Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	82,948	-0.2	14.8
Nifty-50	25,378	-0.2	16.8
Nifty-M 100	59,753	-0.7	29.4
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,618	-0.3	17.8
Nasdaq	17,573	-0.3	17.1
FTSE 100	8,254	-0.7	6.7
DAX	18,711	-0.1	11.7
Hang Seng	6,176	0.0	7.1
Nikkei 225	36,380	0.5	8.7
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	75	0.0	-3.8
Gold ($/OZ)	2,576	0.3	24.9
Cu (US$/MT)	9,400	1.8	11.1
Almn (US$/MT)	2,537	0.9	8.1
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	83.8	0.0	0.7
USD/EUR	1.1	0.1	0.8
USD/JPY	141.7	-0.5	0.4
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.8	0.00	-0.4
10 Yrs AAA Corp	7.3	0.00	-0.4
Flows (USD b)	**18-Sep**	**MTD**	**CYTD**
FIIs	0.1	1.53	8.6
DIIs	0.02	5.77	38.4
Volumes (INRb)	**18-Sep**	**MTD***	**YTD***
Cash	70	1208	1295
F&O	7,10,616	4,06,097	3,80,779

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

AU Small Finance Bank: On a long growth runway!

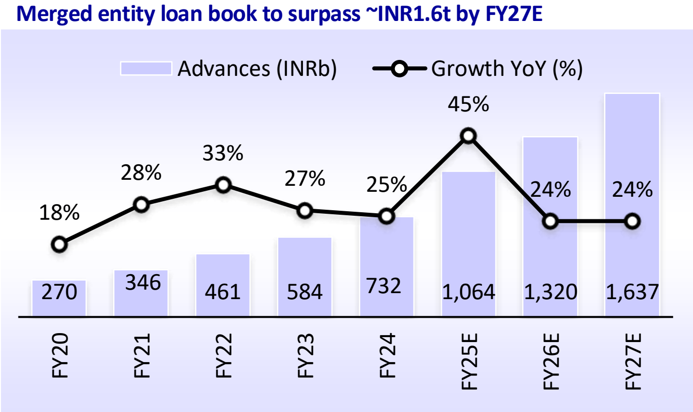
- AU Small Finance Bank (AUBANK) is well-positioned for strong growth, demonstrating a steady improvement in operating profitability as it capitalizes on the synergies resulting from the merger. A high-yielding loan book following the merger and broader product offerings, especially in the South, will facilitate profitable growth in the coming years.
- The bank's recent application for a Universal Bank license is expected to streamline regulatory requirements, improve brand positioning, and foster growth by enhancing customer acquisition and deposit productivity.
- Although NIM may contract to 5.5-5.7% due to rising costs, improvements in disbursement yields and potential rate cuts are expected to enhance margins. We estimate the operating leverage to improve gradually with a C/I projection of 62% for FY25 and further recovery to 60% by FY27.
- We estimate RoA to improve to 1.8% by FY27, aided by ~24% loan growth, resulting in a ~32% CAGR in earnings over FY25-FY27. We reiterate our BUY rating with a revised TP of INR830 (premised on 3.2x FY26E BV).

Research covered

Cos/Sector	Key Highlights
AU Small Finance Bank	On a long growth runway!
P&G Hygiene and Healthcare	Focusing on sustainable growth; rich valuation limits upside
EcoScope	India's Quarterly Economic Outlook – 2QFY25

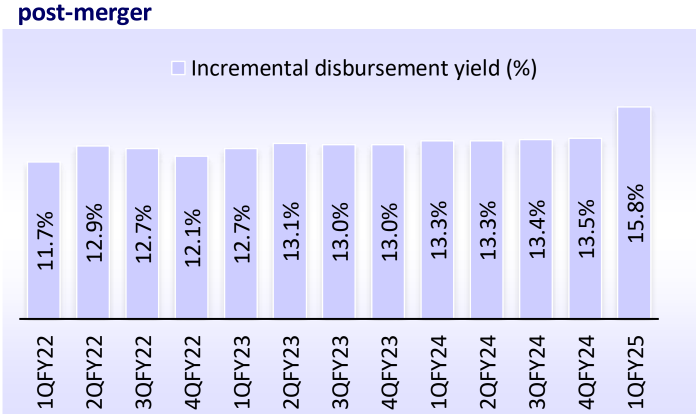
Chart of the Day: AU Small Finance Bank (On a long growth runway!)

