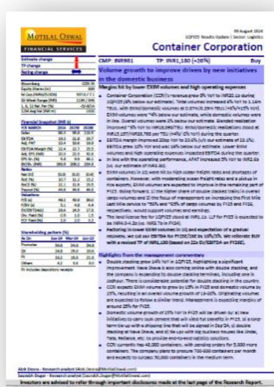
Container Corporation

Operational highlights

- The LLF for 1QFY25 stood at INR1.1b. LLF for FY25 is expected to be INR4-4.2b.
- Currently, CCRI has deployed 100 LNG trucks with plans to procure 200 more in the future.
- The company holds a 40% market share in the Ludhiana market, primarily carrying waste paper (a major import commodity) and rice.
- Double stacking grew 14% YoY in 1QFY25, highlighting a significant improvement. Nava Sheva is also coming online with double stacking, and the company is expanding its double stacking terminals, including one in Jodhpur. There is considerable potential for double stacking in the country.
- CCRI will start two new terminals in Haridwar and one in Mandalgarh, Rajasthan in FY25. Two more terminals are in progress near Allahabad (land acquisition is underway), and another near Ahmedabad.
- Empty running costs in 1QFY25 stood at ~INR1.3b (EXIM/Domestic: ~INR332m/ INR869m).
- Lead distances in 1QFY25: EXIM – 716km, Domestic – 1,338km, Total – 821km.
- CCRI had a market share of ~55% in EXIM containers in 1Q FY25 compared to 54.5% in EXIM in 1QFY24.
- CCRI’s share at Mundra and Pipavav has increased, while it has decreased at Nava Sheva.
- Income from First Mile Last Mile (FMLM) in 1QFY25 was INR820m, representing a 32% YoY growth.
- Rail freight margin during 1QFY25 stood at 24.36%.
- CCRI's market share at various ports is as follows: Mundra – 38%, Pipavav – 49%, JNPT – 56%.
- CCRI's originating volume share at various ports for 1QFY25 is as follows: Mundra – 38.8%, Pipavav – 9.7%, JNPT – 32.3%, Vizag – 6.2%, Chennai – 3.2%.

Volumes

- Total volumes increased 6% YoY to 1.16m TEUs with EXIM/Domestic volumes at 0.87m/0.29m TEUs (+3%/+15% YoY; in line).
- Blended realization grew by ~3% YoY to INR18,090/TEU. EXIM/Domestic realization stood at INR15,197/INR26,768 per TEU respectively (+4%/-2% YoY).
- Originating Volume Data for 1Q FY25: EXIM - 0.48m TEUs, Domestic - 0.12m TEUs, Total - 0.61m TEUs.

- Rail coefficient has actually at Nhava Sheva decreased from 16.6% in 1QFY24 to 15.6% 1QFY25. In Mundra, it decreased from 24.3% in 1QFY24 to 22.5% in 1QFY25, and at Pipavav it decreased from 61.6% in 1QFY24 to 52.6% in 1QFY25.
- Volumes growth in 1Q was in-line with India's international trade, with exports growing by 5.8% in 1QFY25.
- Growth in double stack rakes was 14% YoY in 1QFY25. During the quarter, one new high-speed rake was commissioned.

Capex

- Capex for FY25 will be INR6.1b with INR1.6b already spent in 1QFY25.
- Capex in FY25 will be focused on wagons, containers, rolling stock, terminal development, and land for new terminals, with additional budget allocation if required.
- An order for 500 containers for bulk cement transportation has been placed. CCRI will begin operating 50 containers per month for bulk cement transportation.
- CCRI currently has 48,000 containers, with pending orders for 5,000 more containers. The company plans to procure 700-800 containers per month and expects to surpass 50,000 containers in the medium term.

Guidance

- EXIM volume is projected to grow by 15% in FY25 and domestic volume by 25%, resulting in an overall volume growth of 18-20%. Originating volumes are expected to follow a similar trend. Management is expecting margins around 25% for FY25.
- The rail coefficient is expected to grow in the coming months as rice exports increase and imports of commodities that move primarily by rail rise due to softening ocean freight rates. Connecting the DFC to Nava Sheva will also contribute to the improvement of the rail coefficient.
- The DFC at Nava Sheva is expected to be commissioned by March 2025.

JSW Infra — Buy

Current Price INR 314

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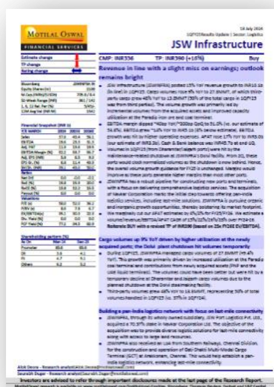

Operational highlights

- In 1QFY25, JSWINFRA handled 27.8MT of cargo, clocking a 9% YoY growth, which resulted in a 15% YoY revenue growth to INR10.9b. The growth was driven by increased utilization at Paradip Coal Terminal, and contributions from newly acquired assets (PNP and UAE Liquid Terminals), despite a temporary decline at Dharamtar and Jaigarh cargo volumes. The volumes dipped due to a planned shutdown at the Dolvi steelmaking facility.
- Third-party volumes grew 48% YoY to 13.5MMT, representing 50% of the overall volumes handled in 1QFY25 vs. 37% in 1QFY24.
- EBITDA growth of 14% is largely due to revenue growth. Pressure on margin was primarily due to the lower volumes at Jaigarh and Dharamtar ports.
- An increase in the effective tax rate is expected to continue for some time as 80 IA benefits are expiring at certain ports. The company is using MAT credit, and the tax rate would stabilize once it migrates to the normal tax regime.
- The net cash position at the end of 1QFY25 stood at INR1.95b.

Capex

- The company targets raising its capacity to 400MMT by 2030. To achieve this goal, the company has outlined a substantial capex plan of INR300b over the next six years (INR 130-140b in the next three years).
- JSW Infrastructure is looking at significant expansion plans. In-line with this, it has a) signed a concession agreement with V.O. Chidambaranar Port, Tamil Nadu, to develop a new 7MPTA cargo berth, aiming to achieve a 400MMT cargo handling capacity by 2030, b) acquired a 70.37% shareholding in Navkar,

enhancing its Pan-India logistics network, and c) received an LoA from Southern Railways, Chennai Division, for the construction and operation of Gati-Shakti Multi-Modal Cargo Terminal (GCT) at Arakkonam, Chennai.
- The company aims to develop ports, particularly in the Mumbai region and Gujarat, as part of its growth initiatives.

Guidance
- Cargo growth of 10-12% is expected in FY25.
- The entire shutdown period at the Dolvi facility is now over, and volumes should recover from 2QFY25 onwards.
- The management sees many opportunities in the government's port privatization scheme and aims for a long-term cargo volume CAGR of 15-17%.
- Due to the Navkar acquisition, RoCE may be hit in the short term, but long-term RoCE would be 18-19%.
- The acquisition of Navkar was a first step in creating a full-service logistics service and management will look at entering the logistics business in a bigger way, which would also allow it to provide the last-mile connectivity.

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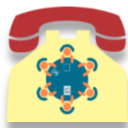

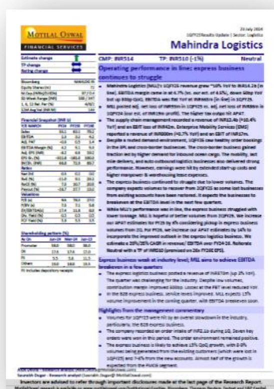
Mahindra Logistics

Mahindra Logistics — Neutral
Current Price INR 497

Industry update
- Automotive OEMs experienced ~10% YoY growth in 1QFY25. Both commercial vehicles and tractors grew by 4% YoY in the same period. A slowdown in commercial vehicles was seen due to the election period.
- The electrical consumer durable industry performed well. Strong real estate performance is expected to drive demand for consumer durable products.
- The e-commerce sector saw a slowdown, but the grocery segment experienced good growth despite the broader market deceleration.
- The telecom industry’s growth is driven by an increase in ARPU, ongoing capex for 5G infrastructure, and the expansion of rural network.

Business update
- Volumes in 1QFY25 were hit by the overall slowdown in the industry, particularly, the B2B express business.
- The company recorded an order intake of INR2.1b during 1Q. Seven key orders were won in this period. The order environment remained positive.
- MLL has launched a new 0.3m sq. ft. facility was launched in Guwahati, Assam.
- The SCM and EMS segments contributed 94% and 6%, respectively, to the company’s total revenue. SCM recorded revenue of ~INR13.4b (up 10% YoY) while the EMS business recorded revenue of INR800m (flat YoY) in 1Q FY25.
- MLL’s express business achieved ~3% YoY volume growth, while on a QoQ basis, volumes dropped ~8%
- In 1QFY25, Freight Forwarding reported revenue of INR710m (down 8% YoY). Geopolitical movements, affecting cross-border prices, hurt the business.
- Express logistics posted revenue of INR870m (up 2% YoY). In the B2B express business, service levels are on track. The quarter was challenging for the industry. Despite this, Rivigo achieved good volumes, with the contribution margin improving by 300bp. Losses at the PBT level were reduced compared to the same period last year.
- Management focused on securing good volumes, with an expected 10-15% improvement in the coming quarters, aiming for EBITDA breakeven soon. The run-rate operating loss in the MLL express business was reduced from INR80m same period last year to INR40m this quarter, despite similar volume.
- Last-mile delivery reported revenue of INR890m (up 85% YoY and 10% QoQ). The management focuses on growing the non-ecommerce business and optimizing fleet utilization.

Other highlights

- Pricing and volume environment remained tight during the quarter.
- The main challenge during the quarter was managing volumes and not losing market share.
- The company continued its cost improvement efforts, aiming to improve EBITDA margins on a sequential basis.
- The current pricing environment is very tight, presenting a real challenge in improving yields.
- The company is optimizing its existing accounts by replacing low-yield accounts with new ones.

Guidance

- MLL aims for revenue of INR100b and RoE of 18% by FY26, with a focus on growing the 3PL business in the mid-teens. This involves generating INR65b of revenue from the 3PL business as well as rapidly expanding its network services.
- The express business is likely to achieve 15% QoQ growth, with 8-9% volumes returning from existing customer (which were lost in 1Q FY25) and 7-8% from new accounts. Almost half of the growth is expected from the FMCG segment.

TCI Express — Buy

Current Price INR 1,078

Operational highlights

- Volumes in 1QFY25 stood at 0.23m tonnes (down 2% YoY). 1QFY25 was impacted temporarily due to general elections.
- Management remains optimistic about volume growth normalizing from 2Q FY25 onwards.
- The quarter saw reduced fleet utilization, down to 82%, due to lower volumes.
- Operating costs increased 250bp YoY in 1QFY25, mainly due to airline consolidation and higher airport charges.
- The Air Express segment saw a rise in costs primarily due to the consolidation of airlines, which led to reduced competition and higher freight rates. Additionally, other cost increases in this segment further pressured margins
- To offset higher costs, TCIE is focusing on high-revenue customers and expanding multimodal services for Tier 2 and Tier 3 cities.
- 97% of the customers are B2B, with 3% is B2C. TCIE uniquely operates through its own branches, offering new services like Sunday and holiday deliveries.
- Rail express contributed 2.5% to revenue with 30% YoY growth.
- While textile and engineering sectors saw slow growth, auto and pharma performed better.
- With volume growth, company aims to reduce costs by 150bps in 2QFY25.
- In rail logistics business, TCIE has expanded its customer base to over 5,000 and opened five new branches to enhance its network.
- Capex in 1Q was INR 75m mainly towards development of sorting centres.
- TCIE generated CFO of INR 110m in 1QFY25.

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Guidance

- TCIE expects 10% revenue growth in FY25 and 12-15% growth in FY26
- TCIE expects margins to normalize at 14% plus from 2QFY25 onwards.
- Management expects 20-25% contribution to revenue from the new value-added services by FY25.
- The automation of the Pune Sorting Centre, spanning 0.14m sq ft has been completed. TCIE plans to expand this automation strategy to its sorting centres in Ahmedabad and Kolkata within the next 3 years
- By FY26, the company plans to establish 7-8 fully automated centres. Each of these centres requires a capex of ~INR500m to achieve full automation.

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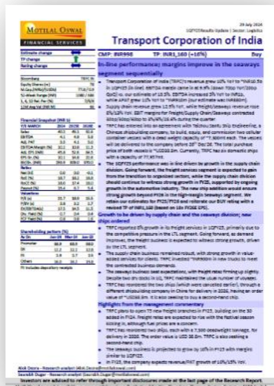

Transport Corporation of India

Transport Corporation of India — Buy

Current Price INR 1,042

Industry trend

- There was slight improvement across almost all divisions, although demand from MSMEs, remain weak.
- High infrastructure spending is beneficial, potentially boosting various industries and addressing employment issues despite automation challenges. Logistics, requiring on-the-ground jobs, remains robust and benefits from GDP and infrastructure growth, market changes, and new sectors like defense and semiconductors.
- TRPC provides unique solutions, such as direct deliveries in the EV space and cold storage in food processing. In 1Q, TRPC grew by about 10% YoY, exceeding its own targets.

Freight segment

- Revenue increased ~8% YoY in 1QFY25, while EBIT margin stood at 3% (down 30bp YoY and 20bp QoQ).
- LTL business was under pressure due to competitive pressures and election period.
- It aims to increase the contribution of the LTL segment to 40% by FY26.
- TRPC plans to open 75 new branches for the freight business in FY25, building on the 30 branches added in FY24.
- Capacity in the commercial vehicle (CV) sector is increasing, and management expects freight rates to rise with the upcoming festival season.
- Other costs such as toll charges and labor costs have increased over the last few years, which have adversely impacted margins.

Supply Chain segment

- The Supply Chain Business remained robust, with strong growth in value-added services for clients.
- TRPC invested ~INR900m in new trucks to meet contracted business demands.
- Revenue increased ~13% YoY in 1QFY25, and EBIT margin stood at 6% (down 30bp YoY). Revenue growth was driven by multimodal automotive transportation and new warehousing contracts.
- TRPC is targeting a 15% top-line growth for FY25 for this division.
- Auto stocks increased in the 1QFY25, with some customers requesting additional space in company’s yards. This was due to pre-festival stocking, which should soon start moving.
- Customers with strong product performance will see good traction and growth. Margins expected to remain at similar levels for the supply chain business.

Click below for
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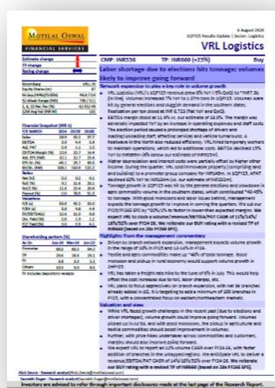
Results Update

VRL Logistics — Buy

Current Price INR 535

Operational highlights

- VRL handled 1.07m tons in 1QFY25 (+7% YoY). Tonnage was hit by general elections.
- The election period caused a prolonged shortage of drivers and loading/unloading staff, affecting services and vehicle turnaround.
- Margins were hurt by lower volumes and a heatwave in the North, which reduced efficiency. Further, due to elections, temporary workers were hired to maintain operations that resulted in additional costs.
- The labor issues have been stabilized and margins would normalize ahead.



- VRL incurred a capex of INR500m in 1QFY25, primarily for adding trucks and plans to invest INR2b in FY25, majorly towards vehicle additions. Future capex would be contingent on growth in tonnage.
- Realization per ton stood at INR6,723 flat YoY and QoQ). Management has undertaken freight rate hike of ~6% from Jul'24 onwards.

GT segment

- As of Jun'24, the number of GT vehicles increased to 6,177.
- VRLL opened net 36 branches in 1QFY25, taking the total branch network to 1,245 as of Jun'24. The company's volume handling capacity increased to 88,198 tons (+8% YoY and 2% QoQ).
- In 1QFY25, 105 new branches contributed around ~4% to total tonnage.
- Diesel consumption increased ~7% YoY due to more kms run by own vehicles. The average cost per liter of diesel decreased 1.6% from INR87.5 in 1QFY24 to INR86.2 in 1QFY25.
- Procurement from refineries as a percentage of total quantity increased 1.6% to 33.3% in 1QFY25 from 31.7% in 1QFY24.
- Toll charges increased due to an increase in toll plazas to 1,468 in 1QFY25 from 1,268 in 1QFY24 and also due to an increase in toll tariff for owned vehicles.
- Continued shift of customer base to VRL from the unorganized sector as a result of increase in compliance requirements under GST has increased the company's customer base of more than ~0.9m as of Jun'24 from 0.8m as of Jun'23.

Guidance

- Driven by branch network expansion, management expects volume growth in the range of 10% in FY25 and 12-14% in FY26.
- Management plans to focus aggressively on branch expansion, with net 36 branches already added in 1Q. It is targeting to add minimum 100 branches in FY25, with a concentrated focus on Eastern and North-eastern markets.
- With good monsoon and pickup in rural economy, textile and agro commodities, which make up ~40% of total tonnage, should aid in higher volume growth in remaining part of the year.
- With price hike kicking-in, management expects margins to improve back to 15-16% levels in the next few quarters.

MEDIA

- **General elections and Cricket World Cup has impacted all the three media companies. Advertising revenue were weak for both SUNTV and Zee since the shift of viewership and weak occupancy for PVRINOX. SUNTV was slightly benefited from IPL. Any improvement in FMCG spending could be positive catalyst for SUNTV and Zee. While strong movie pipeline for PVRINOX could aid in occupancy improvement and hence margins.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY25	Screen Ads
PVR INOX	▪ The prolonged general elections for 44 days, along with the Cricket World Cup, adversely affected the release calendar of producers, resulting in a 13% YoY decline in the number of releases. ▪ The movie pipeline for the next few quarters includes Stree 2, Deadpool, Sitare Zameen Par and Pushpa 2. The management expects 3Q to be the biggest quarter of FY25 for PVR-Inox.	▪ PVR-Inox expects to add 120 screens and close 70 screens, resulting in net 50 additions in FY25. The management is selective in adding new screens and is gradually implementing a capitalized growth model by partnering with developers and jointly investing in new stream capex.
ZEE	▪ Management expects subscription revenue growth to be in line with inflation. It anticipates growth momentum to pick up in 2HFY25 led by the onset of the festive season and rural recovery, which could improve the advertising revenue. ▪ Zee expects no more reduction in employee expenses as a large part of restructuring happened. From FY26, the company aspires to deliver 18-20% EBITDA margin.	▪ NA

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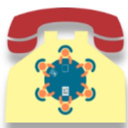

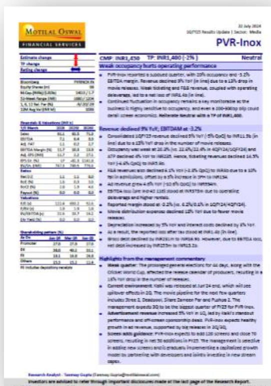

PVR Inox — Neutral

Current Price INR 1,517

- **1Q Impact:** The prolonged general elections for 44 days, along with the Cricket World Cup, affected the release calendar for many producers, who postponed their film releases. This resulted in a 13% drop in the number of releases YoY.
- **Blockbuster miss:** Compared to last year, there were fewer blockbuster films (ticket sales of INR1b), only three in 1QFY25 vs. seven in 1QFY24. Kalki, one of the biggest blockbusters, was released at Jun'24 end, which will see spillover effects in 2Q.
- **Release outlook:** 2Q started on a positive note, with the Kalki spillover and the upcoming movie pipeline across languages. In terms of releases, 3Q will see big titles, including Sitare Zameen Par and Pushpa 2. The management expects 3Q to be the biggest quarter of FY25. Hollywood is also rebounding as the writers' strikes is now over. The management expects the content pipeline to return to the pre-Covid level in the next 6-12 months.
- **Passport 2.0:** The revised program is also gaining good traction. Around 250k passports were sold in 1Q. The management hopes for the program to gain momentum given improved content release visibility.
- **Screen addition:** The company aims to add 120 screens and close 70 screens, resulting in net 50 screen additions in FY25. The management is selective in adding new screens and it is gradually implementing a capitalized growth model by partnering with developers and jointly investing in new stream capex.
- **ATP/variable ticket pricing:** PVR-Inox follows variable ticket pricing depending on films, locations, days (weekend or weekdays). ATP remained muted in 1Q

despite a price hike of 4%. ATP grew after the release of Kalki and the uptick continued in Jul'24 as well.

- **Advertisement revenue:** Ad revenue grew 5% YoY, led by Kalki's standout performance and off-screen sponsorship deals with certain clients in classics and re-releases. In 2Q and 3Q, ad revenue is expected to grow well, supported by big releases.
- **Rentals:** The same store screen fixed cost was 3.7% YoY (~4% came from new cinema rentals). The fixed cost increased by 7% YoY during the quarter.
- Screen-level profitability: It takes 6-9 months after the opening for a screen to be EBITDA-level profitable. The majority of the screens opened one year ago are cinema-level profitable.
- **Re-release:** Over 1.2m admissions from re-releases were seen across all geographies. The revenue sharing from re-releases is competitive and much better from the company standpoint.
- **Windowing period:** The window period for the majority of languages is eight weeks. For South Indian movies, the period varies with a minimum of four weeks. Talks and negotiations with producers are going on to increase the window and making it consistent across the country. This issue is treated with the utmost urgency.
- **JV with Devyani:** A company has been set up named Devyani PVR INOX Food Court Ltd. The brand name for the food court will be Street Junction. In the next 2-3 months, two food courts will be operational and by FY25 end, four to five food courts will be operational. These food courts will be outside PVR, so there will be no overlap. It will be like any other food court where anyone can enter.
- **Premiumization:** About 15% of the total screens are premium and special format screens. Around 15-20% of new screens will be premium or special format screens. In the present screens in mainstream or new screens, certain rows will have recliners, which are priced at a premium to the rest of the seats.

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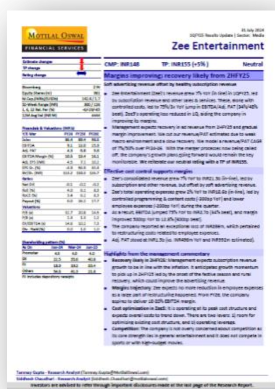

Zee Entertainment — Neutral

Current Price INR 139

Expects recovery in 2HFY25

- The outlook for subscriptions remains steady, with continued benefits from the implementation of the NTO 3.0, driving subscription revenue growth, and hence expects revenue growth to be in-line with the inflation.
- Rural recovery weakness coupled with elections led to decline in advertisement revenue. Management expects growth momentum to pick up in 2HFY25 led by onset of festive season and rural recovery.
- The company expects the digital business growth rate to rebound in the 2HFY25.
- The company's July share is already encouraging, and it expects rebound in the festive season across their portfolio.

Zee 5

- It is operating at its peak cost structure and expects overall costs to trend down. There are two levers: 1) room for optimizing existing cost structure, and b) operating leverage.
- Expect Zee5 growth momentum to continue led by releases such as Dharamveer 2, etc.

- The growth of Zee5 subscription is contributing to a balanced and healthy revenue profile from linear and digital segments.
- The number of paying subscribers and engagement has increased sequentially, indicating a healthy business. The company has ~120-130m paid subscribers.

Fundraise

- The company has taken a fundraise to fortify their balance sheet and hence invest for growth.

Margins

- Last part of the churn happen in tech center and the platform has reached at a scale. On TV side, majority of the employees are still retained.
- Company expect no more reduction in employee expenses as the large part of restructuring happen.
- Movies usually have healthy EBITDA margins, but can cause volatility depending on how they are accounted for. Theatrical releases can impact margins.

Competition

- The company is not overly concerned about competition, having been watchful about it for the last 20 years.
- The company's core strength lies in making general entertainment across Hindi and different genres, where its deep relationships with producers and content ecosystem, along with a frugal cost structure, will help it compete.
- The company does not compete aggressively in areas like sports or high-budget ticket movies, and does not see it as a threat if others do.

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METALS

- **In the ferrous Metals space, management teams across companies pointed to: 1) stable to declining coking coal costs; and 2) the development of captive raw material mines. Though a better performance from Indian operations backed by strong domestic demand should aid volumes and margins in the near term, management teams believe that global uncertainties might pose challenges to international steel, base metal, and raw material prices in the short term. In the non-ferrous space, management teams guided the CoP to decline, leading to margin accretion in FY25.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY25	Drivers
Tata Steel	■ TATA expects the NSR for domestic operations to decline INR1,500/t in 2QFY25 sequentially. ■ ASP for the UK operation will remain flat QoQ, while the Netherlands could see GBP60/t QoQ reduction in 2QFY25. ■ Coal costs for India operations are likely to be USD15/t lower QoQ, and in the Netherlands, the coal costs are anticipated to decline USD26/t QoQ in 2QFY25. ■ Management guided that Sep'24 will be the last month of operating losses for the UK business and start reporting breakeven or marginal operating profit.	■ The domestic demand momentum is likely to continue, while TATA's European operations have seen a sharp reduction in losses. TATA foresees its UK operations to start reporting EBITDA from 2HFY25. This would be mainly led by higher realizations, and better volumes with muted input costs, which will significantly drive overall profitability.
JSW Steel	■ Iron ore costs declined marginally QoQ, while coking coal costs declined USD23/t sequentially during 1QFY25. ■ For 2QFY25, management guided coal costs to decline further by USD22-28/t and the iron ore price to remain soft, which would lead to margin accretion. ■ Production guidance is at 28.4mt and sales guidance is 27.0mt in FY25. ■ The share of VASP stood at 64% in 1QFY25 vs. 61% for FY24. Management expects to keep the share of VASP above 50% post-expansion. ■ Steel prices are believed to have bottomed out and are likely to remain range-bound in near term.	■ JSTL is well placed with new capacities coming on-stream, strong domestic demand, improving exports, and a rising share of value-added. ■ Focus on increasing the captive share of iron ore, and improving coal linkages to support earnings. ■ The robust balance sheet and strong cash flow generation would allow for the execution of the planned five-year capex program.
JSPL	■ Based on current price trends, management expects coking coal costs to moderate USD30-35/t in 2QFY25. ■ Iron ore costs to reduce ~INR500-INR1,000/t in 2QFY25. Blended realization would see softening of 1% going forward, as the overall steel prices remained soft. ■ Management targets to keep net debt/EBITDA below 1.5x.	■ The ongoing capex would lead to more value-added products, which would yield better profitability. ■ Demand is expected to remain buoyant in the domestic market, especially in infrastructure, power, and construction sectors.
Hindalco	■ Management expects coal costs to remain flat QoQ. ■ Focus remains on downstream expansions at Silvassa Extrusion and Aditya FRP project, which are currently on track and expected to be commissioned by FY26. ■ For FY25, management expects capex of INR55-60b for India operations and USD1.4-2.1b for Novelis ongoing capex ■ Heavy rainfall-led flooding affected operations at Novelis' Sierre plant, and the plant is likely to restart production by 2Q-end and an impact of USD30m to adj. EBITDA will be seen.	■ The cost of production in the aluminum business is expected to be under control, which would keep margins strong. ■ Novelis would continue to see margin improvement across FY25 and FY26. ■ The ongoing capex in Novelis would establish HNDL as the global leader in beverage cans and automotive FRP segments.
Vedanta	■ Management expects to realize a higher premium going forward on account of the higher VAP product. ■ Cost of aluminum is expected to be around USD1,600/t and zinc is likely to be ~USD1,000/t in the near to medium term. ■ BALCO expansion is scheduled to be commissioned this year in 4QFY25 (earlier 3QFY25), and the operation is likely to commence from 1QFY26.	■ The government's focus on smart cities, infrastructure, construction, etc., will drive the demand for ferrous as well as base metals. ■ As the demand for corrosion-resistant steel improves, it will drive the demand for zinc, which finds application in the manufacturing of high-VAP steel. HZL (a subsidiary of VEDL) will gain from this.

Hindustan Zinc Limited

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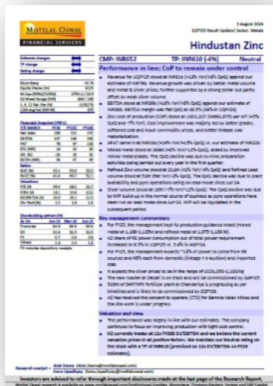

Hindustan Zinc — Neutral

Current Price INR 511

Guidance on volume/CoP

- For FY25, the management retained its mined metal production guidance of 1,100-1,125kt and refined metal production of 1,075-1,100 kt. Similarly, it expects saleable silver production of 750-775mt.
- The decline in CoP during 1QFY25 was largely on account of better grades, softened coal and input commodity prices and better linkage coal materialization. The management maintained its zinc CoP guidance of USD1,050-1,100/t for FY25.
- HZ commenced sourcing RE power from Serentica 180MW solar project in May’24, which increased the share of RE power in total power requirements to 8.5% from 5.4% in Q4FY24.
- Share of domestic coal (linkage coal + e-auction) stood at 45% in 1QFY25 as compared to 20% earlier. The management aims to reduce its dependency on imported coal through increasing RE capabilities and higher domestic coal share.
- For FY25, the management expects ~13% of power to come from RE sources and the rest 43% each from domestic (linkage + e-auction) and imported coal.
- HZ guided the silver prices to be in the range of $1,050-1,100/kg.

Industry Outlook

- India's share in global lead demand is expected to increase from 9.2% in FY23 to 9.9% in FY26, driven by increasing digital transactions and growing data centres.
- Zinc inventories in LME warehouses stood at 240kt (vs. 264kt as of Mar’24) and in SHFE warehouses at 126kt (vs 122kt as of Mar’24) at the end of Jun’24.
- Domestic zinc and lead demand will remain strong owing to public investment, infra development by the re-elected government, expanding digital footprint and automobile peroduction.
- Better capacity utilization and the ramp-up of a newly commissioned project will drive production volume compared to last year for both mined metal and refined metal for FY25.
- The management does not see any global demand improvement soon, until Dec’24 after the US election.

Expansion update

- The new roaster at Debari is on track and will be commissioned by 4QFY25. It will help HZ to achieve the refined metal capacity of 1.2mt. HZ also plans to scale up smelters to the designed capacity of 1,123ktpa.
- 510kt of DAP/NPK fertilizer plant at Chanderiya is progressing as per timelines and will be commissioned by 2QFY26, which is expected to generate EBITDA of INR3.5-4b. This project will help HZ to produce sulphuric acid, which will be cheaper than imported DAP.
- HZ has received the consent to operate (CTO) for Bamnia Kalan Mines and the site work is under progress.

Other developments

- The management suggested waiting for further clarity on the judgement by the Supreme Court of India over state power to levy cess/royalty over mined minerals.

Hindalco Inds **Buy**

Current Price INR 686

Guidance / Capacity Update:

- The cost of production for the quarter declined by 2% QoQ on account of coal cost reduction and low carbon cost. The management expects coal cost to remain flat QoQ in 2QFY25.
- Focus remains on downstream expansions at Silvassa Extrusion and Aditya FRP project, which are currently on track and expected to be commissioned by FY26, taking the total downstream capacity to 600kt.
- Silvassa extrusion capacity is currently operating at 40-45% of utilization and the management targets to reach an optimal utilization rate by FY25 end.
- Out of the 300 MW of renewables capacity target by CY2025, HNDL achieved 57% or 173MW in 1Q and another 100 MW Hybrid (with storage) would be commissioned by 1HCY25.
- Currently, the share of linkage coal stood at ~48% and expected to remain steady at these levels.
- HNDL has planned some large upstream expansion projects with expected capex of ~INR60-80b each: 1) Alumina refinery expansion in Odisha (expected timeline 20-24month) 2) Copper smelter (under evaluation and will take 36month to commission); and 3) FRP-2 smelter of 180kt at Aditya.
- The Chakla mine box cut is expected to come on stream by 3QCY25 (earlier Dec'24). The delays are causing due to the stage I and II forest clearance.
- In next few months, the company will commence the expansion for 50kt of copper recycling project in Dahej.
- ~10-12% of bauxite requirements are sourced from Jharkhand and the rest from Chhattisgarh. The company has signed an MOU with OMC (Odisha Mining Corporation) for bauxite supply to the Aditya alumina refinery, which will be converted to a firm contract soon.
- HNDL has acquired mines (incl. Samari), primarily to ensure the longevity of bauxite supply to Renukoot, rather than to meet immediate demand.
- For FY25, the management guided for capex of INR55-60b for India operation and USD1.4-2.1b for Novelis ongoing capex.

Global Outlook:

- The management believes that demand growth in the US will moderate from CY23 levels and in Europe, demand has bottomed out and is expected to accelerate going forward.
- Emerging Asia remains the main force for global growth, accounting for almost half of the global growth in CY24.
- Witnessing a significant rise in domestic demand from the consumer durable segment, whereas the automotive sector saw slightly muted demand due to softness in passenger and commercial vehicles.
- Global aluminium FRP demand, excluding China, is expected to grow by ~4% in CY24, with demand recovery seen across all major segments incl. consumer durables.
- Demand for premium aerospace plates & sheets remains robust over the long term, driven by the growing OEM build rate and the multi-year backlog for aircraft delivery.
- Indian FRP demand in FY25 is expected to grow by ~7-8% YoY, led by strong demand from packaging, automotive, and building and construction segments.

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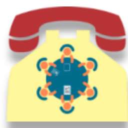

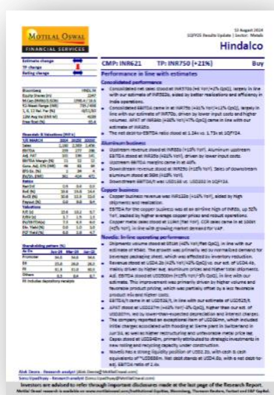

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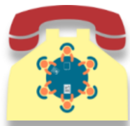

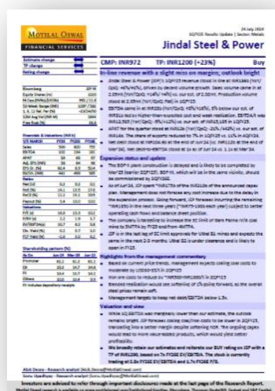

Jindal Steel & Power — Buy

Current Price INR 957

Guidance for 2Q / FY25

- Coking coal costs declined USD23/t during 1QFY25 and management expects the coal costs to further moderate by USD30-35/t in 2QFY25.
- Management expects iron ore costs to reduce ~INR500-INR1000/t in 2QFY25, on account of seasonal weakness of iron ore prices.
- Management hinted that the overall steel prices are declining 1% QoQ, which could result in a 1% decline in blended realization going forward.
- The company is targeting to increase the EC limit of Gare Palma IV/6 coal mine to 5MTPA by FY25-end from 4MTPA.
- JSP is in the last leg of EC limit approvals for Utkal B1 mines and expects the same in the next 2-3 months. Utkal B2 is under clearance and is likely to open in FY25. Management plans to raise EC limit of both Utkal B1 & B2 to 5MT each.
- Production capacity of Utkal C coal block will increase to 4.78mt from 3.37mt, owing to higher EC limit of Utkal B1 & B2.

Capex and timelines

- As of Jun'24, JSP spent ~INR175b of the INR310b of the announced capex plan. Management does not foresee any cost increase due to the delay in the expansion process.
- Going forward, JSP foresees incurring the remaining ~INR135b in the next three years (~INR75-100b each year) subject to better operating cash flows and balance sheet position.
- JSP will increase its total finished steel capacity from 7.25mt to 13.75mt by FY26 at a total capex of INR310b.
- BOF-II plant construction is delayed and now is expected to complete by Mar'25 (earlier 2QFY25). BOF-III which will be in the same vicinity now should be commissioned by 3QFY26.

Other highlights

- As compared to FY24, management believes to deliver better volumes in FY25E.
- Tensa mine supplies ~3mt of iron ore and Kasia mine supplies ~6mt of iron ore and the rest is procured from OMC and NMDC.
- The partnership with RINL is strategic in nature as it bridges the gap between internal availability of steel and external metallic resources.
- Management targets to remain below 1.5x of net debt/EBITDA and currently it stood at 1x.

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JSW Steel — Buy

Current Price INR 926

Guidance:

- Iron ore costs declined marginally on a QoQ basis, while coking coal costs declined by USD23/t sequentially during 1QFY25. This cost correction was offset by inventory losses and planned shutdown costs during the quarter.
- For 2QFY25, management guided coal costs to decline further by USD22-28/t and the iron ore price to remain soft, which would lead to margin accretion.
- Production guidance is at 28.4mt and sales guidance is 27.0mt in FY25.
- The share of VASP stood at 64% in 1QFY25 vs. 61% for FY24. Management expects to keep the share of VASP above 50% post-expansion.
- Steel prices are believed to have bottomed out and are likely to remain range-bound in near term.

- Net debt/EBITDA as of Jun'24 stood at 3x and management aims to sustain it below 3x. Management expects to reduce the ratio further in the coming quarters with improved cash flows.

Capex:

- JSTL incurred a capex of INR44.7b in 1QFY25 out of the announced capex of INR200b in FY25.
- The 5MTPA Vijayanagar integrated facility (Sinter and BF) is likely to be commissioned by Jul'24 and SMS is to be commissioned by the end of Aug'24. Management expects to ramp up the capacity by the end of 3QFY25.
- JSTL's renewable power capacity will reach 1,600MW after the announced expansion. Given this, Vijayanagar's 18MTPA capacity can source ~26% of its power requirements through renewables.
- Dolvi Phase – III expansion will increase the steel-making capacity by 5MTPA, taking total capacity to 15MTPA, and is expected to be completed by Sep'27.
- BPSL phase II expansion (from 3.5MTPA to 5MTPA): The oxygen plant is scheduled for commissioning in Jul'24 with a steady ramp up to 4.5MTPA by 3QFY25 and the balance 0.5MTPA expansion will be achieved through debottlenecking by FY27.
- The Equipment erection of 0.12MTPA color-coating line in Jammu & Kashmir is nearing completion and will be commissioned in 2QFY25.
- JSTL plans to increase its domestic presence from the current ~28 MTPA to ~50 MTPA by FY31.

Iron ore linkages:

- JSTL has nine mines in Karnataka, with an existing EC of ~7mt. The company has applied for an additional 4mt EC, also allotted three new mines with an EC of ~4.5mt, taking the total production capacity to 15.5mt in the near term.
- JSTL operates four mines in Odisha, generating ~20-25mt and two mines in Goa, with 1.5-2.0mt of production.
- It currently has ~40% of iron ore linkages and the rest is procured from merchant miners. The company expects the captive linkage to reach 50% levels.

Domestic demand:

- China exports remain a concern for the global industry. Demand in China continues to be subdued, with the real estate sector lagging, but the manufacturing sector showing positive demand growth.
- Domestic demand continues to remain robust supported by infra and private sector capex.
- Management expects the demand to further pick up after the Union Budget and healthy monsoon-led rural demand.
- Management guided that the steel industry volume will grow 10% YoY to ~150MT in FY25
- Elevated exports from China continue to remain a concern to India due to the absence of any trade barrier against China's supply vs. other countries.

Other highlights:

- JSTL's overseas operations are expected to perform well in the near future.
- Minas de Revuboe Limitada (MDR) in Mozambique is in the early stage of approval and is expected in FY25. Mine development will be undertaken thereafter, which will be completed in next 3-4 years.

