Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	84,929	0.5	17.6
Nifty-50	25,939	0.6	19.4
Nifty-M 100	60,712	0.8	31.5
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,719	0.3	19.9
Nasdaq	17,974	0.1	19.7
FTSE 100	8,260	0.4	6.8
DAX	18,847	0.7	12.5
Hang Seng	6,389	0.1	10.8
Nikkei 225	37,724	0.0	12.7
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	76	0.0	-2.0
Gold ($/OZ)	2,623	0.0	27.1
Cu (US$/MT)	9,549	2.2	12.8
Almn (US$/MT)	2,495	1.3	6.4
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	83.6	0.0	0.4
USD/EUR	1.1	-0.4	0.7
USD/JPY	143.3	-0.4	1.6
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)	**23-Sep**	**MTD**	**CYTD**
FIIs	0.0	1.44	10.7
DIIs	0.12	5.88	38.1
Volumes (INRb)	**23-Sep**	**MTD***	**YTD***
Cash	1,210	1275	1299
F&O	2,81,089	3,95,445	3,80,259

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research thematic

Power Utilities: EmPOWERING INDIA!

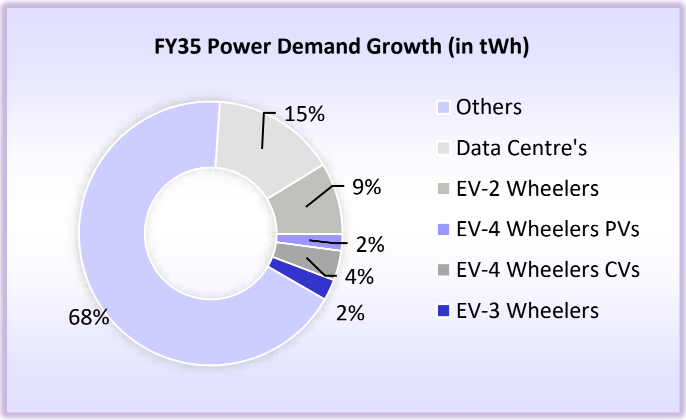
- Investment opportunity of INR40t and more: We estimate an investment opportunity of INR40t (INR34t in firm capex + INR8t in optionality) in the Indian power sector over the next decade, with generation, transmission and smart metering accounting for 86%/10%/4% of this spending.
- Power demand growth accelerating at 7% CAGR (vs. 5% earlier): With a robust GDP growth outlook for India and the emergence of new demand drivers (electric vehicles, data centers, electrification of energy demand), we believe power consumption in India can compound at 7%+ over the next decade (currently 8-9%).
- By 2035, EVs and data centers to drive one-third of power demand growth: By 2035, we estimate one-third of power demand growth might be attributable to these two sectors. We assume data center capacity in India to compound at 30% over the next decade and assume 60%/20%/20% penetration (in new vehicle sales) for two-wheelers (2Ws), PVs and CVs by the end of this 10-year period.
- RE generation/transmission preferred over thermal/exchange space: We like RE generation over thermal. Lukewarm participation by the private sector in thermal means the risk of execution slippages is higher. We also like the transmission segment, in which Power Grid's INR2t capex opportunity for the industry may expand.
- Initiate with BUY on Power Grid, JSW Energy, Tata Power; Neutral on NTPC, IEX: We initiate on Power Grid (TP: INR425), JSW Energy (TP: INR917) and Tata Power (TP: INR530) with a BUY rating and NTPC (TP: INR450) and IEX (TP: INR226) with a Neutral rating.

Research covered

Cos/Sector	Key Highlights
Power Utilities - Thematic	EmPOWERING INDIA!
ICICI Lombard	Market share accretion to continue across core segments
Bharat Forge	Defense to remain growth driver
Vodafone Idea	Initiation of the capex cycle

Chart of the Day: Power Utilities - Thematic (EmPOWERING INDIA!)

EVs, Data centers to power 1/3rd of electricity demand growth in 10 years



Data centers to account for ~15% of power consumption growth in a decade

Particulars	Unit	
India's CY34 data center power consumption	tWh	120.8
India's data center power consumption growth in CY35 (at 20% growth YoY)	tWh	24.2
India's CY34 power consumption (at 7% CAGR)	tWh	3,190.7
India's power consumption growth in CY35 (at 5% growth YoY)	tWh	159.5
India's CY34 total power consumption attributable to data centers	**%**	**3.8%**
India's CY35 power consumption growth attributable to data centers	**%**	**15.1%**

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

India's biggest oil, gas bid round gets 4 bidders; Reliance-bp-ONGC bid together

India's largest oil and gas bid round got four bidders, including ONGC, OIL, Vedanta Ltd, and Reliance-bp plc. Most blocks received two bids each.

2

Foxconn, Stellantis JV set up R&D for auto semiconductors tech in India

Foxconn-backed automotive technology company SiliconAuto has set up its research and development centre in Bengaluru which will focus on semiconductor product design and system-on-chip development for the automotive sector.

3

RPSG-owned Firstsource acquires UK customer experience management firm Ascensos for £42 mn

Firstsource acquired UK-based Ascensos, a customer experience outsourcing partner for retail and eCommerce businesses, for 42 million pounds, including upfront payment and earnouts.

4

PNB fixes floor price of Rs 109.16 per share for its share sale via QIP

State-owned Punjab National Bank (PNB) on Monday fixed a floor price of Rs 109.16 per share for its share sale through qualified institutional placement (QIP).

5

SC refuses to interfere in Linde India's valuation amid related-party transaction scrutiny

The Supreme Court on Monday refused to interfere with a valuation exercise being conducted on Linde India by a National Stock Exchange-appointed valuer in connection with a case relating to the industrial gases and engineering company's related-party transactions.