Merged entity loan book to surpass ~INR1.6t by FY27E



Source: MOFSL, Company

AUBANK's disbursement yield increased sharply to 15.8% post-merger



Source: MOFSL, Company

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

NTPC Green Energy files draft papers for $1.2 billion IPO

The company, a unit of state-owned power producer NTPC, will only issue new shares, and existing shareholders will not sell any stake. It will use the proceeds from the fresh issue to repay loans worth 75 billion rupees taken by its unit NTPC Renewable Energy.

2

Aditya Birla Capital's plan to merge Aditya Birla Finance with itself gets 'no objection' from RBI

The Scheme remains subject to various statutory and regulatory approvals, including approvals from the National Company Law Tribunal, other applicable authorities and the respective shareholders and creditors of the companies involved in the…

3

Garden Reach Shipbuilders bags $54-million German order for four more cargo vessels

The vessels will be designed, built, and delivered over a period of 33 months from the original contract signing date. The deal does not involve any related party transactions.

4

Ion Exchange wins ₹161-crore contract from Adani Power for water and environment solutions

The contracts involve providing comprehensive water and environment management solutions for two 800 MW units at Adani's Raipur and Raigarh ultra-superpower projects.

5

GE T&D India promoters to sell 11.7% stake via OFS at ₹1,400 per share

The promoters have also included an oversubscription option to sell an additional 3.9% of equity, representing 10 million shares, which could increase the total sale to 15.6% of the company's paid-up equity share capital, if fully exercised. This means the total potential offer size could reach 40 million shares.

6

Aurobindo to acquire remaining 49% stake in GLS Pharma for Rs 22.5 crore

This acquisition is undertaken to hold the entire ownership of GLS by the company," it said, adding that the transaction is estimated to be completed before December 31, 2024

7

Tata Power Renewable Energy bags 400 MW wind-solar project from MSEDCL

The company said that the LoA includes an original contracted capacity of 200 MW, along with a greenshoe option for an additional contracted capacity of 200 MW. This would be the largest renewable energy project in Maharashtra till date for TPREL.

AU Small Finance Bank

BSE SENSEX	S&P CNX
82,948	25,378

CMP: INR724 TP: INR830 (+15%) Buy

On a long growth runway!

Earnings to clock ~32% CAGR over FY25-FY27

- **AU Small Finance Bank (AUBANK) is well-positioned for strong growth, demonstrating a steady improvement in operating profitability as it capitalizes on the synergies resulting from the merger. A high-yielding loan book following the merger and broader product offerings, especially in the South, will facilitate profitable growth in the coming years.**
- **The bank's recent application for a Universal Bank license is expected to streamline regulatory requirements, improve brand positioning, and foster growth by enhancing customer acquisition and deposit productivity.**
- **Although NIM may contract to 5.5-5.7% due to rising costs, improvements in disbursement yields and potential rate cuts are expected to enhance margins. We estimate the operating leverage to improve gradually with a C/I projection of 62% for FY25 and further recovery to 60% by FY27.**
- **The bank maintains robust asset quality with stable credit costs. It expects GNPA/ NNPA ratios to remain around 1.9%/0.6% by FY27 and PCR to improve to 70%.**
- **We estimate RoA to improve to 1.8% by FY27, aided by ~24% loan growth, resulting in a ~32% CAGR in earnings over FY25-FY27. We reiterate our BUY rating with a revised TP of INR830 (premised on 3.2x FY26E BV).**