- The Board has approved the transfer of the 30MTPA Slurry Pipeline undertaking in Odisha to JSW Infrastructure, resulting in a more efficient allocation of capital and focus on the core steel business.
- Out of INR34b planned capex for 30MTPA Slurry Pipeline, the company has spent ~INR12b and now seeks a fair value consideration of INR17b, which will be directed towards the Dolvi expansion.
- The 30 MTPA (302 km) Slurry Pipeline in Odisha is expected to be commissioned in FY27, which will optimize the iron ore supply and reduce logistic costs.
- Management expects to offset the higher mining premium with the logistic efficiency led by the upcoming Slurry Pipeline expansion.

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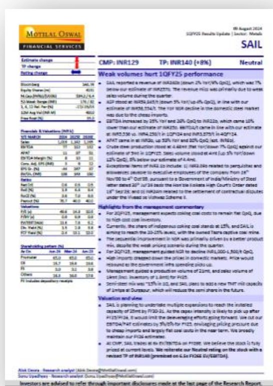

Steel Authority of India — Neutral

Current Price INR 135

Guidance:

- In 1QFY25, avg. landed coking coal costs stood at INR23,000/t (imported INR24,500/t and indigenous INR13,500/t) vs. INR26,500/t in 4QFY24. For 2QFY25, management expects coking coal costs to remain flat QoQ, due to high cost coal inventory.
- Currently, the share of indigenous coking coal stands at 15%, and SAIL is aiming to reach the 20-25% levels, with the owned Tasra captive coal mine.
- The sequential improvement in NSR was primarily driven by a better product mix, despite the weak pricing scenario during the quarter
- NSR for 1QFY25 stood at INR53,700/t (long – INR54,000/t and flat – INR53,500) and for 2QFY25, company expects decline of INR1,000-1500/t QoQ
- Management guided that in Jul'24, the company witnessed price corrections of INR700-800/t in longs and INR1,000-1,500/t in flat. Even in Aug'24, the price decline of INR1,000-1,200/t continues.
- High imports dragged down the prices in domestic markets. Price would rebound as Government Infra spending picks up.
- Management guided a production volume of 21mt, and sales volume of 19mt (incl. inventory of 1.8mt) for FY25.
- Finish steel inventory gone up by 0.5mt to 1.84mt, due to upcoming maintenance shutdown of hot strip mill at Bokaro steel plant.
- Semi-steel mix was ~15% in 1Q, and SAIL plans to add a new TMT mill capacity of 1mtpa at Durgapur, which will reduce the semi share in the future.

Capex:

- SAIL plans to increase its capacity from 20mtpa of crude steel to 35mtpa by the end of FY31, and guided INR63b of expansion capex for FY25E.
- SAIL plans to set up 2.4mt Greenfield flat steel facility at IISCO, predominantly focused on HRC.
- The construction of the CRC facility will be undertaken at a later stage.
- The plant capacity is of 2.8mtpa long product and company will be adding 2.4mtpa flat product capacity, which includes BF, steel making, hot mill strip, pellet plant and infra. Company also plan of 0.9mtpa capacity expansion at Durgapur. The total capex outlay will be ~INR370b.

- Management guided that the tendering process will start shortly in next 1-2 months and finalizing it will take around six to eight months. Therefore, majority of the capex will start coming in from FY26 onwards.

Debt:

- Net debt stood at INR397b during the quarter. The debt increased by INR50b, due to the accumulation of coal stock as miners with whom the company has long term agreements, have planned shutdowns during 2HFY25.
- Management expects to reduce the debt to INR300b by the end of the year and anticipates realizing at least INR40b from the liquidation of stocks.

Other highlights:

- The company's exports registered a significant decline during the quarter.
- SAIL incurred ~INR9.86b as capex in 1QFY25
- It is waiting for the final direction from the Supreme Court of India over the decision on levying additional cess/duty by the state govt.
- Management indicated that the Odisha govt. had not demanded any balance payment and as the ruling in 2004 was in the company's favour, the company had not recognized any contingent liabilities.
- Demand in China remains a concern as the steel consumption from real estate continues to remain muted.

Tata Steel — Neutral

Current Price INR 152

Management guidance

- Management guided that the realizations (ASP) for domestic operations is expected to decline by INR1500/t in 2QFY25 v/s 1QFY25
- ASP for the UK operation to remain flat QoQ, whereas the Netherlands could see GBP60/t QoQ reduction during 2QFY25.
- Coal costs (on a consumption basis) for India operations are likely to be USD15/t lower QoQ, and in the Netherlands, the coal costs are anticipated to decline USD26/t QoQ in 2QFY25.
- In terms of iron ore, UK could see USD7/t QoQ decline, while Netherlands about USD10/t QoQ increase in 2QFY25.
- Management guided that the Sep'24 will be the last month of operating losses for the UK business.

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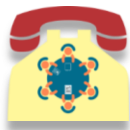

TATA – European operations

- TATA is in close talks with the Union in relation to the support for the affected employees based on the enhanced support package.
- TATA is supporting affected employees and is providing multiple training and community support schemes during the transition of operations in the UK.
- A voluntary redundancy aspiration process was launched on July 11 and will close on August 7.
- A transition Board has been formed under the previous UK government, funded by GBP80m from the UK government and GBP20mn from the company, to help employees who are moving out of Port Talbot to make them more employable.
- Grand funding preposition is in continuity with newly elected UK government.
- The UK government is focused to revive the UK steel industry and therefore further exploring more investment opportunity in the similar funding line with the company Tata steel in the downstream or DRI space.

- Out of the two BFs 5&6 in the UK, one BF closed during Jul'24 and another one schedule in Sep'24, while company had already closed the coke ovens.
- Out of the USD1.25b grant funding agreement, the UK govt. will contribute USD0.5b and the rest USD0.75b will be funded by Tata steel in the course of next four years.
- In the Netherlands, the company is working on transitioning to green steel, subject to government support and necessary approvals.
- TATA aims to achieve a 35-40% reduction in CO2 by 2030 in Phase 1 of its de-carbonization project in Netherlands.

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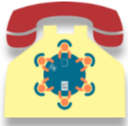

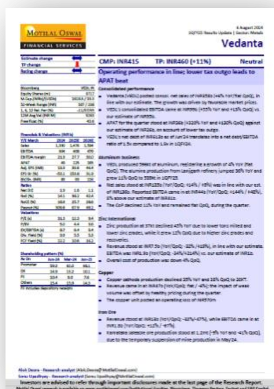

Vedanta — Neutral

Current Price INR 455

Guidance:

- Management expects to realize higher premium going forward on account of higher VAP product.
- VEDL targets to deliver USD10b of EBITDA in the near term. Out of USD10b EBITDA target, management believes aluminum business to contribute USD4b, Zinc India ~USD2.7b and O&G USD1b, while the rest is expected from iron ore, steel, power and others.
- The cost of aluminum is expected to be around USD1,600/t and zinc is expected to be ~USD1,000/t.
- Company hedge ~10% of both aluminum and zinc volumes.
- The cost of production for the industry increased USD100/t, due to the increase in alumina prices.

Capacity update

- VEDL is on track to execute about USD8b of growth capex in the next few years.
- Management's vision is to reach a production of 300,000 barrels/day for its oil & gas business, whereas the iron ore business in Liberia is likely to produce ~30mtpa.
- The BALCO expansion is scheduled to be commissioned this year in 4QFY25 (earlier 3QFY25) and operation likely to commence from 1QFY26.
- Radhikapur coal block is likely to start operations by 4QFY25, having secured environmental clearance and completed stage 1 forest clearances, following compliance checks.
- For the Kurloi coal mine block is progressing will and expected to operationalize by 4QFY25 and the Ghograpalli mine shall be up and running in FY26.
- For Phase 1 of 900MW (450MW each under Aluminum and Zinc Business) VEDL started utilization of renewable energy from RE-RTC projects. HZL clock 8.5% of RE power share out of total requirement during 1QFY25.

Demerger plan on track

- VEDL announced a demerger plan in Oct'23 across its existing business verticals into six independent 'pure play' companies, with an aim to simplify the corporate structure and unlock stakeholder value.
- It successfully secured NOCs from secured lenders (SBI & LIC) and filed a demerger scheme with NCLT, which will be the last process for the demerger.

Debt at VEDL and HoldCo.

- Management guided that the INR85b QIP will be used to deleverage, which will result in interest savings of INR11b.
- As of Jul'24, the Net debt/EBITDA stood at 1.2x, which showed adequate cash in the business to fulfill the committed expansion and debt repayment.
- At VRL, the company deleveraged it balance sheet by USD0.6b in 1Q and the gross debt at VRL reduced from USD9.8b to USD5.5b in the past couple of years.
- Cost of debt stood at ~9.8% and management guided it to reach 9.7% soon.

- **Major OMC company's expansion projects are set to wrap up in the next two years, setting the stage for substantial growth. CGDs are optimistic about robust volume growth and margins, given that spot LNG prices are anticipated to stay stable. ONGC and OINL also forecast strong production growth due to KG-98 and NRL, respectively. Additionally, gas utility entities are anticipating continued strong transmission volumes.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

Oil & Gas	Outlook	Quarterly snapshot
Gas Utilities	▪ **GAIL** anticipates gas transmission volumes to rise 10 The management expects natural gas transmission volumes to rise to 132/142/152mmscmd by the end of FY25/FY26/ FY27. For the trading segment, the management guides EBIT of at least INR45b in FY25. For petchem, management is hopeful of a healthy FY25 profitability. ▪ **PLNG:** The Dahej terminal expansion to 22.5mmt from 17.5mmt is expected to be completed by Mar'25, after which it will be available for use. The management highlighted that the 250km stretch of the Kochi-Bangalore pipeline will be completed by Mar'25, after which Kochi terminal utilization should improve. In 2Q, utilization trends for Dahej/Kochi are expected to remain robust, though likely down QoQ.	▪ **GAIL's** beat EBITDA/PAT estimates by 32%/21%, driven by stronger performance in the gas transmission and natural gas marketing segments (natural gas transmission volume 6% above our estimate). ▪ **Petronet LNG (PLNG)** recorded lower-than-estimated EBITDA of INR13.7b in 1QFY25. Dahej utilization was up 13% QoQ at 112%, while Kochi utilization stood at 22% (+1.6pp YoY). Reported PAT at INR11.4b was above our estimate. In 1Q, the company booked additional provisions worth INR1.3b with respect to use-or-pay (UoP) charges. ▪ **Gujarat State Petronet (GUJS)'s** EBITDA was 32% above our estimate at INR3b, led by strong transmission volume (10% beat in total volumes) and lower other expenses.
Upstream	▪ **ONGC's** management expects total crude oil/gas production volume (incl. JV) to rise by 12%/27% to 23.1mmt/25.9mmt by FY27, mainly driven by KG-98/2 and Daman upside development. Gas production from the KG-98/2 asset, which will begin in 4QFY25, is expected to ramp up to 6mmscmd by FY25 end, while oil production could ramp up to 30,000bopd by 4QFY25. ▪ **OINL's** management reiterated its target of raising production to 9mmtoe by FY26 from 6.5mmtoe in FY24. Oil production is likely to ramp up to 3.8mmt and more than 4mmt in FY25/FY26 from 3.4mmt in FY24, while gas production is likely to be 5bcm by FY26. The company plans to drill 78 wells in FY25 and 100 wells in FY26/FY27.	▪ **ONGC's** reported EBITDA stood at INR186.2b (-4% YoY) in 1QFY25, in line with our estimate. PAT was 9% below our estimate, mainly due to higher depreciation and dry well write-offs, and lower other income QoQ. ▪ **OINL's** 1QFY25 EBITDA came in line at INR24.7b (up 6% YoY), due to 12%/24% YoY growth in oil/gas sales and a healthy net oil realization of USD74.3/bbl. OINL's oil/gas production stood at 0.87mmt/0.82bcm, up 6%/9.8% YoY, respectively. However, reported PAT was 20% below our estimate at INR14.7b, due to lower-than-expected other income.
CGDs	▪ **IGL's** management guided for a robust 8-10% YoY growth in CNG volume. However, DTC volumes may continue to decline for the next few years, while buses still account for ~20% of overall volumes. ▪ **MAHGL's** management's guidance on margin and volume growth remains conservative (7% volume growth ex-UEPL) with EBITDA/scm of INR10-12. Volume growth at UEPL was in the mid-teens and can be sustained for the next 6-7 years. ▪ **GUJGA** management guided for a conservative annualized volume CAGR of ~5-7% for FY25. Capex shall be INR10b for FY25; For FY26/FY27/FY28, capex would range INR10b-15b per year. EBITDA/scm guidance of INR4.5-5.5 was maintained.	▪ **GUJGA's** EBITDA was above our estimate at INR5.9b as both margins and volumes were above our expectations. EBITDA/scm for the quarter stood at INR6.7. Total volumes stood at 9.7mmscmd. ▪ **MAHGL's** EBITDA inched up 1% YoY to INR3.9b in 1QFY25, mainly driven by a 12% YoY rise in volumes, which offset an 11% decline in EBITDA/scm to INR11.5. In 1QFY25, the company completed the acquisition of Unison Enviro (UEPL). ▪ **Indraprastha Gas'** EBITDA came in below our est. at INR5.2b in 1QFY25 due to a lower-than-expected EBITDA/scm of INR6.6 (vs. our est. of INR7.2). Volumes rose 6% YoY to 8.7mmscmd.
RIL	▪ Management expects the increase in global oil demand to normalize at ~1mb/d (vs. 2.1mb/d in the previous year). In the near to medium term, driving season shall increase gasoline demand, and ~1mbd/ capacity may get affected due to hurricane. ▪ Demand for both fuels and downstream in India is expected to remain resilient, which may lead to margin improvements. Geopolitical tensions and higher freight rates due to disruptions in the Red Sea have kept the markets volatile and might pose certain challenges.	▪ **RIL's**: Jio's revenue/EBITDA/PAT increased ~2% QoQ each (in line) in 1QFY25, led by 7.9m subscriber additions. ARPU was flat QoQ. Reliance Retail posted soft revenue and EBITDA growth. ▪ RIL standalone missed our estimates mainly due to weak O2C performance, led by a sharp correction in refining cracks.
OMCs	▪ **HPCL's** management has guided a consol. EBITDA of INR400b by FY28. Chhara terminal shall be commissioned in Nov'24/Dec'24. HRRLs' refining portion will be commissioned in 4QFY25. The main petchem unit is 85% complete and shall	▪ **IOCL's** beat was driven by strong marketing margins (INR4.8/lit vs. our est. of INR3.9/lit) and a turnaround in the petrochemical division. ▪ **HPCL** missed our estimate due to a lower-than-expected

achieve mechanical completion by 1HFY26. HPCL targets 700-750tmt lube sales in FY25. At Visakh, throughput will go up to 3.5-4mmt per quarter in 4QFY25, and GRM benefits of USD3/bbl may be observed at peak utilization. The management guided for a capex of INR140-150b per year for the next 4-5 years.

- **BPCL** is looking to augment refining capacity further and exploring a 9-12mmtpa project on the East or West coast, over and above the plan of expanding the refining capacity to 45mmtpa.

marketing margin of INR3/lit (est. INR4.1/lit).

- **BPCL's** EBITDA came in line, with implied marketing margin 19% above our est. at INR4.8/lit.
- For **OMCs**, reported GRM was in line with or above our estimates. OMCs' 1Q earnings took a significant hit due to LPG under-recovery of INR41.2b/INR23.5b/INR20b for IOCL/HPCL/BPCL.

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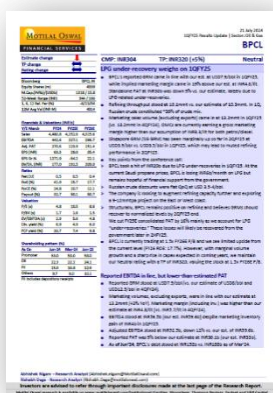

Bharat Petroleum — Neutral

Current Price INR 351

Performance:

- BPCL posted PAT of INR30b in 1QFY25. Refineries achieved throughput of 10.11mmtpa (implying ~116% capacity utilization). GRM stood at USD7.86/bbl.
- Domestic market sales grew 3.2% YoY to 13.16mmt.
- BPCL achieved a distillate yield of 84.57% in 1QFY25, and high Sulphur was 77% of the total crude.
- BPCL added 170 retail outlets in 1QFY25, taking the total count to 22,075 stations.
- The highest-ever ethanol blending of 14.13% was achieved during the quarter.
- In the gas business, BPCL has operationalized 25 of the 26 GAs, except for the recently acquired J&K and Ladakh GAs. BPCL added 41 CNG retail outlets in 1QFY25.

Key takeaways:

- Licenses for petchem projects have been on-boarded and site preparation is in process. LoI for Arunachal CGD business has been received.
- Cumulative net negative buffer of INR20.2b from sale of LPG was reduced from revenue during 1QFY25. The management added that LPG pricing is determined by GOI and there is no support mechanism announced by the government. Also, the impact of INR6b is expected every month at the current prices.
- About 39% of total throughput was achieved via Russian crude. The crude discounts remained in the range of USD3-4/bbl during 1QFY25, in line with 4QFY24 discounts. However, these discounts are significantly low on a YoY basis.

Andhra refinery project:

- The company currently buys ~2mmtpa from NRL and ~3-3.5mmtpa from others. This gap will widen even with ~4% growth in marketing product demand.
- To bridge the gap, BPCL is looking to add more refining capacity either on the East coast or somewhere else. This is still at the evaluation stage.
- This refining capacity addition shall be over and above the company's plan of expanding the refining capacity to 45mmtpa.
- W.r.t. force majeure in Mozambique, there may be positive news in 1-2 quarters. Project financing discussions are happening. Project cost is USD15.5b and might escalate to USD19b. IRR could see some impact but should remain in the commercial zone.
- Lower cracks in the current quarter were observed amid high gasoline and gasoil inventory levels. In 1QY25, gasoline/gasoil cracks stood at USD8.5/USD14.8 per bbl.

- Spreads have already seen some improvement in Jul'24 and the summer driving season should drive further improvement. USD1 improvement has been observed in Jul'24.
- By 3QFY25, the management expects cracks to improve further.
- BPCL plans to incur a capex of INR164b in FY25:
- INR43b for refining and petchem
- INR23.5b for E&P

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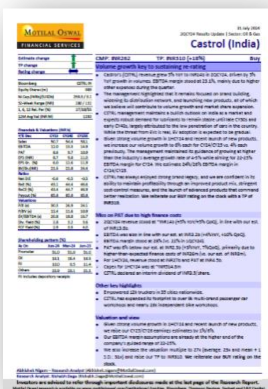

Castrol India — Buy

Current Price INR 269

Industry outlook:

- The management stated that potential stabilization in input costs in 2HCY24 will be positive for the industry.
- The Indian lubricant market is expected to grow in 2030s and 2040s. Many OEMs also believe that hybrid will be in focus rather than EVs.
- For CSTRL, the car segment penetration is low and can drive long-term growth.

Key business developments in 2QCY24:

- Launch of 3 new variants of Castrol EDGE.
- Marketing program featuring Shah Rukh Khan was held in 2QCY25.
- Launch of new auto care product 'Shiner Sponge'.

Other key takeaways

- During the quarter, the company's volumes stood at 61m lit, up 5% YoY.
- The company wants to operate at EBITDA margin of 22-25%.
- Commercial vehicle segment grew 8-9% YoY. The rest of growth was attributable to personal mobility segment.
- From volume perspective, there is no lubricant consumption difference between ICE and hybrid vehicles.
- In the lubricant industry, as the vehicles and engines become more efficient, better quality of lubricant is required. As a result, Castrol is able to premiumizing in the market. As a combination of all the industry changes, the industry is still able to grow 4-5% in volumes.
- CSTRL generated sales of around 40-50% from bikes & cars, 40% from commercial vehicles, and the rest from industrial segment.
- The company is investing INR5b in its R&D thermal facility.
- New product launch
- CSTRL expanded its auto care segment range by launching Shiner Sponge for the bike & car segment.
- CRB TURBOMAX+CK4 a top-tier truck lubricant that has been rigorously tested on key Indian OEM vehicles for 100,000km.
- It empowered 12,000 truckers across 35 cities.
- The company added over
- 2000 new outlets in rural areas
- 534 Castrol Auto service outlets
- 28,500 bike points
- 9,000 multi-brand car workshops
- Accordingly, CSTRL's national footprint stands at over 135,000 outlets.

- The company has commissioned a rainwater harvesting project at its Silvassa facility aimed at collecting and reusing about 800 kiloliters to 1,000 kiloliters of water annually, thus reducing freshwater consumption.
- The company has also set up a solar power plant with 1,200 panels over 10,000 square meters, achieving a 45% reduction in on-site CO2 emissions.
- CSTRL covers 28,000 2W workshops and 9,500 car workshops and has a network of over 550 casual auto services.

Gujarat Gas — Buy

Current Price INR 597

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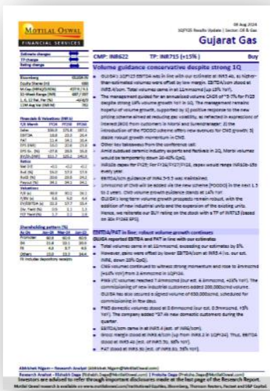

1QFY25 performance highlights:

- GUJGA reported its highest-ever quarterly CNG volumes of 2.98mmscmd.
- CNG sales in Gujarat/outside Gujarat grew 12%/27% YoY. In 1Q, CNG was 47%/15% cheaper than Petrol/Diesel.
- GUJGAS achieved 5% Hydrogen blending and has increased the target to 8%.
- Industrial-PNG volumes increased to 7.25mmscmd.
- Morbi volumes were up 37% QoQ at 5.2mmscmd. Non-Morbi volumes rose 2.5% QoQ to 2mmscmd.
- Three new CNG stations were added.
- Capex was INR2.1b.

Morbi volumes to decline 30-40% QoQ temporarily in 2QFY25:

- Amid subdued ceramic industry exports due to higher freight costs, current geo-political situation (high propane prices) and festivals in 2Q, Morbi volumes would be temporarily down 30-40% QoQ.
- However, the management expects exports to improve at 2Q end.

CNG medium-term outlook

- GUJGA plans to add 22 CNG outlets and upgrade 62 outlets in FY25. Apart from this, it has introduced the FDODO scheme, which has received 600+ dealer applications.
- As a result, CNG station additions will be in three digits in FY25.
- 1mmscmd of CNG would be added via the new scheme (FDODO) in the next 1.5 to 2 years. Hence, 14% YoY growth is expected in CNG volumes.
- CNG volume split: 87% from Gujarat, 13% from other states.
- FDODO scheme:
- Entire capex will be incurred by the dealer.
- Margins for the dealer will be double for the margins given to OMCs. However, GUJGA would maintain its EBITDA/scm at INR4.5-5.5.
- At least 200 LOI's will be issued in the first stage of this scheme.
- 60-75% of the FDODO stations will be placed in Gujarat.

APM Gas and Non-APM Gas sourcing volume breakup:

- APM: 25%
- Long term: 27%
- Spot: 49%

Management guidance:

- EBITDA/scm guidance of INR4.5-5.5 is maintained.
- INR10b capex in FY25; For FY26/FY27/FY28 capex will range INR10b-15b every year.
- 50% of the capex will be allocated to new areas.

- Overall volume growth will be 5-7% YoY.
- 1mmscmd of CNG would be added via the new scheme (FDODO) in the next 1.5 to 2 years. CNG volume growth guidance stands at 14% YoY.
- RoE to stay at 15% for next 2 years

Other KTA's

- Consumption of 0.63mmscmd capacity signed will start in the next six months.
- Currently, total volumes from Morbi are near 6mmscmd. Morbi has total potential of 8mmscmd.
- GUJGA currently has ~4.3mmscmd of LT contracts.
- 1QFY25 propane prices at Morbi stood at INR41/scm, and CNG prices stood at INR42/scm.
- Currently, Propane prices are at INR40/scm and CNG prices are at INR44/scm.
- CNG volume growth in 1Q was primarily driven 3Ws and 4Ws.

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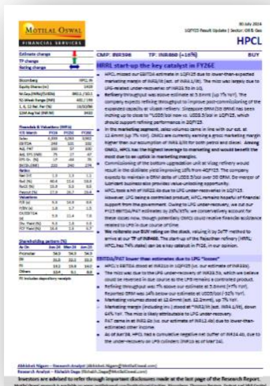

Hindustan Petroleum — Buy

Current Price INR 408

- Challenges faced in 1QFY25: Highly suppressed GRM was observed. SG GRM stood at ~USD3.5/bbl.
- Reasons for robust EBITDA, adjusted for LPG under-recovery: Increase in marketing sales and throughput led to healthy adj. EBITDA.

India Market Outlook:

- Demand for HSD/MS in India is expected to remain robust. ~6-7% growth has been observed QoQ in this quarter.
- Management expects SG GRM to stay firm at ~USD5-8/bbl in the near future.

Other KTA's

- LPG subsidy accounting treatment:
- LPG is a controlled product, so whenever there is over-recovery, that sits in a buffer account which is not taken in the P&L. However, in case of under-recovery, losses are taken to the P&L.
- It has been observed that support has been received from the government.
- Russian crude is around 35% of the total crude (25% in FY24).
- At Visakh, 3mmt/quarter of throughput is observed as of now and will go up to 3.5-4mmt/quarter in 4QFY25. At peak level when the RUF is stabilized, GRM benefits of USD3/bbl may be observed.
- Lubricant business: Steps for carving out the business are being taken. Studies are over and steps improving logistics, operations and branding are already being undertaken.
- Management has guided for consol. EBITDA of INR400b by FY28.
- Chhara LNG terminal update: Terminal shall be commissioned in Nov'24/Dec'24, depending on weather conditions. It is a 5mmtpa terminal. Captive use of HPCL and group companies' refineries shall be ~1.5mmtpa. It has received inquiries for re-gas business and will enter into agreements once the terminal is commissioned.
- Chhara-Gundala pipeline is already complete and commissioned. It is connected to the Gujarat pipeline.
- Refining segment outlook: GRM for the next 6-9m: SG GRM to be USD5-8/bbl. Would be better for HPCL.

- Inventory Gain/(Losses): Marketing inventory loss stood at INR2.45b, while refining inventory loss amounted to INR1.13b.
- Refinery maintenance/shutdown plans: No such plans in FY25.
- Reasons for three new crudes? All these are opportunity crudes. We keep looking for such opportunities.
- HRRL: As on 30 Jun'24, the total commitments amounted to INR698.5b, with a capex of INR480b, which has been incurred. Debt stood at INR320b and remaining INR160b was attributable to equity. Refining portion will be commissioned in 4QFY25. Main petchem unit is 85% complete. Mechanical completion of Petchem portion shall be achieved by 1HFY26.
- Lube business: ~150tmt lube sold in 1QFY25. HPCL targets 700tmt-750tmt lube sales in FY25.
- The Petrochemical business contributed positively in 1QFY25.
- The current debt for HMEL amounts to INR340b-INR350b.
- Management guided for a capex of INR140-150b/year for the next 4-5 years. Debt: Equity ratio shall be improving since most of the future projects will be taken via internal accruals.

Indraprastha Gas — Sell

Current Price INR 550

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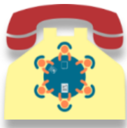

- In 1QYF25, CNG sales volume increased to 5%YoY.
- Sales in Delhi were flat, but they grew in double digits outside Delhi.
- In 1Q, PNG sales increased by 7% YoY.
- Domestic segment sales increased by 16%.
- Industrial & Commercial segment sales rose 6%.
- Addition of ~16,000 new CNG vehicles took place in this quarter.
- State-wise YoY increase in overall sales: up 1% in Delhi; 14% in UP; 12% in Haryana and over 100% in Rajasthan.
- 1Q sales volume was 786mscm (+5% YoY), which is ~8.64mscmd (vs. 8.2mscmd in 4Q).
- From Delhi, it was ~70%.
- Volume: ~40% from PVs, 40% from CVs, and ~20% from buses.
- The company expects sales volume of ~9.5mscmd by end of 4QFY25. A 10-12% growth YoY is expected in volumes.
- In 1QFY25, EBITDA/scm was INR7.6 and it is expected to be INR8 in 2QFY25.
- The company is planning to have 5-6 LNG stations in FY25, while in 5-6 years it will be around 100.
- In 1QFY25, APM was 62% and RLNG was 38%.
- In 1QFY25, DTC volume was at 150k kg/day. Volumes have fallen from 310k kg/day earlier and 240k kg/day in 1QFY24. These volumes will entirely go away in 2-3 years.
- FY25 capex will be ~INR17-18b (~INR2.9b in 1Q).
- IGL plans to add 90 CNG stations by FY25. Out of them, 10-12 will be in Delhi and the rest outside Delhi.
- It plans to have 10 CBG plants in FY25, which require a capex of ~INR3-3.5b.
- APM & non-APM cost was ~INR27-28scm, Henry Hub was ~34-35scm, and long-term initial contract was ~INR50scm.
- Final LNG cost is lower than CNG cost, implying better net realization.

- CNG sales volume might increase, led by newly introduced CNG 2-wheeler models by Bajaj and TVS.

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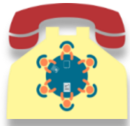

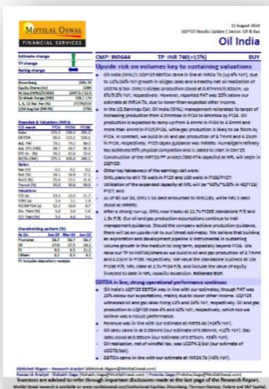

Oil India — Buy

Current Price INR 671

Performance

Financial

- Revenue increased 26% YoY, driven by higher realization and increased production.
- Contraction in EBITDAM, down 16% YoY, was primarily led by an increase in SAED from USD2.6/bbl to USD10.3/bbl, and INR2b provision created towards GST on royalty.
- In 1QFY25, NRL achieved PAT of INR4.3b, and GRM of USD6.4/bbl. Operational

Operational

- For 1QFY25, crude oil/gas production stood at 0.87mmt/0.82bcm. Crude oil/gas production rose 6%/9.8% YoY.
- OINL has a fleet of 20 drilling rigs and operates between 150-200 wells (majority producing oil and gas both).

NRL capacity expansion

- The cost of the project is INR280b, out of which INR190b has already been incurred
- The project is 65% complete physically
- The ongoing capacity expansion from 3mmtpa to 9mmtpa will be completed by Dec'25.
- Capacity utilization shall be ~60%/~100% in 4QFY26/FY27.
- Entire equity contribution shall be INR85b (69.6% of that will be OINL's share).
- No excise benefits shall be available on exports.

Completion of IGGL?

- Connection: Assam-Guwahati
- Commissioning: Dec'24 (delay: Aug'24 earlier)

Volume ramp-up from IGGL?

- Increase in gas consumption at NRL (post-expansion, demand shall be ~2mmscmd). Gas demand from Assam is also coming up (GCPL, etc.).
- OINL is also into CGD at Guwahati metro area, hence customers there also.
- GA's in Nagaland and AP also to off-take gas.
- Volume off-take: The company can go from 3bcm to 3.5bcm in the Guwahati area.

Sales tax on royalty?

- The company has been paying royalty under protest and they have already booked the entire amount of ~INR33b. Hence, the final decision shall not have any financial impact.
- These are accounted under 'Other Expenses'

Well development success:

- Exploratory wells success ratio ranges from ~50%-60% (target being 80%-90%). Whereas, development wells success ratio is ~100% for OINL.

Expenses related to upstream and views on inflation:

- OINL expects normal increase over current prices.
- However, inclusion of crude and gas under GST regime shall be favorable.

Other KTA's

- As of 30 Jun'24, OINL's SA debt amounted to INR113b, while NRL's debt stood at INR95b.
- North Assam to South Assam gas pipeline capacity will be ~3bcm.
- Gas realization: USD0.25/mmbtu increase (to USD6.75/mmbtu) from Apr'25.

ONGC — Buy

Current Price INR 328

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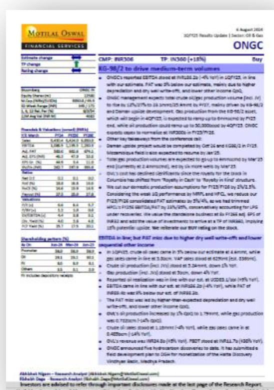

1QFY25 Performance

- PAT was down by INR15.9b YoY (down 15% YoY) due to:
- Lower sales revenue primarily due to lower natural gas realizations
- Increase in exploration write-offs (increase in unsuccessful wells) and increase in depletion (western offshore – INR215cr).
- The increase in statutory levies to INR97.7b (up 31% YoY) was mainly driven by 3x increase in SAED to INR28.3b.
- The increase in DD&I costs was due to higher depletion expenditure at Western Offshore (INR7.5b) and higher depreciation (INR2.5b) at Western Offshore.
- Unsuccessful explorations at Western Offshore and Trinidad Basin led to INR6.3b YoY increase in exploration costs.

Current gas production field-wise breakup (total: 2.4mmscmd):

- KG 98/2: 1.6mmscmd
- G-1: 0.5mmscmd
- Vashishta: 0.2mmscmd
- Others: 0.1mmscmd

KG-98/2

- Crude oil production has commenced from KG98/2. Crude Oil/Gas production to increase in 3Q/4QFY25, respectively.
- Current production: Oil: 12kb/d from 4 active wells, Gas: ~1.5-1.6mmscmd.
- Crude oil production to ramp up to 30kb/d in 2HFY25, post opening of the fifth well in Aug'24.
- Gas production to increase to 2.6mmscmd from Sep'24.
- As on date, INR300b capex has been incurred at KG 98/2.

OVL

- OVL is generating sufficient revenue and cash flows to support its operations.
- Costs have reduced significantly since the royalty for the block in Columbia has shifted from 'Royalty in Cash' to 'Royalty in Kind' structure. Hence, revenue and operating expenses both decreased.

Opal

- ONGC is waiting for some government clearances and is hoping to get a positive response from the government soon.
- Opal made positive EBITDA of INR290m in 1QFY25 (FY24: Loss INR5b). Net loss stood at INR9.8b (vs. net loss of INR34.6b in FY24).
- Utilizations stood at 92% in FY24 and 89% in 1QFY25.

Management Guidance:

- W.r.t. crude oil, 12% growth is expected over two years.
- FY25/26/27 production targets for ONGC standalone at 20.5/20.72/21.87mmt and for JVs at 1.71/1.45/1.21mmt.
- W.r.t. gas, 27% growth is expected over two years.

- FY25/26/27 production targets for ONGC standalone at 20.95/23.83/25.49bcm, and for JVs at 0.53/0.42mmt (FY26/27).
- Total gas production volumes to go up to 6mmscmd by Mar'25end (currently at 2.4mmscmd). This growth is led by 6 more wells by Mar'25.
- OVL: FY25 production target is 11mmt (10.518mmt in FY24). 1QFY25 production stood in line with the target.

Capex guidance:
- Standalone: FY25/FY26: INR300b for both years (excl. green energy investments).
- OVL: The capex target is INR56b, which may increase to INR25-30b if Mozambique is included.

Update on ongoing projects:
- Daman upside project shall be completed by Oct'26.
- KG98/2 shall be completed in FY25.
- Mumbai High North redevelopment phase 4 will take 3 years.
- Redevelopment of Lynch, Subhashan, Kallol, would also take another 3 years.
- Becharaji project would take 2 years.

Other KTA's
- Field Development Program: It is for a remote onshore field. ONGC has tied up with IOCL for the transportation of LNG from this area. The project is commercially viable.
- Update on Mozambique field: Total Energy said that all things have been settled with the contractor. However, it is waiting for the elections to get over. ONGC management also mentioned that there is a 1-year delay and Mozambique is expected to resume in Jan'25.
- Higher gas realization from nominated blocks: ONGC expects it will be able to get 20% additional price from wells, as it is already notified and only the calculation is pending.
- Production-to-sales ratio: The new production at East Coast will be going to FPSO. Increase in oil and gas production and sales go hand in hand.
- No windfall tax is anticipated on KG98/2.

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Petronet LNG — Neutral

Current Price INR 377

Performance:
- For 1QFY25, PLNG's PBT stood at INR15.2b (+43% YoY).
- Dahej terminal reported throughput of 248tbtu in 1QFY25 (109% utilization).
- Robust volumes were driven by moderate LNG prices and efficient and optimal operational performance.

Capex:
- Capex of INR3b incurred in 1QFY25.
- FY25 planned capex amounts to INR35b.
- No foreseeable challenges w.r.t cash in the upcoming years since debt/equity ratio of 70/30 will be maintained.

Exceptional items in 1QFY25: gain of INR1.9b
- Inventory gains stood at INR2.6b. Additionally, trading gains amounted to INR0.6b
- In 1QFY25, PLNG provisioned INR1.3b for UoP dues.

UoP

- UoP of INR630m has been reversed. However, it was the reversal of revenue booked earlier. PLNG clocked equivalent volume in 1QFY25.

Dahej current utilization:

- The utilization of ~109% in 1QFY25 was around 100% as of now. Exceptionally high power demand in May and June led to such high levels of utilization. However, utilization is expected to remain robust going forward.

Update on ongoing projects:

- Dahej expansion is expected to complete in Mar'25. The capacity shall increase by 5mmtpa post expansion to 22.5mmtpa. This increase capacity shall be available from FY26.
- Total project capex ~INR5.70b.
- Payback period will be not more than 2-3 years.
- We are not worried about any under-utilization amid increasing volumes, robust demand growth and range-bound LNG prices.
- Dahej shall have a substantial share in increasing consumption volumes in the country.
- Petchem project will be done through the third Jetty. It will be like a utility (tolling) business.

Kochi terminal:

- Kochi terminal connectivity with Bangalore expected by Mar'25. Utilization to increase post that.
- Robust utilization growth is expected post connectivity to National Gas Grid. CGD entities to be the key customers.
- May reach to 50%-60% initially and may enhance further.

Re-gasification Service business:

- Higher due to moderate LNG prices and high demand.
- 1QFY25, re-gas service income stood at INR8.5b.

Reliance Industries — Buy

Current Price INR 2,997

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Segmental details:

Grocery

- Grocery business delivered another quarter of steady performance, led by big box formats and expansion in Tier 2 and beyond cities. The company continued to expand premium formats in select affluent catchments.
- Events, like Summer Ready Sale and Full Paisa Vasool Sale, continued to gain traction, registering 30%/32% YoY growth.
- The segment saw broad-based growth across all categories. The pulses, cereals and non-food categories led growth, while some seasonal categories performed well.
- Metro (B2B business) opened 30 stores during the quarter, reaching 200+ stores across 180+ cities. This model enables to offer an omni-channel model to the merchants, where they come into the stores and experience the wide range of assortment. Moreover, they can order online at their convenience on the app as well.

JioMart:

- JioMart delivered steady performance during the quarter, increasing AOV by 16% YoY.

- AOV growth was led by Non-Grocery category, which grew 50% YoY, led by electronics.
- The segment continued to grow options count and expanded its seller base by 69% YoY.

Consumer brands:

- The segment continued to deepen its presence in General Trade, delivering 150%+ growth YoY.
- New product launches across brands, including Campa, Independence, Maliban, Ravalgaon, etc.
- Multiple pilots in biscuits, snacks and HPC are underway to bolster product portfolio, thereby strengthening its manufacturing supply chain across categories through partnerships.

Consumer Electronics

- Consumer Electronics business saw an increase in footfall and average basket value (ABV).
- Sales of ACs and refrigerators were led by seasonality, while TV sales were led by events (Cricket world cup and IPL), resulting in steady growth in digital stores.
- 'resQ' (which is company service business) launched on demand service across 45 categories and increased service network with 50+ new centers.
- JMD (B2B business) continued to expand its merchant base, up 14% YoY. The growth was seen across categories.
- Own brands/ PBG merchant base continued to increase, up 100% YoY.

