

Market snapshot



Equities - India	Close	Chg .%	CYTD.%
Sensex	82,353	-0.2	14.0
Nifty-50	25,199	-0.3	16.0
Nifty-M 100	59,224	-0.1	28.2
Equities-Global	Close	Chg .%	CYTD.%
S&P 500	5,520	-0.2	15.7
Nasdaq	17,084	-0.3	13.8
FTSE 100	8,270	-0.3	6.9
DAX	18,592	-0.8	11.0
Hang Seng	6,134	-1.1	6.3
Nikkei 225	37,048	-4.2	10.7
Commodities	Close	Chg .%	CYTD.%
Brent (US\$/Bbl)	75	-0.9	-3.2
Gold (\$/OZ)	2,496	0.1	21.0
Cu (US\$/MT)	8,837	0.1	4.4
Almn (US\$/MT)	2,375	-0.5	1.3
Currency	Close	Chg .%	CYTD.%
USD/INR	84.0	0.0	0.9
USD/EUR	1.1	0.4	0.4
USD/JPY	143.7	-1.2	1.9
YIELD (%)	Close	1MChg	CYTD chg
10 Yrs G-Sec	6.9	-0.01	-0.3
10 Yrs AAA Corp	7.4	-0.01	-0.4
Flows (USD b)	4-Sep	MTD	CYTD
FII	0.1	1.51	6.1
DII	0.01	5.77	37.3
Volumes (INRb)	4-Sep	MTD*	YTD*
Cash	1,229	1204	1300
F&O	5,64,786	4,18,541	3,79,501

Note: Flows, MTD includes provisional numbers.

*Average



Today's top research idea

Financials: Assessing fee income pools for banks

- ❖ Margins for the banking sector have been under pressure for the last one year. The challenge in garnering deposits and a potential turn in the rate cycle will keep near term margins under watch. Moreover, headwinds in growth and unsecured asset quality will further adversely impact earnings.
- ❖ We, thus, expect fee income to gain even more importance as the rate cycle turns and lending yields for the banking system moderate. Buoyant capital markets have aided the performance of flow-based businesses, and the increasing financialization of savings will open up more distribution opportunities for the banking sector.
- ❖ We note that over FY18-24, bancassurance income for top private banks (barring ICICIB) and SBIN has increased at a CAGR of 15-21%, with HDFCB, AXSB and IIB reporting a superior CAGR of 19-21%.
- ❖ SBIN led in commission income from general insurance, life insurance, and mutual funds in FY23, while ICICIB and HDFCB saw declines. AXSB and KMB, on the other hand, reported modest gains or stable income.
- ❖ ICICIB's focus on customer satisfaction and risk management over aggressive cross-selling has resulted in a 30% decline in bancassurance income since FY18, but it has ensured stability and strengthened the bank's reputation as a customer-focused bank. We, nevertheless, compute the impact from reduced distribution income for ICICIB to be at ~5% of PAT (80bp of RoE). Top ideas: ICICIB, SBIN, AUBANK

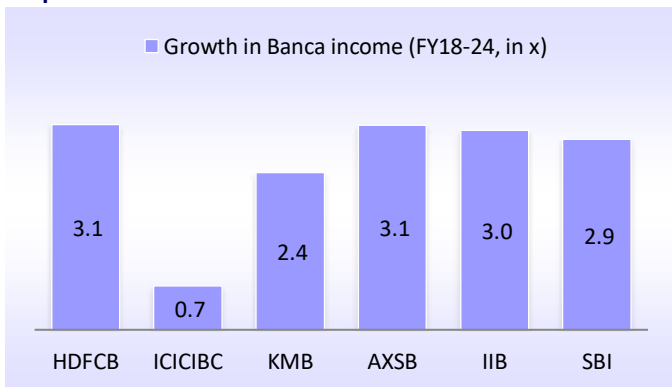


Research covered

Cos/Sector	Key Highlights
Financials	Assessing fee income pools for banks
India Strategy – The Eagle Eye	India's outperformance continues amid global volatilities
EcoScope	EAI – Monthly Dashboard: Economic activity weakened in Jul'24

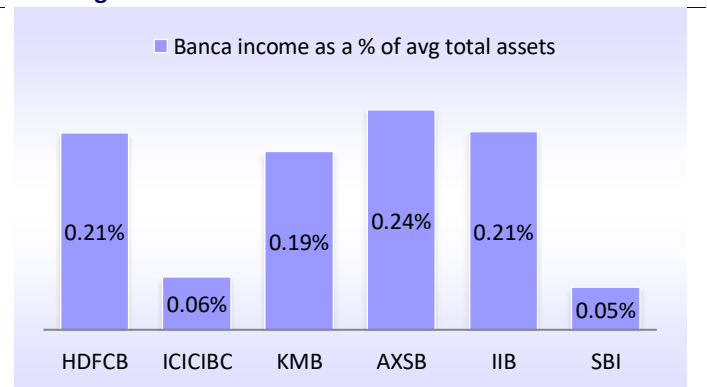
Chart of the Day: Financials (Assessing fee income pools for banks)