Estimate loan CAGR of ~24%; business mix to diversify further

AUBANK posted a robust CAGR of ~25% in its standalone advances over FY22-FY24, with a 3.4% QoQ growth in the loan portfolio during 1QFY25, adjusted for its merger with Fincare SFB. The merger will accelerate the company's growth, enabling it to expand its geographic reach and meet the Priority Sector Lending (PSL) requirements through its stronger presence in high-yield segments such as MFI, while also strengthening its Small Business Loans (SBL) and gold loan portfolios. The complementary asset compositions of AUBANK's and Fincare SFB's portfolios bridge the gap in product offerings, creating a diversified suite that supports growth and solidifies the merged entity's leadership in the SFB sector.

Focus on deposit mobilization and strategic CD ratio management

AUBANK is strategically focusing on deposit mobilization while managing its cost of funds, having retired INR10b in high-cost bulk deposits during 1QFY25. AUBANK 's CD ratio was 92%, but when adjusted for refinance-backed loans, it stood at 84%. We estimate deposit mobilization to gain traction, enabling a moderation in the CD ratio to ~90% by FY25E (in line with the bank guidance). The bank targets 25% deposit growth in FY25, emphasizing granular retail deposits while it aims to maintain a CD ratio of ~90% (85% ex refinance). With a stable funding mix of 70% CASA and Retail TDs and 15% non-callable bulk TDs, we clock ~24% CAGR in AUBANK's loan book, reaching INR1.64t by FY27E, and a similar growth rate for deposits at INR1.84t.

Stock Info

Bloomberg	AUBANK IN
Equity Shares (m)	743
M.Cap.(INRb)/(USDb)	538.4 / 6.4
52-Week Range (INR)	813 / 554
1, 6, 12 Rel. Per (%)	15/12/-27
12M Avg Val (INR M)	2167
Free float (%)	77.1

Financials & Valuations (INR b)

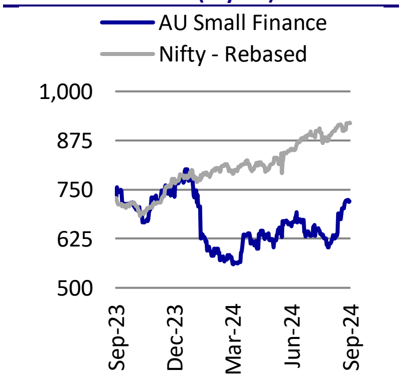
Y/E March	FY24	FY25E	FY26E
NII	51.6	80.5	101.2
PPoP	24.4	40.2	51.3
PAT	15.3	21.4	28.1
NIM (%)	5.2	6.2	6.0
EPS (INR)	23.0	30.3	37.7
EPS Gr. (%)	4.3	31.8	24.6
BV/Sh. (INR)	187	223	260
ABV/Sh. (INR)	183	217	253
Ratios			
RoE (%)	13.1	14.7	15.6
RoA (%)	1.5	1.6	1.7
Valuations			
P/E (X)	31.2	23.7	19.0
P/BV (X)	3.8	3.2	2.8
P/ABV (X)	3.9	3.3	2.8

Shareholding Pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	22.9	25.5	25.5
DII	18.4	22.8	19.3
FII	39.6	39.4	41.6
Others	19.1	12.4	13.6

FII includes depository receipts

Stock Performance (1-year)



Funding cost pressures to keep near-term margin under check

AUBANK's NIM increased ~90bp QoQ to around 6.0% in 1QFY25, primarily due to a 120 bp rise in loan yields from its merger with Fincare SFB. Despite a 7 bp QoQ reduction in funding costs to 7.03%, aided by the retirement of high-cost bulk deposits, the elevated deposit rates and competition are expected to maintain high funding costs in the near term. The bank anticipates NIM to remain ~5.5-5.7% over FY25 as deposit mobilization accelerates. However, a potential turn in the repo rate cycle, with 62% of the loan book being fixed in nature, will support margins. We estimate NIM to gradually improve over FY25-FY27, aided by improved operating leverage and a possible capital raise in FY26 to support loan growth.