Fashion & Lifestyle

- The Fashion & Lifestyle business is focusing on store expansion and refreshing assortment to stay in line with the emerging trends.
- New formats, like Yousta, Azorte and GAP, continue to scale up.
- The company announced an exclusive partnership with ASOS to launch the brand in India across online and offline channels.
- Ajio (online fashion business) delivered steady performance, adding ~1.9m new customers.
- Addition of new brands increased catalogue by 20%
- 'Big Bold Sale' delivered 20%+ higher traffic and 50% higher conversions vs. BAU
- Among premium category, AjioLuxe continues to deliver strong growth, with options up 39% YoY. The portfolio has now crossed 700 brands.
- Key launches in the premium category include: a) opening new Pret A Manger stores and b) Exclusive launches by Sephora: Kylie Cosmetics and Rare Beauty 's summer collection
- The Jewel category delivered steady growth, led by the launch of new collections 'Vindhya' for Akshay Tritiya and 'Vivaham' wedding collection. Akshay Tritiya registered strong growth.

RJio – key takeaways from the management interaction

Customer migration towards 5G increasing

- Jio's subscriber base reached 489.7m, by adding net 8m subscribers during the quarter. Jio has one of the largest 5G subscriber bases globally, at ~130m (outside China).
- The migration to Jio True5G continued, adding ~130m subscribers.
- Data traffic was up 32.8% YoY at 44.1b GB led by an increasing 5G adoption rate and FTTH ramp-up. 5G now accounts for 31% of Jio's wireless data traffic.

- Jio has introduced two new services: JioSafe and JioTranslate, which will be available to users free of charge for the next one year.

JioFiber: Building traction in the home business

- Jio Fibre is now available Pan-India, and its demand remains strong. This made Jio the fastest operator to surpass the 1m mark on fixed wireless.
- Innovative distribution through network slicing on Standalone 5G network and Jio's unique point-to-multipoint deployment are transforming fixed broadband infrastructure in India and driving demand.
- Rjio is expanding its wallet share beyond connectivity in BFSI, with wins across CPaaS, Chatbots, and Cloud. It is also leveraging the BFSI tie-ups to offer financing options for devices and connectivity to SMBs.

New tariff plans

- New unlimited plans with a 13-25% higher tariff will be effective from 3rd Jul'24.
- No tariff hike was taken for JioBharat, which is accelerating the transition towards '2G Mukt Bharat' and JioPhone users.

Consolidating leadership in Spectrum Footprint

- During the recently concluded spectrum auction, Jio acquired the right to use additional spectrum in the 1800MHz band in Bihar and West Bengal for a cumulative cost of ~INR9.7b.
- Jio's spectrum footprint across bands stands at 26,801 MHz (uplink + downlink)
- Jio is the only operator in India to have access in low, mid and high-band (700 MHz, 3300 MHz, and 26GHz) spectrum for 5G, which gives it a unique advantage on 5G.

- **The companies have identified a pipeline that can support their ambition of 20-30% growth in FY25, notwithstanding their high base. Companies exuded confidence in demand sustainability for a couple of years, and timely launches remain top priority given the minimal inventory level of most of the developers.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Quarterly Snapshot	Near-term outlook/launch pipeline
DLF	■ DLF reported a more than three-fold jump in pre-sales as it clocked bookings of INR64b, largely driven by the successful launch of the second phase of Privana West, Gurugram. The company continues to sustain momentum at its ultra-luxury project, The Camellias, in DLF 5, with bookings of INR2.5b.	■ DLF is targeting to launch INR420b worth of projects in FY25 across all segments. Management maintains the earlier guidance of INR170-180b of bookings in FY25. However, it indicated that except for the ultra-luxury project in DLF 5, all the new projects are likely to follow the previous trend of monetizing significant (80-90%) inventory during launch.
Godrej Prop.	■ Godrej Properties (GPL) continued to witness strong demand momentum as it reported bookings of INR86.4b, which surged 4x YoY led by new launches. GPL launched INR86b worth of projects across 9.8msf of saleable area, of which 84% of the inventory was sold during the quarter and contributed to 88% in value in pre-sales.	■ Management remains confident about the sustainability of the demand for a couple of years and highlighted that we are in the early-to-mid-stage of the cycle. GPL remains on track to meet or exceed its guidance for all key parameters.
Macrotech Dev.	■ LODHA recorded bookings of INR40b in 1QFY25, up 20% YoY. Adjusted for land sales of INR5b, residential bookings were up 10% YoY at INR35b. Sales volumes decreased 14% YoY to 2.4msf, but blended realization rose 29% YoY due to decreased contributions from township	■ LODHA noted that demand has been consistent across segments and a premiumization trend is emerging. The company had 24k footfalls with 8.2% conversion vs. 7.3% in 1QFY24. In line with its medium-term target, the company expects to deliver 20% growth in pre-sales to INR175b in FY25
Oberoi Realty	■ Oberoi Realty's (OBER's) pre-sales more than doubled YoY to INR10.7b, driven by strong bookings at the '360-West', Worli project, which contributed INR4.8b to pre-sales across bookings of six units.	■ The Pokhran Road, Thane project remains on schedule for launch during the festive season. Additionally, there are plans to launch a new tower at Borivali and Goregaon in 2HFY25. The company is witnessing a strong leasing traction across all three office assets, and they can be fully leased out by the end of FY25.
Mahindra Lifespace	■ Mahindra Lifespaces (MLDL) achieved bookings of INR10.2b, up 195% YoY in 1QFY25, driven by a strong response in the new projects in Pune and Bengaluru, which were launched towards the end of 4QFY24. These two projects generated ~INR7b of combined pre-sales.	■ Management is aiming to launch over INR35b worth of inventories across seven projects in the next three quarters. The key among them include Kandivali Phase 2, Malad redevelopment, Citadel, Pune Phase 3, and the plotted project in Jaipur.
BRGD	■ Brigade Enterprise (BEL) reported bookings of INR10.9b in 1QFY25, up 9% YoY. Sales volume stood at 2.7msf, down 21% YoY. Aided by the launch of a premium project in Bengaluru, BEL recorded the highest ever quarterly realization of INR9,440 psf, up 38% YoY	■ Launches during the quarter contributed 35% to total pre-sales during 1QFY25. The company maintained its 13msf launch guidance, but it will be tilted towards the second half, with 2QFY25 launches to be similar to 1QFY25.
SOBHA	■ Sobha reported bookings of INR19b in 1QFY25 up 28%/ 25% YoY/QoQ. The performance was driven by the newly-launched premium project - 'Sobha Aranya' – in Gurugram. Overall, Sobha launched four new projects with a total area of 3msf.	■ So far in FY25, the company has launched INR15b worth of projects, and it remains on track to launch INR80b of inventory and achieve bookings of INR35b in FY25. As a result, the quarterly sales run rate of INR7.0-7.5b will increase in 2QFY25.
Kolte Patil	■ KPDL reported bookings of INR7.1b in 1QFY25, flat YoY/QoQ. Growth was largely constrained due to muted launches as the company launched 0.6msf of inventory worth INR4b at Life Republic in Pune. After Jun'24, the company launched 1.4msf in Pune, taking the YTD launched GDV to INR15b.	■ Given the strong launch pipeline, the management is confident of achieving bookings of INR35b in FY25, of which INR20-25b can be from new launches and the balance from existing inventory.

Prestige Estates	■ Prestige Estates Projects (PEPL) reported bookings of INR30b, which was down 23% YoY and 36% QoQ (13% below estimate) on account of muted launches and lower inventory.	■ PEPL had a very minimal inventory to sell as the new launches were hit by regulatory delays, and hence, bookings look muted in 1QFY25. Demand continues to remain strong, and the company has enough pipeline to capitalize on it. Management is confident of meeting the 20-25% growth guidance in bookings and can even exceed it if launches occur on time.
Phoenix Mills	■ Total consumption stood at ~INR32b, up 25% YoY, driven by a healthy ramp-up in new malls at Bengaluru, Pune, and Ahmedabad. ■ Phoenix Mills (PHNX) posted 1QFY25 revenue of INR9b, up 12% YoY. EBITDA stood at INR5.3b, up 8% YoY as margin contracted 200bp YoY. PAT was flat YoY at INR2.4b, with a margin of ~26%.	■ The consumption in mature malls was hit by the elections, infrastructure development in the vicinity, and harsh summer. Management is not seeing any structural reason for the slowdown and is undertaking various asset upgradation initiatives, which would enhance the experience and attract footfalls. The result of such measures is already visible in the improved performance of the Kurla mall.

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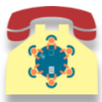

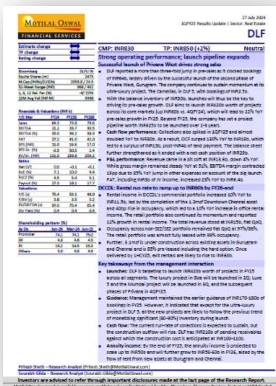

DLF — Neutral

Current Price INR 861

Gurugram market

- Management is not witnessing any slowdown currently and demand continues to remain strong. It has enough checks in place like high ticket size, timely collections etc., which discourages speculators to participate in projects

Annuity portfolio

- DLF has 16.5msf SEZ portfolio of which 1.6msf is now de-notified and 80% leased out. Vacancy in non-SEZ is very low and hence all the incremental demand will be served by SEZ assets. The overall vacancy stood at 8% and company aims to bring it down to 6-7% in FY25.

Under-construction asset:

- The Attrium Place (JV with Hines) asset will receive OC by Oct'25 and will contribute INR2.5b in rentals in FY26. At steady state, the asset can generate income of INR6b
- **Launches:** DLF is targeting to launch INR420b worth of projects in FY25 across all segments. The luxury project in Goa will be launched in 2Q; Luxe 5 and the Mumbai project will be launched in 3Q, and the subsequent phases of Privana in 4QFY25.
- **Guidance:** Management maintained the earlier guidance of INR170-180b of bookings in FY25. However, it indicated that except for the ultra-luxury project in DLF 5, all the new projects are likely to follow the previous trend of monetizing significant (80-90%) inventory during launch.
- **Cash flow:** The current run-rate of collections is expected to sustain, but the construction outflow will rise. DLF has INR210b of pending receivables against which the construction cost is anticipated at INR100-110b.
- **Annuity income:** By the end of FY25, the annuity income is projected to scale up to INR50b and will further grow to INR58-60b in FY26, aided by the flow of rent from new assets at Gurugram and Chennai.

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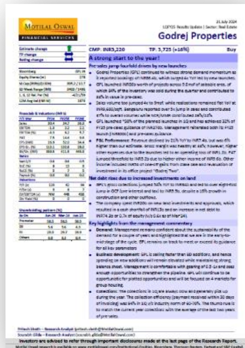

Godrej Properties — Buy

Current Price INR 2,925

- **Demand:** Management remains confident about the sustainability of the demand for a couple of years and highlighted that we are in the early-timid-stage of the cycle. GPL remains on track to meet or exceed its guidance for all key parameters
- **Business development:** GPL is selling faster than BD additions, and hence spending on new additions will remain elevated while maintaining strong balance sheet. Management is comfortable with gearing of 0.5-1x and sees enough opportunities to strengthen the pipeline. GPL will continue to be opportunistic for plotted opportunities and will be focused on 4 markets for group housing.
- **Collections:** The collections in 1Q are always slow and generally pick up during the year. The collection efficiency (payment received within 30 days of invoicing) was 94% in 1Q v/s industry norm of 60-70%. The thumb rule is to match the current year collections with the average of the last two years of pre-sales.
- **Margin:** GPL will continue to focus on margin improvement, and the margin in 1Q was slightly above the FY24 level. On an annual basis, the imputed margin will be around FY24 level, with an upward bias.

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Kolte Patil Developers — Buy

Current Price INR 394

- **Guidance:** So far in FY25, the company has launched INR15b worth of projects and it remains on track to launch INR80b of inventory and achieve bookings of INR35b in FY25. As a result, the quarterly sales run rate of
- INR7-7.5b will increase in 2Q.
- **Profitability:** KPDL expects to recognize INR18-19b in revenue in FY25 and would report EBITDA margin in early teens. As a framework, the company targets GM of 26-27%, EBITDA of 17-18% and PAT margin of 10-11%.
- **Business development:** A few deals have reached the advanced stage of negotiations and the management is confident of achieving BD of INR80b.
- The company has learned the dynamics of the redevelopment segment as it has delivered three projects, with five currently ongoing. It now aims to take on large projects.

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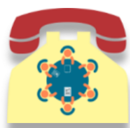

Macrotech Developers — Buy

Current Price INR 1,240

- **Demand:** LODHA noted that demand has been consistent across segments and a premiumization trend is emerging. The company had 24k footfalls with 8.2% conversion vs. 7.3% in 1QFY24.
- **Market diversification:** LODHA is approaching the end of its pilot phase in Bengaluru with the success of two projects. The management is now evaluating new city that can be a potential market for LODHA and will decide by end of FY25. Within MMR, the company has strong presence in north Thane and intends to penetrate the southern region with recent acquisitions.
- **Township projects:** The Airoli freeway is expected to open in FY25 and the Navi Mumbai airport in FY26. LODHA intends to benefit from improved connectivity by developing premium housing at Palava in addition to mid income development currently underway. In FY25, LODHA targets 20% growth in bookings from township projects.

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Mahindra Lifespace — Neutral

Current Price INR 578

- **New launches:** Management is aiming to launch over INR35b worth of inventories across seven projects in the next three quarters. The key among them include Kandivali Phase 2, Malad redevelopment, Citadel, Pune phase 3, and the plotted project in Jaipur.
- **Business development:** MLDL signed INR20b worth of projects, and it currently has a pipeline of INR200b. Hence, management does not wish to chase new deals and its focus remains on signing projects that fit the profitability framework, especially given that the expectations of land owners have intensified. In FY24, the company spent INR8.5b on BD, and the spending for FY25 will be similar or lower.
- **P&L:** Most of the projects currently getting completed were launched before FY20. These projects are HCL TEHCL either in the affordable segment or have faced multiple execution challenges and hence, will continue to drag the P&L performance for a few quarters more. However, the profitability will improve from FY26.

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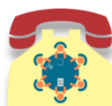

Oberoi Realty — Neutral

Current Price INR 1,744

- **Launches:** The Pokhran Road, Thane project remains on schedule for launch during the festive season. Additionally, there are plans to launch a new tower at Borivali and Goregaon in 2HFY25. The Gurugram project along with Adarsh Nagar, Worli and the Tardeo project will be launched in FY26.
- **Annuity portfolio:** The company is witnessing a strong leasing traction across all three office assets, and they can be fully leased out by the end of FY25. OBER is also hopeful to achieve ~90% occupancy in the Borivali mall in FY25.

- **Glaxo land, Worli:** The project has a development potential of 1.6-1.8msf carpet area, and management has decided to build a mixed-use annuity project, which would include 0.6msf of mall, a boutique hotel of ~80-100k sqft, and ~1msf for office development.

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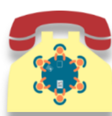

Phoenix Mills — Neutral

Current Price INR 3,503

- **LFL consumption growth:** The consumption in mature malls was hit by the elections, infra development in the vicinity, and harsh summer. Management is not seeing any structural reason for the slowdown and is undertaking various asset upgradation initiatives, which would enhance the experience and attract footfalls. The result of such measures is already visible in the improved performance of the Kurla mall.
- **Business development:** All the assets within the current pipeline will be delivered by FY27, and it is currently evaluating opportunities that can support growth beyond FY27. It is at an advanced stage of closing a deal in South India and intends to build a large 1msf project in the first phase of this asset.
- **Status of key upcoming assets:** Thane and Bengaluru lands are under the designing stage, and the development mix is not yet finalized. Management intends to launch the residential project in Kolkata in 1-2 quarters. The excavation is complete for the Surat Mall, and construction is underway, which would take three years to complete.

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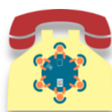

Prestige Estates — Buy

Current Price INR 1,739

- **Demand and guidance:** PEPL had a very minimal inventory to sell as the new launches were hit by regulatory delays, and hence, bookings look muted in 1QFY25. Demand continues to remain strong, and the company has enough pipeline to capitalize on it. Management is confident of meeting the 20-25% growth guidance in bookings and can even exceed it if launches occur on time.
- **Cash flow and QIP:** The funds will be utilized for growth as well as debt repayments. The residential business has INR50b debt due to the land acquisitions in NCR, Mumbai, Bengaluru, and Goa. In the next six quarters, the segment should have surplus cash, as these projects will be launched and the annuity business enjoys a comfortable debt level. PEPL generated an OCF of INR12b and incurred INR8b on capex along with INR15b on BD. The net outflow for the quarter was INR13b and hence, debt rose to INR82b (v/s INR70b in 4QFY25).
- **EBITDA margin:** PEPL usually generates 22-24% EBITDA margin, which would expand to 27-28% due to price hikes. It booked an MTM gain of INR0.9b in Nexus REIT, and a higher proportion of better-margin projects led to a higher margin in 1Q.

- **Office and mall:** The office segment is also doing extremely well, with most of the assets having 90%+ occupancy, except for a few recently completed assets. Additionally, operational retail malls are 95-97% occupied.

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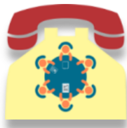

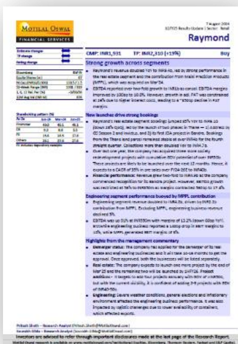

Raymond — Buy

Current Price INR 1,890

Corporate restructuring exercise

- Demerger of lifestyle business completed. Listing will happen in 2QFY25.
- Demerger of Real estate segment will be completed in next 14-16 months.
- Engineering business restructured
- Demerger will allow residential business to individually pursue growth trajectory

Real estate

- Maintained its upward momentum, which is expected to continue.
- Higher demand for affordable luxury segment.
- Initial response in first two towers of Bandra JDA project was overwhelming and hence launched two more towers.
- Selected as preferred developer for a society redevelopment project in Bandra E, making it the fourth non-Thane project.
- Margins were lower due to marketing and initial cost of new projects.
- Will continue to focus on growth through JDA route to target 20-25% growth.
- Fest in Thane and Bandra launch led to higher marketing costs.
- There is difference in margins between Thane and non-Thane. Expects margins of around 20-25%. Margin will improve over the construction period. Price hikes are yet to be incorporated in margins.
- One of them is likely to be launched by Mar'24end. By 1HFY26, all of them will be launched.
- Project addition target – Targeting 4 projects with over INR50b GDV potential every year, but 2-3 projects with GDV of INR40-50b should be a comfortable target. There is enough visibility on the same currently.
- Debt and cash flow position
- Net cash surplus of INR618cr. INR1488cr of cash and cash equivalents
- Gross debt at INR870cr
- Interest costs stood at INR31cr, higher because of debt taken for the acquisition of MPPL.

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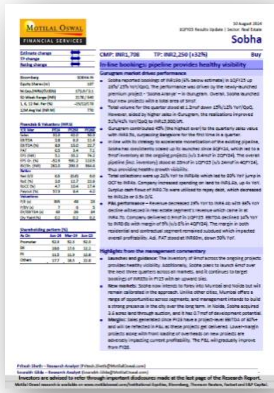

Sobha **Buy**

Current Price INR 1,689

- **Launches and guidance:** The inventory of 9msf across the ongoing projects provides healthy visibility. Additionally, Sobha plans to launch 6msf over the next three quarters across all markets, and it continues to target bookings of INR85b in FY25 with an upward bias.
- **New markets:** Sobha now intends to foray into Mumbai and Noida but will remain calibrated in the approach. Unlike other cities, Mumbai offers a range of opportunities across segments, and management intends to build a strong presence in the city over the long term. In Noida, Sobha acquired 3.6 acres' land through auction, and it has 0.7msf of development potential.
- **Margins:** Sales generated since FY23 have a project-level EBITDA of 30%+ and will be reflected in P&L as these projects get delivered. Lower-margin projects along with front loading of overheads on new projects are adversely impacting current profitability. The P&L will gradually improve from FY26.

RETAIL

- **Retail: Continued demand slowdown fueled by heatwaves, election headwinds has impacted footfalls/productivity in 1QFY25, and hence revenue remained subdued (largely negative to single-digit positive). Exceptions were Trent/V-Mart/DMart. Sector-wide management commentary indicated recovery from 2HFY25.**
- **QSR: The Quick Service Restaurant (QSR) industry continues to face demand challenges, grappling with weak unit economics and intense market competition. There has been some improvement in the delivery channel, driven by increased traffic, while dine-in demand is still weak. We remain cautious about the anticipated demand recovery in the 2HFY25. Margins have also been negatively affected. Despite these challenges, management is maintaining its guidance for store expansion in FY25.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Business scenario and outlook FY25	Footprint addition
Aditya Birla Fashions*	■ The management anticipates an improved demand environment in the upcoming wedding and festive seasons. ■ The management expects the Lifestyle business to continue growing at a double-digit rate. ■ The company is focusing on transforming the TCNS brand and have been yielding positive result. The management expects TCNS to turn profitable in 2HFY25.	■ In Pantaloons, the management guided to open ~25 stores during the year. The majority of the stores will be back ended (in 2HFY25). Pantaloons will focus on metro and Tier 1-2 cities, while Styleup will focus on other areas.
Shoppers Stop	■ Management expects double-digit revenue growth fueled by ~8-9% area additions and SSSG. The mid-single-digit (pre-Ind-AS) EBITDA for FY25 will be driven by rationalization of larger-sized stores and cost optimization. SHOP expects the beauty segment to grow 12-15% for FY25. ■ For FY25, the company expects to incur INR2.25-2.50b on capex, including the shifting of a warehouse. The capex will be funded by borrowings of INR1b and internal accruals.	■ Management guided 11 (gross) departmental store additions and rationalization of 4-5 stores in FY25. ■ For Intune, it will add 75 stores in FY25, with a target to add 20+ stores in 2Q. Its focus will be to open stores with a high RoCE and a shorter payback period.
V-Mart	■ The management expects better demand trends going forward as employment is picking up on the ground level. In addition, the management is hopeful as the festive season begins in 2Q, compared to 3Q last year. The management is getting a good response in July, similar to 1Q. ■ The company guided for SSSG of ~10% or high single digits, which should bring back pre-Ind-AS EBITDA margin of ~8.5%.	■ The management plans to add 50 new stores in FY25. While most of the unprofitable store have already been closed now, 3-4 closures are expected.
Bata	■ BATA's focus is on the emerging trend of Sneakerization, Casualization, and fashion. Overall, Casualization and Sneakerization's contribution was 50-55%. BATA targets to reach 60-65% in the next three years. ■ SSSG in COCO was single digit negative. The company target for a mid to high single digit SSSG where it expects to see efficiencies.	■ The company guided to add 40-50 EBOs every quarter. The franchisee model will be the dominant driver in this expansion. Of the new expansions, almost half of the franchisees are coming from the existing partners. ■ For Power, in the next two quarters, the company aims to add 100+ stores. BATA targets to add 15 EBO stores by Dec'24 (currently two EBOs). 2QFY25 will see 4-5 additions. ■ For Floatz, BATA has 16 Kiosks at present and aims to double this in the next two quarters. The size will be 100-150 sq ft.
Campus	■ The company saw higher sales of open footwear (ahead of anticipated) largely led by seasonal factors like heatwaves. ■ Volumes increased 3% YoY to 5.8m led by open footwear; however, the ASP declined 7% YoY to INR585 due to a change in mix towards open footwear.	■ The company added 13 new EBOs during the quarter taking the total to 275+. The addition includes seven COCO and six franchisees. The company will maintain mix at 65-70% COCO and 30-35% franchisee.
Metro Brands	■ Given the subdued 1Q, the management has guided for 12-15% growth. However, in the long term, the company reiterated its guidance of 15-18% growth, 55-57% gross margin, 30-33% EBITDA margin and 15-17% PAT margin.	■ The company is expected to open 100/225 stores (excluding FILA but including Footlocker) in the next one/two fiscal years.

Company	Salient takeaways	Outlook
Titan	■ TTAN hopes that the recent moderation in gold prices will provide relief on gross margins, especially for studded products. ■ Customs duty reductions could result in a maximum loss of INR5.0b-5.5b over the next six months, which will flow through the P&L.	■ The company aims to open 40 to 50 Tanishq stores and 70 to 80 Mia/Caratlane stores. In addition to these plans, the company will transform 20 to 30 stores into significantly larger stores.
Vedant Fashions	■ The company saw positive like-for-like growth in Jul'24. The management expects the business to normalize and is optimistic given festivities and wedding season ahead. ■ VFL plans to launch its new festive brand in the next 2-3 months. It will be a soft launch aimed at dealers and online channel. As it gains traction, the management will evaluate the EBO strategy for the brand. ■ VFL has partnered with McCann for marketing and branding. The company maintains its spending target of 5-6% in FY25 for A&P.	■ The company will add a higher number of stores in 2H. It has maintained its guidance to achieve 14-15% area addition in FY25.

KEY HIGHLIGHTS FROM QSR- CONFERENCE CALL

	Salient takeaways from the 1QFY25 performance	Outlook
Jubilant Food works	■ The delivery channel revenue rose 15.7% YoY, driven by delivery LFL growth of 12.1% YoY. Dine-in channel revenue declined 5.7% YoY. ■ The company's sharp focus on delivery value to the consumer helped deliver an 8.5% YoY growth in Domino's India, driven by 3% LFL growth. ■ SSS has been turning positive, and it has been close to 1.5-2.0%.	■ For FY25, Domino's plans to open 180 stores in India, 50 in Turkey, and 20 in Bangladesh. It also aims to open 70 COFFY stores, 50 Popeyes stores, and 25 Hong's Kitchen outlets.
Devyani International	■ The consumer demand remained subdued in 1Q as observed in the QSR industry. The continued devaluation in the Nigerian currency hit the international performance in 1QFY25. ■ Pizza Hut India launched marketing initiatives across digital platforms and diverse channels to strengthen the competitive intensity and connect with the younger generation.	■ It expects the demand scenario to improve during the festive season. There has been a continued focus on the value-driven portfolio to fuel the growth. ■ The company is on track to reach 2,000 stores network by FY25.
Sapphire Foods	■ The company took a small 1% price increase, but not across the brand, and cut prices for some SKUs. ■ Consumer behavior is shifting, with an increase in delivery, which is becoming a more preferred option and having a more significant impact than the decline in dine-in.	■ The companies are making efforts to improve dine-in, including specific menus, value offerings, and lunch advertising to attract customers. ■ The management remains cautious about the store expansion of PH and has added only 1 store so far in CY24 ■ Sapphire aims to achieve 500 KFC stores by Dec'24.
Barbeque Nation	■ The operating environment remains challenging in 1QFY25. SSS declined 7.4% partially due to the impact of the offer-led volume growth in 1QFY24. ■ The network rationalization (18 store closures in FY24) also led to ~4% revenue decline. ■ In Apr'24, the SSS reported a double-digit decline, which improved in May and Jun'24.	■ Management guided ~68% GP margins for FY25. ■ The management's goal is to open 100 new stores (10 in BBQ International, 40 stores in Premium CDR (Toscano and Salt) and 50 in BBQ India) over the next three years and reach 325 stores by FY27.
Restaurants Brand Asia	■ There was a 2.7x surge in users for dine-in orders via app in 1QFY25 over 1QFY24, driven by exclusive offers on app for dine-in. ■ The company launched the BK Pizza Puff, a vegetarian snack, in the northern markets about eight weeks ago, which has done very well on blind product tests. ■ Popeyes Indonesia has strengthened the digital experience and launched an app in mid-Jun'24.	■ The company expects a strong recovery in the 2HFY25, with higher traffic and SSSG. ■ The company targets to open 510 restaurants by the end of FY25 and 700 stores by FY27. ■ The Indonesian business posted a cash loss of INR69m in 1Q. It targets a cash breakeven in FY25. ■ Gross profit was 67.6% in 1QFY25, and the company aims to increase it to 69% by FY27, driven by increasing profitability in the delivery business.

Westlife Foodworld

- Off-premise business grew 6% YoY, led by Delivery & Drive thrus. Off-premise contribution was 42% to total sales. The off-premise segment experienced same-store sales growth.
- ROM and operating EBITDA margin were lower due to operating deleverage and royalty expenses.
- The company is aiming for a 15-18% contribution of McCafé to the total business by 2027.
- The company has guided 18-20% EBITDA margin by FY27.
- It targets to open 45-50 stores in FY25 with a focus on South India, smaller towns, and drive-thru stores. It aims to reach 580-630 restaurants by FY27.

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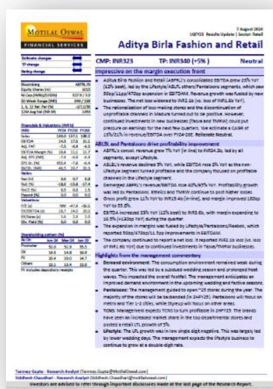

Aditya Birla Fashions — Neutral

Current Price INR 318

- **Demand environment:** The consumption environment remained weak during the quarter. This was led by a subdued wedding season and prolonged heat waves. This impacted the overall footfall. The management anticipates an improved demand environment in the upcoming wedding and festive seasons.
- **Margin:** The Lifestyle and Pantaloons businesses saw margin expansion led by GM improvement and cost-control measures.

Lifestyle segment:

- The segment was hit by weak wedding season and it witnessed a prolonged weak demand environment.
- The margin expanded marginally led by sustained cost optimization and better discount control
- The LFL growth was in low single digit to negative. This was largely due to lower wedding days.
- The management expects the Lifestyle business to continue growing at a double-digit rate.

Pantaloons:

- Retail LFL growth stood at 2%.
- The company is focusing on improved product offerings, better retail experience, initiatives around merchandise planning, product value announcement, tight inventory management and improved consumer outreach which is helping clock good KPI for the segment.
- Margin improvement is a result of superior execution on merchandising side, gross margin enhancement through better quality product, better intake margin, superior inventory management leading to lower markdown and discounting.
- Private labels stood at 66%.
- The management guided to open ~25 stores during the year. The majority of the stores will be back ended (in 2HFY25).
- Pantaloons will focus on Metro and Tier 1-2 cities, while Styleup will focus on other areas.

TCNS:

- The company is focusing on transforming the brand and have been yielding positive result. The management expects TCNS to turn profitable in 2HFY25.
- The brands have seen an improved market share in top departmental stores and posted a retail LTL growth of 5%.
- The deep correction is almost over or might continue for one more quarter.
- The greater shift in momentum will happen in H2. The optimism in departmental stores regarding Q2 is visible.
- **Reebok:** It has a strong headroom for growth. It is already present in 172 stores. It is consistently launching newer products while expanding its distribution

across channels. The growth will be coming from the retail expansion and through the distribution and MBOs.

Others:

- **Focus area**: The company will focus on improving profitability, channel strategies and improving the distribution network.
- The merger between TCNS and ABFRL is on track and NCLT has approved the same. The company is waiting for the court order.
- Pat remained negative led by continuous investment in Ethnic and TMRW.
- American Eagle's growth was led by distribution expansion.
- The innerwear segment recorded growth, while athleisure segment continued to decline with some signs of recovery. The athleisure segment is undergoing base correction in the country post Covid.
- The Net Debt position as at end of Q1 is INR 35b.
- **Bangladesh:** The company faces no material impact on sourcing from Bangladesh. Only 2-3% of inputs comes from Bangladesh.
- The EBO count stood at 550-600.
- The quarter saw consolidation of stores in some smaller towns. The company closed some stores where lease agreements were expiring, and opened newer stores probably of a bigger size.

Barbeque Nation Hospitality — Neutral

Current Price INR 662

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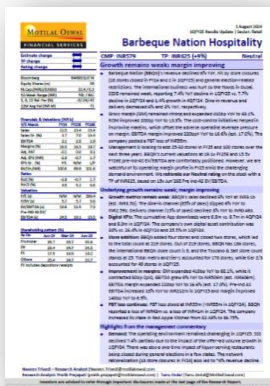
Barbeque Nation Hospitality

Business environment

- The operating environment remains challenging in 1QFY25. SSS declined 7.4% partially due to the impact of the offer-led volume growth in 1QFY24.
- There was also a one-time impact of liquor-serving restaurants being closed during general elections in a few states.
- The network rationalization (18 store closures in FY24) also led to ~4% revenue decline.
- The MoM improvement was seen in SSSG in the first four months of FY25.
- In Apr'24, the SSS declined in double-digit which improved in May and Jun'24.
- The same store sales declined only ~3% in July despite a seasonally weak quarter.
- The International business's SSSG was hit partially by the floods in Dubai.
- The Dine-in revenue was hit by the demand decline in the value segment.
- The premium CDR (Toscano and Salt) has delivered SSSG in FY24 and remained flattish in 1QFY25.
- The company has increased its stake in Red Apple Kitchen from 82.43% to 86.75%.

Cost and Margins

- The GP margin expansion of 410bp was due to reclassification of costs, pricing, benign input costs, and structural improvement in the business. However, sequentially GP margin was down 80bp due to the rise in chicken prices.
- Management guided ~68% GP margins for FY25.
- There will be no major effect on GP margins due to rise in vegetable prices. It affects majorly from the prices of chicken basket.
- The matured stores deliver ROM (Pre-Ind AS) of ~16% while new stores deliver ROM (Pre-Ind AS) of ~ 8%.

Store expansion

- In 1Q, four new restaurants were opened, while two restaurants were closed.
- Currently, company has 219 stores across 85 cities. (186 BBQ India, 17 Toscano, 8 Salt and 8 in BBQ international).
- Company plans to open 25-30 stores in FY25 and reach to 240-245 stores.
- There are eight restaurants under construction, which will commence operations in 2QFY25 and 3QFY25.
- The management's goal is to open 100 new stores (10 in BBQ international, 40 stores in Premium CDR (Toscano and Salt) and 50 in BBQ India) over the next three years and reach 325 stores by FY27.
- Capex requirement for opening a new store is INR30m. The break-even and payback period of new store is three years.

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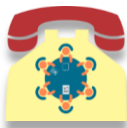

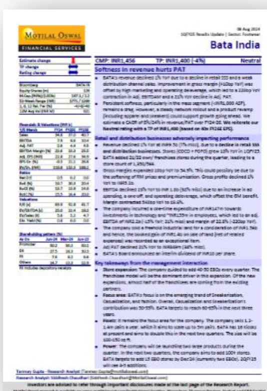

Bata India — Neutral

Current Price INR 1,420

- Demand environment: The company saw good momentum initially during the quarter (April-May), however, the momentum declined during the later part largely led by heat waves, election headwinds and lower weddings.

Floatz:

- The contribution from Floatz to retail business is 4.5-5.0% currently.
- The brand is showing good traction and clocking QoQ highest sales.
- The company sells 1.2-1.4m pairs a year, which it aims to scale up to 5m pairs.
- Floatz Kiosk: BATA has 16 Kiosks at present and aims to double this in the next two quarters. The size will be 100-150 sq ft.

Power:

- The brand is showing good traction and targets the Athleisure space.
- The company will be launching two large products during the quarter.
- In next two quarter the company aims to expand to 100+ stores.
- Power EBO: It started first Power EBO in north and launched second EBO in NCR. The feedback from the customers are positive. They are compact stores of <1000 sq ft. The company aims to expand to 15 EBO store by Dec. Q2 will see 4-5 stores addition.

Expansion:

- The company guided to add 40-50 EBOs every quarter.
- The franchisee model will be the dominant driver in this expansion.
- Of the new expansions, almost half of the franchisees are coming from the existing partners.

- BIS: This is effective from 1st Aug'24. The norms cover 90% of the product in Bata. The company have successfully transitioned to BIS norms in terms of sourcing and manufacturing base.

Price point:
- The products sales >INR2,000, contributed 25%
- >1000 to 2000 sales contributed 60%
- The value segment of INR500, which was largely led by distribution business, contributed 15%
- Some signs are visible on the value side and the management sees the value segment turning around.
- Campaign: The company did the "try and fly" campaign to push for footfalls and get the momentum back. It also did a social media focused launch of ninewest with influencers. It also did a campaign on floats, for the season. This led to other expenses slightly on higher side.
- EBITDA: The company charged a one-time ERP expense to P&L. There was also a one-off in employee cost. The marketing campaign were also slightly higher during the quarter. This had a cumulative effect of ~300-320 bps on the margins.

Ninewest:
- It is present in 50 stores and the company looks to expand to 70 stores in Bata network.
- The company has a royalty agreement with the brand. It is end to end contract right from manufacturing to retail.
- Launched 2 quarters back, Ninewest is based to strategies 2-3 areas viz athleisure, casualization and high fashion premium. The company target to penetrate these areas with Ninewest.

Others:
- The company has 25:75 for Own manufacturing v/s outsourced. Two years back it was 35:65.
- The company continued its investment on store renovation during the quarter. It renovated 40 stores compared to 20-25 run rate.
- The company postponed EOSS sale in June compared to LY.
- Franchisee and ecommerce grew the fastest among categories. Distribution business was relatively laggard among them.
- SSSG in COCO was single digit negative. The company target for a mid to high single digit SSSG where it expects to see efficiencies.
- The company's focus is on the emerging trend of Sneakerization, Casualization and fashion. Overall, Casualization and sneakerization contribution is 50-55%. The management targets to reach 60-65% in next 3 years.

Campus Activewear Buy

Current Price INR 288

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Open footwear:
- The company saw higher sales of open footwear (ahead of anticipated) largely led by seasonal factors like heatwaves. Open footwear majorly included Sandals and Slippers.
- The price range in open footwear starts from INR499 to INR999. The difference in ASP will be INR150-200 for open v/s closed.

- The share of open footwear stood at 22% v/s 18% YoY.
- LFS: The Company strengthened its distribution channel by adding LFS account. LFS is fast growing channel for Campus. Though it is small contributor the company's focus is to add big LFS partner going forward.

Distribution:
- The company has strengthened its distribution side by adding a few more super stockiest and eight new distributors.
- The dip in trade distribution was due to open footwear sales-driven lower ASP. In terms of volumes, the channel grew YoY. Management expects to keep the mix at 50:50 going forward.
- EBO: The company added 13 new EBOs during the quarter taking the total to 275+. The addition includes seven COCO and six franchisees. Along with footwear, it also sells backpacks, socks and caps in its EBO. The decision to include apparel will be taken once the company reach to a sizeable amount of EBO. The company will maintain mix at 65-70% COCO and 30-35% franchisee.
- ASP: The ASP decline was largely led by the higher share of open footwear. Management does not expect the ASP to increase considerably in FY25; however, as demand picks up, management is hopeful of the ASP to improve.
- Price point: During the quarter, contribution from <INR1000 sales increased from 27% to 30% YoY, for INR1000-1500 the contribution increased from 25% to 30% while for >INR1500 it declined from 46% to 40% YoY.
- Industry: S&A is the fastest-growing category across footwear for the last six years. Lower double-digit growth is expected as demand recovers. The company is expected to grow in line or faster than the category.
- Geographic: North saw a slight decline in YoY primarily due to heat wave. West and South grew 4%. While East was flattish, Central grew 6 to 7%.