6

Mobikwik, Waaree Energies get green signal from SEBI to float IPOs

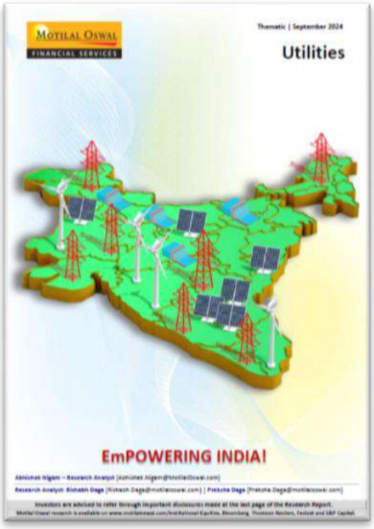
Mobikwik, and Waaree Energies have received approval from the capital markets regulator SEBI to raise funds via initial public offering.

7

G R Infraprojects wins project of Maharashtra Metro Rail Corporation, Nagpur

G R Infraprojects has emerged as Lowest bidder in Financial Bid Opening dated 23 September 2024 for the following tender invited by Maharashtra Metro Rail Corporation, Nagpur (Maha Metro).

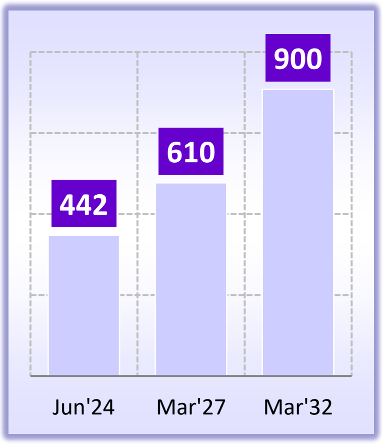
Power Utilities



Valuation metrics

Company	Mcap (INRb)	TP (INR)	Upside (%)
NTPC	4,111	450	10.0
Power Grid Corp	3,172	425	24.0
Tata Power Co	1,417	530	19.0
JSW Energy Ltd	1,283	917	16.0
IEX	207	226	-5.0

India total installed capacity (GW)



Source: CEA, MOFSL

EMPOWERING INDIA!

A colossal multi-decade investment opportunity beckons

- **Investment opportunity of INR40t and more:** We estimate an investment opportunity of INR40t (INR34t in firm capex + INR8t in optionality) in the Indian power sector over the next decade, with generation, transmission and smart metering accounting for 86%/10%/4% of this spending. The triple tailwinds driving this mammoth investment are: 1) power demand accelerating at a higher 7% CAGR (5% previously), 2) the need to upgrade/replace old power infrastructure as electricity mix undergoes a shift (more RE all-day), 3) the transition to cleaner sources of energy given India's target of 500GW in RE capacity by 2030.
- **Power demand growth accelerating at 7% CAGR (vs. 5% earlier):** Across a range of metrics, India's consumption trends today mirror China's in the 2000-03 period. In the following two decades, China's power consumption compounded at ~8% (real GDP growth ~8.7% CAGR). With a robust GDP growth outlook for India and the emergence of new demand drivers (electric vehicles, data centers, electrification of energy demand), we believe power consumption in India can compound at 7%+ over the next decade (currently 8-9%).
- **By 2035, EVs and data centers to drive one-third of power demand growth:** Electric vehicles (EVs) and data centers account for a negligible share of power demand in India today. Yet, by 2035, we estimate one-third of power demand growth might be attributable to these two sectors. We assume data center capacity in India to compound at 30% over the next decade and assume 60%/20%/20% penetration (in new vehicle sales) for two-wheelers (2Ws), PVs and CVs by the end of this 10-year period.
- **RE generation/transmission preferred over thermal/exchange space:** We like RE generation (short gestation, long-term visibility of earnings) over thermal (80GW opportunity + assured return but longer gestation & coal price volatility). Lukewarm participation by the private sector in thermal means the risk of execution slippages is higher. We also like the transmission segment, in which Power Grid's INR2t capex opportunity for the industry may expand. While energy exchanges should benefit from the expansion of generation and transmission infra and the launch of new products, the regulatory risk related to market coupling remains tough to predict.
- **Initiate with BUY on Power Grid, JSW Energy, Tata Power; Neutral on NTPC, IEX:** Given this colossal multi-decade investment opportunity, we initiate on Power Grid (TP: INR425), JSW Energy (TP: INR917) and Tata Power (TP: INR530) with a BUY rating and NTPC (TP: INR450) and IEX (TP: INR226) with a Neutral rating.
- Key risks: 1) delays in start-up of new projects; transmission connectivity in some states (e.g. Rajasthan) already clouding RE pipeline outlook, 2) lower-than-expected profitability in RE projects, 3) rising competitive intensity in transmission (TBCB)/plain vanilla solar/wind generation projects, 4) price volatility in key commodities and components, 5) insufficient domestic solar module capacity, 6) risk of market coupling for dominant power exchanges.

India's power consumption set to transition to a higher orbit

- India's current primary energy and electricity consumption trends closely mirror those of China in the early 2000s. India's primary energy consumption in CY23 was 48 EJ (vs. China's 49 EJ in 2000), while per capita electricity consumption in 2023 stood at 1.4 MWh (vs. China's 1.3 MWh in 2002).

- In the 2000-20 period, China's power demand increased at a 9.4% CAGR as real GDP growth and per capita income compounded at 8.7%/8.1%. Historically, power demand in China/India has grown by 1.1x/0.9x higher than their real GDP growth. In the last three years, though, the multiplier for India averaged 1.2x.
- As such, like China, we believe power consumption in India is at an inflection point given the expectation for India to grow by 6.5-7% over the next decade, and can comfortably compound at 7-7.5% over the next 10 years (vs. 5% CAGR in the past two decades).