Near-term C/I ratio sticky; operating leverage to improve gradually

AUBANK is investing in sustainable growth through technology, streamlined processes, and geographic expansion with cost ratios projected to stay high at 62% in FY25 (slightly better than the management's conservative estimate of ~63% for FY25; 60% cost-income ratio in 1QFY25). The bank's merger with Fincare SFB is expected to drive revenue growth through cross-selling, enhanced distribution income, and benefits from the AD-1 license, with cost ratios expected to improve from FY26 as the merger synergies are realized. Additionally, AUBANK's recent application for a Universal Bank license is set to ease regulatory requirements and enhance brand positioning, supporting growth through increased customer acquisition and improved deposit productivity from the expanded branch network.

Estimate GNPA/NNPA ratio at ~1.9%/0.6% by FY27

AUBANK has maintained robust underwriting, characterized by in-house origination, strong asset monitoring, and efficient collections. The bank expects credit cost of 6.5-7.0% for its credit card business and around 3% for microfinance over the long term, having set aside an additional INR170m for the MFI segment in 1QFY25. During 1QFY25 the bank reported a credit cost of 33 bp (29 bp adjusting for recoveries), despite deteriorations in the retail unsecured segment. Although the MFI segment continues to report stress, AUBANK expects the credit cost to remain stable at ~1.2% for FY25. Asset quality ratios are, thus, expected to remain in control with GNPA/NNPA ratios at ~1.9%/0.6% by FY27E, while PCR improves to 70% from ~65% currently.

Valuation and view: Reiterate BUY with a revised TP of INR830

- AUBANK is well-positioned to deliver superior growth with a steady improvement in operating profitability as it benefits from the synergies following its merger with Fincare SFB. This merger enables the bank to benefit from a higher-yielding loan book and a broader product suite, thereby driving growth, particularly in the South.
- The bank's recent application for a Universal Bank license is expected to ease regulatory requirements and enhance brand positioning, thus supporting growth while improving deposit productivity. While NIM may moderate slightly due to the rising cost of funds, improved disbursement yields and potential rate cuts are likely to improve margins over FY26E.
- AUBANK aims for a 1.6% RoA in FY25 with a potential for 1.8% by FY27E. We estimate AUBANK to deliver ~24% loan growth CAGR and ~32% PAT CAGR over FY25-FY27. With strong execution capabilities and a proven management track record, we remain optimistic about AUBANK's growth and reiterate a BUY rating with a revised TP of **INR830 (premised on 3.2x FY26E BV).**

18 September 2024

Update | Sector: Consumer

P&G Hygiene and Healthcare

BSE SENSEX	S&P CNX
82,948	25,378

Stock Info

Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	536.9 / 6.4
52-Week Range (INR)	19180 / 15306
1, 6, 12 Rel. Per (%)	-6/-14/-31
12M Avg Val (INR M)	142
Free float (%)	29.4

Financials Snapshot (INR b)

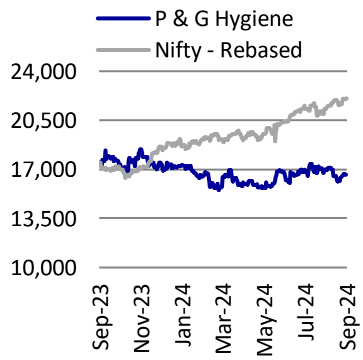
Y/E June	FY24	FY25E	FY26E
Sales	42.1	46.8	51.6
Sales Gr. (%)	7.5	11.3	10.3
EBITDA	9.8	11.5	12.9
Margin (%)	23.4	24.5	25.0
Adj. PAT	7.2	8.5	9.6
Adj. EPS (INR)	220.3	260.2	296.4
EPS Gr. (%)	15.1	18.2	13.9
BV/Sh.(INR)	238.7	290.8	350.2
Ratios			
RoE (%)	83.2	98.4	92.6
RoCE (%)	87.4	109.4	101.9
Valuations			
P/E (x)	72.9	61.7	54.2
P/BV (x)	67.3	55.2	45.9
EV/EBITDA (x)	52.4	44.8	39.6
Div. Yield (%)	1.6	1.3	1.5

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	70.6	70.6	70.6
DII	15.2	15.1	15.5
FII	1.6	1.6	1.1
Others	12.7	12.7	12.7

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR16,540 TP: INR17,000 (+3%) Neutral

Focusing on sustainable growth; rich valuation limits upside

We attended the analyst meet of PG and following are the key takeaways.