BIS:
- It is fully effective from 1st Aug'24, while the mandated time to liquidate the inventory is the end of Jun'25.
- The cheap imports have reduced. Campus is fully compliant with the BIS norms. The cost impact on BIS for the company is very small. Smaller players will have a cost impact of BIS.
- For SME with <INR50cr turnover there is no timeline. They are not falling in the BIS compliance bracket.

Channel mix:
- For MBO, the company recorded two consecutive quarters of 4.5% plus volume growth. In online sales, the marketplace grew by 24% YoY while all other online channel saw decline. Overall, online sales decline was 5%. The D2C (EBO) grew 8%.
- The decline in online sales is expected to end this quarter as the corrected base (Q2FY24) will come into play.
- Strategy: Distribution will focus on volume growth while EBO, online channels will focus to drive premiumization.

Others:
- The company launched 78 new designs during 1QFY25.
- Channel inventory: The channel inventory was at normal level at 60 days.
- Men v/s Women/Kids: The mix changed from 80:20 in previous year to 77:23 which is in line with the company's strategy.

- Addition of stores staff and inflation in increments impacted employee cost.
- Sneakers: The portfolio have grown by 120% on low base. The demand and acceptance in market is huge. Going forward the company will focus on these categories also along with Women and Children.
- The management in noticing decent recovery in demand post July.

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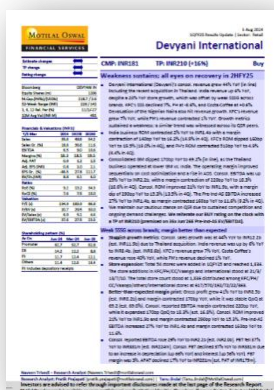
Devyani International
CMP: INR181 TP: INR210 (+16%) Buy

Devyani International — Buy

Current Price INR 175

Business and Environment

- The consumer demand remained subdued in 1Q as observed in the QSR industry.
- The continued devaluation in the Nigerian currency hit the international performance in 1QFY25.
- It expects the demand scenario to improve during the festive season.
- There has been a continued focus on the value-driven portfolio to fuel the growth.
- The focus area remains on product innovation, optimizing marketing spends, value layer, menu instruction, and promotions to deliver margins.
- Company expects that there will be improvement in dine-in business of KFC and Pizza hut.
- The food court opening, in partnership with PVR, will start from 4QFY25.
- Company is on track to reach 2,000 stores network by FY25.

Cost and Margins

- Gross margins contracted due to the acquisition of The Thailand business. The Thailand business gross margin (~64%) was less than the India business margin (~72%).
- There was a sequential improvement in EBITDA margins, led by cost optimization, increased ADS, and reduction in Nigerian currency devaluation (10% reduction in 1Q, 32% reduction in 4Q).

Segmental Performance

KFC India

- It added 21 stores during the quarter and plans to add 100 stores in FY25.

PH

- PH added three stores during the quarter. It has taken a cautious expansion strategy for store addition.
- Pizza Hut India launched marketing initiatives across digital platforms and diverse channels to strengthen the competitive intensity and connect with younger generation.
- Launched Thin N Crispy pizza crust which helps in driving sales during the holiday season.
- Company has invested behind the PH resulted improvement in the ADS and will continue to invest.

Costa Coffee

- Added 13 stores during the quarter and plan to add 50-60 stores in FY25.
- Costa Coffee's SSS was moderate due to continuous store expansion and also there is some disruption in the food supply.

KFC (Thailand)

- Thailand's SSS is positive despite the south Thailand store being impacted by the geopolitical issues.
- KFC's Thailand brand is at a lesser premium than India, therefore the number of transactions is higher in Thailand.

Jubilant Foodworks — Neutral

Current Price INR 648

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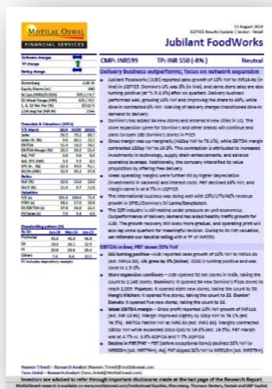

Business environment

- There has been no major improvement in the underlying demand situation. Growth was led by delivery channel initiatives like free delivery and Lunch Feast (meal at INR99).
- The monthly active users were high at 12.1m (+17.5% YoY), with higher new customer acquisitions (+32% YoY).
- The delivery channel revenue rose 15.7% YoY, driven by Delivery LFL growth of 12.1% YoY.
- Dine-in channel revenue declined 5.7% YoY. However, on a sequential basis, it grew 4.6% (+1.7% LFL QoQ) on account of double-digit growth in orders.
- The company has taken no price hikes in the last eight quarters.
- In 1QFY25, JUBI absorbed the inflation impact with internal cost optimization and productivity enhancement programs.
- The company's sharp focus on delivery value to the consumer helped deliver an 8.5% YoY growth in Domino's India, driven by 3% LFL growth.
- SSS has been turning positive, and it has been close to 1.5-2.0%.
- The company believes that providing value to consumers is crucial in this environment to acquire new consumers and retain existing ones.
- The company waived off delivery fees, which has enhanced the value quotient of customers materially.
- There are no plans for price increases, and the focus is on giving more value to gain more share.

Costs and margin

- The company is focusing on driving margin expansion in India and expects margins to improve from the last quarter (19.1% in 4QFY24).
- Gross margins of the DP Eurasia (64-65%) business are structurally lower than JFL standalone (76%) due to the franchisee-driven business model.
- Standalone EBITDA margin would be ~19.8% adjusting the political contribution.
- The company has worked to reduce the cost of goods sold, resulting in healthy margins compared to competition.

Product innovation

- Three new products launch in Domino's India – 1) 4 course meal starting INR99 - Lunch Feast, 2) Innovation for Cheese lovers: Cheese Volcano, and 3) New Beverage Range- Chillrz
- In Dunkin, company launched new Bubble Teas range which is driving up the beverage mix.
- They introduced three new wraps starting at INR99 in Hong's Kitchen, further bolstering the successful home kitchen wrap range.
- In Bangladesh, Company launched a new range of Saucy and Messy Pizza.

Guidance

- There is no change in the company's network guidance.
- Management plans to open 180 stores for Domino's India, 50 for Domino's in Turkey, and 20 for Domino's in Bangladesh in FY25.
- In COFFY, management plans to open 70 stores, 50 stores for Popeyes restaurants, and 25 Hong's Kitchen outlets.

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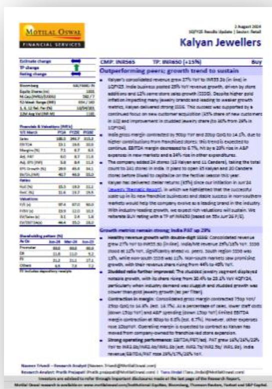

Kalyan Jewellers — Buy

Current Price INR 548

Demand environment and outlook

- Despite ongoing gold price volatility and general elections across the country, demand was healthy in 1Q.
- Jul'24 also has seen healthy demand thanks to the recent reduction in customs duty, which will further drive demand.
- India SSSG is expected to be strong in 2Q compared to 1Q (12% SSSG).
- Customer additions continue to stay healthy; share of new customers was over 35% in 1QFY25.
- South revenue increased by 18% with 13% SSSG.
- Non- south revenue rose 42% with 11% SSSG.
- Non-south revenue contribution was 49% in 1QFY25 vs. 44% in 1QFY24.

Growth in studded (+35%) was higher than gold revenue (+26%).

- The studded share improved and reached 30% in 1QFY25 vs. 29% in 1QFY24.
- Due to customs duty reduction, there will be overall impact of INR1.2-1.3b in the profitability in 2Q and 3Q. It does not include the franchisee showrooms.
- Kalyan has concluded the sale of assets and received INR1.1b.
- The management expects to achieve same store sales in mid- to high-single digits in the medium term.

Cost and margin

- The marginal improvement in showroom GP margin was driven by the higher studded ratio. However, the overall GP margin declined due to an increase in the revenue contribution of franchisee stores.
- The interest cost rise was largely due to lease interest, which increased with the number of showrooms.
- The management expects to reach 5% PBT margin (consolidated) in FY25.

Store Expansion

- In India, the company opened 13 Kalyan showrooms and reached 217 stores in 1QFY25. In Jul'24, 5 Kalyan showrooms were opened.
- 11 new Candere showrooms opened in 1QFY25 and 2 in Jul'24. It plans to open 50 Candere store in FY25.
- It is on track to open 35 Kalyan and 20 Candare showrooms before Diwali.
- Kalyan will open 80 showrooms in FY25, mainly in non-south and tier 2 and tier 3 cities.
- Capex of first 30-35 showrooms will be done by Kalyan and the remaining by the franchisee partner.
- Kalyan has completed conversions of three owned showrooms in south India to FOCO, and few more are planned during FY25.

International business

- ME revenue rose 16%, driven largely by SSSG of 10%.

- Finance cost in ME was higher due to a rise in overall interest rates in the region.
- Added 3 new showrooms in 1Q and reached 36 showrooms.
- Kalyan is entering the US market and the first showroom in the US is expected to open soon. It will be a company-owned showroom.

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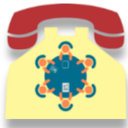

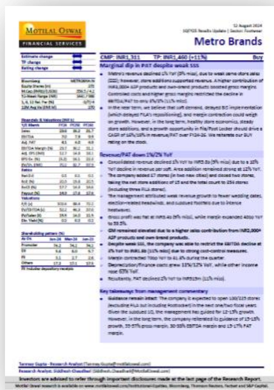

Metro Brands — Buy

Current Price INR 1,382

- Guidance: The company expects to open 100/225 stores (excluding FILA but including Footlocker) in the next 1-2 fiscal years. Given the subdued 1Q, the management has guided for 12-15% growth. However, in long term, Metro reiterated its guidance of 15-18% growth, 55-57% gross margin, 30-33% EBITDA margin and 15-17% PAT margin. ASP will increase 2-5% YoY. The management expects the per sqft sales to reach INR18,000-INR19,000 for FY25.
- Current environment: The management is noticing some pick-up in business environment QoQ. However, headwinds persist in some casual footwear, athletic footwear and the Crocs range. It expects SSS to pick up in 3Q as there are no headwinds of disproportionate marriages.
- Fila: The company was able to reduce the loss in Fila by 45% to INR60m. The liquidation of inventory is on track and Metro is expected to relaunch Fila in late Aug'24 or early Sep'24 once the liquidation is over.
- New Era: The product will be sold in Footlocker stores. It is a niche play in the premium category with a price range of INR3k-4k. This segment bodes well with the business. The management expects to launch the first kisok in the next few months. MBL will buy the products at a particular price with certain markup and the inventory risk will be on Metro.
- BIS: The BIS extension has come to an end. The sell-off period is two years. The company is compliant on this. However, there is no clarity for BIS towards Sports division (FILA).
- Conversion: The conversion remains flat across different division and geographies. The management is not seeing any decline in conversion.
- ASP: The ASPs have remained flat on account of higher sales of accessories.

Others:

- The management expects the Walkway format to pick up growth from late FY25to early FY26
- The management targets to get to 100% recycling of all footwear driving business under CSR.

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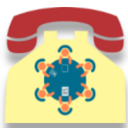

Restaurants Brand Asia — Buy

Current Price INR 109

Business environment

- The company expects a strong recovery in the 2HFY25, with higher traffic and SSSG.
- Table ordering and table services are available at all BK stores, excluding the stores in food court.
- Cumulative 11.5m downloads of the Burger king app were done, reporting 70% QoQ growth.
- There was 2.7x surge in users for dine-in orders via app in 1QFY25 over 1QFY24, driven by exclusive offers on app for dine-in.
- The company is planning to make corrections to their pricing strategy, particularly on the delivery side, to improve profitability.
- Store count in India reached to 456 stores covering 107 cities in 1QFY25.

- The company targets to open 510 restaurants by the end of FY25 and 700 stores by FY27.
- BK café ADS is ~13-14k and targets to be doubled going forward.
- The company is rolling out a new initiative called King's Journey. Currently, 143 active stores offering a 100% digital ordering experience. It targeted to be 100% by Dec’24.

Indonesia business

- The geopolitical crises hit the sales recovery in Indonesia.
- Sales were further hit by the store closure. However, closure of non-profitable stores aided in cost savings and improved operating margin.
- RBA continues its focus on delivery channel to drive the sales.
- Indonesia business delivered a cash loss of INR69m in 1QFY25. It targets a cash breakeven in FY25.
- Popeyes Indonesia has strengthened the digital experience and launched an app in mid-Jun’24.

Cost and Margins

- The company made a conscious decision to prioritize growth through traffic in the 1QFY25, which affected margins, but will focus on improving the delivery-side profitability to reach the 69% target.
- Gross profit was 67.6% in 1QFY25, and the company aims to increase it to 69% by FY27, driven by increasing profitability in the delivery business.

Product Innovation

- The company launched the BK Pizza Puff, a vegetarian snack, in the northern markets about eight weeks ago, which has done very well on blind product tests.
- The company developed a new spicy chicken product, which was tested in an extensive test market for almost two months, and will be launched across the country in the next two weeks.
- The company improved the quality and taste of the Whopper product, with a better buttery, softer bun, and a juicier patty. The company is setting up the supply chain to support the launch and scaling of the new Whopper across the country by the 4QFY25.
- The company is driving new innovation around the dessert category, either through cobranded desserts or through products inspired by local favorites.
- The company is strengthening its portfolio by adding more varieties like grilled wings and grilled sandwiches to its signature video collections. Grilled chicken is considered a unique differentiator and a competitive edge.
- The company has also launched new categories such as cafes, snacking range, pubs, and chicken nuggets, which will help improve attachment to invoices and overall profitability.
- The company has launched New Iced Americano coffee in BK café.

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Sapphire Foods — Buy

Current Price INR 1,595

Business environment

- Demand conditions in the QSR industry have been subdued.
- The company took a small 1% price increase, but not across the board, and cut prices for some SKUs.

- Consumer behavior is shifting, with an increase in delivery, which is becoming a more preferred option and having a more significant impact than the decline in dine-in.
- The companies are making efforts to improve dine-in, including specific menus, value offerings, and lunch advertising to attract customers.
- The delivery mix has improved as KFC and PH stores are now open beyond 12 hours and late into the night, which allow delivery only, resulting in increased delivery sales.

Costs and margins

- Consolidated GM improved 10bp YoY to 68.6%
- Wage inflation is significantly impacting the company's costs.
- If the environment continues to be minus 5% to minus 6% for a long period, the company will see an impact on margins.

Segmental information

KFC

- KFC has been impacted by the shift in the dates of the Navratra festival compared to last year. In FY25, Navratra was in April, whereas last year it was in March.
- This shift resulted in a 6% fall in same-store sales for KFC, mainly because the April month was impacted.
- This would lead to a bigger drop in restaurant EBITDA margin due to operating leverage.
- Delivery mix increased to 40% from 36% in 1QFY24.
- ADS was lower at INR122k, as it included 23 restaurant additions in FY24.
- 95% of KFC menu contribution comes from non-vegetarian items.
- Sapphire launched a special lunch menu priced at INR149, INR199, and INR249.
- Introduced a new veg paneer Zinger burger range in Q1.
- Launched new variants of chicken rolls in the snacking range.
- The company launched an international burger fest, which was a range of five burgers in different sauces.
- It has introduced coffee to the menu, but it is still an early experiment.
- The company aims to achieve margin of 19-20% for KFC.
- Sapphire aims to achieve 500 stores by Dec'24.

PH

- The launch of the "folded" handheld pizza concept, Melts, in Mar'24 supported by a strong mass media advertising campaign, has boosted consumer interest and reversed the ADS decline seen in previous quarters.
- Delivery mix remained unchanged YoY at 50%.
- The app downloads stood at 11.2m, with 0.9m monthly active users.
- Restaurant EBITDA was lower as the company spent more on marketing for brand promotion.
- The company expects SSSG of 5-7% and store addition of 20%, which should result in stable ADS.
- From 4QFY24, there was a seasonal uplift of 6-8% in PH.
- For PH menu, the distribution is 75% vegetarian and 25% non-vegetarian.
- The management remains cautious about the store expansion and has added only 1 store so far in CY24.

Sri Lanka business

- The Sri Lankan economy recovers from macroeconomic uncertainty and high-cost inflation.
- SSSG was up 11%, driven by double-digit order growth.
- Restaurant sales grew by 13% in LKR (up 19% in INR terms).
- Delivery mix was at 38%.

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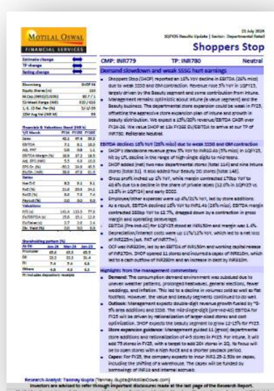

Shoppers Stop — Neutral

Current Price INR 813

Current environment

- The consumption demand environment was subdued due to uneven weather patterns, prolonged heatwaves, general elections, fewer weddings, and inflation. This led to a decline in volumes sold as well as flat footfalls. However, the value and beauty segments continued to do well. Even footfalls were flat.
- K-Shaped growth was witnessed where Luxury/Premium and Value fashion had been outgrowing.
- Commodity prices continue to remain benign, and hence, may negate any price increases in the short term.

Outlook

- Management remains optimistic on its Value brand (Intune) to perform well. The distribution business is also growing well.
- Expect revenue growth of 15% led by 8-9% area additions and the rest by SSSG. Expect stronger demand during festive season, driven by lesser disruptions and higher wedding days (47 Days in 2H vs. 14 in 1H).
- Expectations of better monsoon, and a favorable budget may stimulate near-term growth.

Private brands

- The premium-plus portfolio performed well and recorded LFL growth of 10% and overall growth of 14% during the quarter.
- The slowness in Men's and Women's category has particularly impacted private brands.
- The company discontinued 1.1% some of the private exclusive Brand which were making low margin and not fitting in the redefinition of positioning which the company is currently doing.
- The company is launching autumn winter 2024 season in August (ahead of the previous year). This will ensure 70% full fresh stocks and will help drive revenue and margin.
- The company will work towards inventory optimization in private label.

Intune:

- The Intune segment continued to clock healthy growth. It delivered a strong performance ahead of its internal budget.
- Intune expanded in north, launching two stores in NCR.
- 40% of the stores are in high street, which are on average three months operational
- As of today, the full-fledged pricing is upwards of 80%.
- Guided for 75+ store addition for FY25 while 20+ stores addition will be in 2Q.

Beauty:

- Fragrance continued to outperform with 19% YoY growth. It added comfort and Kate Spread in the fragrance portfolio.
- It launched four SIS for MAC stores during the quarter.
- The company launched 27 brands with eight fragrance brands during 1Q and guided to launch three brands during 2Q.

Optimize EBITDA margins and manage inventory

- Gross margin remained flat QoQ; however, 1% higher gross margin led by Private brands trading was offset by other KPI’s.
- The Intune and Beauty businesses remained EBITDA positive.
- Margins were hit by demand slowdown, which led to operating deleverage.
- Improved full price sale through SS24 range (Spring/Summer 2024 collection) – Strong demand and effective pricing strategy resulted in fewer discounts
- Management expects mid-single digit EBITDA margin (Pre-Ind-AS) for FY25.

Strong store expansion plans

- There were some delays (regulatory) in 4-5 departmental stores, and as a result, the earlier guided addition of 15 stores now stands at 11 (gross). Management expects to rationalize 4-5 stores during FY25. The average store size of new stores size will be 25-30k sqft.
- Management guided to add 75 Intune stores during FY25 with a target to add 20+ stores in 2Q. The average store size is expected to be ~5,000-5500 sqft.
- SHOP’s focus is to open stores with high ROCE and shorter payback period.
- For FY25, the company expects to incur INR2.25b-2.50b on capex including the shifting of a warehouse.
- The company aims to borrow INR1b during the year for the mentioned capex.
- For the next 2-3 years, capex will be in similar lines, which the company will fund internally.

Others:

- LFL growth in the premium brand stood at 10%, while Departmental stores recorded an LFL decline of 6%.
- The company is spending on technology. It is working on an updated version of app and will be relaunching the app and website. The expected launch is on 30th Sept. This will increase the customer experience. Merging two platforms (ss.com and SSB) will also help rationalize cost and same-day delivery will also be possible.
- The company will be implementing a new inventory management system, which will help increase the inventory turn
- On a non-GAAP basis, the overall other expenses increased 10% YoY, while LFL growth was 2-3%.
- The Personal Shoppers have increased from 300 to 400 and expect to increase further. This will help to enhance the customer experience and increase the ATV which is normally 3x the normal customer.

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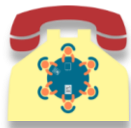

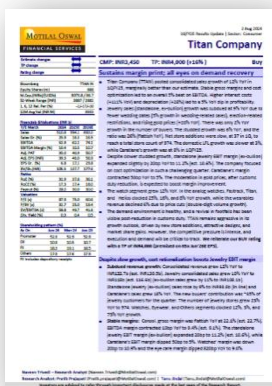

Titan — Buy

Current Price INR 3,560

Performance and Outlook

- The consumption challenge during the quarter was due to fewer wedding dates, election-related restrictions, and rising gold prices.
- Competitive intensity has been increasing in the market, and TTAN expects this trend to continue.
- Jewellery's (Domestic) SSSG for the quarter was 3%.
- Post-budget announcements, several hesitant customers have started buying, leading to a significant upswing in gold and studded jewellery sales.
- Customs duty reductions could result in a maximum loss of INR5.0b-5.5b over the next six months, which will flow through the P&L.
- In the South market, growth is 16% due to continued wedding dates.
- In the north, there has been increased competitive activity from organized players, but their base is small, so they have grown faster than the company.

Costs and margins

- TTAN hopes that the recent moderation in gold prices will provide relief on gross margins, especially for studded products.
- The company's cost-control efforts and overhead management have driven margins up for the quarter.
- TTAN has invested extensively in equipment across all their partners and their own labs and sourcing offices to ensure a secure supply chain.
- The company raised borrowing for the acquisition of a balance stake of Caratlane, with a defined timeline for bullet payments.
- The interest payment for CaratLane's borrowing is INR600-650m per quarter.

Store expansion

- The company aims to open 40 to 50 Tanishq stores and 70 to 80 Mia/Caratlane stores. In addition to these plans, the company will transform 20 to 30 stores into significantly larger stores.
- The company has presence in 270 towns.
- There is a significant opportunity for Caratlane and Mia, as the market for younger, modern audiences in India is around 40-50m addressable people. Currently, they address less than 10% to 15% of this market.
- This quarter, new buyer contribution for Tanishq, Mia, and Zoya (excluding CaratLane) is around 45%.
- There have not been significant inquiries for lab-grown diamonds at Tanishq, CaratLane, Mia, or Zoya stores.

Segmental Information

Jewellery (Domestic):

- Revenue grew ~8% YoY, driven by ~2% more buyers and ~6% higher average spend per buyer.
- New buyers contributed 45% of the quarter's revenue, with a 20% YoY increase in retail growth during the first six weeks, including Akshaya Tritiya.
- Studded jewellery saw a 6% YoY growth.
- EBIT margin improved to 11.2%, up 15bp from 1QFY24, due to stable gross margins and cost optimization.

- Tanishq added 11 new stores, Mia 19, and Zoya 3, with Zoya opening its first stores in Chennai and Pune.

Caratlane

- Revenue increased 17.9% YoY to INR7,540m, with the studded category revenue growing around 23% YoY for the quarter.
- The company launched 412 new designs in 1QFY25 to refresh its offerings and engage both repeat and dormant customers.
- EBIT was INR380m, reflecting a 5.1% margin.
- CaratLane added three new stores during the quarter, bringing the total to 275 stores across 112 cities in India.

Watches & Wearables (Domestic):

- The business grew 13.8% YoY, driven mainly by a ~17% increase in the analog segment, with Fastrack up 25% YoY.
- Titan brand rose ~16% YoY, while Helios saw ~8% growth. Titan World achieved ~13% YoY retail growth despite heat-wave disruptions. E-commerce also showed strong double-digit growth.
- Wearables had double-digit volume growth but a ~6% YoY revenue drop due to lower average selling prices.

EyeCare (Domestic):

- The division grew 2.8% YoY, with a 10% increase in volumes and strong retail growth. T
- Titan Eye+ revenue rose 10% YoY, driven by Value and Affordable Fashion segments, but Trade channel revenue fell 47% YoY. House brands and other categories saw 10% and 13% volume growth, respectively.
- Buyers increased 8%, while average selling prices dropped ~4% YoY. Advertising spend rose ~24% YoY.
- TTAN launched 'Runway', its premium sunglasses store, in Bengaluru and added three new Titan Eye+ stores.

Emerging businesses

- Taneira grew ~4% YoY, mainly due to 4 new stores, expanding to 77 locations in 39 cities.
- SKINN fragrances increased ~10% YoY, supported by a ~7% rise in average selling prices.
- Fastrack and IRTH bags saw double-digit growth, with normalized revenue growth in Fashion Accessories (excluding discontinued belts and wallets) at ~46% YoY.

Others

- The contribution from overseas stores to the jewellery business was 3%.
- TTAN has gained market share in the West. In the North, increased competitive activity by organized players has led to gains from local players.
- There is a strong correlation between wedding purchases and exchanges. Wedding contributions were 21% FY24 and 20% in 1Q, while exchanges were 37% FY24 and 35% in 1QFY25.
- New collections have been infused into high-value studded products, specifically in the INR0.5m and above INR1m range, which is expected to drive growth.

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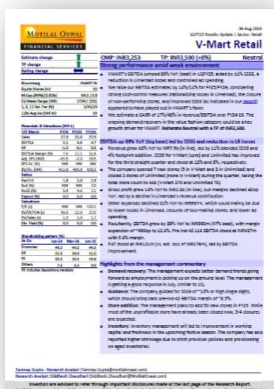

V-Mart Retail — Neutral

Current Price INR 3,649

Demand Environment:

- The management is getting a good response in July, similar to 1Q.
- In addition, the management is hopeful as the festive season begins in 2Q, compared to 3Q last year.
- The retailers, who cater to the higher end of the value segment, are facing some pressure.
- **Company** efforts: The company has been focusing on the GenZ collection, adapting to the changing needs of consumers and focusing on quality. This has enabled it to increase the footfall across stores.

Unlimited:

- The company's pricing approach at Unlimited in the southern market has been well appreciated and the management is gaining confidence from the same.
- Unlimited sales were marginally impacted by store closures (15 stores since last year). Normalizing for the same, sales growth would be 18%, in line with V-Mart sales.

Limeroad:

- The company has opened a Limeroad store in Hubli, Karnartaka, which is a pilot store where the company has tried to bring in more elevated fashion with lighter density of inventory. The prices are same or even lower. It is trying to make a niche market for new generation customers. The management will experiment with the Limeroad brand and plans to open 4-5 more pilot stores. Based on their performance, it will decide on budget allocation next year.
- The company has cut down on marketing spending on Limeroad to make the business sustainable. This affected sales (INR116m vs. INR174m YoY).
- The management expects a QoQ reduction in EBITDA loss (20-30%) of Limeroad over the next few quarters.
- In terms of losses in Limeroad, the management expects this year to be half of previous year.

ASP:

- The apparel ASP grew 3%, led by product mix. ASP declined in South because of a strategic shift toward sharper and more value-driven product pricing.
- The company took its last price hike two years ago. For the last one year, it has been decreasing prices. The management expects ASP to stabilize at these levels.

Margins:

- The decrease in revenue of Limeroad affected the gross margin by 60bp at the company level.
- Overall, lower discounting and LFL growth will help to improve or sustain margin in future, as per the management.
- The management expects FY25 gross margin of its offline business to remain steady YoY.
- The management expects to reach the pre-Covid EBITDA margin of 8-10% once it starts clocking SSSG of 10% or high single digits on a consecutive basis. However, the management is affirmative of reaching the said level at the exit of next year.

- Store guidance: The management maintains the store expansion target of 50 stores. It expects to close 3-4 stores during the year. It aims to open more stores before the festival season.

Others:

- Marketing expenses decreased 59%, primarily led by a decrease in marketing spending in Limeroad.
- As per the management, new stores tend to deliver higher margins. For new stores, the plan is to take the store at the company's EBITDA level within two months of operations.
- About 70% of sales come from repeat customers.
- Geographic performance: Overall, all states saw good growth, while states like UP, Bihar, Uttarakhand, West Bengal and Karnataka saw relatively better traction in footfall.

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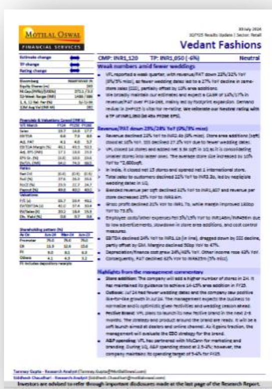
Motilal Oswal
Vedant Fashions

Vedant Fashions — Neutral

Current Price INR 1,169

- **Demand Environment:** The quarter had negligible wedding dates nationally. There were no wedding dates in May-Jun'24. However, Jul'24 was better as the company saw positive like-for-like growth YoY. The management expects the business to normalize from hereon and is optimistic given festivities and the wedding season ahead.
- **Store expansion:** The company now plans to open retail stores in the later part of the year after the subdued 1Q. The company has a healthy pipeline for store rollout. The company maintains its area addition target of 14-15% for FY25.
- **Store closure:** VFL exited five Tier-3 cities and closed 2-2.5% of its retail fleet. Around ~23 stores were closed in 1Q. The majority of them replacements, which were replaced last year or a new store will be opened in the next two to three months. So, the actual closures were stores under 800 sqft, wherein the operating market was shifted.
- **Festive brand:** The company is expected to launch its new festive brand in the next 2-3 months. The strategy and product around the brand are ready. It will be a soft launch aimed for dealers and online channel. As the brand gains traction, the management will evaluate the EBO strategy for the brand.
- **Advertisement and marketing:** The company has partnered with McCann for marketing and branding. During 1Q, A&P spending was 2.5-3% and VFL maintains its spending target of 5-6% for FY25. The management will focus on spending on ads in 2H.
- **Unorganized competition:** Compared to MBOs, which form 3-4% of total sales and depict the true picture wrt unorganized players, MBO remained under pressure for past few quarters. The unorganized players are also facing headwinds amid a subdued environment. However, based on the bookings received in 1Q, the management remains confident about its dealer network.
- **Twamev:** It caters to an audience that falls in the income bracket of INR50 lakhs to INR4cr annually. The management expects the industry size to increase to 15-20% of the overall market in next 3-4 years. The brand is growing faster than the company's average and the share of Twamev has been increasing. At present, there are 5 EBOs and 3-4 are in the pipeline. The gross margin currently is lower

than the company's average; however, with scale, the company expects the gross margin to be at the company's level.

- **Mohey:** Mohey EBOs saw a good response. The conversion rate was healthy, while the inventory and other KPIs remained positive. In composite stores, Mohey is present in 150+ stores. In terms of area addition, Mohey grew 40% in FY24.
- **Competition:** The company does not see much pressure of competition. Its peers are present in ~15-20% of the cities covered by VFL. Stores in the catchment area of its competitors delivered 4% delta in SSSG from other stores, where competition is not present. The major impact has been on account of lower weddings, some bit of impact of consumer behavior and the overall economic conditions.

Other highlights:

- During 2HFY24, the business was operational for 4.5 months as the season started in Nov'24-end and Oct'24 was Shradh period. During 2HFY25, the dates are spread out across the quarter, with the festival season starting from the second week of Nov'24. Buying will begin from Oct'24 and the company will see full six months of business.
- The company targets cities with a population of over 100k.
- Tier-1 cities are performing better vs. Tier-2/3 cities. However, in Jul'24, Tier-2/3 cities have outshined Tier-1 cities.
- VFL has 5-6 COCO stores in Kolkata. About 65% of its stores are COFO, while the remaining are FOFO.
- Mohey and Twamev have higher ASPs than Manyavar.
- Employee costs: Normal HR cost has increased by 11%, while Director remuneration has gone down.

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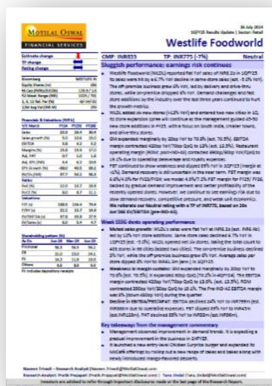

Westlife Foodworld — Neutral

Current Price INR 816

Performance and Outlook

- The management has observed improvements in demand trends.
- Reported same store sales declined 6.7% YoY in 1QFY25 (vs. +7.4% in 1QFY24) due to the subdued in-store business.
- Average sales per store fell 8% YoY to INR61.3m vs. INR66.9m in 1QFY24.
- Off-premise business grew 6% YoY led by Delivery & Drive through' s. Off-premise contribution was 42% to total sales. The off-premise segment saw same-store sales growth.
- Digital sales grew 8% YoY, accounting for 69% of the business with over 3mn monthly active users on mobile app.
- The on premise business declined 3% YoY.
- Performance towards the end of the quarter was better than the initial period. This was due to the cohort of stores not impacted by the external environment.
- The management expects gradual improvement in the business in 2HFY25.
- The company is aiming for a 15-18% contribution of McCafé to the total business by 2027.

Cost and margins

- The growth margin continued its upward trajectory, showcasing the effectiveness of value platform strategy.

- The EBITDA margin contracted YoY due to higher operating expenses, driven by increased marketing spend.
- Marketing expenditure is expected to continue for the next one or two quarters.
- ROM and Operating EBITDA margin were lower due to operating deleverage and royalty expenses.
- The company has guided 18-20% EBITDA margin by FY27.

Expansion and launches

- In 1QFY25, six new stores were opened, bringing the total to 403 stores across 66 cities. One of the newly opened stores features a drive-thru format.
- Drive-thru formats store is 20% of the total store and its ~82 stores.
- It targets to open 45-50 stores in FY25 with a focus on South India, smaller towns, and drive-thru stores. It aims to reach 580-630 restaurants by FY27.
- 92% of restaurants have McCafés, and 86% are EOTF restaurants.
- It launched a new entry-level Chicken Surprise burger and expanded its McCafé offerings by rolling out new range of cakes and bakes along with introduced mango-flavored desserts.
- Chicken offering will remain restricted to South India and certain select stores in West India.
- It has partnered with Chef Sanjeev Kapoor for the Real Food, Real Good initiative and embraced the anime fandom among Gen Z through the WcDonald’s campaign.

- **The management teams of various IT companies continue to exercise caution regarding the near-term demand outlook, as the demand from discretionary projects remains unchanged compared to previous quarters; however, BFSI clients in the US experienced a slight recovery in discretionary spending in 1Q. Clients' focus is now slightly shifting away from cost-takeout deals to "high-priority" transformation deals in some pockets. Moreover, revenue growth, utilization, and pyramid optimization will be key drivers for margin improvement, providing some room for margin gains in FY25. The management teams suggest that FY25 should be better than FY24. The strong deal wins, along with early signs of recovery driven by BFSI, bode well for growth in FY25.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Revenue outlook for FY25	Margin (%)
HCL Tech	■ The company expects growth QoQ in 2QFY25 at both the company and IT services levels, with broad-based growth in all verticals and geographies, except for the Financials vertical. ■ Manufacturing declined due to productivity issues and stress in the European automotive sector, but management anticipates healthy growth in 2QFY25. HCLT maintained its FY25 revenue growth guidance at 3-5% YoY in CC (3-5% YoY in CC for Services).	■ Margin in IT services is anticipated to revert to its usual level. Higher fresher intake and the release of some productivity commitments will support margins in 2QFY25. ■ The management maintained FY25 margin guidance at 18-19%.
Infosys	■ INFO saw growth across all major geographies and verticals. Both volume growth and realization improved this quarter. INFO is seeing good traction in cost efficiency and consolidation deals. ■ INFO is seeing some recovery in the US financial in areas such as mortgage, capital market, and card payments. Volumes remained strong, with positive outcomes particularly in the US financial sector. ■ Manufacturing growth was broad-based across sub-segments and geographies. Manufacturing is likely to grow slower than last year. ■ INFO revised its revenue growth guidance to 3-4% CC. 1H is going to be better than 2H in FY25.	■ Management has guided FY25 margins at 20-22%. It also indicated that margins should improve over the medium term. ■ Project Maximus and value-based selling are key drivers, though wage hikes and the ramp-up of earlier signed large deals pose headwinds. Further, realization is expected to serve as a margin lever in the medium term.
TCS	■ Discretionary spending remains under pressure. Transformation projects will be funded by savings from cost optimization initiatives. ■ BFSI clients are expected to increase spending on an integrated cloud model. There is some positive movement in BFSI, with the US BFSI vertical growing more than the UK BFSI vertical this quarter. ■ The Retail vertical was led by cost optimization deals, with customer experience being one of the areas with good traction this quarter. A rebound in this vertical is expected in the medium term if the macro situation improves.	■ Sub-contracting was a significant margin lever during FY24 and has bottomed out. Pyramid optimization, utilization in the short term, and pricing and revenue growth should be long-term margin levers. Once growth reverts back, operating leverage should boost margins incrementally.
Tech Mahindra	■ Demand remains stable compared to previous quarters; however, it has improved from last year. ■ TECHM expects to see improvement on a YoY basis going forward. However, management does not anticipate any immediate recovery in the Communications vertical. Demand should pick up in 2H. ■ TECHM is seeing new opportunity in existing accounts and won deals with tier-1 global banks in BFSI. In the US, the company is seeing improved spending in compliance, wealth, and insurance segments, whereas IB, mortgage, etc. remain a little soft. ■ Growth was largely broad-based, except telecom, which was hit by seasonality in Comviva business. The company expects FY25 to be better than FY24.	■ It is focused on the strategy pillar of better integration of portfolio companies and consistently working toward increasing its offshoring mix. ■ The company is focusing on margins on the back of growth.
LTIM	■ LTIM witnessed early signs of clients deploying savings and budgets into high transformation programs and laying the foundation in AI, especially in BFSI and Telecom (LTIM's largest verticals).	■ The target of achieving 17-18% EBIT margin in the near term is still intact and should be achieved as the growth rebounds. ■ Revenue growth itself serves as a key margin

	Revenue outlook for FY25	Margin (%)
	▪ LTIM expects growth momentum to continue in 2QFY25 as deals won in the earlier quarter are ramping up according to the plan. Some verticals, especially BFSI, have high-priority projects kicking in as well, which gives confidence for a strong 2Q.	lever, alongside optimizing the pyramid structure.
Wipro	▪ Capco had sequential growth across the US and Europe. Capco is a consultancy-led business and is experiencing good demand in the financial services segment. ▪ The deal tenure is becoming shorter, and the 3-5 year deals are becoming more prominent. ▪ Americas 1 is witnessing acceleration in consumer and telecom demand coupled with the BFS vertical. However, Europe and APMEA remained soft for the company. Pipeline in Europe remained healthy and focused more on the conversion of deals.	▪ Fixed-price productivity, improvement in the pyramid, onboarding of freshers, optimization of overhead costs, and some synergies of the acquired entities at play could be the key levers. ▪ The company will decide wage hikes in this quarter and is expected to remain in line with the market rate. The company expects margin to sustain to its current level with an upward bias.