Electrification of energy key demand driver globally

- Globally, ***electrification of energy*** has been a key driver of power demand. The International Energy Agency (IEA) expects electrification globally to rise from 18% in 2015 to 20% in 2023. Further, to meet the net zero emission status in 2050, the share of electricity in final energy consumption needs to rise to 30% by 2030.
- Electrification is already a well-entrenched trend for residential and office buildings and is fast catching up in sectors such as transport. By 2030, EVs could account for ~2-3% of global electricity demand and a ***significant 10% of global power demand growth***.
- In India, electrification is most evident in the 2W space, which would see EVs account for 50% of total sales by FY28, as per Ola Electric. Rising per capita income in India is driving higher household ownership of electrical appliances, e.g., air conditioners; another example of electrification of space cooling/heating (room AC sales in India saw 6% CAGR in FY15-24).
- **In a decade, we estimate EVs may account for ~15% of India power demand growth with 2Ws/PVs/CVs accounting for 9%/2%/4% of demand growth.**

5G, Artificial Intelligence emerging as demand drivers for power

- The most advanced technologies globally run on electricity. As such, every time consumers around the world undergo a technological upgrade, power demand witnesses a leg up. For example, a simple Google search needs 0.3Wh of power, while a Chat GPT query consumes 10x the amount of power of a Google search.
- Upgrade to 5G networks, rising use-cases for artificial intelligence (AI) and the Internet of Things (IoT) are thus future drivers for power demand and the proliferation of data centers across the world. ***In the US, data centers already account for ~30% of total power demand growth***. Based on data from IEA, we estimate data centers, crypto-currency and AI together can account for 10-15% of global demand growth in the coming years.
- While India has a small data center footprint for now (capacity: ~1GW), data center capacity is expected to compound in high double digits in the coming years. **By 2035, we estimate data centers to account for 15% of Indian power demand growth.**

Robust GDP growth, electrification, technology trends converging in India

- In developed countries and even in China, the ownership of household appliances, and hence electrification of energy demand, is already relatively high. Much of the developing/under-developed world lags in technological upgrades (such as 5G/AI), which are now common in America/Europe.

- ***India, instead, is a unique case where burgeoning real GDP/per capita growth, technology upgrades and electrification are all strong under-currents and could continue to drive power demand higher for years to come***. India's real GDP has grown at 5.9% CAGR in the last 10 years and is expected to grow at 6.5-7% in the coming decade. Further, the electrification of transport will likely be a demand driver for many years to come (metro rail network to expand to ~2,000km by in the next few years, boosting EV penetration). While India's data center capacity currently is below 900 MW, it could rise to 11GW in 10 years (assuming 30% CAGR).

INR40t opportunity in India's power sector

- The convergence of a robust economic growth outlook, electrification of energy demand and technology as a demand driver should create an investment opportunity worth INR40t in the power sector. Note that our estimate is 33% higher than the INR30t estimate cited by Union Minister for New and Renewable Energy recently (link). We estimate generation/transmission/smart metering to account for 86%/10%/4% of this colossal opportunity. This estimate includes RE power capacity required for green hydrogen production and the need to upgrade existing transmission infrastructure.
- This massive investment opportunity is premised on India's vision to increase its installed power capacity to 900GW in FY32 from 442GW in FY24, with solar and wind together accounting for ~53% of total installed capacity, even as thermal's share is expected to fall to 29%.

Proactive regulatory support has been a solid tailwind

- The strong turnaround in the financial health and outlook of the power sector would not have been possible without pro-active policymaking. The central government has undertaken a slew of steps in the last few years to turn around the operational and financial health of the sector. The implementation of the late payment surcharge (LPS) in 2022 has helped reduce total outstanding dues of states from INR1,397b as of Jun'22 to INR500b as of Jan'24 (link). One of the key priorities of the Power Ministry has been the reduction of India's AT&C losses, which decreased from 22% in FY21 to 15% in FY23 (link). The government has provided funding support in areas such as distribution infrastructure and battery storage while continuing to encourage investment in new areas such as offshore wind and nuclear energy.

Rising competition, earnings slippages are key risks

- We believe that expectations of strong earnings growth, coupled with high valuations, create the potential for minor earnings slippages to escalate to substantial de-rating. We estimate a 13% earnings CAGR for our coverage companies during FY24-27.
- **Key risks: 1) delays in the start-up of new projects; transmission connectivity issues in states such as Rajasthan has already started to have some impact, 2) lower-than-expected profitability in RE projects, 3) rising competitive intensity especially in transmission (TBCB)/plain vanilla solar/wind generation projects, 4) price volatility for key commodities and components, 5) insufficient**

domestic solar module capacity, 6) risk of market coupling for dominant power exchanges such as IEX.

Prefer RE generation/transmission given robust returns/cash flow visibility

- Within the power sector, we prefer segments with a short gestation period, high visibility of long-term earnings and cash flows, and low risk of an earnings miss over FY24-27. As such, we like the RE generation segment, especially solar/wind over thermal/hydro.
- We also like the strong capex outlook for transmission, although we note that the competitive intensity in the segment has increased significantly and TBCB (tariff-based competitive bidding) bids now yield an IRR of 11-12% (vs. 15% in regulated tariff mechanism-based projects, but this is less frequent). Thermal and pumped storage projects are attractive opportunities (IRR: 15-20%) but have long gestation periods (6-8 years) and are more prone to risk relating to regulatory approvals and land acquisition.
- We are constructive on energy exchanges given the strong installed capacity growth outlook, rising power demand, and launch of new products, which are driving improvements in penetration. However, the lack of clarity in government policy with respect to market coupling remains a risk for individual companies. Hence, we have a Neutral rating on IEX.