- During the analyst meet, the management highlighted: (a) potential for double-digit sales growth, particularly in the feminine hygiene segment, in which per-capita spending is currently only one-sixth of that in China; (b) the possibility of accelerating revenue growth following a 1.5x increase in distribution reach compared to three years ago; (c) growing momentum in new portfolio innovations such as Whisper Ultra hygiene products and Vicks Roll-On for headaches; and (d) cost savings to continue (savings of INR1.13b in FY24, ~3% of sales).
- PG has delivered sales/EBITDA/APAT growth of 8%/13%/15% in FY24. Gross margin expanded by 400bp YoY to 61.6% during the year, out of which 260bp was reinvested in A&P (up 33 % YoY in FY24). EBITDA margin moderated by 120bp YoY to 23.4%.
- The company has delivered growth over the years through a strong portfolio of products, superior packaging, brand communication, and retail execution. It has delivered a CAGR of 7%/10%/11% in sales/EBITDA/ APAT over FY19-24. EBITDA margin has improved by ~270bp over the same period.
- **The stock trades at an expensive valuation of 62x/54x FY25E/FY26E EPS. We reiterate Neutral rating on the stock.**

Valuation and view

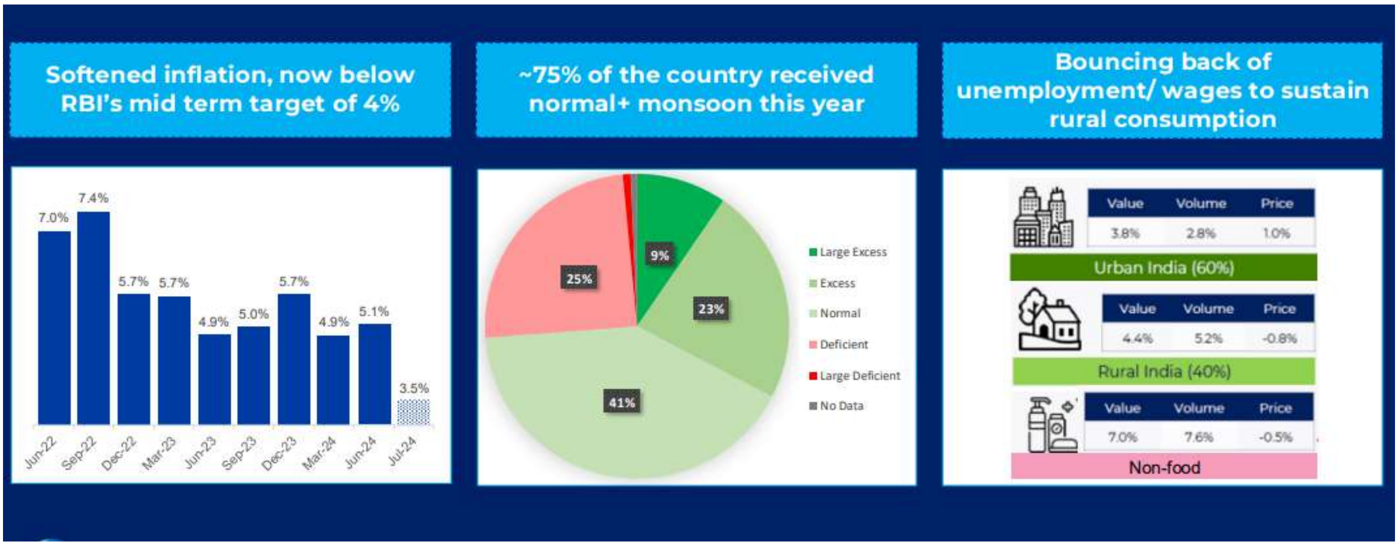
- There is no change in our estimates after the analyst meet.
- Two factors make PG an attractive long-term core holding: 1) robust growth potential in the feminine hygiene segment (65-68% mix of FY24 sales) and the potential for market share gains, aided by strategic initiatives, including the fortification of significant market advantages, and 2) potential for higher margin gains from the long-term trend of premiumization in the feminine hygiene segment.
- With a portfolio of essentials and healthcare, PGHH focuses on product innovation-led customer acquisition. Penetration play would continue, but at a stable pace, despite the high scope of user additions. The stock trades at expensive valuations of 62x/54x FY25E/FY26E P/E. We do not see any medium-term trigger. Reiterate Neutral with a TP of INR17,000 (55x Jun'26E EPS).