Most large banks have reported ~3x growth in bancassurance income over past six years, barring ICICIB, which has reported a ~30% decline



Source: MOFSL, Company

Banca income contributes ~20bp to banks' total assets, barring ICICIB and SBIN



Source: MOFSL, Company

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

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Kindly click on textbox for the detailed news link

1

Global apparel deals flowing into India amid Bangladesh crisis

Tiruppur's knitwear export hub has secured ₹450 crore in orders from global brands due to political unrest in Bangladesh. Orders include kids wear, nightwear, tops, and pyjamas. Noida Apparel Export Cluster also saw a 15% increase in orders from Zara.

2

Flipkart to create over 100K jobs, opens 11 new fulfilment centres ahead of festive season

The new jobs, which will be created across Flipkart's supply chain operations, include roles such as inventory managers, warehouse associates, logistics coordinators, kirana partners, and delivery drivers.

3

Vedanta says display glass biz likely to grow 10x with AvanStrate Inc

Vedanta Limited announced that its display glass business is set to grow tenfold after consolidating its holding in AvanStrate Inc. to 98 percent. The acquisition enhances Vedanta's position in the global electronics and display industry, focusing on innovation, advanced technologies, and expanding production capacity to meet increasing global...

4

India needs 10-20 chip fabs over next 10 years, says SEMI president

SEMI will organise the first global conference on the semiconductor ecosystem, Semicon India 2024 from September 11-13 in Noida.

5

Lower GST on insurance likely to come with caps

The committee is not in favour of a blanket GST exemption on life and health insurance premiums, said people aware of deliberations. It's likely to give a detailed report on the revenue impact under different rate scenarios for insurance products to the GST Council, which is scheduled to meet on September 9.

6

Steel firms may ward off import threat with higher tariffs; Minister says will ask finance ministry to raise duties to 10-12%

Domestic steel prices have fallen to their lowest levels in over three years, largely due to shifts in the global markets.

7

Hindujas' acquisition of RCap hits tax dues hurdle

IndusInd International Holdings' ₹9,861-crore acquisition of Reliance Capital faces a new hurdle as the company seeks to adjust over ₹1,000 crore in GST dues owed by Reliance Capital's insurance subsidiaries. Creditors are reluctant to accept this adjustment, leading to a deadlock that may require NCLT intervention.



Financials

Financials Snapshot (INR b)- ICICIBC

Y/E March	FY24	FY25E	FY26E
NII	743	830	952
OP	581	655	768
NP	409	450	514
NIM (%)	4.7	4.5	4.4
EPS (INR)	58.4	64.1	73.2
EPS Gr (%)	27.5	9.8	14.2
ABV/Sh (INR)	320	374	438
Cons. BV/Sh (INR)	363	433	503

Ratios

RoE (%)	18.9	17.7	17.3
RoA (%)	2.4	2.2	2.2

Valuations

P/BV (x) (Cons)	3.4	2.8	2.4
P/ABV (x)	3.1	2.7	2.3
P/E (x)	20.9	19.1	16.7

*Multiples adjusted for Subs

Financials Snapshot (INR b)- HDFCB

Y/E	FY24	FY25E	FY26E
NII	1,085	1,233	1,395
OP	944	1,017	1,167
NP	608	680	779
NIM (%)	3.4	3.5	3.5
EPS (INR)	80.0	89.6	102.5
EPS Gr. (%)	1.0	11.9	14.5
BV/Sh. (INR)	580	649	731
ABV/Sh. (INR)	555	622	699

Ratios

RoE (%)	14.6	14.6	14.9
RoA (%)	1.8	1.8	1.9

Valuations

P/E(X)	20.4	18.2	15.9
P/E(X)*	17.2	15.4	13.4
P/BV (X)	2.8	2.5	2.2

*Multiples adjusted for Subs

Financials Snapshot (INR b)- AXSB

Y/E March	FY24	FY25E	FY26E
NII	498.9	549.8	621.1
OP	371.2	418.8	486.8
NP	248.6	264.3	303.3
NIM (%)	3.8	3.7	3.7
EPS (INR)	80.7	85.6	98.3
EPS Gr. (%)	14.9	6.1	14.8
BV/Sh. (INR)	487	563	653
ABV/Sh. (INR)	469	543	632