PWGR, JSWE, TPWR are top picks; Neutral on NTPC, IEX

- **We initiate coverage on the Indian power sector with a BUY rating on Power Grid (PWGR), JSW Energy (JSWE), and Tata Power (TPWR) and Neutral rating on National Thermal Power Corporation of India (NTPC), and India Energy Exchange (IEX).**
- **PWGR – The bellwether transmission play with ~3.5% FY27E dividend yield:** We like PWGR as a bellwether play on the INR2t transmission opportunity with limited competition in the more complex HVDC space, where it already has an established track record. Even at 17x FY27PE and 9x EV/EBITDA, the implied dividend yield is ~3.5%, which we believe is attractive.
- **JSWE – Prudence, execution, growth:** JSWE's capacity is set to grow 2.4x over the next 2.5 years and we see a strong likelihood of the company achieving the guided 20GW in installed capacity before 2030. JSWE's strong execution, ability to turnaround tough assets (Mytrah/Ind-Barath), robust balance sheet and prudent capital allocation for growth are key differentiators vs. peers.
- **TPWR – Diversified operations, scalability key growth drivers:** TPWR is undergoing a multi-year business transformation, with 45% of capex over FY23-27 to be allocated to RE projects. This is instrumental in increasing the share of core earnings from 40% to 90% over FY23-27. At 13x EV/EBITDA (LT avg: 10x), we believe there is scope for further re-rating given lower earnings volatility (vs. history) and strong 14% PAT CAGR in FY24-27.
- **NTPC – NGEL IPO may offer limited upside; holdco. discount hard to predict:** NTPC's re-rating in the last two years is attributable to a large extent to its burgeoning RE business, which is on a path to IPO in 1HCY25. We value the RE business at INR880b and believe the upside could be largely priced in. Further, we believe the holding company discount after listing is hard to predict and investors may prefer investing in NGEL over NTPC for RE exposure. Lastly,

although we are cautiously optimistic on thermal, NTPC, excluding NGEL, is trading at FY27E PB of 1.6x, which we view as reasonable (and not inexpensive). NTPC's FY27E dividend yield at 2.6% compares poorly with PWGR's ~3.5%.

- **IEX – Solid outlook but market coupling a risk:** IEX is a natural beneficiary of rising power consumption, growth in power infrastructure, launch of new products such as long-dated contracts, and rising FDRE projects. We estimate a CAGR of 17%/15% in IEX's volumes/PAT during FY24-27 amid falling power prices, favorable base effect and strong market share. We believe the launch of long-dated contracts could add 4% to volumes in the initial year. However, the potential implementation of market coupling is a key regulatory overhang that could dampen IEX's growth prospects given its dominant market share.

Domestic peer comparison

Company Name	MCap (INRb)	Rating	TP (INR)	Upside/ (Downside)	ROE (%)		EV/EBITDA (x)		PE (x)		PB (x)		Dividend Yield (x)	
					FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
NTPC	4,111	Neutral	450	10%	13.6	14.2	11.4	10.5	18.1	16.0	2.4	2.2	2.4	2.6
Power Grid Corp	3,172	Buy	425	24%	19.1	19.1	10.2	9.6	18.6	17.8	3.5	3.3	3.4	3.5
Tata Power Co	1,417	Buy	530	19%	14.7	15.8	14.4	13.1	28.3	23.8	4.0	3.6	0.6	0.7
JSW Energy	1,283	Buy	917	16%	13.3	13.8	19.7	17.5	43.7	37.6	5.5	4.9	0.3	0.4
IEX	207	Neutral	226	-5%	35.3	35.3	46.7	38.7	56.2	47.1	18.2	15.3	0.9	1.1

Source: Bloomberg, MOFSL

ICICI Lombard

BSE Sensex	S&P CNX
84,929	25,939

Bloomberg	ICICIGI IN
Equity Shares (m)	493
M.Cap.(INRb)/(USDb)	1125.2 / 13.5
52-Week Range (INR)	2302 / 1266
1, 6, 12 Rel. Per (%)	4/19/37
12M Avg Val (INR M)	1438

Financials & Valuations (INR b)

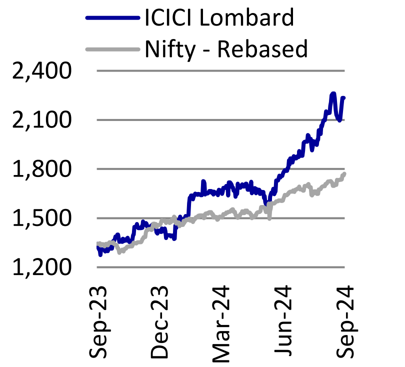
Y/E March	2025E	2026E	2027E
NEP	204.4	242.1	280.3
U/W Profit	-9.3	-8.5	-6.9
PBT	33.2	39.7	50.8
PAT	24.9	29.7	38.1
EPS (INR/share)	50.6	60.4	77.4
EPS Growth (%)	29.8	19.4	28.2
BVPS (INR/share)	277.1	321.2	382.3
Ratios (%)			
Claims	71.1	70.6	70.0
Commission	17.1	16.9	16.7
Expense	13.9	13.6	13.4
Combined	102.1	101.1	100.1
RoE	19.4	20.2	22.0
Valuations			
P/E (x)	44.9	37.6	29.4
P/BV (x)	8.2	7.1	5.9

Shareholding Pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	51.8	51.3	48.0
DII	17.3	16.1	18.3
FII	23.9	23.1	22.0
Others	7.0	9.6	11.7

FII includes depository receipts

Stock's performance (one-year)



CMP: INR2,275 TP:INR2,650 (+16%) BUY

Market share accretion to continue across core segments

- **ICICI Lombard (ICICIGI) has experienced improved market share across segments on a YTD basis, most notably in the Motor OD, Motor TP, and Health segments by 179/83/85bp.**
- **While motor sales have been slow in the recent past, the momentum is expected to be strong in the festive season. Further, as highlighted in our earlier note, value growth will continue to be strong. With the segment profitability improving for the industry, ICICIGI is foraying into some profitable segments, such as ambulances and school buses.**
- **In the health segment, investments in agency channel and product innovation will continue to drive market share gains. Its recent product launch 'Elevate' has found decent success and the company plans to launch more innovative products in the near term.**
- **The fire segment continues to reel under pressure of pricing and ICICIGI is taking a calibrated approach here. For the crop business, while the dynamics have turned favorable following the government's 80-110 scheme, the risk in the business remains high and, hence, ICICIGI will constrain the share to 3.0-5.0% of the overall premium.**
- **The company has guided for FY25 exit combined ratio of 101.5%. We build in 102.1% for FY25 with further improvement to 101.1% and 100.4% in FY26 and FY27, respectively.**
- **We forecast NEP/PAT CAGR of 18%/20% for FY24-FY27 and RoE to reach 20.6% under GAAP. IFRS implementation is expected to be earnings and RoE accretive. The stock trades at 29x FY27E. We assign 38x to Sep'26E earnings to arrive at a fair value of INR2,650. We have ascribed a 10% premium for upside to earnings from IFRS implementation.**