Coforge

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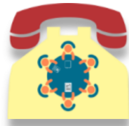

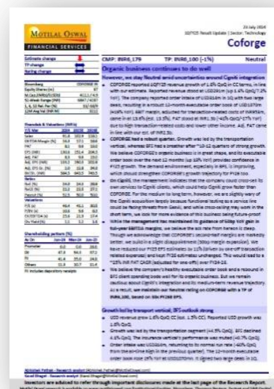

Coforge — Neutral

Current Price INR 6,087

Demand outlook

- Demand is picking up. The demand outlook for financial services has materially improved. It is also strong for the travel and aviation segment, and there is a rebound in the insurance business too. There was weakness in the top five customers in 1Q (largely banking-heavy clients). The BFS segment has normalized after 12-13 quarters of strong growth.
- Growth in the executable order book (+19% YoY) was in line with growth in deals. Over the next few quarters, the correlation to revenues should remain stable.
- COFORGE works with five of the world's top 10 airlines, and the outlook is good. The travel vertical is expected to do better than last year. Airlines expect a 10% YoY increase in passenger demand, and they are also undergoing a technological overhaul.
- Europe-based banking clients are normalizing between programs, hence a decline; but there is no change in spending patterns and the client spending outlook remains strong.
- Cigniti acquisition: The board of Cigniti has been reconstituted and 2Q results will be delivered as a merged entity.
- Cigniti will show strong momentum going forward.
- It was not acquired solely for testing, but to help set up healthcare, retail and hi-tech verticals.
- Cigniti is projected to grow faster than COFORGE in the upcoming quarters, with anticipated revenue and margin expansion in 2Q.
- While GenAI may affect functional testing, the acquisition is primarily aimed at penetrating new verticals.
- Adjusted EBITDA margin for Cigniti stands at 12.4%, with substantial margin growth anticipated ahead.
- Purchase price allocation not yet completed; an annualized pick-up of USD8.5-9m from 2Q amortization is expected.

Margin performance and other comments

- Margin guidance: 50bp higher margin than 1HFY24. Maintain guidance of 50bp EBITDA expansion for the full year.
- Wage hikes have been delayed to 2Q (140bp impact expected).
- 1Q covered almost all transaction-related expenses.
- Cash flow generation has been skewed toward 2H.

- The OCF-to-EBITDA ratio stood at 47%. In 1Q, COFORGE also repaid high-yield debt.
- The headcount addition was organic and mostly done in the second half of the quarter.
- The company added 1,800 employees in 1Q, with only 250 freshers. Hence, growth should bounce back.
- Margin walk: visa costs and some renewals on Microsoft licenses (100bp); onsite ramp-up of large deals won last quarter led to lower margins
- Margins may decline 130-150bp owing to wage hikes; but there will be margin efficiency, so margins may rise 50bp vs. 1HFY24.
- The majority of the lateral hires are aligned with banking clients in Europe.

CYIENT

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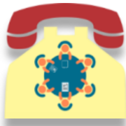

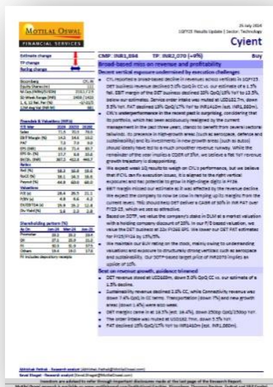

Cyient — Buy

Current Price INR 2,011

Commentary on verticals

- **Transportation:** Experienced a 7.0% QoQ decline, primarily due to ongoing challenges in the Rail segment. However, Aerospace showed robust demand, with no furloughs expected from Aerospace customers.
- **Connectivity:** Strong recovery anticipated due to two new large deals won in the quarter. The segment faces challenges in finding new projects once the existing projects are completed, particularly in Sustainability and Connectivity.
- **Sustainability:** Expected to maintain its growth momentum, driven by a strong order book and continued client interest.
- **New growth areas:** The segment is projected to grow in double digits, aided by a strong order book and significant growth in 1Q.

Demand and outlook

- DET revenue declined 5.0% QoQ and 3.6% YoY in constant currency terms. This was primarily due to longer-than-anticipated delays and right shifts in project execution in the Connectivity segment and persistent sectoral challenges in the Rail segment.
- Around 4-5 projects expected to ramp up were delayed, leading to a softer-than-expected quarter. These delays have affected the overall revenue and project execution timeline.
- The company faced several operational challenges in 1Q, which affected its performance. However, it expects significant growth in 2Q, backed by a strong order book.
- For FY25, DET revenue growth is expected to be flat YoY in constant currency terms. The company anticipates a strong recovery in 2Q, with EBIT margins projected to reach 16% by 4Q.
- 2HFY25 is expected to be better than 1H, with wage hikes anticipated in 2Q.
- The company is well-positioned to capitalize on growth in the semiconductor industry. A new semiconductor subsidiary under the DLM and DET businesses is expected to start operations by the end of FY25.

HCL

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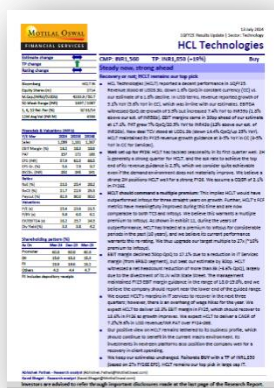
HCL Technologies — Buy

Current Price INR 1,677

Demand and industry outlook

- Growth in 1QFY25 was dragged down by ER&D (-3.5% QoQ CC). IT Services declined 1.9% sequentially in CC. The first quarter is generally a weak period for HCLT due to productivity commitments; however, the company reported a decent set of numbers in 1QFY25.


HCL Technologies

- Among geographies for Services, growth was dragged by Europe and the Americas (down 5.4% and 0.8%, respectively).
- For Services on the industry front, Telecom and Retail performed well, while Financial Services, Manufacturing, and Healthcare declined 4.8%, 2.9%, and4.4% QoQ, respectively.
- The pace of discretionary spending remains the same as in previous quarters. Softness in discretionary spending is largely due to macro uncertainties and economic pressure.
- TCV (new deal wins) stood at USD1,960m, up 25.2% YoY and down 14% QoQ.
- The decline in the Financials vertical this quarter was due to the offshoring of one client. Additionally, cost-efficiency-driven programs are likely to dominate the deals, primarily led by modernization and tech transformation. General discretionary spending has not really picked up and is somewhat similar to last quarter.
- The company expects better growth QoQ in 2QFY25 at both the company and IT services levels, with broad-based growth in all verticals and geographies, except for the Financials vertical.
- The decline in ER&D was primarily due to softness in Manufacturing and Medtech.
- The sequential decline in the European region was led by the manufacturing vertical due to muted spending by auto clients.
- The company added 1,078 freshers in 1QFY25. It plans to hire 10,000 freshers in FY25.
- HCLT is currently working on 200+ Generative AI (GenAI) projects and expects to see an uptick in such projects. The company has multiple engagements, where it is working with clients in the GenAI/AI space to deliver meaningful results.
- HCLT maintains its guidance of 3-5% services revenue growth as it expects a better 2QFY25.

Margin performance

- EBIT margin declined by 50bp QoQ to 17.1% in 1QFY25.
- Margin walk: 50bp QoQ decrease at the company level was driven by a reduction in IT Services margin (from ER&D segment).
- Margin in IT services is anticipated to revert to its usual level. Higher fresher intake and the release of some productivity commitments will support margins in 2QFY25.
- The management maintained its FY25 margin guidance at 18-19%.

Other highlights

- On LTM basis, HCLT generated USD2.6b in FCF, translating into 133% of net income.
- The company declared a dividend of INR12 per share.
- LTM attrition increased to 12.8%, up 40bp QoQ.

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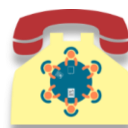
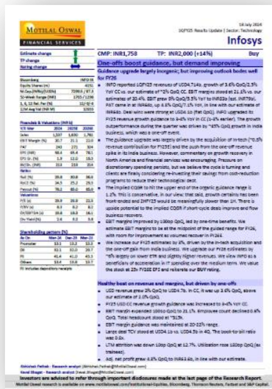


Infosys — Buy

Current Price INR 1,872

Performance in 1QFY25 and demand outlook

- INFO is seeing good traction in cost efficiency and consolidation deals. Deal wins remained strong in 1Q as the company reported the highest number of large deal wins at 34 with TCV of USD4.1b (57.6% net new deals).
- Volumes remained strong, with positive outcomes particularly in the US financial sector.
- Seeing early signs of improvement in the US. While discretionary spending remains under pressure, a highly differentiated offering, which can drive



Infosys

CMP: INR1,758 TP: INR2,000 (+14%) Buy

One-offs boost guidance, but demand improving

Investors are advised to refer through important disclosures made at the last page of the Research Report.

efficiency with scale and transformation capabilities around generative AI, has positioned the company well in the market.

- INFO saw growth across all major geographies and verticals. Both volume growth and realization improved this quarter.
- The company is seeing some recovery in US financial in areas like mortgage, capital market and card payment.
- Retail: The sector faces challenges as US inflation is affecting discretionary spending.
- Manufacturing growth was broad-based across sub-segments and geographies. Manufacturing is expected to grow slower than last year.
- In manufacturing, growth was broad-based across geographies and sub-verticals like industrial, automotive, and aerospace, while pressure on discretionary spending persists. INFO is seeing increased benefits of vendor consolidation opportunities around resolving supply chain bottlenecks and rationalizing infrastructure and applications.
- Communications & Service growth was led by the ramp-up of large deal wins. Delay decision-making and current environment led to cautious investments in this vertical. Hi-tech remains soft.
- Good traction in Northern Europe. Constraints faced by local peers have benefited Infosys. India business gave a revenue boost of 0.5%. However, it is a relatively smaller business and this was a one-time increase in 1Q.
- INFO has over 315,000 employees. Utilization increased to 85.3%. LTM attrition was stable at 12.7%.
- INFO is strengthening its AI capabilities and building AI solutions for its clients. The company launched Aster to create better marketing experience for clients.
- INFO revised its revenue growth guidance to 3-4% CC and maintained its margin guidance in the range of 20-22%. 1H is going to be better than 2H in FY25.

Margin performance

- 1QFY25 Margin walk - Tailwinds of 220bp comprising normalization of 1Q one-offs, 80bp benefit from Project Maximus (largely from high utilization and value-based selling), and 40bp from the improvement in realization, partly offsetting the headwinds of 120bp from higher variable pay and higher leave costs (offset by currency and others).
- Project Maximus and value-based selling are key drivers, though wage hikes and the ramp-up of earlier signed large deals pose headwinds.
- Realization is expected to serve as a margin lever.
- The management has guided margins to be in the range of 20-22% in FY25.

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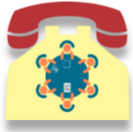

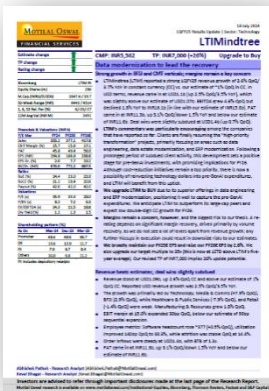

LTIMindtree — Buy

Current Price INR 5,713

Demand and industry outlook

- BFSI – The vertical reported 2.9% sequential growth in USD terms. The BFSI customers started scaling up high-priority programs. Compliance remained the key focus area. Further, all sub-segments continued to see good traction as well. In BFSI, key clients are now beginning their high-priority projects, which were paused last year. Clients are looking to reduce their technical debt. LTIM expects the BFSI vertical to see good momentum throughout the year. Further, there is traction in short-cycle projects/sprint-based projects in BFSI.
- LTIM is also benefiting from vendor consolidation in this vertical, as it is positioned favourably.
- Manufacturing – The vertical was resilient and reported sequential growth. Industry 4.0 and industry modernization remained the key focus areas.
- Technology, Media, and Communications led the growth in this quarter with 7.9% QoQ growth in 1QFY25. LTIM saw broad-based growth in Hi-Tech and Communications. Further, the company expects that Communications vertical can be a new growth engine in future.
- Overall demand environment remained unchanged. However, LTIM witnessed early signs of clients deploying savings and budgets into high transformation programs and laying the foundation in AI, especially in BFSI and Telecom (LTIM's largest verticals). Further, the ramp-up of the previously won deals also supported 1QFY25 revenue growth.
- The company has experienced no ramp down. It is getting exclusive funds in sprint-based/short-cycle deals from clients, especially, in the BFSI vertical. Further, the transformation projects that were paused or slowed down last year are now resuming.
- Due to a significant increase in the demand pipeline, hiring will rise accordingly, with net headcount additions expected in 2QFY25. The company is also seeing a significant increase in lateral hiring for 2Q.
- This quarter, LTIM hired 1,400 freshers and honoured the backlog of offers from 1QFY25. To achieve its comfortable utilization level of 85-86%, LTIM is building supply capacity. LTIM will implement wage hikes in 3QFY25.
- The top 40 clients reported broad-based growth both QoQ and YoY. Tail rationalization is an ongoing effort and is expected to continue going forward.
- LTIM is assisting the majority of top 100 clients in AI and related areas. There is an increased spending on digital engineering and enterprise AI, with cost-saving measures supporting modernization initiatives. Across industries, the company is witnessing AI adoption, particularly in the BFSI and tech sectors, which continue to lead in the business use cases for AI. Additionally, there is good momentum in the manufacturing and healthcare verticals.
- Approximately 85% of the top 100 clients are engaged in AI initiatives, with spending focused on GPU structures, platform building, and data engineering.
- DSO decreased to 78 days, showing a two-day improvement QoQ. Utilization improved due to the ramp-up of earlier won deals. Further, there has been an uptick in depreciation expenses, driven mainly by expanding office capacity, with expectations that these levels will be sustained moving forward.

L&T Technology Services

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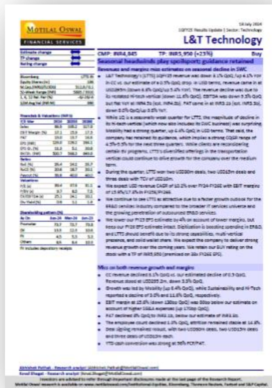

L&T Technology — Buy

Current Price INR 5,422

Demand and industry outlook

- Operational performance was affected by revenue seasonality and investments the company is making in each of the three segments to accelerate growth.
- LTTS expects that the revenue and margin trends will go upward from hereon. SWC seasonality led to lower growth in 1Q.
- Customer spending broadly remains focused on cost optimization & efficiency deals. LTTS had healthy large deal wins in the quarter, with two USD30m deals, two USD15m deals and three deals of USD10m each. LTTS also got one significant empanelment in this quarter.
- Guidance of 8-10% organic CC growth for FY25 was maintained and it remains committed to achieving the USD1.5b revenue run rate. LTTS expects 2H to be better than 1H and anticipates growth in the remaining three quarters of FY25.
- Growth in Europe was led by the deals won earlier. LTTS anticipates Europe to grow faster than the company's overall growth.
- LTTS continues to actively hire both freshers and lateral employees. The company is observing that automation is changing the relationship between headcount and revenue growth. It is leveraging the current team and re-aligning the management team due to the re-segmentation, which has resulted in lower headcounts.
- An increase in headcount is expected in the next quarter, with 1,800 offers already made to freshers.
- The appraisal process will be completed next week, and wage hikes will be effective from Oct'24.
- It launched six GenAI solutions in the last quarter alone. AI has finally become a revenue generator for the company, attracting clients such as an oil company in the Arab region and a European automotive player. These clients are showing increased interest in scaling up their engagement.
- The company is seeking inorganic growth opportunities in the automotive sector in Europe (like SDVs), as well as in the ISP (Hyperscalers in North America) and medical sectors in North America. Focus is on acquiring new capabilities and ensuring reasonable valuations in potential acquisitions; targeting companies with revenues in the range of USD50-150m.

Vertical-specific demand commentary

- Mobility: Mobility has become a USD400m+ annual business on a run rate basis, with growth driven by the automotive sector, followed by the commercial sub-segment. The company secured three large deals in mobility across OEM and Tier 1 clients. Spending trends are shifting toward Software-Defined Vehicles (SDVs), and deals won in this area are helping the company open new opportunities. Given the order backlog, LTTS expects growth to continue in the coming quarter.
- EBITDA margin of 18.8% was attributed to large deal ramp-ups in 1Q. The company is winning market share in vendor consolidation deals in this vertical.
- Sustainability: Growth in the plant engineering sub-segment helped offset the decline in industrial products. Although large deals are being delayed due to slow decision-making, LTTS secured a USD30m deal with American OEMs, which will ramp up in 2Q.
- The company believes the worst is behind for this segment and anticipates a return to growth from 2Q onward. This segment achieved 20.7% EBITDA margin in 1Q.

- Hi-Tech: The performance of the Communications and Media segment was affected by seasonality in 1Q. However, LTTS is confident about reporting growth in 2Q due to multiple deals in communications and semiconductors. The segment posted 12.6% EBITDA margin in 1Q, down from 15% in 1QFY24, largely due to the seasonality of SWC business.
- SWC is a project-based business. The second half of the year is typically better than the first half for the SWC business.

Margin performance and outlook

- Margin was in line with the guidance of 16% for FY25.
- Margin Levers: Quality of revenue, offshoring and pyramid are likely to serve as a margin levers for the company. The EBIT trajectory will be better in 2H than in 1H. It reiterates EBIT margin level of 16% for FY25.
- The onsite-offshore mix moves more toward offshore and LTTS aims to move the mix to 60% offshore from the current level.

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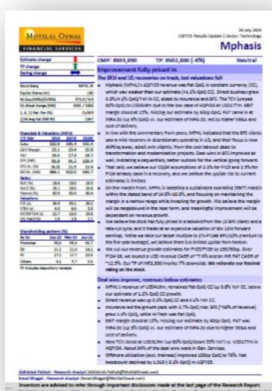

Mphasis — Neutral

Current Price INR 3,036

Demand and industry outlook

- There was a broad-based growth of 27% YoY across all chosen verticals within the US pipeline. The pipeline remained strong, even with healthy TCV wins. One-third of the pipeline is AI-led.
- Spending increased among customers despite a difficult environment. Investment is slowing inching up especially for transformation initiatives. There has been a gradual pick up in the client's engagement in terms of discretionary spending, and it is seeing some green shoots.
- The company expects to clock above-industry growth rate from its account-focused strategy. Top account/top 5/ top 10 accounts grew sequentially in this quarter.
- Direct business: MPHL expects the deal conversion to pick up, especially the transformative deals. Further, a gradual recovery in discretionary spending is likely.
- Proactive pipeline is strong. More than 90% of wins are proactive deals.
- There was a pickup in TCV closures. Broad-based TCV wins across verticals and client pyramid as well as conversion from TCV to revenue continued to improve.
- Three large deals were won, with one US100m deal in the BFS segment. The trajectory of TCV to revenue conversion is improving. New gen deals win to remain in the range of 75-80% of deals.
- BFS: It is on the right trajectory for recovery. The company witnessed sequential growth for two quarters. The BFSI vertical would lead the growth going forward. It is seeing some uptick in volumes in mortgage business. As the 30-year mortgage comes closer to 6%, volumes are expected to pick up.
- Transportation & Healthcare: Growth in Healthcare vertical led by ramp up of earlier won deals. One large deal is closed in healthcare in 1Q, and one more deal is in pipeline, which is expected to be closed in 2Q/3QFY25.
- GenAI traction is increasing, which is visible in the clients' discussion in deal pipeline. Gen AI is a catalyst for business transformation. Clients are looking for immediate benefit while enabling AI.
- Gen AI is delivering efficiency and enhanced customer/employee experience.
- Launch of Mphasis NeoZeta which is Modernization platform for legacy applications using LLMs, to reduce relearning time by more than 50%. Active across multiple modernization engagements.

- MPHL launched NeoCrux, which is a Unified Engineering Platform and improves developer efficiency by 40% with intelligent coding assistance, experience, and productivity. Two active client engagements. MPHL is selling this product to customer by stating margin benefits and productivity gain.

Margin performance

- On the margin front, MPHL is targeting a sustainable operating (EBIT) margin within the stated band of 14.6%-16.0%, and focusing on maintaining the margin in a narrow range while investing for growth.
- Margin stability, within the stated band, with continued focus on productivity and operating levers.
- Revenue growth to serve as a key margin lever going forward.
- Operating leverage and improved utilization led to margin improvement in this quarter. Current margin levels are sustainable.
- Pyramid optimization has been healthy relative to the last few years.
- Back to normalized EBITDA margin of 18%.

Persistent Systems — Buy

Current Price INR 4,912

Growth and demand outlook

- PSYS reported strong growth of 5.6% QoQ cc in this quarter. It is confident that revenue enhancement and cost optimization will provide a significant boost to margins. The company remains committed to its margin guidance of a 200bp to 300bp increase, as it expects to scale up in the medium term.
- ACV stood at INR373m. The company is winning against bigger providers in vendor consolidation opportunities.
- Pass-through revenue did not contribute to 1Q revenue growth.
- 1Q growth was led by BFSI and healthcare. BFSI crossed the USD100m revenue mark for the first time.
- BFSI: The company's expertise in the payment domain is a key differentiator in winning some engagements in BFSI vertical.
- Healthcare & Lifesciences: Its expertise in bio laboratory and laboratory information systems domain helps to win some deals in this vertical. There is broad-based growth in this vertical. The growth journey will continue in the healthcare vertical going ahead.
- Technology, Communications & Emerging verticals: Given the order book in Hi-tech, this segment is likely to grow in the upcoming quarters. Enterprises do not invest, when macro conditions are difficult. The company is seeing some green shoots in this vertical given its order book size.
- Europe growth declined partly due to lower Salesforce sales and rationalization of tail customers.
- The Europe (Salesforce) issue is linked to the company's issue. The company is doing rationalization of some of its clients in Salesforce.
- Salesforce business in India and APAC is doing fairly well.
- The company has optimized headcount in the last four quarters by hiring selectively.
- TTM attrition has come down to the comfortable band of 11-12%.
- Avg. compensation increase is far better than the industry. The company has also rolled out increments well in time.
- Healthy growth across various client buckets. Reported 178 customers with over USD1m in revenue. The company is focusing on mining strategic accounts.

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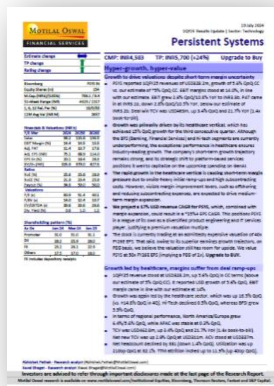

Persistent Systems

- In AI, PSYS has two broad vectors: 1) AI for business and 2) AI for Technology. It has set up IPs and accelerators such as lore to speed up GenAI use cases in the business. The company is looking for suitable M&A in this space.
- The Starfish Associates transaction is expected to complete in the next 2-3 weeks. The company remains steadfast in integrating AI into its entire operation for service offering and internal use.

Margin performance and outlook

- EBIT margin came in at 14.0%. Margin walk: 60bp impact from one-time visa cost; 210bp from increase in sub-con cost and 70bp higher SG&A cost. Tailwinds include: 90bp from increased utilization, 90bp from operational efficiency, 60bp from the reversal of earn-out, 40bp from the change in useful Life of assets, and 40bp from employee benefit rationalization.
- Even after wage hikes, the company is confident of sustaining margins in 2Q. Growth takes care of margin issues. A cost optimization program is launched to improve operational efficiency.
- Sub-con cost: in order to achieve higher growth, PSYS increased its sub-con costs. The company does not want to miss any growth opportunity.
- SG&A costs have reached a level where the current momentum can be sustained without further increases in spending.
- There will be an impact of offshoring on some of the contracts in the upcoming quarters. Full-year margins should be largely flat YoY.

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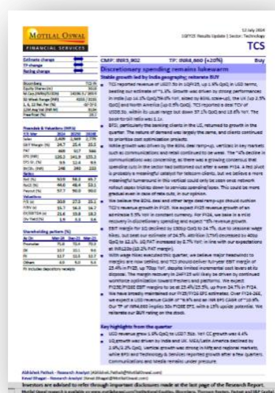

Tata Consultancy Services — Buy

Current Price INR 4,552

1QFY25 performance and demand outlook

- TCS reported a deal TCV of USD8.3b, within its usual range but down 37.1% QoQ and 18.6% YoY. The book-to-bill ratio was 1.1x. The pipeline remains healthy.
- Currently, there are 270+ engagements in AI this quarter and the AI/GenAI pipeline doubled in 1QFY25, reaching USD1.5b.
- The company does not see a material change in customer behavior. Clients continue to prioritize high-ROI cost optimization projects over discretionary projects.
- During 1QFY25, companies continued to re-prioritize spending on high-ROI projects. Operating model transformation, vendor consolidation, cloud migration, business process optimization and GenAI remained in focus.
- Retail vertical was led by cost optimization deals, with customer experience being one of the areas with good traction this quarter. A rebound in this vertical is expected in the medium term if the macro situation improves.
- FY25 is expected to be better than FY24, with broad-based growth across verticals and geographies, which provides confidence.

Margin performance and outlook

- Operating margin walk (-130bp QoQ) - There was a 170bp impact from wage hikes and third-party costs, which were offset by better utilization, productivity, and reduced subcontracting costs.
- Salary hikes announced for FY25 are similar to last year, with high performers getting double-digit wage hikes.
- Sub-con was a significant margin lever in FY24, which has bottomed out. Pyramid optimization, utilization in the short term, and pricing and revenue growth should be long-term margin levers. Once growth reverts back, operating leverage should boost margins incrementally.
- LTM attrition was 12.1% (down 40bp QoQ), in the comfort range of the management.

- TCS is back with campus hiring and continues to calibrate lateral hiring.

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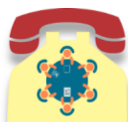

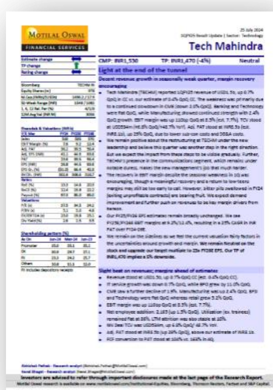

Tech Mahindra — Neutral

Current Price INR 1,605

Demand and industry outlook

- Telecom – 1Q was a seasonally weak quarter for communications, partly due to weakness in Comviva business. TECHM is associated with seven out of 10 telecom companies. It is expected to benefit from cost optimization and vendor consolidation opportunities in this space. The sector is undergoing significant challenges, while major telcos remain under stress as they have invested heavily in 5G infrastructure and are awaiting outcomes from those projects. TECHM expects to see improvement on YoY basis going ahead. However, management does not anticipate any immediate recovery in the Communications vertical. As the sector improves, the company will be the biggest beneficiary.
- Manufacturing – The momentum continues in 2Q as the segment is under-invested in technology.
- BFSI – The company is seeing new opportunity in existing accounts and won deals with tier-1 global banks. In the US, the company is seeing improved spending in compliance, wealth and Insurance segments, whereas IB, mortgage, etc. remain a little soft. BFSI is still relatively a small part of the business. It is building a new team to mine the existing accounts coupled with on-boarding new logos. The demand environment in BFSI is reasonably stable. The company has the most experienced and domain-rich talent pool in BFSI compared to the industry.
- Request from 1-2 clients in Hi-tech for furloughs but it is not quite meaningful.
- BPO: BPO numbers are not comparable. Some revenues shifted from IT services. USD11m growth in BPO; only half of it is coming from BPO. Contact centres contribute only 5% of overall revenue.
- Multi-tower deals (>USD25m) continue to be one of the key areas in deals. Further, the company has allotted a delivery person to each customer to improve clients' penetration.
- The company expects the large deal win rate to improve going forward on the back of a good deal funnel. It is focusing on the US, Europe and priority markets in APAC for investments and deal wins.
- Growth was largely broad-based, except in telecom, which was affected by seasonality in Comviva business. FY25 will be better than FY24.
- The company is working on building LLM model. However, TECHM does not expect this to contribute materially to revenue.
- GenAI: 360 AI validation framework helps firms to move from pilots to projects and gives wide scope adoption at the enterprise level. More than 2,500 associates are now enabled with AI-led skills. TECHM provides 100+ AI-based solutions to clients.

Margin performance

- Margin increased to 8.5% due to cost saving efforts and operational efficiency.
- Margin walk: 110bp expansion QoQ. Margin was hit by a decline in Comviva's revenue, mitigated by operation efficiency and savings and moderation in sub-con costs and SG&A costs.
- The company is focusing on margins on the back of growth.
- 50bp impact from Comviva on revenue and margins. Visa cost impacted 30bp and savings of 120bp from efforts toward cost optimization and SG&A.
- Wage hikes: TECHM will revisit wage hikes in 2H.

- TECHM is focused on the strategy pillar of better integration of portfolio companies and consistently working toward increasing its offshoring mix.
- Tax should remain in the range of 23-26% for FY25.
- IT business margin: Adjusted margin is similar to the company level margin.

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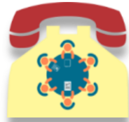

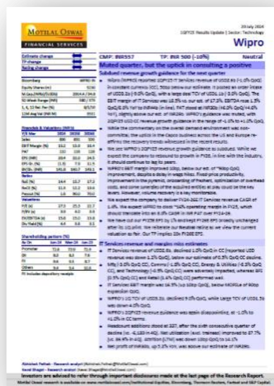

Wipro — Neutral

Current Price INR 526

1QFY25 performance and demand outlook

- Positive momentum is seen among the US consumers, Capco business, and BFSI sectors. The company believes WPRO is in a better position now than in 1QFY25. It expects revenue from the IT Services business to be in the range of -1.0% to +1.0% in CC terms for 2QFY25.
- The company expects margin to sustain to its current level with an upward bias.
- The management alluded that the market has not changed fundamentally in terms of demand. However, a major slowdown is seen in discretionary areas, especially in Europe region.
- WPRO is driving large deals by seeking proactive engagements, securing 10 large deals in 1Q. The company is continuing to invest in established and high-priority accounts. Revenue from top clients grew despite the soft demand environment.
- Capco: It is doing well from the last three quarters in terms of deals and revenue growth. Some continental European pockets are weak, otherwise there is broad-based growth. Softness in Europe is outside the Capco business. Capco is a consultancy- led business and is experiencing good demand in the financial services segment.
- Rising business is strong in the Fashion & Retail vertical and SAPHANA.
- Large deals announced recently are net-new. Deal tenure is becoming shorter and the 3-5 year deals are becoming more prominent.
- Financial Services: Reported growth for now two consecutive quarters. BFSI America is doing better than Europe. Europe is slightly softer for the company. Capco is leading the chart for this growth.
- Energy & Utilities: End of some large programs led to softness in this vertical. The company has good pipeline in the bag. Capco is doing well in this vertical especially in the US region.
- Americas 1 is witnessing acceleration in consumer and telecom demand coupled with the BFS vertical. However, Europe and APMEA remained soft for the company. Pipeline in Europe remained healthy and focus more on conversion of deals. There was a QoQ decline in the margins of Europe and APMEA.

Margin outlook

- The company's strategy is to prioritize profitable growth. The top 10/25 clients have shown notable growth, leading the company to focus on further investments in these key accounts. The IT Services margin expanded 10bp in 1QFY25. The company's strategy to trim the low-margin businesses and low-potential accounts is progressing well.
- Fixed-price productivity, improvement in the pyramid, on-boarding of freshers, optimization of overhead costs, and some synergies of the acquired entities at play could be the key levers.
- It has integrated a few entities, which led to more onsite activities. The company will decide wage hikes in this quarter and is expected to remain in line with the

market rate. The company expects margin to sustain to its current level with an upward bias.

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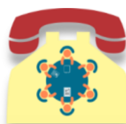

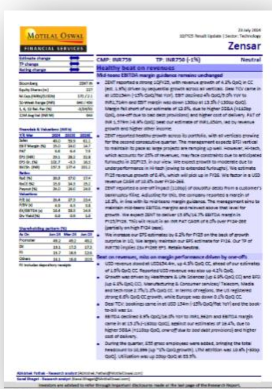

Zensar Technologies — Neutral

Current Price INR 801

Growth and outlook

- The pipeline remains healthy. In 2Q, the impact of cyber security outages might lead to high spending on cyber security projects.
- Traction in large deals is increasing. It witnessed good momentum across the portfolio. Growth in overall company revenue was driven by sequential growth across all verticals.
- ZENT expects the market to remain unchanged, given the macro situation in FY25.
- There was an impact of furloughs in Hi-tech vertical (impact of 1-2 weeks in Jul'24); 2Q will also see furloughs.
- BFSI vertical has been relatively strong throughout, and the underperformance was primarily due to TMT. The company expects this momentum to continue as large projects in BFSI are ramping up.
- Volume growth and CC organic growth in Africa region are good. Growth was hampered due to the forex impact.
- Effective 1st Jul'24, the company announced salary hikes.
- Utilization improved 20bp sequentially to 83.9%. Attrition came in at 10.6%.
- Partnership with global technology providers has helped in their innovative A/GenAI solutions.
- ZENT has entered into a definitive agreement to acquire a 100% stake in Bridge View Life Sciences, a Pennsylvania-based technology and consulting solutions company in the Life Sciences industry. This move reinforces ZENT's focus on the Healthcare and Life Sciences vertical.
- Acquisition in the right areas (Pharma commercial area – Viva related work) for Healthcare. It is not margin-dilutive/EPS-dilutive this year.

Margin performance and outlook

- Margin walk: The margin decline was mainly due to a 150bp impact from increased operational costs and a 110bp rise in SG&A due to a provision for doubtful debts from a customer filing for Chapter 11. This was partially offset by a 20bp exchange benefit, a 40bp improvement from increased utilization and volume, and a 70bp one-time R&D credit benefit. EBITDA margin (15.2%) included a one-time impact of 1.1%; hence, the effective normalized margin was 16.3%.
- EBIT margin was in line with the guidance of mid-teens margin.
- Industry-level wage increases were given (USD3m impact). License cost is recurring and visa & travel had one-time impact.
- Onsite effort mix is expected to remain in the same range.
- USD1.75m write-offs in receivable owing to bankruptcy of one clients. The company has a better chance of getting receivable under Chapter 11 law as ZENT is positioned as one of the key creditors (USD300k per month billing revenue impact).
- After the bankruptcy filing, whatever services are offered will be paid on priority as per chapter 11.
- ZENT is rationalizing tail accounts, where it does not see much potential.
- Margin outlook for FY25 remains unchanged at mid-teens EBITDA margins.

- **The Indian telecom sector registered revenue/EBITDA growth of 1.5%/1.8% QoQ in 1QFY25, led by a 0.7% increase in subscribers (7.7m net adds QoQ). ARPU was flat. The market share shift continues, with RJio/BHARTI gaining subscribers. Management indicated that from 2QFY25 onwards, the tariff hike (of 15-20%) should translate into the revenue increase (by 11%-13% in the next 2-3 quarters). Companies remain focused on deleveraging their balance sheets. Capex is expected to moderate in FY25 for BHARTI/RJio, while VIL's capex is likely to remain around INR500-550b over the three years to support network upgrade.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY25	Capex Commentary
Bharti Airtel	▪ The company does not need to raise the Rights issue money.	▪ Overall capex for FY25 will be lower than FY24, and going forward, it will moderate. The organic FCF generation would be used in deleveraging and dividend payments.
Indus Towers	▪ Expects steady collections and the recovery of past dues. However, the increase in towers for VIL will require more clarity.	▪ NA
Tata Comm.	▪ The management reiterates the long-term target of 23-25% EBITDA margin, but in the short-term, margin may remain under pressure. ▪ TCOM expects to maintain or improve EBITDA margins from 20% and expects ROCE to dilute further in 2Q.	▪ The order book, which has been flat for the past few quarters, saw good growth in 1Q, largely led by a couple of large deal wins.
Vodafone Idea	▪ It expects the churn rate to come down after the next quarter as the capex deployment will commence.	▪ Management expects unique towers to increase to 210-220k from 183k. Capex guidance remains in the range of INR500-550b over the next three years, with the majority of the capex to be front-ended.

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Bharti Airtel — Buy

Current Price INR 1,464

SA vs NSA

- The company deployed 5G on NSA architecture which drives down the cost of total ownership.
- Management said the NSA network is consistently seen as delivering the best experience, with 30% more coverage and high speeds, without the need for expensive sub-gigahertz spectrum.
- The company is planning to deploy 5G SA (standalone) technology for fixed wireless access (FWA) within the current quarter.
- The company believes SA technology is important for FWA to deliver a superior experience to customers, particularly for uplink performance and capacity.
- The company's core transport and radio networks are already SA-ready, and they have been running trials of 5G SA network in select regions for many quarters to optimize performance.

Market share

- There are still five circles where the company's market share is weak, primarily due to lower network coverage.
- The company is seeing promising results from its network rollout expansion, which is expected to reduce the coverage gap and improve market share.

Data center

- Data center continued to remain strong domestically and globally.
- Management mentioned the need of parity within both Nxtra and Indus Tower, and post that, it can expect consolidation.

Enterprise business:

- The slowdown has been in the global business as OTT deferred the spending.
- CPaaS, Cloud, and Security are the three strong portfolios.
- The company sees strong order book from 2Q and has signed a multi-year contract with CBDT providing SD WAN, secured LAN, etc.
- EBITDAM in the quarter was hit by seasonality.
- CpaaS has slightly lower margin than core connectivity business; however, the EBIT margin is healthy in the CPaaS business because of the low capital requirements.

Competition:

- In the enterprises business, the company faces competitive pressure, especially in reverse auctions for government tenders and public sector units. The pressure is similar to what it has seen over the last three years.

Indus Towers — Neutral

Current Price INR 425

indus TOWERS

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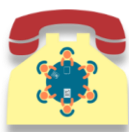

Growth opportunity

- Indus continues to have a robust growth plan from BHARTI for next three quarters.
- The company commands 45-50% market share in macro towers in India.

VIL payment and expectations ahead

- The company has collected past overdue from VIL for the third consecutive quarter, while sustaining 100% collection against the monthly billings.
- It remains confident about VIL collections and its participation in the network expansion.

Cost optimization

- Indus is in discussions with the Ministry of Petroleum and Natural Gas, IGL and GAIL to implement piped natural gas solutions at their sites in order to reduce its diesel consumption.
- It is also deploying solar sites to reduce the diesel cost. The company set up 14k solar sites in FY24 and 7k in 1QFY25.

5G opportunity

- The total number of 5G-based transceiver stations deployed now stands at almost 450,000. This will continue to increase loading revenues.
- After reaching a certain level of penetration, probably over the next two to three years, 5G rollouts would require tower additions, primarily in the form of small cells to address network decongestion, which would drive growth for Indus.
- As per the Ericsson Mobility report, global 5G subscriptions are expected to reach almost 5.6b by 2029, accounting for ~60% of overall mobile subscriptions. In India, subscriptions reached 119m by 2023 and estimated to touch 840m by 2029, accounting for approximately 65% of total mobile subscriptions.

Buyback

- The company is confident about FCF generation going forward and sees buyback as a better option instead of dividend distribution for the taxation purpose.

Tower and Co-Location base & additions

- As of Jun'24, Indus owned and operated 225,910 macro towers with 374,928 macro colocations in India.

During the quarter,

- Net macro co-locations increased by 6,340. Exits during the quarter were 310.

- Net lean colocation additions aggregated to 492. As of Jun'24, lean colocations stood at 11,178.
- Indus had ASF of 1.67 per tower.