Key points from analyst meet

Business environment

- The FMCG sector has witnessed a favorable recovery in volume growth. In FY24, the industry posted a ~4% increase in volume, and it is anticipated to deliver mid-single-digit growth in FY25.
- Improving consumption trends are emerging, driven by easing inflation and favorable monsoon patterns, which are expected to boost rural demand.
- Inflation has moderated, dropping to below 4% in Jul’24. Additionally, 75% of the country has experienced normal monsoon this year, further supporting agricultural output and rural spending.
- The rebound in employment is playing a crucial role in sustaining rural consumption, as improved income stability in rural areas stimulates purchasing power and demand for everyday goods.

Positive consumption trends



Source: Company, MOFSL

India's Quarterly Economic Outlook – 2QFY25

Real GDP growth could slow toward 6%

- **For the first time in five quarters, India's real GDP posted slower-than-expected growth of 6.7% YoY in 1QFY25 vs. the RBI's projection of 7.1%. We believe that real GDP growth could stay in the range of 5.7-6.2% in the remaining three quarters of FY25 (with 6.0-6.3% real GVA growth), implying full-year real GDP growth of 6.1% in FY25 (revised down from 6.5% earlier) vs. 8.2% in FY24. This would be much slower than the RBI's projection of 7.2% and the Bloomberg consensus of 6.8%. We expect real GDP growth to improve slightly to 6.3% in FY26 (vs. 6.4% forecasted in Jun'24).**
- **While we expect GDP growth to be slower, headline retail inflation is likely to average ~4.5% YoY in FY25, in line with the RBI's projections and market consensus. With inflation projected at 4.7% in 2HFY25 and real GDP growth at sub-6%, the noise for rate cuts will grow, especially after the US Federal Reserve cuts rates this week. Rate cuts in India, however, could materialize only in Feb'25, considering the concerns over weak deposit growth and the fact that 2QFY25 GDP growth would be published at end-Nov'24, very close to early-Dec'24 monetary policy. We expect inflation to rise toward 5.0% in FY26, since we believe that core inflation has bottomed out and will start rising from 2HFY25.**
- **Lastly, we have lowered our current account deficit (CAD) forecasts to 0.8%/0.6% of GDP (USD32.4b/USD26.0b) in FY25/FY26, compared to 1.2%/1.3% estimated earlier. This is because of a downgrade in GDP growth, an expected moderation in gold imports and continued strength in services in FY25/FY26. In the absence of any global shock, India's foreign exchange reserves will likely continue to rise to mitigate the appreciation bias in Indian Rupee (INR).**

Changes to our economic forecasts since Jun'24

Real growth: We downgrade our real GDP growth forecasts to 6.2%/5.7%/5.7% in 2Q/3Q/4QFY25, implying 6.1% growth in FY25 (cut from 6.5%) vs. 8.2% in FY24. We revise it only marginally to 6.3% (from 6.4% earlier) for FY26.

An expected real GDP growth of sub-6% with average inflation of 4.7% in 2HFY25 does not inspire confidence for a rate cut in Dec'24.