Retail segment to be the driver for the health segment

- ICICIGI's market share in the retail health segment has been stable in the 2.9-3.1% range during FY22-FY24. This performance is despite the investments made to build the agency channel. We believe that productivity would improve going forward, given the product innovation and technological capabilities built around claims processing.
- The company recently launched a new product 'Elevate' that has experienced healthy demand from distributors as well as customers. This, coupled with improved efficiency in the agency channel, led to an improvement in the market share to 3.4% in Jul'24.
- The health segment's growth has started to outperform the industry growth, aided by an increase in the number of lives (ICICIGI ranks 2nd in India), price change, market share accretion, and an increase in the sum assured. Overall, consumer stickiness is better in the health segment than in other segments; hence, ICICIGI's focus is skewed toward enhancing customer satisfaction.
- The company is diversifying its customer base by introducing innovative products catering to all age groups (18 and above), as focusing on a younger base could hamper the persistency.

- ICICIGI aims to grow at a faster pace than SAHIs (~25%+ growth trajectory) while maintaining profitability on the back of prudent underwriting.
- The loss ratio was elevated in 1QFY25 on account of a spike in severe cases, which led to an increase in claims at industry levels. The company targets ~70% claim ratio in the retail business and ~94-95% in the group business.
- We build in 25% GWP growth in the health segment over FY24-FY27 and expect the overall loss ratio to improve from 80% in FY24 to 77% in FY27. This, along with scale benefits, will lead to an improvement in the combined ratio for the segment from 107% to 103% during the same period.

Festive demand to uptick volumes in the motor segment

- OEM sales, excluding 2Ws, experienced a slowdown earlier in the year; however, with the upcoming festive season and the positive impact of a favorable monsoon, ICICIGI anticipates an increase in volumes in the second half.
- The company's strong association with OEMs and dealers will position it well to garner incremental market share.
- The company has introduced long-term product offerings for private cars and two-wheelers, driven by flexibility offered under regulations issued under the GI Master Circular. This will help further improve investment leverage and loss ratio.
- Profitability for the motor segment has seen some improvement over the past few quarters, driven by a steady pricing environment along with structural changes such as better quality of roads, better quality of vehicles, and improved adherence to traffic rules.
- ICICIGI's motor segment reported a robust growth of 26.3%, significantly outperforming the industry's 12% growth in 1QFY25. This was supported by a 33% increase in the renewal business while new business, affected by the slowdown in OEM sales, grew at a slower rate of approximately 16-17%.
- ICICIGI maintains its guidance for a claim ratio of 60-65% in the motor Own Damage (OD) segment and 65-70% in the motor Third-Party (TP) segment.
- Strengthened underwriting practices have contributed to an accretive Return on Equity (ROE). For the motor TP segment, ICICIGI has provided guidance of 25%+ ROE, while the motor OD segment is expected to have a slightly lower ROE due to higher claims.
- The motor OD segment is currently experiencing significant discounts due to a high level of competitive intensity. With no major price change in the motor TP segment by the regulator over the last four years and increasing severity of court compensations, industry profitability can be challenging. Hence, the probability of a price hike in FY26 is relatively high.
- We build in 10% GWP growth in the overall motor segment over FY24-FY27 and expect the overall loss ratio to remain in the range of 65-67%. The combined ratio for the segment would be in the 106% levels over the same period.

Commercial segment: Boosting profitability

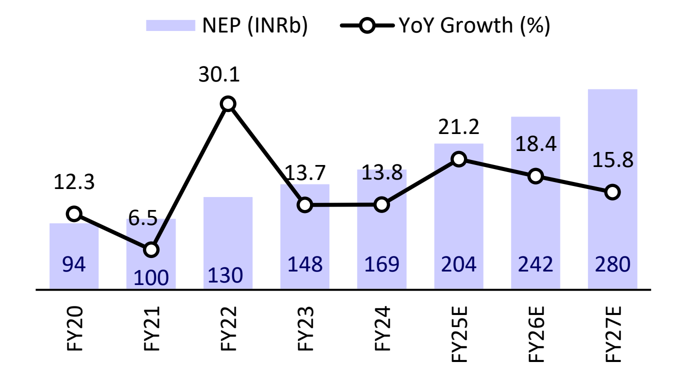
- The fire insurance segment continues to experience pricing pressure, resulting in limited growth. ICICIGI will adopt a similar strategy in the fire insurance segment as motor insurance, targeting profitable opportunities and focusing on profit pools.
- Liability insurance currently accounts for less than 5% of the total industry premiums, primarily due to limited awareness and prolonged claim settlement processes. ICICIGI identifies significant growth potential in this segment, which remains underpenetrated when compared to its global counterparts.
- Crop insurance, though contributing less than 5% of the total premium, has demonstrated improved profitability. The share of the crop business in the overall mix would be maintained at the current level.

Focus intact on chasing profitable growth; we reiterate BUY

- Continued investments in retail health and growth momentum in old as well as new vehicle insurance have led to an improvement in ICICIGI's market share. In the health segment, with growing traction of the newly launched retail solution 'Elevate', ICICIGI is confident of gaining market share at a faster pace in the medium term.
- We expect ICICIGI to report a NEP/PAT CAGR of 18%/20% during FY24-FY27. We expect the company to deliver an RoE of 20.2%/20.6% in FY26E/FY27.
- IFRS implementation will be earnings and RoE accretive owing to the amortization of acquisition costs that are booked upfront under IGAAP. We have not built in the upsides in our estimates for IFRS implementation.
- However, we assign a relatively higher multiple of 38x on Sep'26E earnings (10% premium) to arrive at a fair value of INR2,650. This is also supported by our discounted investment income approach, assuming no underwriting profitability perennially that yields a fair valuation of INR2,600.
- We reiterate our BUY rating and raise our target price of INR2,650 (premised on 38x Sept'26E).