TATA COMMUNICATIONS

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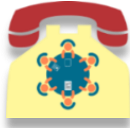

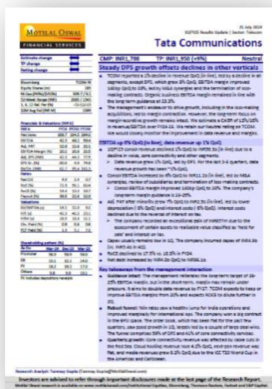

Tata Communications — Neutral

Current Price INR 1,886

Growth

- In 1QFY25, the funnel comprised 59% of DPS and 41% of core connectivity services. Win rates saw a healthy jump for India operations and improved marginally for international segment. The company has won a big contract in the BFSI space.
- The order book, which has been flat for the past few quarters, saw good growth in 1Q, largely driven by a couple of large deal wins.
- Macro challenges persist, while opportunities exist in the market. Decision-making at the enterprise level is slower, resulting in longer lead times. The order book from OTT and SP segments remained lumpy in the last couple of quarters.
- TCOM has received an order for an event in Tokyo next year (order booked this year).
- Winning deals in Kaleyra will help the company grow in the overall CPaaS market, which has been muted globally.

Quarterly businesses growth

- Cloud hosting and security revenues increased by 4.2% QoQ and next-gen revenues were flat due to the aforesaid reclassification and also some customer-specific issues and delays.
- Media business revenues grew 9.2% QoQ. The ICC T20 World Cup in Americas and Caribbean was a coming together of Tata com and switch capabilities.
- Core connectivity revenues this quarter were affected by cable cuts in the Red Sea.

Margin improvement

- TCOM expects to maintain or improve EBITDA margins from 20%.
- The company benefited from the termination of loss-making contracts in TCTS and one-off reversal in employee costs in 1Q.
- The company's organic business grew 23.3%, in line with the guidance of 23% to 25%.

Capex

- Cash capex in 1Q stood at INR5.41b and the approved Capex is close to INR7.06b.
- The company is investing in opportunities to stay ahead of a disruptive technology curve, including megatrends such as AI cloud.
- The company has launched a unified SASE offering in partnership with Versa, which is a global launch.

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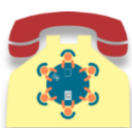
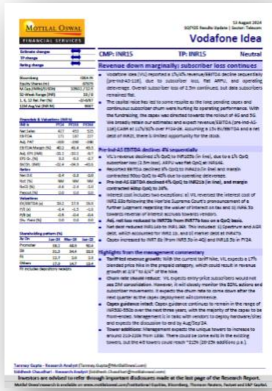


Vodafone Idea — Neutral

Current Price INR 16

Subscribers/ARPU:

- VIL expects entry-price subscribers would not see SIM consolidation. However, it will closely monitor the BSNL actions and subscriber movements.
- It expects the churn rate to come down after the next quarter as the capex deployment will commence.
- With the current tariff hike, VIL expects a 17% blended price hike in the prepaid category, which could result in revenue growth at 2/3rd to 3/4th of the hike.



Capex plans:

- Capex is under execution and management expects capex to be in range of INR500-550b over the next three years. The majority of the capex will be front ended.
- VIL is in the process of expanding 4G coverage and capacity as well as launch of 5G services.
- Some capex has already been ordered and under execution and expect ~15% increase in data capacity and an increase in 4G population coverage by ~16m by end Sep'24.
- Management is in talks with vendors to deploy hardware/sites and expects the discussion to end by Aug/Sep'24.
- Debt raise: In discussions with a consortium of banks to raise up to INR250b and additional non-fund based facilities of up to INR100b.

Shutting down 3G:

- It is completely shutting down 3G sites in seven circles (including Haryana in 1Q) and in the process of shutting down 3G across other circles as well by year end.
- Re-farming from 3G to 4G is already done. The closure of 3G sites is due to equipment's not able to convert to 4G.
- Added 6600 4G sites in 1Q and has deployed ~74,750 TDD sites, ~13,950 Massive MIMO sites and ~13,250 small cells till date.
- Tower additions: Management expects the unique towers to increase to around 210-220k from 183k. There could be some exits in the existing towers, but the 4G towers could reach ~215k (20-25k additions p.a.).
- Spectrum: Expanding 900MHz presence in 14 circles at multiple locations, which will improve customer experience and with the recent additional 900 MHz spectrum acquisition company will be able to expand 900MHz band in 16 out of 17 priority circles.

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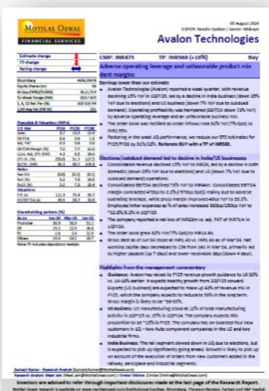

Avalon Technologies — Buy

Current Price INR 514

Indian business

- Revenue from India manufacturing business stood at INR1.75b in 1Q with margins of ~9.6% (vs ~INR12.5% in 4QFY24). Margins declined due to an unfavorable product mix and adverse operating leverage. PAT margins stood at ~6.6%.
- Within the Indian business, the company is witnessing lot of activities in the rail business. The business slowed in 1Q due to elections but is expected to pick up significantly.
- Avalon expanded its customer base in 1Q by adding customers in Railway, Aerospace (product – Thermal blanket used as braking system in aircraft) and industrials (power and infra MNC).
- It is expanding the business with the addition of two industrial customers and one mobility customer.
- The company is actively working with customers for the anti-collision system – Kavach.
- For this, field-testing is going on by the customer. Avalon is waiting for approval and expects this space to pick up pace in the next few quarters.
- Within CDAC, Avalon expects some allocation of servers in the next six months.

US business

- The US manufacturing business incurred a net loss of ~INR142m in 1Q.
- US operations will continue to see some losses as Avalon is moving production to India.
- Around 45-50% of the US production has been transferred to Indian plants.
- US manufacturing stood at 12% of total manufacturing activity in 1QFY25 vs. 27% in 1QFY24. The company expects this proportion to be ~15% in FY25.
- The cost rationalization in the US operation and its resultant benefits will be visible in the coming quarters.
- The company has on-boarded four new customers in the US – two Auto component companies (one is leader in battery management and others into motion control system) and two industrial customers (large four-five decade old MNCs).

Capex

- Avalon expects to incur a capex of INR350-450m in FY25 (this will include the cost of shifting production).
- It has commissioned the new plant in Chennai, which will be dedicated to exports.
- Another brownfield expansion to cater to domestic demand is expected to commercialize next year.

Guidance

- Avalon has raised its revenue guidance for FY25 to 16-20% vs. 14-16% earlier.
- It expects to witness healthy growth in 2QFY25.
- The company expects broad-based growth. Its existing US customers are also restocking inventory.

- Around 20-25% of revenue will come from the clean energy segment and 30% from the industrial segment.
- Medical customer's business is back to normal. Industrial customer's business is up 30% above normal levels.
- The company added a significant number of new customers in the last 3-6 months and expects order flows from them in 2HFY25.
- Exports (US business) are expected to account for 60% of revenue mix in FY25, while the long-term goal is to take it down to 50%.
- Avalon believes it has reached the bottom and expects strong growth going ahead.
- It expects gross margins to be ~33-35% going ahead.
- Working capital days as of Jun'24 stood at 158 days. It expects to reduce working capital days by 10-15 days by Mar'25.
- The company expects profit growth to outpace revenue growth. Profitability to be better in FY25 vs. FY24

Orders

- The order book plus long-term contracts increased 43.5% YoY.
- The order book stood at INR14.61b as of Jun'24 (up 32% YoY). This order book has an execution period of over 12-14 months.
- Avalon received orders from US (~53% of the order book) and India (~47%).
- Long-term contract grew 65% YoY to INR9.85b, which have an execution period of ~14-36 months.
- It expects blended gross margins of ~33-35% based on this order book.
- During the quarter, the company has won orders from established US customers in Automotive, Clean energy & Industrial segments.

Others

- In 1Q, payable/receivable days improved by 7/4 days. Overall net working capital improved by 5 days.
- A new plant for exports started operations.
- Clean Energy includes Solar, Hydrogen and EV.
- Lunar (a key customer) should launch its product in the later part of this year and revenue from the customer can start coming from 4QFY25.
- The company's exposure to the US solar industry is less than 10%. It has a presence in the solar storage industry, which is growing at a faster rate. Housing industry in the US has been declining, so demand from solar rooftop is weak.
- The company is operating at 60% utilization across two shifts.

Cello World — Buy

Current Price INR 916

Operating Performance

- CELLO witnessed decent performance in 1Q as growth was in line with the industry.
- Growth was primarily driven by the consumer ware and furniture businesses, while writing instruments remained flat due to continued sluggishness in the overall demand scenario.
- Improvement in gross margin is attributable to a shift in revenue mix, continued focus on value-added premium products and efforts toward improving operational efficiency.

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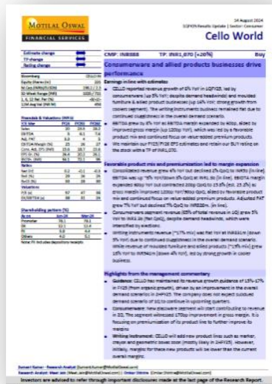

- The company witnessed decent performance despite multiple headwinds on the demand front, which got further intensified due to the elections.
- In 1Q, there was considerable increase in ad spending on account of a back-to-school campaign held by the company. Ad spending stood at INR78m in 1QFY25 vs. INR28m in 1QFY24.

Writing Instruments

- CELLO will add new product lines such as marker, crayon and geometric boxes very soon (mostly likely in 2HFY25).
- It will produce the new products through both outsourcing and in-house manufacturing (initially outsourcing will be higher).
- However, initially, the margins for new products will be lower than the current pen business.
- Pen segment witnessed subdued demand in 1Q. All the industry players witnessed flat demand.
- The company has covered most parts of India in terms of distribution.
- Exports improved, whereas domestic sales declined.

Consumer ware

- The segment witnessed 170bp improvement in gross margin during 1Q.
- A new glassware plant will contribute to revenue from hereon. Glassware segment can contribute ~INR750-800m of incremental revenue on YoY basis in balance 9MFY25.
- Glassware segment performed in line with other consumer ware products. 1Q is generally weaker for glassware segment.
- Consumer ware business witnessed ~75% capacity utilization.
- The company has ~56,000 distributors, of which the company does frequent business with 80% of them and it does business few times a year with the rest of them.
- The company is focusing on premiumization of its product lines, which will help it further improve its margins.

Moulded Furniture and Allied Products

- Cooler business drove the growth within the segment (the manufacturing of coolers is mainly outsourced).
- Wim Plast is still contributing very less to the overall business.
- Guidance
- CELLO has maintained its revenue growth guidance of 15-17% in FY25 (from organic growth), driven by an improvement in the overall demand scenario in 2HFY25.
- The company does not expect subdued demand like 1Q in upcoming quarters.
- It expects ~15% of revenue coming from e-commerce in the next few years.

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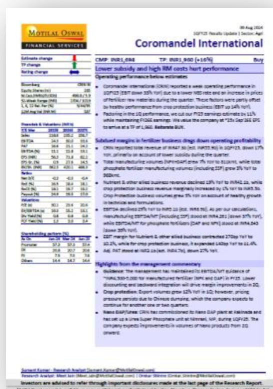
Coromandel Intl — Buy

Current Price INR 1,761

Agri scenario

- Crop sowing is picking up and stood at ~83% of India's normal sowing area as of Aug'24.
- Channel inventory in the domestic market is normalizing, led by better demand.
- The global agrochemical scenario is also improving.



Coromandel International

Operating performance

- In 1QFY25, revenue declined primarily due to lower subsidy.
- However, it witnessed sequential recovery, registering healthy volume sales in Nutrients and Crop Protection businesses in spite of the delay in the onset of monsoons.
- Margins for the fertilizers business were affected by lower subsidy rates and a rise in input costs during the quarter.
- Total manufacturing volumes (NPK+DAP) grew 7% YoY to 811kmt, while total phosphate fertilizer manufacturing volumes (including SSP) grew 3% YoY to 968kmt.
- Plants were running at a capacity utilization rate of ~97% in 1QFY25.

Outlook and Guidance

- CRIN expects a favorable environment for Agri inputs, led by above-normal southwest monsoon in key markets and an increase in crop acreages.
- There is a lag between the subsidy rate and the current raw material price. The company expects some of the price increase will result in higher subsidy going ahead.
- However, subsidy for 2Q will also be lower on YoY basis.
- Fertilizer margins are expected to improve. The management expects EBITDA/MT of ~INR4,500-5,000 in FY25.

Subsidy

- The subsidy/non-subsidy business share stood at ~81%/19% in 1QFY25 vs. ~86%/14% in 1QFY24.
- Non-subsidy EBITDA mix stood at ~25% in 1QFY25 vs. ~16% in 1QFY24.
- The company has received a subsidy of ~INR9.87b in 1QFY25 vs. ~INR20.7b in 1QFY24.
- Outstanding subsidy as of Jun'24 stood at ~INR19.7b vs. ~INR28.1b in Jun'23.

Crop Protection business

- Crop Protection business volumes grew 5% YoY in 1QFY25 on account of healthy growth in technical and formulations.
- The export volumes increased during the quarter (up 12% YoY). However, pricing pressure continues due to Chinese dumping.
- The company expects pricing pressure in export markets to continue for the next one or two quarters
- Prices have stabilized in the formulation business.
- The company introduced 10 new products during the quarter (including four patented products).

Technology-based investments

- During 1Q, the company continued to focus on its diversification strategy by actively pursuing technology-based investments.
- CRIN increased its shareholding in drone-based company Dhaksha to 58% (vs. 51% earlier; invested INR1.5b).
- It made further investments in clean tech start-up Ecozen (shareholding increased to ~5.5% vs. ~2.4% earlier; invested INR0.24b).

Nano DAP/Urea

- CRIN has commissioned a Nano DAP plant at Kakinada and has set up a Urea Super Phosphate unit at Nimrani, MP, during 1QFY25.

- This is the first year for Nano products. The company expects improvements in volumes of Nano products from 2Q onward.
- CRIN expects ~20-25% substitution in DAP (Nano DAP substituting traditional DAP product) over the next three to five years at Industry level.
- Nano DAP is currently selling at ~50% of the price of DAP.
- CRIN will not be required to make significant investments for Nano. It can scale up production from the existing facility through some capex.

Backward integration
- The company has commenced activities for its Phosphoric acid (650 tpd) and Sulphuric acid (2000 tpd) complex at Kakinada.
- It has declined its import of Sulphuric acid (down ~30% YoY); however, it will still import ~700-800ktm of sulphuric acid in FY25.
- Further, in order to improve the operational efficiency and throughput at its phosphate mines at BMCC, Senegal, CRIN is setting up a fixed processing plant, which is expected to be commissioned during 2QFY25.
- The BMCC plant will fulfil ~20-25% of the requirement of the company.

Retail stores
- The segment performed well during the quarter despite late onset of monsoon.
- The company opened 22 new stores during the quarter.

New Products
- Eighteen new products were launched during the quarter.
- The share of new product sales stood at ~22% in 1QFY25, leading to margin accretion for the business.
- The company will also be launching some of the new technical (patented products) going ahead. Currently, the company has ~90kmt of capacity for technical products.

Other key highlights
- CRIN will also focus on producing phosphoric acid derivatives going ahead.
- It expects new initiatives/adjacent categories to contribute ~10-15% of the revenue over the next 3 to 5 years.
- During 1QFY25, the company has got approval to expand capacity at Kakinada by ~1mmt. Thus, with an increasing focus adjacent business, the company will also focus on growing its core business.
- The share of formulation in crop protection is ~30%.
- The company is looking into process optimization (minimizing waste), leading to better operational efficiencies.

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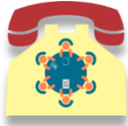

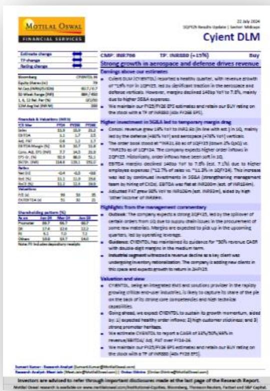

Cyient DLM — Buy

Current Price INR 776

Operating Performance

- There were supply chain challenges (in procurement of raw materials), resulting in the delay in some orders to 2QFY25. Accordingly, the company expects a strong 2QFY25 on account of the spillover of some orders.
- The aerospace and defense segments continue to drive revenue growth.
- Employee costs and other expenses were higher due to planned SG&A investments by the company.

Key order wins

- CYIENTDL added four new global customers in 1Q, including a global semiconductor company, a global defense OEM, a med-tech company, and another large defense and aerospace company.
- The company will ramp up supplies to these new customers over the next couple of years.

Growth strategy

- The company will continue to strengthen its current business through large deals, focus on India defense and an increasing share of 'build to specification' (B2S) contracts.
- CYIENTDL is actively looking for inorganic expansion. It is in advanced discussion for acquiring a company in North America (NAM) and Europe, the Middle East and Asia (EMEA).
- Apart from this, the company will focus on expanding into new geographies (high growing EMS markets) and new industries (such as EVs, power, etc.).

Order book

- The order book is lumpy in nature and the company expects an uptick in orders going ahead.
- CYIENTDL expects better order inflows in 2Q. Historically, order inflows have been soft in 1Q.

Margins

- The company is working on a large program in the defense segment, which has lower margin, leading to relatively lower margins in the A&D segment. The aerospace segment generally has higher margins than the defense segment.
- B2S contracts are expected to deliver higher margins (around mid-teens). Currently, B2S contracts account for just 5% of total contracts, but the company expects their share to go up over the next couple of years. With an increasing share of B2S contracts, margins are expected to improve.
- CYIENTDL maintains its guidance of double-digit EBITDA margins in the long run.

Outlook and Guidance

- CYIENTDL has maintained its revenue growth guidance of ~30% CAGR with double-digit margins.
- It expects a strong 2QFY25 due to the spillover of some orders from 1Q.
- The company expects positive FCF in 2Q and in FY25 as well.
- Traction in the domestic market is improving; the company will continue to improve its order pipeline.
- Gross margins and EBITDA margins will pick up in the upcoming quarters, led by operating leverage.

Industrials

- Industrial is a broad segment, which includes energy and infrastructure, among others.

- A key client of the company was undergoing inventory rationalization, leading to a moderation in this segment for CYIENTDL. The company expects that the rationalization will be over by 2HFY25.
- Further, the company is also adding new clients in this space.
- Accordingly, CYIENTDL expects growth in the segment to return by 2HFY25

Working capital

- Inventory days went up in 1Q to ~184 days. This is a temporary phenomenon as sales volumes were low in 1Q, which is a seasonally weak quarter.
- Inventory days should come down in 2Q/3Q/4QFY25, similar to that in FY24.

Others

- The company has strengthened its technology infrastructure with investments in B2S capabilities.
- CYIENTDL has expanded its manufacturing facility in Mysore to cater to key clients.
- It has utilized ~38% of the IPO proceeds and the remaining will be utilized for inorganic expansion and working capital needs.
- The company is operating at ~55% capacity utilization.
- It does not expect any significant impact of any changes in geopolitical dynamics. India is focusing on indigenization in the defense sector, which can be a key growth driver for CYIENTDL going ahead.
- Cyient’s semiconductor business will complement CYIENTDL, though the business is in a very early stage.

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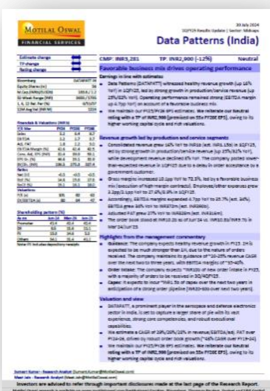

Data Patterns — Neutral

Current Price INR 2,878

Operating performance

- The company has witnessed a delay in delivery of an order during the quarter (due to delay in the acceptance by a government customer). This is part of the process and the management does not expect a significant impact on business.
- Margins have improved on account of execution of high-margin contracts during the quarter. Margins vary contract to contract. Some contracts involve high IP products, which generate better margins.

Outlook and guidance

- DATAPATT expects to sustain strong growth momentum in FY25.
- The company expects 2HFY25 to be much strong than 1HFY25, due to the nature of orders received by the company.
- It expects to achieve ~20-25% revenue growth over next two-three years and sustain margins around 35-40%.
- Going ahead, DATA PATT expects to work in collaboration with foreign OEMs to explore export potential. It is also moving up the value chain and is working toward building full systems.
- The company will continue with product development to address larger TAM.
- It has a strong order pipeline of INR20-30b over the next two years.

Orders

- The order book stood at ~INR10.2b as of Jun’24. Including the orders acquired till date of INR1.4b, the total order book stands at ~INR11.5b as on date.
- Production/development/services contracts account for ~43%/53%/4% of the order book.
- During 1QFY25, the company received major orders from DRDO and DOS. It also received one avionics export order of INR20m.
- It expects ~INR10b of new order intake in FY25, with a majority of orders to be received in 3Q/4QFY25. Most of the orders are expected to be repeat orders.

- Radar, EW and Avionics will account for bulk of the orders during the year.

Capex

- DATAPATT has spent ~INR1.24b on capex in the last five years.
- It expects to incur a capex of ~INR1.5b over the next two years.

Others

- The company is working with DRDO for new product development, especially within EW systems. It expects this segment to contribute significantly to the company's growth going ahead.
- DATAPATT focuses on developing products for future. It has spent INR540m on new products development (from QIP proceeds).
- QIP funds were utilized for product development in Radar, EW, and Communication System R&D.
- India expects to reach ~INR3t of annual defense production by FY29, with ~INR0.5t of exports.
- The company has INR6.7b in cash and cash equivalents as of Jun'24.

DreamFolks — Buy

Current Price INR 465

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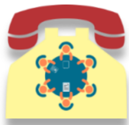

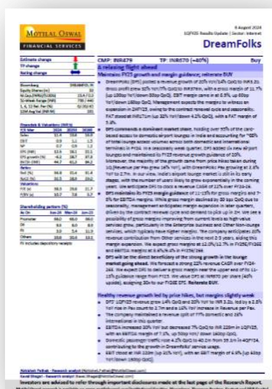

Quarterly performance & Outlook

- DFS had a robust quarter despite the seasonally weak period and maintained its guidance of 20% revenue growth and 11-13% gross margins for FY25, along with an EBITDA margin guidance of 7-9%.
- Golf services are experiencing strong demand, especially domestically, where DREAMFOL has launched new golf programs and added six new clubs offering access to golf games, lessons, or both.
- DreamFolks' Pax grew by 2.8% to reach 2.7m, despite most clients implementing spend-based models.
- Price hikes implemented during the quarter contributed to revenue growth, with additional escalations expected in the second half. Typically, the first half of the year is slower compared to the second half.
- Non-lounge services, led by golf, have contributed 2% to 6% of revenue over the last two years. In the next 2-3 years, 20% of revenue is expected to come from these other service businesses.
- Six new airport lounges were launched, with five at domestic terminals (Nagpur, Vizag, Ranchi, Bagdogra, and Gwalior) and one at the international terminal of Amritsar Airport.
- The company has expanded its service offerings by introducing new products like "Medicine on Call" and "Doctor Consultation" through its partnerships. These services, which extend beyond Indian airports, have gained good traction.
- Banks and card network providers will be a key client category. The company is able to sell various package services to enterprises. These packages tend to have higher margins.
- Employee expenses increased due to annual increments and new capacity additions. Cash on the books as of 1QFY25 stands at INR 810m.
- The enterprise client base is expected to contribute 15-20% to revenue in the next few years, with higher margins than the existing model. This will primarily follow a membership model that includes loyalty, travel, hospitality, and lifestyle services.
- Even if Adani opens its own lounge, they would still require DreamFolks to drive their revenue.

- 75% of volumes are from metro cities at domestic airports. Lounge space at airports increased from 28,000 sq. meters to 35,000 sq. meters last year, as it is a profitable business for airports.
- The government's focus on infrastructure improvement is expected to create more opportunities in airport and railway modernization.
- On margins: Gross margins increased to 11.7% this quarter, up from 10.7% in 1QFY24. The company expects margin compression in the first two quarters compared to 2HFY25, with margins expanding in later quarters due to seasonality and the contract renewal cycle. On a full-year basis, gross margins are expected to remain in the 11-13% range as per guidance.
- Non-lounge services tend to have higher margins than airport lounge services. Non-lounge services contributed 2% to 6% of revenue over the last two years, with golf being a one of the major contributors.

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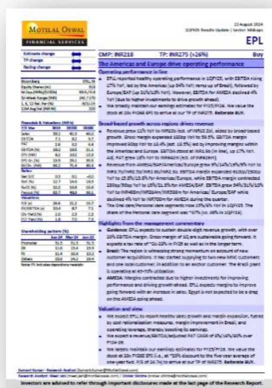

EPL Buy

Current Price INR 252

Guidance

- EPLL expects to sustain a double-digit growth with 20%+ margins
- Margin progression has been encouraging and the company expects to reach 20% margin mark sooner
- It believes that gross margin in 1Q is sustainable going forward
- The company is working on to improve the margins in the EU and India.
- Long-term tax rate should be in range of 21-23% and this can be the likely scenario for FY25 as well

EAP

- The region witnessed ~14% topline growth with 22% EBITDA margins in 1QFY25
- EPLL targets ~22% EBITDA margin for the EAP market. It believes it can sustain this margins going ahead

AMESA

- India's standalone revenue growth stood at 8.6%, with an EBITDA margin of 17.9% (down 170bp YoY). EBITDA declined 1% YoY, while EBIT rose 13.3% YoY
- Margins contracted due to the investments the company is making to improve performance and drive growth
- Company is investing in increasing capability. It is adding manpower to accelerate B&C efforts.
- Company has adopted performance driven incentive system for FY25 (it is more than just the internal budget). As per the accounting standards the cost for the same is accrued now
- Major corporate overheads are allocated in the India standalone P&L.
- Going forward, with the increase in sales, the operating leverage will drive up the margins.
- Egypt is not expected to be a drag on the AMESA number going ahead

Europe

- Company has gained wallet shares in the EU for oral care category

America

- Brazil is at 65-70% utilization levels in 1Q. It's a modular plant and when it reaches 75-80% utilization level then the company will add more capacity.
- The company is adding new customer quicker than expected. It would not take long time to add capacity when there is strong demand.

Growth drivers

- B&C Performance: Strong momentum in EAP and Americas, supported by enhanced backend and front-end capabilities will drive growth in the category. Continuous innovation is driving progress in acquiring new customers.
- Brazil: Strong momentum on new customer acquisition. Started supplying to two new MNC customers and one local customer, in addition to an anchor customer
- P&C – Company is making good progress for Neo seam tube. It has received commercial orders for our Neo-seam tubes across three regions
- Sustainable tubes: Company is witnessing strong pull for sustainable conversions with increasing wallet share. Sustainable tube now accounts for 29% of the total volume in 1QFY25 vs. 21% in 1QFY24

Others

- Growth momentum in oral care is driven by good organic demand and wallet share gain with a few customers led by sustainable tube.
- Within P&C, company is witnessing strong demand growth in EAP and America while in India the demand is expected to improve.
- The company is facing supply chain issue in India which has now been sorted out. Accordingly, it expects to witness good performance from 2Q onwards.
- Polymer prices have slightly increased in the current quarter; the prices remain higher than pre-Covid level. Aluminum prices have increased from last quarter.
- There have been price cuts with customers in some regions and the management believes the price correction has bottomed out and can see some stability (not expecting positive price action)
- The company witnessed higher interest cost mainly due to increase in debt due to Brazil facility.
- ESOP cost - Total cost is INR40m per quarter. Company do not expect this cost to continue beyond 2Q.

Godrej Agrovet — Neutral

Current Price INR 802

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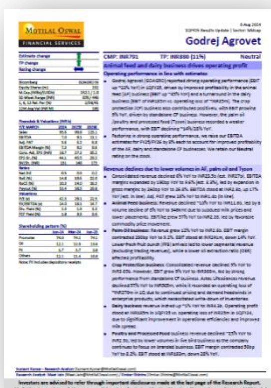

Palm Oil

- Average prices of crude palm oil (CPO) grew 4% YoY to INR84,339 per MT, while average prices of palm kernel oil (PKO) grew 15.5% YoY to INR1,18,497 per MT.
- OER declined YoY, which affected profitability during the quarter.
- The segment witnessed lower revenues (excluding trading revenues) due to lower FFB arrivals.
- Going ahead, production is expected to improve sequentially. The company expects to achieve steady production YoY in FY25.

Animal Feed

- Total sales volume declined 8% YoY to 346kmt, due to subdued milk prices and lower placements.
- Milk prices, particularly in Maharashtra, have started to increase.
- Cattle feed segment witnessed a volume decline of ~4.5%, while broiler feed segment witnessed a higher decline, which indirectly helped the Tyson business increase the live bird prices.
- Currently, the company is witnessing price inflation in corn. With good rainfall, the company expects bumper corn production, thereby bringing down prices.
- EBIT/kg grew 57% YoY to INR2.26, led by favorable commodity price movement.
- The company believes that EBIT/kg of ~INR2 is sustainable going ahead.

Crop Protection

- The standalone segment delivered robust performance, led by volume growth in plant growth regulators and in-house categories and improved realizations across categories.
- Operating profitability witnessed strong growth due to higher realizations for in-house herbicide & pesticides categories.
- Generally, 1Q and some part of 2Q are always good for in-house products and 2Q onward, in-licensing products pick up.

Astec

- Enterprise business: Revenue and profitability were affected by continued pricing and demand headwinds in the enterprise products, which led to write-down of inventories. The company does not expect any further inventory write-down in subsequent quarters.
- Some of the product demand is witnessing good traction, while some products are waiting for an uptick in demand.
- Export markets are challenging due to low realization and continued dumping from Chinese markets.
- Demand is likely to be back in the next two quarters. There is some green shoot in the domestic market. Prices are expected to increase with one quarter lag.
- CDMO: The deferral in execution of CDMO orders led to further compression within margins.
- In FY24, the company clocked revenue of INR2.6-2.7b and expects to grow by 50-60% over the next 2-3 years.

Dairy business

- In 1QFY25, revenue remained largely flat due to a decline in overall volume and pricing pressure.
- Operating profitability improved (EBITDA margins up 490bp YoY) due to significant improvement in operational efficiencies and improved milk spread.
- Salience of value-added products has improved to 42% of total sales from 36% in 4QFY24.

Godrej Tyson Foods (GTFL)

- GTFL's revenues declined due to lower volumes in live bird business as the company continued to focus on branded business and reduced its exposure to live bird business.
- The acquisition of full stake will further enable the company to engage in M&A activities to accelerate growth.
- The company expects increased demand in branded space.
- Benign raw material prices in 2Q are expected to boost margins within the segment.
- However, Shravan month is a weak period for this business.

Others

- Most of the businesses suffered due to excessive heatwaves in May-Jun'24.
- Agri Stack will be revolutionary in the long term. It will bring 60m farmers under agri stack.
- The company believes overall margins of ~ 9-10% will be sustainable in the next few quarters.
- GOAGRO has received in-principal approval for building a new AF facility for INR1.1b. The company expects to take two years to build this facility. It will build one more refinery for palm oil for investment of ~INR800-900m in FY25.

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Results Update

GR Infra — Buy

Current Price INR 1,564

Business updates

- The company received an InVIT dividend of INR600m, leading to higher other income in the current quarter.
- Fixed asset additions totaled INR226m, of which INR133m is towards plant, property and equipment.
- Working capital stood at 122 days compared to 112 in Mar'24, due to an increase in SPV debtors. Trade receivables were INR21.7b as of Jun'24, including SPV debtors of INR19b.
- Inventory was INR7b. Trade payables stood at INR8.5b as of June 2024.
- Unbilled revenue stood at INR6.5b as of June 2024.

Order book

- As of Mar'24, the order book stood at INR191b (incl. L1). Roads and highway projects constituted 77% of the order book.
- The company currently holds 29 projects across the infrastructure segment. Of the 29 projects, 22 are ongoing, and seven are awaiting appointed dates (expected by 2QFY25 and 3QFY25).
- The order pipeline is robust with projects worth INR2.6t. GRINFRA has submitted 16 bids amounting to approximately INR150b, which are expected to be opened soon. The company is also working on submitting additional bids as opportunities arise.
- NHAI announced 53 projects worth about INR2t via BoT mode and has already invited bids for 13 projects under this mode, presenting a substantial opportunity for GRINFRA.
- Competition is expected to be heavy in Road EPC projects and diversification to other segments would help maintain order inflows.
- Expect margins to be similar in new projects.

Guidance

- The company expects FY25 revenue to be flattish YoY.
- 10-20% revenue growth in FY26, contingent on order inflows in FY25 and timely receipt of appointed dates in FY25.
- For FY25, the company targets INR200b in order inflows, with non-road order inflows accounting for INR50-70b.
- Margins are projected at 13-14%. If the company returns to double-digit growth, margins are expected to reach 15%.
- Total balance equity of INR20b out of which INR6b is expected to be invested in FY25.
- Capex in FY25 is likely to be INR2.0-2.5b, with INR1.0-1.5b used in the construction of its office building.

HAVELLS

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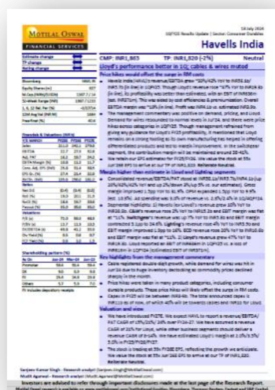
Havells India — Neutral

Current Price INR 1,919

Demand and pricing

- The 1QFY25 saw better demand from categories like RAC, fans, and air coolers. The omni-channel presence helped to tap into the market opportunity, and the industry witnessed many first-time buyers for RACs. This may also help growth for the underpenetrated RAC category.
- Price increases have happened in many product categories, including consumer durable products in 1Q. Costs have also increased; but the price hikes will offset the current RM costs.



- **ECD segment:** The summer and the low base of last year helped ECD segment growth. Consumer sentiment has improved, but it is difficult to comment whether it will sustain or not. Kitchen appliances are also doing better. There should be a turnaround in consumer sentiments in the next few quarters, which will also help growth of core categories. Higher growth will also bring operating efficiencies. Contribution margin of the ECD segment improved due to premiumization and cost-saving initiatives. The ECD segment has product categories like fans, domestic appliances, air coolers, water heaters, etc. In several product categories, Havells' market share is very low. As consumer sentiment improves, these categories will start growing and the company would also strive for market share growth. There is no significant element of replacement demand in the ECD category.
- **Cable & wires –** Cable registered double-digit growth, while demand for wires was hit in Jun'24 due to huge inventory destocking as commodity prices declined sharply in the month. Demand in Jul-24 has rebounded to normal.
- **Switches & Switchgear segment –** Increased competitive intensity persists in switchgear for a long time. However, contribution margin has remained in the range of 38-41% and the aim is to maintain these margins going forward. The company was offering switches under Havells and Crabtree brand names other than Rio and Standard. There was overlapping of customer segments and influencers in Havells and Crabtree. Hence, these two brands have been merged. Other brands have different consumer segments and hence, they would continue to remain as independent brands.

Lloyd's performance

- The company has been making huge investments in Lloyd and will continue to do that as it foresees a huge growth opportunity. Also, the company's market share is low in many categories. Margin improvement has been led by cost efficiencies in manufacturing and premiumization, which is being done over the years. Though 2Q and 3Q are lean periods for RACs, Lloyd remains on a strong footing for the full year. Investment will continue in brand building (4.0-4.5% of revenues are being spent towards advertisement), R&D, and manufacturing.
- Non-AC categories (this quarter RAC revenue share was ~85%) also have done well in 1Q. Refrigerators and washing machines will continue to be the focus areas for non-AC category. The non-AC category will also require investments, but not to the extent of Lloyd as brand building has already been done.
- Manufacturing helped not only in margins but also in offering differentiated products, which is benefitting the company.

Capex, working capital, and AD spends

- There is further scope for improvement in inventory days.
- Capex in FY25 will be between INR8-9b. Total announced capex is INR11b as of now, of which 40% will be towards cables and INR1b towards Lloyd.
- Final approvals are wait for sales to start from the new facility and production should start from 2QFY25. The company had underinvested in cables in last few years and hence, it is increasing investments in the segment.
- It will continue to increase capacity both for exports and domestic markets as well as a large range of underground cables. The company has capacity available for wires in the domestic markets as it has seen continued investments. There will be higher capacity expansion in cables than wires over next 1.0-1.5 years. About 40% of the newly announced expansion in cable & wire segment will be towards cables.
- Ad spending will be between 4.0-4.5% of revenues for Lloyd and 2.5% for Havells. For the company, it will be ~3.5% of revenues.

Future strategy and other highlights

- Investment continues in brand building, differentiated offerings and talent pool.
- The target is to tap the global opportunity and it would aspire to achieve 10% of its revenues from export markets. There are opportunities in the markets of US, Australia, and Europe, however; Europe market is not as open as the US, which is leading the entry into this market. The company is into different phases of approvals for all products into the US markets, which may take 9-12 months. Also, approval for all range of cable products will come in 9-12 months. Power consumption is going up globally and infrastructure was not improved in the last few years. This will lead to a five-year growth trajectory for cables & wires.
- Inorganic opportunities will be evaluated as and when they arrive, but it should be accretive to return ratios.

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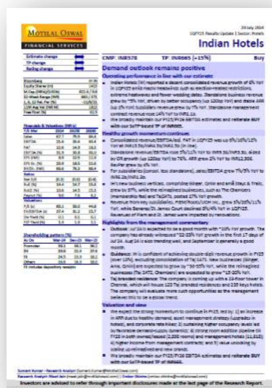
Indian Hotels

Indian Hotels — Buy

Current Price INR 621

Operating performance

- IH witnessed multiple headwinds in 1QFY25, including elections, extreme heatwaves and fewer wedding dates. However, structural tailwinds are intact.
- RevPAR growth in Mumbai/Delhi & NCR/Bengaluru/Chennai/Kolkata stood at 3%/10%/10%/8%/5% YoY. RevPAR for Goa/Rajasthan declined 8%/9% YoY.
- For the standalone business, occupancy increased by 120bp YoY to 76% in 1QFY25. ARR/RevPAR grew 2%/4% YoY to INR12,906/INR9,810.
- Ginger Mumbai witnessed 87% occupancy with ARR of ~INR5,700, leading to RevPAR of ~INR5,000 and revenue of ~INR214m.
- In 1QFY25, key domestic subsidiaries Piem/Roots posted revenue growth of ~3%/28% YoY to INR1.3b/INR1b, while EBITDA grew 12%/26% YoY to INR280m/INR340m. Benares witnessed a revenue decline of 8% YoY to INR240m with EBITDA staying flat at ~INR100m.

Outlook and Guidance

- IH is confident of achieving double-digit revenue growth in FY25 (over 10%), excluding the consolidation of Taj SATS.
- New businesses (Ginger, Ama, Qmin) are expected to grow by ~30-35% YoY while reimagined businesses (Taj SATS, Chambers) are expected to grow ~15-20% YoY.
- Traditional business, including reimagined Gateway, is also expected to witness healthy growth.
- Jul'24 is expected to be a good month with ~20% YoY growth (~50% of the revenue will come from room revenues). The company has already witnessed ~22-23% YoY growth in first 17 days of Jul'24. Aug'24 is also trending well, and September is generally a good month.
- Large convention center (Bharat Mandapam sold out for 2nd half of Jul'24) and higher wedding dates (12 more dates as compared to previous year in remaining quarters) will continue to drive the demand.
- The foreign tourist arrival is still lagging, which is expected to normalize by Oct'24. Currently the foreign tourist arrival is only for business purpose.

New and reimagined business

- IH's new business verticals, comprising Ginger, Qmin and amã Stays & Trails, witnessed ~37% YoY enterprise revenue growth in 1QFY25.
- Ama's portfolio is expanded to ~203 homestays, with ~106 operational as of 1QFY25.
- The reimagined business of the company (Taj SATS and Chambers) witnessed ~17% YoY growth during the quarter.