CPI inflation and interest rates: We keep our headline CPI-inflation forecast unchanged at 4.5% in FY25, but upgrade it to 5% in FY26. An expected real GDP growth of sub-6% with average inflation of 4.7% in 2HFY25 does not inspire confidence for a rate cut in Dec'24, and thus, more likely to materialize in Feb'25.

External sector and INR: With crude oil prices expected to remain ~USD75/barrel over the next 18 months, lower gold imports and continued strength in services trade, India's CAD could narrow to 0.8%/0.6% of GDP in FY25/FY26, lower than our earlier forecasts and similar to that in FY24. In the absence of any global shock, it implies an accretion of USD50b in foreign exchange reserves this year, with INR remaining stable at ~84/USD.

Forecasts of key macroeconomic variables for the Indian economy

Macro indicators	Unit	FY22	FY23	FY24	FY25 Forecasts		FY26 Forecasts	
					MOFSL Jun'24	MOFSL Sep'24	MOFSL Jun'24	MOFSL Sep'24
Nominal GDP_{MP}	YoY (%)	18.9	14.2	9.6	10.8	10.0	10.1	10.6
Real GDP_{MP}	YoY (%)	9.7	7.0	8.2	6.5	6.1	6.4	6.3
Real GVA_{FC}	YoY (%)	9.4	6.7	7.2	6.0	6.3	6.1	6.1
Consumer price index	YoY (%)	5.5	6.6	5.4	4.5	4.5	4.7	5.0
Repo rate (year-end)	p.a. (%)	4.00	6.50	6.50	6.25	6.25	5.75	5.50
USD:INR (average)	unit	74.5	80.4	82.8	84.0	84.0	85.0	84.9
Current a/c balance	% of GDP	(1.2)	(2.0)	(0.7)	(1.2)	(0.8)	(1.3)	(0.6)
GoI's fiscal deficit	% of GDP	6.7	6.4	5.6	5.0	4.9	4.5	4.5

Source: Central Statistics Office (CSO), Reserve Bank of India (RBI), MOFSL

Easy Trip Planners: YoloBus will scale to 2,000 EV buses in the next 4 years; Prashant Pitti, Co-Founder

- Management looking at diversifying business model by taking minority stake in select companies
- Looking at investing in companies and gradually listing them
- With YoloBus, we are doing well with 80 buses currently
- Rollins international revenue at Rs. 250 Crore with pat at Rs. 2 Crore
- YoloBus will scale to 2000 buses on EV side in next 4 years

Read More

Happiest Minds: FY25 margin guidance of 20-22% factors in wage hikes & lower working days in Q2; Joseph Ananthraju, MD & CFO

- Comfortable with FY25 revenue guidance shared earlier
- Q2FY25 will see drop in margin due to wage hikes
- FY25 margin guidance of 20-22% factors in wage hikes & lower number of working days in Q2
- Should see improvement in customer outlook with interest rate cuts
- Added 10 more discussions on Gen AI the last 1.5 months

Read More

Cholamandalam: Expect cost of funds to drop by 50% of quantum of rate cut; Arul Selvan, President & CFO

- Need to address overhang of inflation, better if RBI cuts rate a little later
- 50% of company's borrowings are from banks
- 58% of the books is fixed, won't have to pass on rate cuts
- Expect cost of funds to drop by 50% of quantum of rate cut (10-12 bps on a 25bps Cut)
- Seeing 10-15% growth in vehicle finance book

Read More

MAS Financial: FY25 business outlook | AUM growth trend to sustain?; Kamlesh Gandhi, CMD

- Eyeing Rs. 20000 Crore AUM in next three to four years
- Company is concentrating on diversifying its portfolio on asset side
- Out of the total Rs. 20000 Crore AUM around 50% will be from MSME
- In next two to three months expect growth in CV and two wheeler loans
- Going ahead personal loan will not be more than 10% of AUM
- Are cautious on personal loans

Read More

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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

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