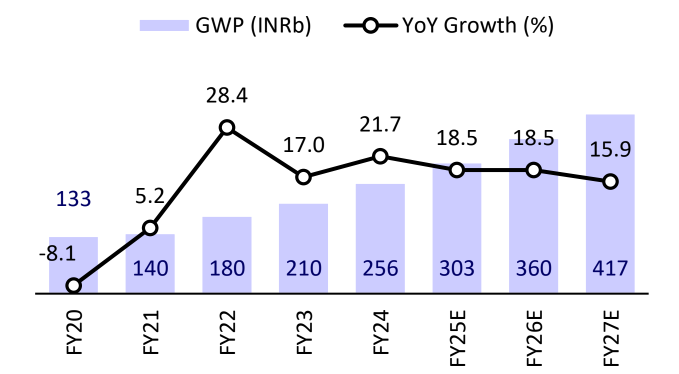
Key exhibits

NEP growth likely to be strong



Source: MOFSL, Company

GWP trends upwards



Source: MOFSL, Company

23 September 2024
Update | Sector: Automobiles

Bharat Forge

BSE SENSEX	S&P CNX
84,929	25,939

CMP: INR1,582 **TP: INR1,470(-7%)** **Neutral**

Defense to remain growth driver

Near-term demand weak for other segments

We met BHFC's management team recently to understand the company's growth outlook in the coming years. Key growth drivers for BHFC would be: 1) the robust order backlog of INR54b in defense exports to be executable over the next three years, along with the prospects of the beginning of domestic defense orders soon; 2) with new order wins and multiple initiatives, JS Autocast (JSA) is likely to emerge as one of the fastest growing businesses of BHFC; 3) the aerospace segment is set to clock strong growth in the coming years; 4) PV exports are likely to moderate in FY25E, but they should pick up from FY26 onward given a healthy order backlog. However, CVs (both domestic and exports) and domestic PVs are likely to see weak growth. Given the weakness in Europe, the turnaround in overseas subsidiaries may happen with a lag of a couple of quarters. We estimate a CAGR of 13%/26%/54% in consolidated revenue/EBITDA/PAT over FY24-26. However, at 45.5x/34x FY25E/FY26E PER, we believe the current valuation fully prices in the positive factors. We remain Neutral with a revised TP of INR1,470 (based on 30x Sep'26E consolidated EPS).

Standalone entity updates

We believe that the defense segment will continue to be the key growth driver for the standalone business in FY25E as other segments are facing relatively weak demand in the near term.

Defense – likely to be the key growth driver for standalone entity

- BHFC has an order backlog of INR54b in defense exports to be executable over the next three years. These orders are spread across artillery guns, vehicles and consumables.
- Globally, there is huge requirement for replacement of guns. Even shells are in short supply, and BHFC is seeing a healthy order intake over the past few quarters.
- As per management, India needs almost 4k guns of various types, including towed, mounted, self-propelled, etc. BHFC can produce these guns as it has developed capability to produce nine different gun platforms over the years. BHFC is now building the capability to manufacture over 250 guns and 1,000 vehicles per annum.
- The domestic guns order of INR45b (divided between BHFC and Tata Advanced Systems) is likely to start anytime soon.
- Given the significant growth opportunities in domestic and exports, its defense business is likely to be the key growth driver for BHFC, at least for the next couple of years, if not more.

CV domestic business update:

- Domestic CV industry continues to see weak demand so far YTD, with the top three CV peers posting a 2% YoY decline for YTD.
- However, the management expects MHCV demand to pick up from 3Q onward and drive an improved 2H for the business.
- Overall, for FY25E, the CV segment is likely to post flat or marginal growth for BHFC.

Stock Info

Bloomberg	BHFC IN
Equity Shares (m)	466
M.Cap.(INRb)/(USDb)	736.7 / 8.8
52-Week Range (INR)	1826 / 1002
1, 6, 12 Rel. Per (%)	-7/23/13
12M Avg Val (INR M)	1810
Free float (%)	54.8

Financials Snapshot (INR b)

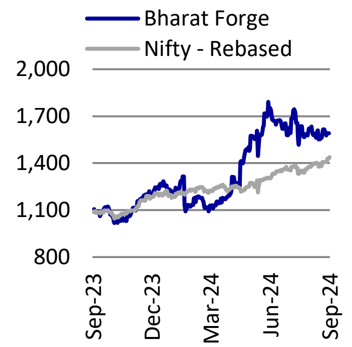
Y/E Mar	2024	2025E	2026E
Sales	156.8	176.9	199.3
EBITDA (%)	16.3	18.5	20.3
Adj. PAT	9.2	16.2	21.8
EPS (INR)	19.7	34.8	46.8
EPS Gr. (%)	61.8	76.4	34.5
BV/Sh. (INR)	154	175	209
Ratios			
Net D:E	0.5	0.6	0.3
RoE (%)	13.2	21.2	24.4
RoCE (%)	8.7	12.4	15.1
Payout (%)	46.3	35.6	27.9
Valuations			
P/E (x)	80.2	45.5	33.8
P/BV (x)	10.3	9.0	7.6
EV/EBITDA (x)	30.4	23.9	19.1
Div. Yield (%)	0.6	0.7	0.8
FCF Yield (%)	0.3	0.6	2.6

Shareholding Pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	45.3	45.3	45.3
DII	28.1	28.3	28.8
FII	17.0	16.5	15.8
Others	9.6	10.0	10.2

FII includes depository receipts

Stock Performance (1-year)



CV export business update:

- The US Class8 fleet market is likely to remain muted in CY24 and CY25.
- The outlook for the European CV market remains subdued given the ongoing slowdown in Europe.
- As a result, the management expects flat or marginal growth from this segment over the next couple of years.
- Given the change in emission norms expected in CY27, this market is likely to see pre-buying in CY26.

PV domestic business update:

- The domestic PV industry continues to see relatively weak demand amid rising inventory levels.
- Overall, BHFC's PV segment is likely to grow largely in line with the industry.