- Taj SATS clocked ~INR2.4b revenue with EBITDA margin of 24%. It witnessed ~59% market share (by number of meals). IH has gained management control of the entity by an amendment to the shareholder agreement with SATS, and accordingly Taj SATS will be the subsidiary of IH going ahead (proposed to be consolidated from Aug'24 onwards).

Management contracts

- In 1QFY25, management fee income grew 17% YoY to ~INR1.14b, reflective of IH's asset-light strategy.
- Against this, the company witnessed ~11% YoY growth in operational management hotel rooms.
- Management fees are on track to reach AHVAAN target of INR5.5b by FY26.

International business

- Among key international regions, the US witnessed ~4% higher occupancy on YoY basis (65%), while ARR declined 3% YoY (~USD630). The company is seeing better performance in New York, while San Francisco is still lagging.
- UOH Inc (subsidiary in US) witnessed revenue/EBITDA growth of 11%/2x YoY in 1QFY25 to INR2b/INR100m.
- Similarly, the UK witnessed 2% higher occupancy (81%), while ARR declined 9% YoY to USD440. The London market did well due to Wimbledon but needs to be seen how it will perform post the new government formation.
- St. James (subsidiary in UK) witnessed revenue/EBITDA decline of 4%/10% YoY in 1QFY25 to INR1.4b/INR440m. Around 25 rooms of St. James were under renovation in 1QFY25.
- Cape Town occupancy was flat at ~71%, while ARR grew 18% YoY to USD160.

New openings and pipeline

- In 1Q, IH opened six new hotels and signed 16 additional hotels.
- The company expects to open ~19 new hotels in 2Q/3Q/4QFY25 (including Taj Patna which was opened few days back).
- IH has a portfolio of ~326 hotels (224 operational + 102 pipeline).
- IH has an operational inventory of ~24,519 rooms (including 10,525 rooms under management contract) as of 30th Jun'24, with a pipeline of ~14,516 rooms (including 11,618 rooms under management contract).
- Out of the total pipeline of ~14,516 rooms, IH expects ~2,198/4,438/2,843 rooms to be operational by FY25/FY26/FY27.
- Taj branded residence – New business venture
- The company is coming up with a 23-floor tower in Chennai, which will house 123 Taj branded residences and 235 keys hotels.
- This business model includes multiple sources of fee-based income – brand fee, technical fee, referral fee, maintenance charges, etc.
- The company will evaluate more such opportunities as the management believes this to be a global trend.
- Branded residence market: There are ~2,300 branded residences registered in India with an aggregate market value of ~INR228b, growing at a ~12% CAGR.

Others

- Domestic hotels witnessed RevPAR growth of ~3% YoY, led by growth across brands, except Selections. Selections hotels witnessed a ~4% YoY decline in RevPAR as its performance was impacted by temporary renovations.
- Raw material costs as a percentage of sales declined from 22% in 1QFY24 to ~21.4% in 1QFY25. High-yielding F&B business reduced raw material costs as a percentage of sales during 1QFY25.
- Current greenfield projects – Taj Cochin (112 keys; to be operational by 4QFY25), Vivanta and Ginger Ekta Nagar (275 keys, 4QFY26)

- Expansions – Taj Ganges Varanasi (100 keys, 4QFY26), Taj Mahal Lucknow (100 keys, approval stage)
- Key Renovations – Chambers in Taj Mahal Palace, Taj Bengal, Taj palace Delhi, Vivanta Dwarka, Taj Holiday village, Jai Mahal palace, President Mumbai.
- Taj was rated the world's strongest brand for the third time in the last four years.

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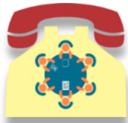

IndiaMart Intermesh — Buy

Current Price INR 2,910

Collections and customer additions

- Unique business inquiries grew to 25m with 15% growth. Total paying subscribers grew to 216,000. The company continues to see more than anticipated churn in the silver bucket. In addition to this, new supplier acquisitions were slightly lower this quarter compared to the last few quarters.
- Supplier Storefronts grew to 8m, an increase of 5% YoY, and paying suppliers grew to 216k, representing net addition of 1.5k subscribers vs. normal range of 6-8k.
- Deferred revenue grew by 23% in this quarter to INR14.7b.
- Platinum and gold customers, which constitute approximately 50% of customer base and 75% of the revenue, continued to see low churn and grew well in terms of ARPU and count.
- The company will continue to make investment and undertake measures to enhance customer experience and improve retention, as well as drive deeper penetration of paying customers.
- The company stopped on-boarding inherently high-churn customers.
- Most of gains in ARPU come from top 10% customers and most of the churn is happening in bottom 15% customers. Only in high product category, prices were increased; however, in the entry-level category, prices remained the same.
- Most of ARPU growth comes from silver monthly and silver annual accounts. Gold and platinum customers constitute 75% of total revenue (73% in FY23) and 50% of total customers (48% in FY23).
- Traffic seems to be stagnant. The company plans to increase traffic through digital advertisement and digital video advertising. Unique business enquiries have grown in the last three quarters.
- S&M includes the cost of new customer acquisition.
- The company stopped using third-party payroll to control attrition, which resulted in increased efficiency.
- Gold (~1%) and platinum (~0.5%) accounts saw less than 1% churn, whereas Silver monthly/annual accounts saw churn of 6% and 3-4%, respectively.
- Separate divisions for customer acquisition to serve gold and platinum accounts, and centralized teams for tier-2 and tier -3 in Noida and Chennai.
- No changes in prices of silver monthly and annual accounts.
- Most of upgrade is happening in silver monthly/annual accounts to gold/platinum accounts, resulting in continued growth.
- ONDC: Once the platform is popular enough to attract more B2B clients, it will be net beneficial for the company.
- IndiaMart is known for a variety of suppliers and cheapest prices.
- Growth levers: monetized category increased by 10% every year. There is no issue regarding category saturation.
- The company directly does not sell in gold and platinum. We generally upsell from monthly and annual silver. So most of this growth is coming from upsell from silver monthly and silver annual.

Cost and margin

- The margin expansion was due to organic operating leverage, certain cost optimization initiatives and savings due to lower customer acquisitions.
- As customer growth picks up, the margin expansion will normalize to gradual operating leverage inherent in the business.
- EBITDA margin benefits 2-3% from operating leverage and few cost optimization initiatives; however, once customer additions pick up, customer addition costs will increase, leading to normalized margins. It expects margin to taper off going forward. 33-34% margin will be new steady state margins going ahead.
- Most of operating leverage comes from gross margins based on revenue rather than SG&A and D&A.

Other highlights

- During this quarter, Busy sold 9.7k licenses, closing the total count of 373,000 licenses at the end of Jun'24.
- IndiaMart has signed an agreement to acquire a 10% stake in 'M/s Baldor Technologies Private Limited' ("IDfy"), which is an integrated identity platform offering products and solutions for KYC, background verifications, risk mitigation, digital on boarding and digital privacy.

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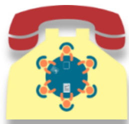

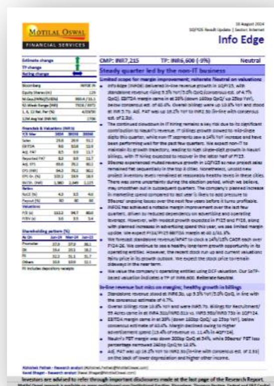

Info Edge — Neutral

Current Price INR 7,403

Recruitment

- Growth momentum in the non-IT segment continued with a 14% YoY increase in billings, driven by the Healthcare & Life Sciences, Infrastructure, Transport & Real Estate, and Media, Entertainment & Telecom sectors.
- Expect to spend significantly more on advertising this year compared to last year on Naukri.com.
- July JobSpeak data on IT hiring is encouraging, though the timeline for full recovery remains uncertain. IT companies over hired during favorable times, leading to high bench strength, but they are now approaching pre-COVID utilization levels.
- The recruitment consultant segment experienced billing growth after four consecutive quarters of decline.
- The billing growth in IT moderated to mid-single digits.
- Most large GCCs froze hiring due to US economic uncertainty, but they have slowly resumed hiring.
- IIMJOBS, Naukri Gulf, and Naukri FastForward also witnessed healthy billings growth of 26%, 25%, and 29% YoY, respectively.
- JobHai, AmbitionBox, etc., continued monetization in Q1.
- Significant efforts were made in the last 3-4 quarters to accelerate non-IT group revenue. The aim is to have offices in over 100 cities (currently in 70 cities).
- SME customers differ from enterprise customers. The non-IT market had a supply overhang due to limited job creation during COVID times. This overhang will reduce over time.
- Product-market fit is achieved for "JobHai" (focused on blue-collar jobs). It has a different user base than Naukri.com and may not significantly impact the top line in the next 2-3 years. It's a long-term play, but there is healthy traction on this platform.
- Continued investment in all platforms like JobHai, AmbitionBox, IIMJOBS, and Naukri Gulf.

Real Estate

- The billing growth moderated due to muted new project sales.
- Unsold new project inventory levels remain at reasonably healthy levels in most of the top 8 cities. There was some uncertainty during the election period, which may smoothen out in subsequent quarters.
- New project sales moderated in Q1. Overall, new project sales in the top 8 cities were flat sequentially in Q1 and up approximately 10% YoY.
- The company plans to increase Ad spending than last year. The market is shifting towards channel partners as their share in sold houses increases.
- The company does not intend to monetize buyers.
- The company need to gain more share in some cities. In the new home segment, the company is not competing with its peers but with Google and Facebook.

Other highlights

- Billing growth in 1Q was driven by continued improvement in the recruitment business and sustained performance in non-recruitment businesses.
- The IT-dependent hiring segment has experienced volatility, but the last two quarters have shown positive trends. JobSpeak data indicates a 12% YoY growth. Additionally, the company is expanding its GCC segment.
- JeevanSathi.com and Other: The business is nearing breakeven, driven by continued strong billing growth in 1QFY25 and sustained cost-control measures.
- Opex reduced 25% YoY. Marketing expense rationalization continued, with costs down by 45% YoY, while maintaining the growth momentum. Billing growth and reduced marketing expenses led to reduced losses.
- The matchmaking industry remains competitive, with the top 3 players seeking to expand their market share.
- Key metrics like acceptance and two-way chats on the platform continue to remain healthy. The company is targeting a breakeven this year and anticipates aggressive growth.
- Shiksha: The emergence of new private universities in India presents an opportunity for Shiksha to expand its footprint.
- Shiksha is also anticipated to break even or make a profit by the end of FY25.
- Monetization of AIF: It has a 12+2 years of investment strategy.

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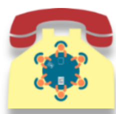

Interglobe Aviation — Neutral

Current Price INR 4,299

- The company has reported seven consecutive quarters of profit
- 28m customers served during in 1QFY25
- Some of the initiatives that INDIGO is undertaking
- Launching tail ored-made projects for select routes
- Hotel booking option added on the website and the mobile app
- Inflight entertainment on the mobile device being tested on only route, and decision to commercialize it would be taken later
- Having a separate web check-in portal for women customers
- The Indian market is still underpenetrated when it comes to domestic and international travel for Indian customers
- Have added 17 new routes
- It is enhancing international travel further
- Since mid-August, it would be flying daily to three new destinations
- Code share networks have been beneficial till now for INDIGO
- Code share agreement announced with Japan airlines for Delhi and Bengaluru
- Working relentlessly to adjust schedules to reassure customers

- Recent canopy collapse at Delhi Terminal 1 and massive IT outage have been dealt with swiftly
- Management remains confident as the opportunity size is huge
- 2QFY25 capacity in terms of ASKs is expected to increase by high single digits compared to 2QFY24
- Stable revenue (RASK) expected in 2QFY25 compared to 2QFY24
- RASK was higher because of the finalization of the compensation related Aircraft on Ground (AOG)
- Current AOG in mid-70s; would start reducing from early next CY
- For Jul'24, management is seeing solid demand and capacity and outlook guidance do not change as of now
- Average domestic fare for INDIGO is in the range of INR5-6K for the previous two quarters
- Expenses have been going up
- With respect to air fuel expenses, some of the states have started increasing VAT on ATF
- Airport charges have started to climb upwards and are in discussion with its airport partners
- Maintenance is going through an inflationary cycle.

IRB Infra — Neutral

Current Price INR 65

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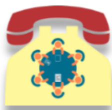

- As of Jun'24, the company's order book stood at INR336b. The EPC segment accounts for INR48b of the order book, providing robust revenue visibility for IRB's construction segment for the next two to three years. The O&M order book is close to INR288b.
- Both TOT-12 and TOT-13 have received their ADs from NHAI, and tolling for both projects commenced in Apr'24.
- IRB witnessed 32% YoY growth in aggregate toll collections in 1Q, encompassing assets under both the IRB Infra portfolio and the IRB Infrastructure Trust. Toll collections for 1QFY25 reached INR15.5b from INR11.8b in 1QFY24. ~96% of the total toll collection for the quarter was through FASTags.
- IRB Infrastructure Trust declared its first distribution for 1QFY25, amounting to INR724m (INR0.65 per unit). This includes INR0.25 per unit as interest and INR0.40 per unit as return on capital.
- Private InvIT achieved revenue growth of ~59% YoY during 1QFY25.
- The Hapur-Moradabad BOT project achieved PCOD-III, leading to a tariff revision of ~4%.
- NHAI has set an order inflow target of INR2t. NHAI has listed 33 BOT projects on its website, and some awarding is anticipated in 2QFY25.
- IRB has a market share of over 25-30% in BoT and ToT projects it bids for. It expects to maintain that share in the future as well.
- The EPC and HAM bidding process may see slow, but the ToT and BOT pipelines remain active, with more projects expected to be awarded in 2HFY25.
- The toll tariff revision, which was delayed due to the model code of conduct, was implemented in Jun'24.
- The board has declared an interim dividend of INR0.1 per share amounting to INR600m.
- Net cash position stood at INR2.3b as of Jun'24, with minimal future equity requirements, allowing the company to bid for ToT projects in the pipeline.

- Consolidated gross debt as of Jun'24 was INR121b, with a net debt-to-equity ratio of 0.88x.

Guidance:

- The construction vertical is likely to clock ~15% CAGR over the next two to three years with a stable EBITDA margin.
- During the bidding process, IRB will focus on BOT projects, followed by TOT projects, and then HAM projects. Considering the strong pipeline of BOT and TOT projects, IRB may not consider bidding much for HAM projects for now.
- The JV/Associate loss would be in the range of INR1.5-1.6b in FY25.

Kajaria

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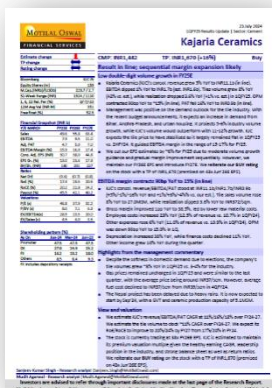

Kajaria Ceramics — Buy

Current Price INR 1,370

Tiles industry outlook

- Despite the softness in domestic demand due to elections, the company's tile volumes grew ~8% YoY in 1QFY25 vs. 3-4% for the industry. Demand improved MoM for the quarter with the highest growth recorded in Jun'24. It continues to maintain a positive demand outlook for the tiles industry and expects the company's tile volume growth in low double digits. It projects 5-6% industry volume growth, while KJC's volume would outperform with 11-12% growth.
- It guided EBITDA margin to in the range of 15-17% in FY25. The company's gross margin expanded with improvement in product mix and it expects gross margin to remain in that range with 1pp here and there.
- With the recent budget announcements, it expects increase in demand from Bihar and Andhra Pradesh. Further, urban housing will drive growth in the tile segment.
- KJC expects the tile price to have stabilized as it largely remained flat in 1QFY25 vs. 2HFY24.
- Tiles exports grew ~26% YoY to over INR200b in FY24. In the first two months of FY25 Morbi exports remained flat at INR33.5b. Further, despite the recent initiation of ADD by the US, on Indian tile imports, the Morbi exports to the US in Apr-May'24 (combined) grew 16% YoY to INR3.35b.

Other operational highlights

- KJC is using 30% biofuel in the north plant, a mix of both biofuel and coal in the south plants while, in Morbi using only coal in spray dryers.
- Gas prices remained unchanged in 1QFY25 and were similar to the last quarter, with the average price being around INR37/scm. While, the average fuel cost declined to INR37/scm from INR39/scm in 4QFY24.
- There has been no major change in the Product mix of PVT vs. GVT ceramics during the quarter. GVT, PVT, and Ceramic all three segments are expected to deliver a consolidated growth of 11-12%, with GVT might show the higher growth than Ceramic and PVT.
- Regional sales distribution was around ~35% from the North, followed by ~30% from South, and around 17% each in the East and West. Metro cities account for around 15% of overall sales, followed by ~31-32% by Tier 1 and 2 (each), ~15% from Tier 3 and balance from Tier 4 and below cities.
- The volume mix comprises 43% Ceramic, 34% GVT and 23% PVT. In terms of revenue mix, Ceramic accounts for 38%, GVT 37%, and PVT 25%.
- In Q1FY25, Plywood revenue grew 20% YoY to INR172m, Bathware revenue up 9% YoY to INR910m and adhesives revenue was up 59% YoY to INR152m.

Expansions

- The Nepal project has been delayed due to heavy rains. It is now expected to start by Sep'24, with a GVT and ceramic production capacity of 5.1MSM. The total market size in Nepal is ~INR25b, and looking for market share of 10% to 12% after fully operational. It is currently exporting tile to Nepal in the range of 7,000 to 8,000 square meters per month. Efforts are underway to strengthen the presence in Nepal by expanding the dealer network, enhancing local branding, and increasing advertising to elevate the Kajaria brand. The company already have decent distribution network which it will strengthen in the next three months (plans to increase dealer to 100 in next three months from currently about 50-60).
- The company acquired 90% stake in Keronite Tiles in Morbi (Gujarat) in May'24, having annual capacity of 6msm of GVT. It commenced commercial production in 1QFY25 and expects this unit to achieve optimum level by 4QFY25.
- In the Bathware segment, Kerovit Global at Morbi (having capacity of 4.5lac pc p.a.) commenced operations on Mar'24-end and will produce high-end products. Initially production was suboptimal and this will take 5-6 months to achieve full operational efficiency.

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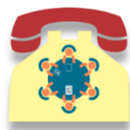

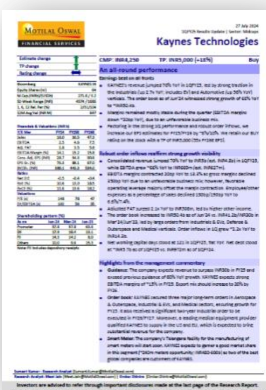

Kaynes Technology — Buy

Current Price INR 5,160

Operating Performance

- The company witnessed strong demand across all verticals, mainly in Industrial, Automotive, Aerospace and Outerspace, Strategic Electronics and Medical Equipment.
- There were some lags for government-related orders (e.g., Railways) during 1Q due to elections.
- 1Q is the weakest quarter of the year, with only 15% of annual revenue. Going ahead, KAYNES will have operating leverage to achieve its guided margins (15%).
- Other income was high due to unutilized proceeds from QIP.

Guidance

- The company expects revenue to surpass INR30b in FY25 and exceed previous guidance of 60% YoY growth. KAYNES expects strong EBITDA margins of ~15% in FY25. Export mix should increase to 20% by FY26.
- The company aims to clock USD1b of revenue by FY28. Around 70-75% of this revenue will be generated from the EMS business (current business) and the balance from the OSAT/PCB business.
- It expects Box Build share to increase by FY25 end; The export mix should increase to 20% by FY26.

Smart Meter

- Telangana facility for manufacturing smart meter is expected to start soon.
- Out of the ~250m units required to be installed in the industry, ~10m units have already been installed.
- Another 240m meters are yet to be installed. This is a big opportunity for KAYNES.
- The cost of one meter is INR2,000-2,500.
- Asset turn will be 6-8x (mostly near 8x, being a product-focused business).
- Two of the best global companies (also technology providers) are customers of KAYNES and the company expects a good market share in this business.

Medical

- The company witnessed increased export orders within this segment.

- One of the world's leading medical equipment providers has qualified KAYNES for supplying in both EU and the US.
- The company has now on-boarded a big customer and will see good revenue coming from this.
- A new order in medical is for box build products.

Order book and order inflows

- The order book increased to INR50.4b as of Jun'24 vs. INR41.2b/INR30b in Mar'24/Jun'23. Order inflows in 1Q grew ~2.2x YoY to INR14.3b.
- The company has received three major orders in this quarter (in Aerospace & outerspace, Industrial & EV, and medical). These are long horizon orders, enough for this year's growth.
- KAYNES has also received one order for a two-year timeframe in Industrial, which is ~10% of the current order book and will be executed in FY26/FY27.

OSAT & PCB

- OSAT: The company expects approvals to be received soon. It has acquired land in Gujarat and will start construction soon.
- It expects a positive response from OSAT business in FY26 (4QFY26 to be strong).
- The company utilized this time (which got delayed) to augment team, build strong relations with customers and strengthen relations with technology partners.
- This business will be margin-accretive to the existing business.
- The company expects asset turn of ~1-1.3x on capex of ~INR30b, i.e., INR35b revenue from this business at full utilization by FY30. The capex requirement will be gradual over 2-3 years.
- Incentives: The state government subsidy is a cash-based subsidy that will be paid on the commencement of operation, while the central government's subsidy is on pari passu basis, i.e., the central government will spend the equivalent of KAYNES (50:50). Land is excluded in the above subsidy; there is a separate subsidy for it.

Railways

- KAYNES is getting more traction from railways for electronics and Kavach.
- It will be investing around INR400m on R&D in this segment.
- Proof of concept is being done by now by the company and will start selling by 1QFY26.

Others

- Within Industrial, the company is currently doing only domestic orders but soon expects to get international orders as well.
- Overall, the company expects to reach 70-80% utilization by FY25 end, including the new Telangana (smart meter) capacity.
- The company is in the final stage of obtaining approval for new investments from the government.
- KAYNES has taken board approval for the acquisition of a 54% stake in Sensonic GmbH (Sensonic Austria).
- Due to an increase in inventory and delays in receivables on a sequential basis, debt has increased in 1Q as compared to the previous quarter. It is expected to come down in the coming quarters.

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KEI Industries — Buy

Current Price INR 4,676

Demand and sector outlook

- The demand outlook remains strong, with good demand in domestic and export markets. The company is working to increase its footprint in global markets and is getting good traction in Europe and US markets. Solar power projects, wind power projects, higher T&D capex and growth in other industries in India and global markets will help KEII maintain growth momentum.
- Private orders are coming from solar projects and other private sectors, like cement and metal. A lot of orders are coming from T&D projects from companies like Torrent Power, CESC, etc. Demand from solar power projects is better than other industries as of now. Going forward, demand from thermal power projects and pump storage projects for generating power should improve. Government projects are mostly awarded to EPC contractors, and KEII is a supplier for these contractors.
- Capacity utilization during 1Q was 87-88% for the cable segment, 80% for the house wire division and 90% for the stainless wire division.
- Overseas customers delayed the placement of containers, due to which the company could not dispatch cables worth INR650m. This will be made up in the coming quarter.
- The average price hike was in the range of 7.5-8% vs. Jun'24 average. The company keeps adjusting prices on the basis of RM cost fluctuation.

Order book and revenue growth

- On the basis of consumption of metals and production, volume growth of cables & wires stood at 18% YoY in 1QFY25. It has a ~12% market share in cables.
- Domestic institutional cable sales increased 17% YoY to INR5.74b. Domestic institutional EHV sales rose 62% YoY to INR790m. EHV sales growth was led by a low base of last year, but it was flat on a quarterly capacity basis. Export sales declined by 24% YoY to INR2.33b.
- Revenue contribution from cable institutional sales was 39% vs. 24% in 1QFY24. Sales through dealers increased 29% YoY to INR10.9b and contributed 53% to revenue vs. 47% in 1QFY24.
- The order book stands at INR35.9b vs. INR35.7b in 1QFY24 and INR35.3b in 4QFY24. The order book mix in 1QFY25 — EPC: 18%, EHV: 9%; Cables: 57% and Export: 15%.

Future growth, capex and margin outlook

- Margin is expected to be at ~11% in FY25. Higher margins will be achieved with the commissioning of new capacities as the company will benefit from economies of scale and expects margin improvement of 1pp in FY27.
- Housing wire demand is primarily being driven by the real estate sector. KEII's housing wire segment is growing at 20%+ for the last few years and is expected to grow at 20-22% going forward.
- Capex during 1Q was INR1.45b, which included INR760m for a greenfield project near Sanand, Gujarat, INR240m for Silvassa plant, INR210m for Bhiwadi plant, INR140m for Pathredi plant and INR100m for other plants. The brownfield capex at Silvassa will become fully operational in 2QFY25. Another brownfield capacity
- expansion at Pathredi plant at a capex of INR1.25b with revenue potential of INR8-9b per annum will be completed in 2QFY25 and would help to achieve revenue growth of 16-17% in FY25.

Export business

- The company is exporting business directly and not through dealers or distributors. It will review its export strategy in the next 6-12 months.

- KEII's major export markets are Australia, the Middle East and a few African countries. It started exporting to USA and Europe last year. The company exports medium-voltage cables (33-66kv) and cables to oil & gas companies in the Middle East and US. Some EHV cables are being exported to Australia, but mostly they are sold in domestic markets.
- The management is confident of achieving higher revenues from USA markets (INR2-3b in FY25).

Other highlights

- There are no plans to add more products in the B2C segment as of now.
- First loan default guarantee, which KEII has to give to banks on channel financing, has reduced to 15-25% vs. 50% earlier. This has reduced the risk of channel financing by ~50%. Approx. 550 dealers are availing the benefits of channel financing, and more than 70% of dealers are covered under channel financing. The company has taken insurance for all receivables.
- A&P spending was INR100m in 1Q and will be similar on a quarterly basis.
- Gross debt was at INR1.65b (includes channel financing of INR980m) vs. INR1.34b in Mar'24. Cash balance stands at INR5.99b. Acceptance credit is at INR5.04b vs. INR5.06b in Mar'24. Overall, net debt stands at INR700m vs. net cash of INR600m in Mar'24.

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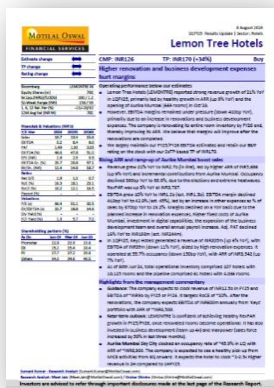

Lemon Tree Hotel — Buy

Current Price INR 131

Operational highlights:

- During the quarter, the company opened four hotels, adding ~331 rooms to its inventory.
- LEMONTRE signed three new management & franchise contracts in 1QFY25, thereby adding 187 new rooms to its pipeline.
- As of 31st Dec'23, total operational inventory comprised 107 hotels with 10,125 rooms and the pipeline comprised 61 hotels with 4,036 rooms.
- ARR for the group, excluding Aurika Mumbai, stood at INR5,400 in 1Q.
- Margins declined on a YoY basis due to the planned increase in renovation expenses, investment in digital capabilities, the expansion of the business development team and overall annual payroll increase.
- ARR change across market segments: Corporate – up 6% YoY; Commercial – up 5% (ex Aurika); Travel Trade – up 11% YoY; OTA – flat YoY

Guidance and Outlook

- The company expects to clock revenue of ~INR12.5b in FY25.
- It expects to record EBITDA of ~INR9b by next year or year after that, with RoCE target of ~20%.
- The company is confident of achieving healthy RevPAR growth in FY25/FY26 once renovated rooms become operational.
- After renovations, the company is looking at EBITDA of INR600m annually from 'Keys' portfolio, with ARR of ~INR4,500.

Three key transformative changes:

- Renovation: The company is taking the pain now in renovating major rooms and will get it done by end of FY26 in anticipation of the strong demand tailwind from FY27 onward.
- LemonTree has stated the example of China and Indonesia during 2006-09, how they renovated their hotels and got benefits from strong industry growth of 20-25% over next few years. Currently India is at that stage where these two countries were in 2006-09.

- Digital transformation: The company has created a dynamic algorithm, which will be available in all the new rooms.
- It has also installed a new sales system, led by digital capability. It has reimagined its loyalty program.
- The company is focusing on capturing ~66% of the demand from the retail segment in the next two years.
- Business development: Increased the business development team by 4x and overall manpower (sales force increased by 50% in last three months).

Aurika Mumbai Sky City

- The hotel clocked an occupancy rate of ~45.9% in 1Q, with ARR of ~INR8,900.
- It started reducing crew rooms (stood at 115 in Q1 vs. 200 in Q4). It expects this to further reduce to 100 in 2Q.
- The company decided to let go crew business in anticipation of normalization in 3Q onward (healthy demand coming from other segments).
- The company is witnessing early signs of good pick-up in retail and corporates. It is expecting retails and corporates to fill 200 rooms each from 3Q onward.
- Aurika is expected to post healthy numbers from 4Q onward.
- The company is expected to see healthy pick-up from MICE activities from 3Q onward.
- It expects 2H to clock ~2-2.5x revenue as compared to 1H in FY25.
- Aurika can clock ~70% EBITDA margins if occupancy reaches ~70% by 4QFY25.

Region-wise performance

- In 1QFY25, occupancy for Hyderabad/Bengaluru/Mumbai declined 1100bp/540bp/2700bp YoY to 73%/65%/59%. Delhi/Gurugram/Pune witnessed a 70bp/860bp/460bp YoY increase in occupancy to 75%/76%/76%.
- ARR for Delhi/Gurugram/Hyderabad/Bengaluru/Mumbai/Pune increased 4%/3%/7%/3%/9%/7% YoY.
- The company witnessed a decline in occupancy in Hyderabad as ~20% of inventory in Hi-Tech city is shut.
- Within Bangalore, the company has shut down large inventory in keys portfolio (100-room hotel in Whitefield). Out of this, 40 rooms are opened now and the hotel is doing well.

Renovation and capex

- With some rooms coming back after renovation in 2Q, the company is already witnessing ~10% higher ARR at the group level and 7% on SSG basis.
- Around 650-700 rooms were shut in 1Q for renovations to prepare for the peak winter season. They included room from hotels with high ARR and demand.
- The company spends less than 2% of revenue for maintenance renovations every year. This is different from the renovation that the company is doing for repricing its hotels (where renovation cost is ~6% of total revenue).
- Of the total ~5,900 owned rooms, ~1,500 rooms do not need renovations, while the remaining ~4400 rooms will be renovated. Out of this, ~900 rooms are under Keys portfolio, which will be completed by the end of FY26.
- Out of the remaining ~3,500 rooms, ~250-300 rooms were renovated last year, ~3,200 rooms will be renovated mostly by end of FY26; at any time, ~600-700 rooms will be shut for renovations.
- This also includes shutting down amenities and restaurant and banquets if required.
- From FY27, entire room inventory will be operational and repriced
- It takes 2.5 months to renovate a room. Major renovation will happen in H1 only to benefit the peak H2 season.

Industry scenario

- The number of customers for branded hotels in India is roughly 6m, whose annual household income is over INR2.5m.
- The management expects this number to touch 30m in the next five to seven years.
- The best proxy to understand this growth will be the increase in air traffic, airports and runways, airline ordering (up 3x), four-lane highways, and SUV sales.
- The hotel industry is not yet at the top of the cycle. It will take another two years for the cycle to peak.

Other key highlights

- The company expects zero debt over the next four years.
- If Fleur is taken public, then repayments will be much earlier as major debt is under Fleur.
- The company witnessed its highest EBITDA flow-through from bookings on LT.com and other FITs.
- The corporates segment has high flow-through of ~85%.
- The flow-through for airlines is less by 10pp due to other expenses, such as laundry, travel, etc.
- EBITDA flow-through for travel trade/OTA is also less due to commission payout.

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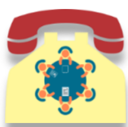

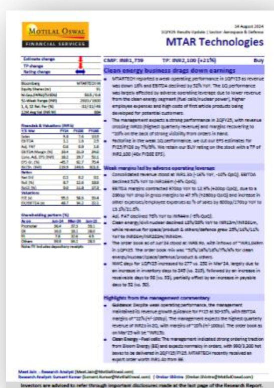

MTAR Technologies — Buy

Current Price INR 1,752

Operating Performance

- 1QFY25 performance was impacted by lower sales in clean energy (fuel cell/nuclear), leading to adverse operating leverage.
- Clean energy – nuclear lower revenue in Q1 was due to multiple products being under work in progress, which will be delivered in coming quarters, thereby compensating for lower sales in Q1.
- Also, employee expenses were higher this quarter, which will be normalized as revenue picks up in coming quarters. The management expects employee expenses to be ~16% of revenue in FY25.
- The company is building a base for a long-term sustainable growth by adding new products and clients. The management expects strong growth going ahead.

Guidance

- Despite weak operating performance, the management maintained its revenue growth guidance for FY25 at 30-35%, with EBITDA margins of ~22% (+/-100bp). Of total revenue, ~40% will be achieved in 1H and 60% in 2H.
- The management is guiding strong revenue of INR2b in 2Q (highest quarterly revenue), backed by strong visibility with orders in hand. Margins will be ~20% (+/-100bp), led by higher revenue and operating leverage.
- For 2QFY25, the management indicated ball park revenue for nuclear/space & aerospace/products & others/Hydel, wind & others/fuels cells to be ~INR160m/INR330m/INR370m/INR750m/INR1.07b.
- For FY25, revenue across products: Nuclear/Fuel Cell & others/space/defense/ products & others to be INR620m/INR3,680/INR1,182/INR300m/INR1,300.
- The order book as on FY25 to be ~INR15b, with major orders from nuclear, aerospace, defense and new verticals. Most of the orders will flow in from 2HFY25.
- The company is expected to spend ~INR700-750m in FY25 as part of its ongoing capex plan (of which ~INR350m is for aerospace facility and the balance for

maintenance). If the company gets any order in its new oil and gas vertical, then incremental capex will be ~INR400m in FY25.

- The management expects net working capital days to decline to 220 by FY25 vs. 266 in FY24.

Clean Energy – fuel cells, Hydel and other

- The company delivered 814 hot boxes in 1Q and 22 units of electrolyzers (executed all the existing order for electrolyzers). It expects to deliver 990 hot boxes in 2Q and total 3,300 hot boxes in FY25.
- Bloom pending orders as of Jun'24 was INR4.7b, excluding incremental INR1.4b orders received last week to be executed in FY25.
- Bloom is witnessing a rise in commercial demand primarily from data centers and it also posted strong growth in 2QCY25. Bloom revenue is projected to grow 18% p.a. for the next three years compared to 8% growth estimated for the US electrical industry.
- The company is back on track with Bloom and hoping to do much better going ahead with increasing its wallet share.

Clean Energy - Nuclear

- The company was building systems in 1Q to be dispatched in subsequent quarter, leading to marginal sales of INR13m.
- The management expects ~INR6b worth of orders from KAIGA 5 & 6 reactor to be received mostly in 2HFY25.
- The closing order book as of FY25 will be INR7b, including refurbishment orders for Tarapur and other reactors.

Space and Aerospace

- The company expects 3x revenue growth in FY25 vs. FY24, backed by strong client addition and order flows.
- The company expects to execute INR120m of ISRO orders and INR250m of MNC orders in 2Q, as the company has gone into production for various first articles done earlier.
- For FY25, the company will execute ~INR1.2-1.3b orders, of which ~INR500m will be for ISRO (including semicryo engines) and the balance (INR800-700m) for MNC aerospace companies.
- The company can expect further order inflows in this segment worth INR1.2b in coming quarters.
- MTAR also has entered into long-term contract with IAI and Thales and will soon sign long-term contract with UK Aerospace.

Products & Others

- The company's R&D team is developing new products such as valves for defense and space sectors which will be launched by end for FY25.
- MTAR's roller screws have been proven in defense and approved as import substitution. The government will be releasing the certification for the same by the end of this and with that, the government will not import roller screws (from Sweden) going ahead.
- MTAR will be the first company to have developed this product, which is useful in all the different areas and space sectors as of today. This product will start contributing to revenue from FY26.

Capacity and Capex

- The company is commissioning a new aerospace facility in Hyderabad by Sep'24, which will be operationalized in Dec'24. The company has already spent INR160m for the acquisition of land and building and another INR1-1.25b will be required for setting up plant and machinery (of which major part has already been spent and balance INR350m will be spent in balance FY25).

- Further, the company also plans to establish a facility for the oil and gas segment. MTAR will execute its first article this year and production is expected to start from next year.
- This will be more of fungible capacity, which will use exiting machinery's and facilities. The only capex will be for shifting these machineries (~INR350-400m), which can generate ~INR1.5b revenue from next year (if the company executes first article on time).

POLYCAB
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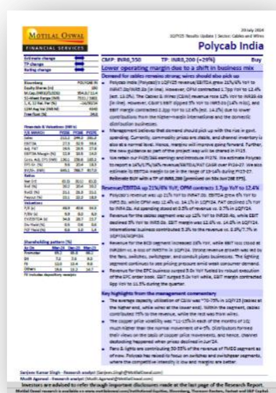

Polycab India — Buy

Current Price INR 6,784

Demand trends and operating margins

- Infrastructure and construction growth slowed down in May'24, primarily due to lower government ordering activity on account of general elections and a labor shortage. This should reverse as government spending picks up going forward.
- Private capex has picked up, led by a strong balance sheet of the corporate sector and an increase in capacity utilization to 76.5% in Mar-24, which stood a tan 11-year high. PLI schemes and a sustained focus on infrastructure will continue to drive demand going forward.
- Around 70% of demand for wire comes from the real estate sector. Demand for cable is broad-based and comes from infrastructure sectors and industries. There should be a pick-up in demand for wires going forward.
- New guidance as part of the project leap will be shared during FY25. Earlier, the company had aimed to achieve a turnover of INR200b in FY26; which might be achieved earlier than the target.
- Lower operating margin was led by a shift in the business mix towards segments, having lower profitability. Higher margin international business contributed 5.3% to revenues v/s 8.9% in 1QFY24. The decline in export sales was primarily due to a change in the business model of the company, as it is moving towards a distribution-based model. Higher freight costs have also hit margins in the international business.
- Contribution from the lower-margin EPC business increased as it contributed10% to revenue vs. 3% in 1QFY24. Margin in EPC business too contracted by1.5pp YoY. In the domestic markets, the lower-margin institutional business grew at a faster pace than the channel business.
- Currently, commodity prices are stable, and channel inventory is also at a normal level. Hence, margins will improve going forward.
- The copper price volatility was ~11-15% in each of the months of 1Q; much higher than the normal movement of 4-5%. Distributors formed their views on the basis of copper price movements, and hence, channel destocking happened when prices declined in Jun'24.
- Margin in the domestic cable business is ~9-11%; wire business at 15-16%. International business has higher margin than the wire business. Margin in the C&W segment in the long term should be ~11-13%. At present, higher operating leverage is helping to achieve 12-14% margin in the segment.

C&W segment

- Revenue from cable & wire business grew 11% YoY led by 15% YoY growth in the domestic business. Volume growth of C&W in the domestic market was ~10%. Though, there was a decline in the international business in 1Q, aim is to achieve 10% of revenues from this segment by FY26.
- The average capacity utilization of C&W was ~70-75% in 1QFY25 (cables at the higher end, while wires at the lower end). Within the segment, cables contributed 75% to the revenue, while the rest was from wires.