PV export business update:

- After posting a solid 41% CAGR in the last three years, this segment is likely to see growth moderation in FY25E as witnessed in 1Q results (1% YoY decline).
- The current slowdown is also due to a weak demand environment in Europe and Brazil.
- This segment is likely to regain its lost momentum from FY26 onward as its new orders go into production.

Non-auto exports:

Oil and gas:

- This segment's revenue declined to as low as USD70mn in FY24; however, it is picking up and is likely to see healthy growth in FY25.
- However, BHFC continues to supply to a single customer here.
- The macro situation has not improved yet to support strong sustainable growth in the long run.

Aerospace segment:

- Leveraging its metallurgical expertise, BHFC has gained considerable proficiency in metal forming technology for building super-alloys, which will facilitate the development of complex engine parts and air-frame components in the future.
- BHFC's aerospace business is on the cusp of achieving a significant breakthrough. Its continued efforts in this segment are set to yield substantial growth.
- This segment posted INR2.4b in revenues in FY24. The management expects this business to grow 15-20% in FY25 and in strong double digits in FY26.

Subsidary update:

JS Autocast (JSA):

- JSA would continue to be a strong growth driver, as per the management.
- Beyond its anchor customers, JSA is now diversifying its customer base. Given a healthy order backlog, the management expects JSA to post healthy double-digit growth over the next 2-3 years.
- JSA achieved INR5.4b in revenues in FY24. The management expects JSA to reach INR10b in the next few years.
- Further, several initiatives focused on value addition, operational efficiency, capacity expansion and new product development are underway at JSA. BHFC also plans to scale up its machining capabilities significantly in response to strong demand for fully machined castings. These initiatives are expected to improve operational performance of JSA in the coming years.

Overseas subsidiaries performance

- In Europe, the management has initiated repricing steps with customers, which should conclude by FY25 end.
- Utilization was 70% in Europe and 50% in the US in 1Q.
- In the US, a slowdown in offtake from one of the OEMs has hurt its performance in 1Q. BHFC would continue to work on productivity improvement in this business. It expects a fairly strong improvement to be visible in the US subsidiary from 4Q onward.
- However, the ongoing slowdown is likely to impact the performance of overseas subsidiaries for a couple of quarters.
- Demand for steel forgings in overseas subs remains weak. The management is considering several restructuring initiatives (footprint optimization and manpower rationalization) to get costs under control in this segment in the next 12 months.

Other key highlights:

- Some of the plants in Mundwa are very old; hence, productivity is very low. BHFC wants to improve productivity of these plants through manpower rationalization and automation.
- Consolidated capex stands at INR10b over FY25-26E.
- BHFC has taken an impairment of its investments in Tork in 1Q. It invested about INR1.5b in this company. Tork management continues to work on alternate funding options. Further, in the power electronics business, BHFC currently supplies to a few CV OEMs.
- The management has recently taken an enabling resolution to raise funds of up to INR20b. The management has clarified that the proceeds would be used for funding organic (greenfield) and inorganic opportunities in India and globally.

Valuation and view

- We estimate a CAGR of 13%/26%/54% in consolidated revenue/EBITDA/PAT over FY24-26. However, at 45.5x/34x FY25E/FY26E PER, we believe the current valuation fully prices in the positive factors. We remain Neutral with a revised TP of INR1,540 (based on 30x Sep’26E consolidated EPS).

23 September 2024

Company Update | Telecom

Vodafone Idea

BSE SENSEX	S&P CNX
84,929	25,939

Bloomberg	IDEA IN
Equity Shares (m)	67879
M.Cap.(INRb)/(USDb)	736.2 / 8.8
52-Week Range (INR)	19 / 10
1,6,12 Rel. Per (%)	-36/-36/-36
12M Avg Val (INR M)	10378

Financials &Valuations (INR b)

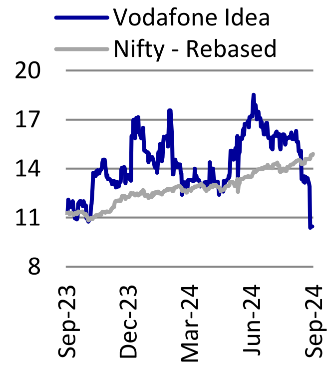
INR b	FY24	FY25E	FY26E
Net Sales	427	453	525
EBITDA	171	187	227
Adj. PAT	-320	-290	-280
EBITDA Margin (%)	40.2	41.4	43.3
Adj. EPS (INR)	-11.1	-10.1	-9.7
EPS Gr. (%)	9.3	-9.3	-3.7
BV/Sh. (INR)	-32.4	-34.9	-43.6
Ratios			
Net D:E	-2.4	-2.3	-2.0
RoE (%)	NM	NM	NM
RoCE (%)	-3.6	-2.4	-1.0
Payout (%)	0.0	0.0	0.0
Valuations			
EV/EBITDA (x)	17.8	16.7	14.9
P/E (x)	-1.0	-1.1	-1.1
P/B (x)	-0.3	-0.3	-0.2

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	38.2	48.9	50.4
DII	31.3	34.4	33.9
FII	12.7	2.0	2.3
Others	17.9	14.7	13.4

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR11 TP: INR12 (+11%) Neutral

Initiation of the capex cycle

Vodafone Idea (VIL) conducted a call to discuss the key developments. It expects: a) the subscriber churn to reduce from 4Q onwards, since the capex rollout is expected to commence from 3Q, b) debt fundraising of INR350b to conclude in 7-8 weeks, and c) another tariff hike of ~20% next year.

Expect another tariff hike

- The management expects another tariff hike of ~20% (similar quantum of rate hike in Jul'24) between 2QFY26 and 3QFY26.
- It also expects equity conversion to commence once the moratorium ends (i.e. FY26/27).

Progress toward the capex plan – subscriber metrics could improve from 4QFY25

- The company has finalized a deal valued at INR300b with Nokia, Ericsson, and Samsung to supply network equipment. The delivery of the radio equipment is expected to begin in the second half of the upcoming quarter (Nov/Dec'24), followed by the deployment.
- Its radio equipment capex is critical and a substantial part of the capex rollout, which includes expanding 4G coverage and launching 5G.
- This is part of a three-year capex plan worth INR500-550b, where the remaining INR200-250b will be allocated to core and fiber. The company will deploy core and fiber coverage capacity on a need basis.
- Hence, we expect the long pending capex rollout to commence from 3QFY25 onwards and the subscriber metrics to improve from 4QFY25 onwards.
- In order to increase 4G coverage, the company plans to add 215-220k sites, up from the existing total of 170k sites.

Update on the debt fundraising – should conclude in 7-8 weeks

- The company has updated that it is in the advanced stages of discussions to secure loans worth INR350b (INR250b loan + INR100b LC facility).
- The LC facility of INR100b will be used to cover vendor credit for a year.
- SBI Bank has received an evaluation report, allowing banks to proceed with internal processes. Funding is expected to conclude in 7-8 weeks.

Supreme court dismissed the curative petition – VIL engaging with senior government officials

- While the dismissal of the curative petition was the final outcome of the court, the company is engaging with senior government officials to consider remedies.
- The company is in the process of putting together a comprehensive view of the calculation error and will engage with the government again in the coming days regarding those requests.

- The management stated that the long-term business plan was developed without considering any potential benefits in the area of the matter.

Valuation and view

- VIL has experienced a continued rise in ARPU, led by the shift to 4G, higher data monetization, and an increase in minimum recharge vouchers. However, it has experienced an elevated subscriber churn during this period.
- Limited network investments have hindered the customer experience, resulting in subscriber churn. Over the next three years, the company expects to invest INR500-550b in expanding 4G coverage, launching 5G, and increasing capacity, all of which hold significant importance.
- However, it still holds a debt of INR2t with an annual installment of INR430b from FY26 onwards. This looks challenging against the 1QFY25 annualized EBITDA (IND-AS 116) of INR80b.
- The significant amount of cash required to service debt leaves limited upside opportunities for equity holders, despite the high operating leverage opportunity from any source of ARPU improvement. We expect the conversion into equity of unpaid installments post-moratorium to start by FY26/27.
- We are factoring in a revenue/EBITDA CAGR of 11/31% over FY24-26E. Assuming 14x EV/EBITDA, coupled with net debt, we derive our TP of INR12. Restriction in the subscriber churn rate could remain a key catalyst for the stock. **We reiterate our Neutral rating on the stock**.

Valuation of FY26

FY26-based SOTP	Methodology	Driver	Multiple	Fair Value (INRb)	Value/sh (INR)
Consol EBITDA	EV/EBITDA	227	14	3,183	47
Less Net debt				2,364	35
Total Value				**819**	**12**
Shares o/s (b)				67.9	
CMP (INR)					11
Upside (%)					**9**

Source: MOFSL

VIL payment timeline

We have worked out a tentative timeline outlining the VIL repayment conditions following the moratorium.

The assumptions are as follows:

- We have taken 1%/8% YoY subscriber/ARPU growth from FY27 onwards; this could be due to a) 2G to 4G shift, b) increase in data utilization, c) reduction in the subscriber churn owing to capex, and d) probable tariff hikes.
- We have taken 65% incremental EBITDA margin for EBITDA calculation.
- We have assumed INR100b capex p.a.
- Equity conversion by the government at INR20/share.

INFOEDGE: Naukri Clocked Double-Digit Growth In Q1, Expect This Trend To Continue; Chintan Thakkar, CFO

- Interest rate cuts in the US will not directly impact the company.
- Naukri business is growing steadily, with 50% dependency on the IT sector.
- Optimism in job market growth; Naukri saw double-digit growth in Q1 and expects this trend to continue.
- Focus on efficient growth for 99acres; cash burn has declined, with breakeven expected this year.
- Jeevansathi Matrimony witnessed 35% growth in Q1, with breakeven also expected this year.
- The company holds ₹4,500 Cr in cash and remains a long-term investor in Zomato and PolicyBazaar.

Read More

Mankind Pharma: Looking To Fund BSV Acquisition Via ₹7,000 Cr Debt: Mankind Pharma; Rajeev Juneja, VC & MD

- Interested In Entities Where Cos Can Add Value To Mankind's Growth
- Nervous & Excited About The Projected Targets For Bharat Serums & Vaccines
- Had Been Interested In BSV For A Long Time, Hope To Meet Expectations
- Have Been Averse To Debt & Focussed On Cash Generation
- Hope To Divest The 2 Hotels By End Of FY25
- Looking To Fund BSV Acquisition Via `7,000 Cr Debt
- Would Want To Retire Debt In The Next 3 Years

Read More

Indian Hotels: Will Focus On Asset Light Vs Capital Heavy Growth; See Margins at 33% ; Puneet Chhatwal, MD & CEO

- Strong hotel pipeline with plans to open 25-30 hotels this year and over 112 in the pipeline.
- Expecting double-digit YoY growth in H1FY25, with no signs of a sector slowdown.
- Positioned well for growth across all portfolios, with a focus on capital-light versus capital-heavy expansion.
- Aiming to grow asset light to asset heavy mix to 70:30 within two years.
- Strategic investments in key locations and assets remain important.
- Anticipating margins to exceed 33% in FY25 and very optimistic about the next 5 years.

Read More

REC Ltd: Eye On Renewable Energy Portfolio, FY25 Borrowing & Orderbook Check; Vivek Kumar Dewangan, Chairman and MD

- Hope to sanction 1.12 lakh cr from MOU signed in RE-INVEST 2024 in next 1 year
- Out of 2.85 lakh cr MOU signed in 2023, 1.75 lakh cr is sanctioned till date
- No proposal have come for financing green energy corridor outside India
- Will be able to touch 3 lakh cr renewable energy portfolio till 2028 or 2029
- No proposal at present from Vodafone for finance
- Not considering any telecom infra financing proposal
- Will maintain guidance

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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