FMEG segment

- Revenue of the FMEG business grew 21% YoY led by strong demand for fans, which recorded its highest ever quarterly sales in last few years. Switches, switchgear, and conduit pipes businesses too recorded robust growth. Switches business also benefitted from in-house manufacturing; whereas; new product development initiatives benefitted switchgear business. Lighting segment continues to see pricing pressure amid weak consumer demand.
- The losses in the FMEG segment declined due to lower Ad spending and higher contribution from switchgears and conduit pipes businesses. Earlier, the focus was on fans and lights only; but the company has increased its focus on switches and switchgear segments where the competitive intensity is low and hence, margins are better. Further, contribution from premium products has increased. The products are getting manufactured in-house, but capacity utilization is very low as of now. As utilization rates improve, operating leverage should kick in.
- Fans & lights are contributing 50-55% of the revenues of FMEG segment as of now. The distribution channel (2,900 dealers currently) is largely focused on the Western region as of now where the company has a strong foothold. This should increase significantly as industry leaders are having ~16,000 dealers and distributors.

Other business segment

- The other business segment (strategic EPC business) saw robust growth and would contribute mid-to-high-single digit to revenue in percentage terms going forward, with a sustainable operating margin of high-single digit. In the EPC business, some balances (5-10% of contract value) are retained by the customers as retention money, depending on the contractual terms. The long-term receivables of INR1.2b, which are overdue for 12 months, pertain to the same.
- Within the EPC segment, the company is undertaking RDSS orders (project for revamping the power distribution infrastructure) where the component of cable supply is higher than 3-4% for normal projects.

Capex, working capital, and ad spending

- Working capital days increased to 64 led by buildup of finished goods inventory in the C&W business. This was due to a sudden fall in demand towards 1Q-endas RM costs declined. Further, strong growth in EPC and institutional business hit receivables days as they are not on channel financing. Inventory days are expected to normalize in the coming quarters.
- Ad spending will be at 3-5% of B2C topline going forward.
- Capex in 1Q was INR2.8b and FY25 capex will be between INR10-11b.

Quess Corp — Neutral

Current Price INR 726

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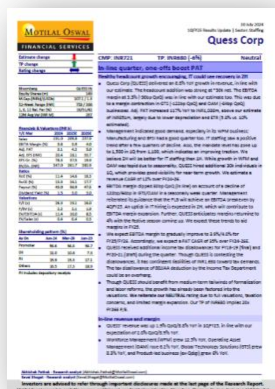
- WFM added 27k headcount during the quarter. Domestic IT staffing gained momentum with focused sales and additions in GCC; 1,500 open mandates. GCCs now contribute 70% of domestic IT staffing revenue. The international IT markets remained muted.
- 70%+ hired in General Staffing from Tier II and III cities. Logistics, Consumer, Retail & Telecom (CRT), and Manufacturing drove the growth for GS in 1Q.
- Added more headcounts in WFM more than last 2 quarters combined.
- IT staffing: Experienced positive trend in IT staffing after few quarters of decline. The company expects growth to recover in this business and already seeing some green shoots. The mandate level has gone up to 1,500 in 1Q from 1,100, which is a good indication. Net headcount was added in IT staffing in 1Q.



Contributed ~10% EBITDA to WFM. Expect 2H to better for IT staffing than 1H. GCCs hiring continues to remain robust.

- EBITDA margin reduced QoQ due to wage hikes and high general staffing business mix. Manufacturing sectors have seen robust hiring, while IT hiring was muted, with only 4k employees in this quarter.
- Expect margins to increase going forward as IT hiring improves. 2.4-2.6% EBITDA margin is anticipated for WFM.
- For GTS, 42 new logos were added during the quarter for the platform with and ACV of INR830m.
- Digital IT services in India with competencies in Digital Engg, Analytics, and Assurance space has reached a critical revenue mass of INR500m/qtr.
- BFSI and Retail industry continues to remain key drivers.
- In OAM, EBITDA margin at 4.8% down 64 bps QoQ due to seasonality in margin accretive business such as F&B and Telecom Infra.
- Telecom experienced decline on the back of slower 5G deployment and seasonality led to loss in some business in 1Q.
- In PLB, Acceleration of product led metric growth like syndicated jobs (+55% QoQ in overall job postings) and profile updates (+86% QoQ). Successful expansion of large renewal deals in this segment.
- Foundit sales growth of 30% YoY. Further, Foundit becomes the Official Talent Partner of Badminton World Federation (BWF), amplifying brand presence and driving more traffic
- Foundit significantly reduced its cash burn and registered a growth of 7% YoY.
- QUESS is confident in achieving 25% revenue growth for the year and plans to make this business break-even by year-end.
- Post stock exchange approval, the company will file demerger to NCLT. Probably by 1QFY26, demerger is expected to complete.
- Manufacturing growth and female workforce participation etc. all these steps will have led to labour shortage and reinforcing up-skilling for employees, which is beneficial for the company.
- The direct benefit transfers to employees and the encouragement for them to join the workforce is promising. The manufacturing package, including how freshers are trained and the skilling gap addressed, will benefit the company in the future.

Margin

- Margins are anticipated to rise in the future as margin improvements are expected in the GTS and OAM businesses.
- With IT staffing opening up, an uptick in IT hiring is expected in 2HFY25, which will contribute to EBITDA margin expansion. Further, QUESS expects margin level back to 4% with festive season coming up.
- Continue to focus on cost reduction and operating efficiencies to improve EBITDA margin.
- High contribution from margin accretive business led to EBITDA expansion YoY. However, QoQ EBITDA contraction was led by seasonality in businesses.
- **WFM:** IT staffing will help to increase margins and international business will help with few BPS going ahead. Gross margins to EBITDA conversion remained healthy for this business (range of 65-67% for the last 4 quarters). Singapore hiring business is also expected see margin expansion in 4QFY25. Hence, overall the company expects 20-30 bps increase by the end of this year in WFM.
- IT services is margin accretive business. IT services' avg. wage is lesser than GCCs. The company is working with Auto, BFSI, engineering and healthcare GCCs and it is high margin business. 2.4-2.6% EBITDA margin is anticipated for WFM.

- When budget schemes are implemented, margin will definitely increase.

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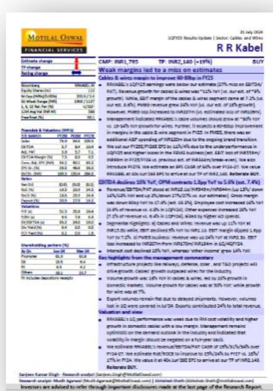

RR Kabel — Buy

Current Price INR 1,644

Demand Outlook

- Infrastructure projects like railways, defence, solar and T&D projects will drive growth for the industry. Growth in cables should be higher than the wires for the industry. The industry demand prospects look bright for 6-8 years. For the company; cables volumes should grow at ~30% YoY compared with 13-14% YoY growth for wires. The company has achieved volume growth of 18-20% in last 12 months; higher than industry average growth of 13-14%.
- Demand in the industry was higher than capacity additions and there should not be an oversupply condition.
- Strategic initiatives like capacity additions, expansion of distribution channel, and focus on high-margin products will help the company's growth in future. These initiatives along with a growth in the Real estate sector will benefit the industry.

Cables and Wires' performance

- In 1Q, slow economic activities due to general elections, heat waves, and volatility in copper price impacted cables & wires demand and margins. Capacity utilization was 90-92% in cables and 60-65% for wires.
- Volume growth was at 13% YoY in cables & wires led by 20% growth in domestic markets. Volume growth for cables was at 50% YoY; while growth for wire was at 7%. Volume growth was higher than value growth (11% YoY) due to higher growth in the cable segment where consumption of Aluminum is higher (cost of aluminum is ~25% of copper).
- Export volumes remain flat due to delayed shipments. However; lost volumes in 1Q have been covered in Jul'24. Export contributed 24% to company's revenues. Order book remains high for exports. The target remains to achieve 20% YoY growth in export revenues in FY25.
- RM cost volatility and higher growth in cables (margin is lower in cables) led to lower margin in 1Q.
- There is a time lag in passing of the RM cost impact to consumers. Copper prices spiked during April and May which could not be passed on to the consumers due to weak demand. Then, there was a fall in copper price in Jun'24. Volatility in margins should get negated on a full year basis. Whenever price volatility of RM is 3%; the company changes its prices accordingly.

Future outlook and capex

- There should be 60-80bps margin improvement in the cable & wire segment in FY25. This improvement will be led by mix change towards high value products and higher exports.
- In the beginning of FY24; the company had earmarked a capex of INR5b for expansions and expects to spend INR3b in FY25. This expansion will help to grow at 20% for next 2-3 years. It might look at new expansion project starting from Apr'25. Higher scale and availability of products should help margin improvement for cables when the capacity gets commissioned.
- Entry in new geographies and focus on increasing electrician and the dealers network will help market share gain. In wires; it has very strong presence in North and West markets and is trying to gain market share in East and South markets. In the Cables, major supply areas are North and West as the base is low.

FMEG Segment

- The FEMG segment saw industry-leading 31% YoY revenue growth and this segment is expected to achieve break-even in next 3-4 quarters. Gross margin of the segment improved by 1pp YoY.
- There was an additional A&P spending of INR120m in this segment due to the ongoing brand transition (RR Signature brand). Normalization of AD spends will also help to achieve break-even.
- New product launches, premiumization of products, and expansion of distribution network will help revenue growth and margin improvement for this segment. New products introduced in 4QFY24 contributed 18% to revenue.
- It had paid INR50m in FY22 for using the brand Luminous for two years. As the brand transition is happening; no payment is required to be made. After start of brand transition; it can use the name for 12 months. This period ends in Dec'24.

Other detail

- Working capital days were day at 67 vs. 64 in Mar'24. The efforts will be to improve it going forward.

paytm

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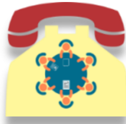

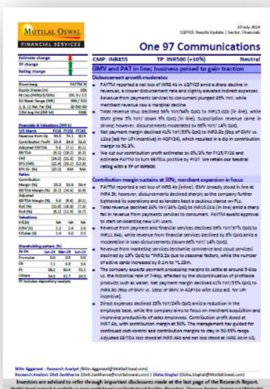

One 97 Communications — Neutral

Current Price INR 573

Opening remarks

- The quarter's performance aligns with the guidance provided. This marks the start of the end of challenging times.
- The first quarter fully reflected the impact of the situation. It aims to achieve a profitable quarter soon and targets one profitable quarter in FY25.
- Aiming to cross-sell the existing products and maximize profits.

Profitability and guidance

- The fourth quarter will be profitable, excluding UPI incentives.
- ARPU is expected to remain stable, with some improvement anticipated in later quarters.
- Aims to achieve a profitable quarter soon and target one profitable quarter in FY25.
- The focus will be on payments and financial services, targeting merchants with strong business opportunities. Achieving profitability is the priority.
- As the business stabilizes, growth is expected. PAYTM expects an increase in market share and the number of merchants. In loan distribution, the goal is to grow by 30-40%. Insurance and wealth management currently account for 3-4% of overall revenue. Margins are recovering, moving back toward profitability.
- Long-term guidance - Currently on the path to recovery and profitability, the company aims to achieve higher double-digit EBITDA margins, targeting around 15-20% for FY27 and FY28.

Payments business

- The company is in the final stages of completing the consumer migration process. With multiple bank partner systems, the migration is nearly finished. Once completed, the company will approach NPCI for on-boarding new users.
- The addition run-rate of devices is improving as many previously inactive devices have been redeployed, leading to lower operating expenses. The target is to add 800,000 to 1m devices per month.
- Merchants became inactive due to external factors, but efforts to re-engage them have accelerated. Financially, the company is being conservative and has increased provisioning.
- PAYTM is continuing its technology integration with partner banks.

- Payment processing margins are declining, primarily due to higher profits from discontinued products. Non-UPI margins stand at 15-18bp, with higher payment costs but benefiting from a larger share of UPI incentives. Payment processing margins are expected to be in the range of 5-6bp for the year.
- There is a need to cross-sell various merchant services and increase cross-sell per customer. Credit services have seen cross-selling, while insurance and broking have not yet reached that level.
- Wallet payments, rent payments, and postpaid loans are the three largest product segments. The company prioritizes restoring wallet and other business lines.
- Subscription revenue was INR80-90 per device per merchant.
- Capital expenditure this year will be lower than last year.
- Merchant device penetration has increased from 10% to 25%. There is a trend of merchants transitioning from paper QR codes to sound boxes.
- PAYTM has re-engaged 183m customers but has not aggressively pursued customer acquisition due to the involvement of multiple banks.

Lending business

- The merchant business experienced pent-up demand, and now there is significant demand. The focus is not on aggressive growth in the distribution segment but on maintaining credit quality.
- The company remains disciplined with lender partners. Once the system and technology are fully operational, the performance is expected to improve.
- The merchant cash business is performing well, showing positive signs in the early stages.
- In personal loans, the focus is on distribution. The goal is to add more partners and build as much diversification as possible.
- Banks are not increasing the limits on RuPay credit cards, and the limit share remains the same.
- NPCI is actively working on implementing credit on UPI.
- The ticket size for personal loans is flat. Small-ticket loans were 11% by volume and 5% by value, resulting in a flat average ticket size.
- The share of PLs disbursed in Oct-Nov'23 under the INR50,000 ticket size was 3-5%. The company has been reducing lower-ticket loans since 2023, with most of the changes already implemented.
- Take rates in the financial business (loans) should be 3-5%.
- The take rate depends on the product mix, and if secured lending grows, the take rate may change.
- Mutual fund distribution presents a significant opportunity, and the company is expanding its fee income. Insurance and MF distribution could become the third-largest business in a few years.

Marketing (Commerce and Cloud)

- The biggest cost in the cloud is the total number of transactions. Largest cost goes in the payment processing.

Opex

- Direct expenses are divided into four categories –
- Employee expenses (focus on making company cleaner, and expected to go down by 5-7% in the next quarters),
- Marketing expenses (lower than trend line, informing customers and merchants about smooth working of the platform),
- Technology expenses – Had some migration and had one-offs (bears higher costs but enjoys the higher UPI incentive),
- Indirect expenses - (had one-off provisions in the device merchant's segments)
- One-off expenses stood at INR800-1,000m in 1QFY25. One-off expenses – marketing and provisions increased for devices merchants.

- FASTag sales team has declined, while merchant services sales team remains intact. Expect the merchant staff to increase in the festive season.

Others

- Advertising, credit, insurance, and wealth are new business segments the company aims to expand.
- For insurance, the company is focusing on merchants rather than consumers. PAYTM is also exploring the wealth business and targeting consumers in the insurance sector.

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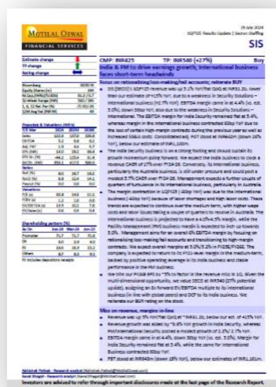

SIS **Buy**

Current Price INR 420

Quarterly performance & Outlook

- SECIS generated ~INR6b monthly revenue in India. Andhra Pradesh has been the largest revenue contributor and is now ~INR0.5b business.
- In India, new wins of more than INR320m of monthly revenue were reported during the quarter, with major contributions from the Manufacturing, BFSI, Automobile, and Real Estate sectors. There was no negotiation for passing through wage hikes to the customers in the India business, unlike the International business.
- International business will have a couple of quarters to pass through higher wage costs and labour issues. The company expects two quarters of turbulence in the International business, particularly in Australia. Further, the April to June quarter in Australia & New Zealand is generally muted.
- The management is confident of sustaining the EBITDA margin of 6% for its India Security business. However, the sequential trend could be volatile. The international business is projected to have a 4.0%-4.5% margin, while the FM business margin is expected to inch up towards 5.0%.
- Ram Mandir contract: This contract is profitable for the company. These (Vridhavan & Kashi trust) contracts do not fall in the D-category.
- In the FM business, new wins of around INR100m of monthly revenue were reported from the Logistics, Manufacturing, Aviation, and Education sectors.
- Focus on margin improvement in terms of both new customer contract and rationalizing loss-making/tail accounts.
- The company is committed to achieving an earlier 6% margin but it is taking longer than initially anticipated due to challenges in international markets. The FM business has just surpassed its pre-Covid normal margin of above 4%.
- Currently no M&A deals are in the pipeline.
- Key provision related to professionals' job market in the budget are initiatives which will like to impact the business positively. Budget has push for creating more jobs rather than highly paid jobs.
- The D-category contract constitutes 10% of the FM portfolio. Railways business trajectory changed post-Covid, which was earlier healthy.

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Syrma SGS Technology **Buy**

Current Price INR 440

Operating Performance

- Revenue during the quarter was driven by the consumer segment (majorly by high volume telecom business – Gross/EBITDA margin of ~7-8%/2-3%) and auto segment.
- High-volume telecom business includes fiber-to-home products such as Wi-Fi mesh, outdoor or indoor unit for connectivity, etc.

- The company clocked ~INR1.8b of exports in 1QFY25 (~16% of revenue). Export revenues were subdued in 1Q as orders from existing customers were soft. However, they are bouncing back now.
- ODM sales accounted for ~10% of revenue during the quarter.
- EBITDA margins for 1Q stood at 3.8%. Adjusting for the PLI and forex income, the current quarter EBITDA margin will be ~4.6%.
- SYRMA did not witness margin reduction in any of its verticals. Consolidated margin contraction was driven by product mix only.
- The company witnessed positive CFO during the quarter.

Capacity and Capex

- SYRMA has already spent ~INR700-750m on capex in 1Q and it expects to spend another INR500-700m in the remaining three quarters of FY25. Capex is majorly for Pune and Germany facilities.
- Accordingly, total capex for FY25 is expected to be ~INR1.35-1.4b
- Of this, ~INR1b will be for a new facility in Pune and the rest ~INR350-400m will be allocated to Germany (prototyping and assembly line).
- Average capacity utilization was ~60-65% in 1QFY25.

Outlook and Guidance

- SYRMA maintains revenue growth guidance of ~40-45% in FY25.
- It expects EBITDA of INR3.1-3.2b in FY25 (~7% margins).
- PLI and forex gain/losses are a part of business and included in the guidance given by the company.
- The company expects a ramp-up in business from new customers from next quarter onward.
- The increase in industrials and healthcare segments and an increasing mix of exports will boost margins for FY25.
- SYRMA expects the order pipeline to keep growing healthily by FY25 end.
- The company aims to sustain working capital days to ~60 days by end of the year.

Expected business mix in FY25

- Full-year revenue mix of consumer segment will be ~40% in FY25 (based on the order book and pipeline). Out of this, telecom business is expected to generate revenue of ~INR15b, with the rest of the business coming from non-telecom segments.
- SYRMA expects ~INR2b of revenue from smart metering orders in FY25. This business has better gross margins (~20%).

Exports

- The company expects exports of ~INR10-11b in FY25, with the share of exports to total sales likely to increase to ~25% going ahead and 1/3rd in the longer run. RFID healthcare accounted for a significant portion of exports.
- The US accounted for ~55-60% of the exports, while EU accounted for ~40% of the total exports.

Healthcare Business

- Healthcare business is expected to clock over INR3.5b of revenues in FY25. It has two businesses – RFID healthcare business and medical devices business. Medical devices business was low in 1Q and is expected to increase going ahead.
- Johari Digital clocked ~INR110-120m of revenue and EBITDA of ~INR10m during the quarter due to seasonality.

Order Book

- The current order book stood at over INR45b as of Jun'24.
- Order book breakup: 23-25% from Auto segment; 30-40% from consumer; 22-25% Industrial, 6-7% healthcare, balance is from IT & Railways
- Order intake is mainly from Consumer, Auto and Industrials.

- Consumer order intake (excluding ODM consumer business) during the quarter was ~INR4b. Automotive/industrial/healthcare order inflows during the quarter stood at ~INR4b/INR3.6b/INR1.3b, with IT & other segments accounting for the rest of the orders.
- During the quarter, the company has also received an order for design of medical devices from a global company. This will result in healthcare mix going up in coming years.

Others

- Within automotive segment, ~60% of the sales come from EV business (battery management and engine control), while ICE accounts for the rest 40% of the sales. The company has on-boarded three new customers in Auto.
- Syrma aims to be a design led manufacturing company with a significant portion of revenue coming from Industrial, Automotive and Healthcare segment in longer run.
- The company's new design center is expected to go on stream by later this month.
- SYRMA has received a telecom PLI claim of INR40m related to FY23 claims and another INR150-160m is expected to be received in FY25 relating to FY24 claim. Total PLI for FY25 will be ~INR200m (which will be a part of revenue/ EBITDA).

Team Lease — Buy

Current Price INR 3,113

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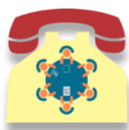

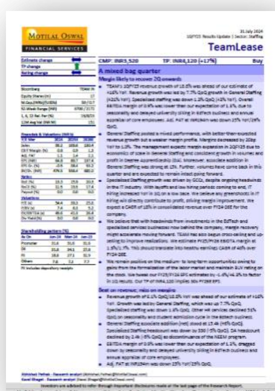

Demand and growth outlook

- The impact of NEEM in the DA business has been largely accounted for, with most NEEM trainees off boarded during the quarter. Going forward, net growth in DA is expected to contribute to profit growth and margin expansion.
- The company expressed confidence in posting substantial growth in both revenue and profitability of the EdTech business during the year.
- **General Staffing:** The company added net ~15,500 headcount in 1Q, taking the total billable headcount to ~282k. Staffing revenue grew by 8% QoQ, backed by headcount growth across sectors. TEAM is seeing green shoots in the BFSI sector and expects high BFSI contribution. There was a holdback in BFSI in 3Q/4QFY24, and large NBFCs remained muted. Affordable housing and payment services are seeing a revival.
- Consumer sector faced muted growth owing to high input costs and inflation. FMEG is seeing positive momentum. Telecom is expected to maintain growth for the rest of the year. The management expects margin expansion in 2QFY25 due to economics of scale in General Staffing and consistent growth in volumes and profit in DA.
- **Specialized Staffing:** Headwinds in the IT industry continue to impact growth in Specialized Staffing. While there has been consistent growth in GCC clients, a net headcount loss with IT services clients was noted in 1Q.
- The period of layoffs and low hiring has ended. IT hiring increased YoY on a low base. GCCs continue to expand their presence in India and are keen to hire talent with a combination of tech and domain skills.
- It has partnered with over 55 GCCs, mostly in the BFSI, health, and auto segments. 55% of revenue in tech came from GCCs and this is expected to continue.
- The sales pipeline is strong. It is shifting toward high-margin accounts in all areas of business. The company exited some low-margin mandates. Manufacturing exposure is 12-15%, with significant opportunities owing to the PLI scheme and labor shortage.
- **HR Services:** Revenue declined by 51% because of seasonality and the student admission cycle in the EdTech business.

- As per UGC guidelines, all universities have to align their frameworks with the New Education Policy, leading to a delay in the admission cycle for a few months. The seasonality element in the EdTech business will be covered between 2Q and 3Q, with robust growth in revenues expected this year in line with university sign-ups and student pipeline. From 2H onward, the company expects a substantial increase in billing amounts with new logos coming in.
- HR business is expected to maintain its current growth and return to its profit trajectory.
- **DA:** Net growth in trainee headcount, excluding attrition of the last lot of NEEM trainees (loss of ~6,000) in 1Q. Growth is driven by the National Apprenticeship Promotion Scheme and WILP (Work Integrated Learning Program). Customers are willing to pay more for education initiatives. It added 32 logos in 1Q. Overall push for job creation from the government will boost the staffing business.

Margin Outlook

- EBITDA decline was due to seasonality and delayed university billing in EdTech business and annual appraisal of core employees. Seasonality will be recouped over 2Q/3Q.
- TEAM does not expect any surprise in terms of margin expansion trajectory.
- 2/3rd of logos signed are on a variable basis.
- There should be consistent growth in volume and profit contribution by DA from hereon. This, coupled with economies of scale in the general staffing business, will help improve profits and expand margins in 2Q in the staffing segment. For specialized staffing, TEAM maintains healthy revenue and profit sequentially. Any green shoots in IT hiring will directly contribute to profit with no further increase in fixed costs in the back end.
- The company expects to increase margins from 2Q onward, post-investment phase in HR services, wage hikes, and seasonality impact.
- Staffing: Volumes came back in this quarter and are expected to remain intact going forward. TEAM does not expect more clients coming on variable markup.
- Margin is likely to be driven by the portfolio mix. Some element of opening up in hiring will start in 3Q, likely boosting growth.
- Avg. PAPM is INR679, almost the same as last quarter.
- Macro tailwind is positive for the company, driven by the government's job push. Seasonality adjustment in EdTech business in 2Q will improve absolute profit.
- The majority of headwinds are over and will likely aid in profit growth going forward.

Updater Services **Buy**

Current Price INR 349

Quarterly performance and outlook

- The company's focus on high-margin customers and value-added services should lead to a steady increase in profit margin going forward.
- 2Q/3Q are typically stronger quarters for the company due to seasonal factors. UDS expects 15-16% overall revenue growth going ahead.
- IFM: The company aims to increase its market share by focusing on hard services, which have higher margins. It added 29 new logos in IFM.
- EBITDA margin for IFM is now at 5.7%, up from 5.3% in 4QFY24 and 4.2% in 1QFY24.
- UDS expects 13-14% growth going forward.
- Margins are expected to stabilize at 4-4.5% seasonally in 2Q-3Q. The business is largely focused on the private sector. Soft services, including cleaning and

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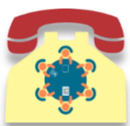

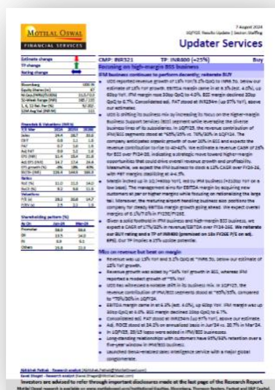

production support services, represent a significant portion of revenue. Staffing accounts for 10%, institutional catering for 10%, engineering and soft services for 30%, and product support services for 20%.

- The washroom hygiene business, although small, has high EBITDA margin of 40%.
- BSS accounts for 36% of revenue, with strong traction in the auditor and insurance space. The airport business has turned EBITDA positive, with ground handling operations in 20 airports (10 commenced in 1Q). UDS plans to add one more airport. On the other hand, new airlines will keep coming in, and discussion is going on with airlines.
- After the gestation period, every airport is profitable. The ground handling business, with a near-monopoly, has a 10-year concession with customers and has completed its 2.5-3-year gestation period. It is now expected to contribute meaningfully to profit going ahead.
- Key clients include Microsoft, Aditya Birla, Spice Jet, Tata Communication, and Hershey.
- The company is planning strategic acquisitions in the BSS segment, targeting margin-accretive prospects.
- Organic growth of 20% is expected to further improve margins, with its expansion into Korea anticipated to be a significant revenue and EBITDA contributor in 2-3 years.
- The company sees better opportunities in employee background checks, audit, and insurance space.
- Added 600 employees in Field Marketing Services for a prestigious mobile manufacturer.
- Added 15 new logos in 1QFY25. Further, the BSS segment's revenue share is expected to grow from 36% to 40-42% in the next few years.
- EBITDA margin in BSS was 9.0% in 4QFY24 and is now 9.9%, with expectations for further margin improvement as revenue grows and cost arbitration takes effect.
- The ground handling business, with a near-monopoly, has a 10-year concession with customers and has completed its 2.5-3-year gestation period. It is expected to contribute to profits.
- The plan is to add new customers at par or higher margins from current levels while focusing on rationalizing the large tail.
- ETR is roughly 15%, with an expectation of 15-16% ETR going forward (not-dependent of 80JJAA).
- The cost of ESOPs is INR11m in 1Q. UDS expects an annual cost of INR50m.

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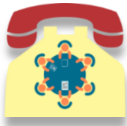
UPL — Neutral

Current Price INR 568

Operating performance

- UPLL witnessed strong volume recovery across all the geographies. However, the pricing pressure continued during the quarter
- NAM experienced notable growth in spite of pricing pressure, on account of higher volumes of fungicide and herbicide.
- The contribution margin was lower on a YoY basis. However, it improved on a sequential basis, suggesting a beneficial input price impact.



UPL Corporation

- UPL Corporation continued to witness strong fundamentals such as healthy demand for company's product leading to market share gains.
- Revenue grew 5% YoY to INR61.4b in 1QFY25 led by volume growth of 25%, which was partially offset by price decline (down 20% YoY)
- Growth within herbicide volumes was led by NAM and Brazil regions, while fungicides volumes was driven by Europe and NAM.
- NPP witnessed strong performance in 1QFY25, especially within Europe
- LATEM: Brazil was hit by price erosion in fungicides while Argentina was adversely impacted due to the shift of purchases closer to the season. Colombia witnessed a poor performance due to drought.
- NAM witnessed strong volume growth (~20%), mainly in herbicides and fungicides; NPP revenue up 1% YoY led by volume growth. Restocking led to good volume growth during quarter.
- There would not be any major price increase in near future (not expecting prices to go down from current level) but margins will normalize going ahead.
- EU: Strong volume led growth in fungicides; NPP revenue doubled vs. last year, driven by volumes; Growth was primarily driven by Mediterranean countries
- ROW: Growth in Africa, with APAC region was almost flat; Growth in herbicides through volumes (+17% YoY) offset by decline in insecticides
- Going ahead, company is expecting prices to increase due to global supply-demand mismatch
- Unfavorable forex impact, increased freight cost and pricing pressure in key AIs will continue to be key headwinds for the company.
- Company will continue to focus on margin improvement. It expects to witness positive outcome from 2HFY25

UPL SAS

- UPL's 1QFY25 revenue declined 17% YoY, with volumes/prices down 13%/4%.
- The decline was primarily on account of postponement of sales to Jul'24 in order to optimize working capital
- The seed treatment window was disrupted during the quarter because of the early rains in Jun'24
- However, with favorable mix and drop in SG&A expenses (down 5% YoY), contribution margin witnessed improvement on YoY basis
- The company will be benefited by decline in prices of Glufosinate. The company has two related products in the market.
- Going forward, the upside in the strategic crops such as Rice, Maize, and Sugarcane is expected to de-risk the business with lowering the dependency on traditional crops
- Alignment towards lean cost structure will lead to better margins going ahead.
- Further, transitioning to the tighter credit and inventory norms is expected to optimize working capital and drive better cash flows
- Company expects to achieve volume growth on YoY basis within key brands

Advanta

- Revenue declined 7% YoY in 1QFY25, where prices increased 1%, volume declined 8% and FX impact was negligible.
- Supply constraints tight inventories of certain products adversely impacted the revenue growth during the quarter.
- Contribution margin was hit (down 270bp YoY) by lower recoveries in India, Thailand & Indonesia and higher production costs due to weather challenges
- Indian farmers have very good profitable profile globally. They are earning ~INR2,300 per quintal on an average

- Going ahead, Field Corn segment is expected to witness positive impact on margins in H2
- While, good monsoon in India is expected to improve the growth trajectory within the segment

UPL Specialty chemical

- Revenue declined 22% YoY in 1QFY25, on account of ~27% decline in captive revenue (on account of inventory liquidation in international and domestic CP platform). Unfavorable operating leverage impacted the margins during the quarter.
- Non captive revenue grew 19% YoY led by volume growth of ~37% YoY. Prices declined during quarter by 18% YoY. EBITDA increased by 35% YoY led by operating leverage
- Company has entered into JV with Aarti Industries for manufacturing and marketing of specialty chemicals
- Going ahead, company is expecting strong demand outlook within the lubricants and stabilizer sectors.

Working Capital and Debt

- Working capital days declined by 1 day YoY to 121 as of Jun'24, primarily due to reduced inventory (lower by 8 days), which was neutralized by higher receivable days
- Average cost of debt in Q1FY25 stood at 7.5% vs 5.5-6% in 1QFY24
- Rating downgrade resulted in increase of interest cost by 30bps
- The deleveraging guidance of reducing debt by USD300m-400m (ex-Rights issue proceeds) remains intact.
- Quarterly Cash balance has seasonality with major cash coming in Q4 of financial year. This is the reason for low cash balance QoQ.
- Lower factoring this quarter resulted in decline in Interest on leases & others to INR1.9b vs. 2.87b in 1QFY24.
- Net debt stood at USD3.3b as of Jun'24. Adjusted for lower factoring, net debt would have stood at USD3.14b.

Guidance and Outlook

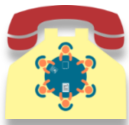
- UPLL expects a near-normal year and is confident of delivering the guidance of absolute EBITDA growth of over 50% in FY25 and CFO of USD300-400m enabling them to reduce interest cost and turn PAT positive
- Management expects good growth in profitability in H2FY25 (H2 to be better than H1)
- Company will witness benefit of low cost inventory going ahead
- FY25 revenue is expected to grow by 4-8% largely driven by volume. Company is expecting strong volumes in 2HFY25.
- Larger market such as LATEM, EU and US volume will grow strongly in end of Q2 onwards being closure to their season
- Company expects to witness good volume and sales growth in Brazil from Q3 (season starts from September there)
- The company expects to achieve the 60/40 target of post patent/differentiated and sustainable products
- Company expects high EBITDA growth as contribution margins have come back to previous levels (~40% level) in this quarter
- UPLL sold high cost inventory this quarter (one reason for lower margins) and left with only little quantity to be sold
- There were ~USD10-12m of high cost inventory sold in this quarter
- Prices have largely stabilized (ex 1 insecticide and 1 herbicide) in this quarter. Chinese players are selling at very thin margins which is not sustainable. Company done expect pricing impact like 1Q in quarter going ahead and pricing impact is expected to go away in H2FY25.

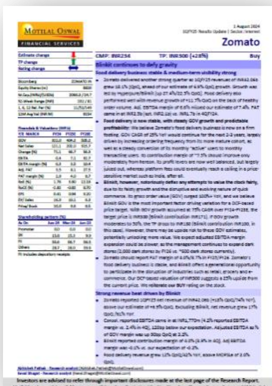
- The company doesn't expect the global overcapacity situation to go way in the next 2-3 years.

Other highlights

- UPLL is on track to further reduce SG&A expenses and achieve USD100m savings in FY25
- The company is focusing in rationalizing Manpower cost, travel, A&P and other small expenses to reduce cost. Higher manpower during current quarter was due to bonus accruals
- Right Issue: The company is in the process of filing the DRHP. The company will be going under the fast track route to get it done by end of Q3 or mid of Q4. Promoters have underwritten the issue.

Click below for
Detailed Concall Transcript &
Results Update





Zomato Buy

Current Price INR 260

Demand and growth outlook

- Delivery charges are net of customer delivery charges. Customer delivery charges declined in 1Q as per the goal.
- Building a one-stop destination app for going out could be a game changer for each of these use cases. "District" will be launched as a different brand and app.
- Preference for opening larger stores than current ones, depending on real estate availability in the cities.
- **Order Value:** Ad revenues are growing along with platform fees, playing a role in take rate improvement in 1Q.
- **Food Delivery:** Growth of 25% YoY is expected to continue. Margin has been expanding over time. In a few quarters, it will reach the range of 5% EBITDA.
- GOV growth is largely a function of order value growth with some contribution from AOV. The Gold Subscribers Program is largely mature.
- Over FY22-24, food GOV grew 25%. Going forward, growth is expected to be closer to the industry average of 30%. Zomato expects this business to grow at 20% going ahead. Top 8 cities: Growth is fairly broad-based in the top 8 and other cities. There is a lot of work to do for supply sufficiency in the top 8 cities. Growth is driven by customer additions rather than AOV.
- **Platform fee:** The company will make business decisions based on customers' demand sensitivity regarding platform fee hikes.
- **South India Market:** The market is fairly broad-based. Directionally, penetration in the markets has grown meaningfully in the south, close to the national average in terms of market share.
- **Blinkit (Quick Commerce):** Food inflation is built into the take rate of Blinkit. Products outside the core category are increasing (have a high take rate). Delivery mix, gross margin, and product mix will be drivers of the take rate going forward. Adding SKUs consistently over the last few quarters.
- **Dark stores:** Every new store opened should be run by a local partner in the long term.
- Sticking to the idea of delivery in 10 minutes and assortment efficiency.
- Modern retail stores cater to the premium end of customers. Capex is a combination of Blinkit store scale-up and increased warehousing capability. The company is taking upfront costs of capex and not from partners as Zomato is able to qualify capex.

- The dine-out business is now operating at a run rate of USD500m+ annualized GOV and is already profitable.
- The company has maintained the same philosophy for the use of cash: retaining cash and not looking for any M&A currently. There is big value in having a strong balance sheet and cash. There are no plans to distribute the cash.

Margins

- Consolidated Adj. EBITDA increased by INR2.8b YoY to INR2.9b in 1Q, driven by margin expansion in all four businesses.
- Google AIP is not expected to affect profits meaningfully going forward.
- Contribution margin reduced slightly QoQ from 7.5% to 7.3%. Expects such minor fluctuations to continue, driven by seasonality and multiple other factors. The company remains on track to achieving a 4-5% Adjusted EBITDA margin (currently at 3.4% in Q1FY25).
- EBITDA margin should continue to increase from here.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

GALLERY

MOTILAL OSWAL FINANCIAL SERVICES

4QFY24 | June 2024

VOICES

India Inc on Call

MOTILAL OSWAL FINANCIAL SERVICES

3QFY24 | February 2024

VOICES

India Inc on Call

MOTILAL OSWAL FINANCIAL SERVICES

2QFY24 | November 2023

VOICES

India Inc on Call

MOTILAL OSWAL FINANCIAL SERVICES

BULLS & BEARS

INDIA VALUATIONS HANDBOOK

Sectors trading at a premium

Infrastructure
Real Estate
Consumer Durables
Sp. Chemicals
Capital Goods
Banks - PSU
Logistics
Technology
Cement
Oil & Gas
Healthcare
Consumer
Metals
NBFC
Retail
Auto
Banks - Private
Media
Telecom

Sectors trading at a discount

HIGHLIGHTS – JULY'24 EDITION

- Market rallies for the second consecutive month
- India the best performing market
- FIIs record the second consecutive month of inflows into equities

- Midcaps and smallcaps outperform largecaps
- Technology, Healthcare, Consumer, Media, and Utilities the top gainers

- India's share in the global market cap, at 4.4%, continues to scale new highs
- Over the last 12 months, the MSCI India Index (+37%) has significantly outperformed the MSCI EM Index (+4%)

Deven Mistry – Research Analyst (Deven@MotilalOswal.com)

MOTILAL OSWAL FINANCIAL SERVICES

FUND FOLIO

Indian Mutual Fund Tracker

Equity

INR32t Equity AUM continues to scale a new peak

INR65t MF industry's AUM jumps 6.2% MoM

Amount garnered through SIPs at a new high INR233.3b

Deven Mistry – Research Analyst (Deven@MotilalOswal.com)

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August 2024

MOTILAL OSWAL FINANCIAL SERVICES

July 2024

India Strategy

The Retail Rhapsody!

MOTILAL OSWAL FINANCIAL SERVICES

April 2024

India Strategy

USD1t USD2t USD4t USD8t

FY08 FY15 FY26E FY34E

INDIA: BIG, BOLD, AND BLAZING!

MOTILAL OSWAL

January 2024

India Strategy

On a roll!

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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

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