Ratios

RoE (%)	18.0	16.3	16.2
RoA (%)	1.8	1.7	1.7

Valuations

P/E(X)	15.4	14.5	12.6
P/E(X)*	14.0	13.2	11.5
P/BV (X)	2.3	2.0	1.7

Assessing fee income pools for banks

Banca fees have clocked 15-21% CAGR; estimate fee intensity to improve

- Margins for the banking sector have been under pressure for the last one year. The challenge in garnering deposits and a potential turn in the rate cycle will keep near term margins under watch. Moreover, headwinds in growth and unsecured asset quality will further adversely impact earnings.
- We, thus, expect fee income to gain even more importance as the rate cycle turns and lending yields for the banking system moderate. Buoyant capital markets have aided the performance of flow-based businesses, and the increasing financialization of savings will open up more distribution opportunities for the banking sector.
- We note that over FY18-24, bancassurance income for top private banks (barring ICICIBC) and SBIN has increased at a CAGR of 15-21%, with HDFCB, AXSB and IIB reporting a superior CAGR of 19-21%.
- Overall, other income (excluding treasury), as a percentage of average assets, varies between 100bp and 170bp across banks, except for SBIN (~60bp).
- SBIN led in commission income from general insurance, life insurance, and mutual funds in FY23, while ICICIBC and HDFCB saw declines. AXSB and KMB, on the other hand, reported modest gains or stable income.
- ICICIBC's focus on customer satisfaction and risk management over aggressive cross-selling has resulted in a 30% decline in bancassurance income since FY18, but it has ensured stability and strengthened the bank's reputation as a customer-focused bank. We, nevertheless, compute the impact from reduced distribution income for ICICIBC to be at ~5% of PAT (80bp of RoE). Top ideas: ICICIBC, SBIN, AUBANK

Bancassurance income jumps 2.4-3x across banks, barring ICICIBC

Major banks have reported a healthy 15-21% CAGR in bancassurance income for the past 5-6 years (FY18-24), with HDFCB, IIB, SBIN and AXSB leading with 19-21% CAGR. KMB, which posted a slower 15% CAGR over FY18-24, has seen an acceleration in banca fee growth in recent years. In contrast, ICICIBC's banca income has declined by ~30% from INR14.9b in FY18 to INR9.8b in FY24, while peers like HDFCB and AXSB have tripled their banca income during this period. Notably, large banks' banca income contributes ~20bp to their average total assets, but ICICIBC and SBIN lag at 5-6bp. As a proportion of retail loans, banca income stands at 60-70bp for HDFCB, AXSB and IIB, 49bp for KMB, and 14bp for ICICIBC (lowest).

Other income (ex-treasury) as % of avg asset varies in range of 100-170bp

Excluding treasury, other income as a percentage of average assets stands at ~140-170bp for AXSB, KMB and IIB and ~100-120bp for HDFCB and ICICIBC. ICICIBC's other income (excluding banca) as a percentage of assets is comparable to that of HDFCB and AXSB at 1.2%, while KMB and IIB are healthier at 1.5-1.6%, and SBIN lags at 0.8%. Despite ICICIBC's high retail mix of 65%, its core other income intensity lags behind other private banks, mirroring its underperformance in banca income, which declined by ~30% from FY18 to FY24.

Financials Snapshot (INR b)- KMB

Y/E MARCH	FY24	FY25E	FY26E
NII	259.9	290.7	340.3
OP	195.9	217.8	254.3
NP	137.8	148.0	170.8
Cons. NP	182.1	193.6	225.7
NIM (%)	5.2	4.9	4.9
EPS (INR)	69.4	74.4	85.9
EPS Gr. (%)	25.9	7.3	15.4
ABV. (INR)	462	531	611
Cons. BV. (INR)	654	749	861
Ratios			
Cons. RoE (%)	14.0	13.0	13.2
RoE (%)	15.3	14.2	14.3
RoA (%)	2.5	2.3	2.3
Valuations			
P/BV (X) (Cons.)	2.8	2.4	2.1
P/ABV (X) (Cons.)	2.8	2.5	2.1
P/ABV (X) (Adj)	2.7	2.3	2.0
P/E(X) (Stand.)	17.8	16.6	14.4
P/E(X) (Cons.)	19.8	18.6	16.0

Private banks lead in insurance commission; SBIN gains market share

Commission payouts by general insurers doubled during FY18-23, led by a 2.6x increase from private sector insurers and significant growth in standalone health insurers (SAHIs). As of FY23, SBIN held the largest market share in commissions from general insurers at 2%, while ICICIBC and HDFCB saw declines in their shares. Conversely, AXSB and KMB reported minor gains. The life insurance industry’s commission pool grew 18% YoY in FY23, with SBIN overtaking HDFCB as the leader in commission income. Mutual fund commission payouts also grew 1.5x during FY19-23, with SBIN dominating with a 7.5% market share, while AXSB and HDFCB posted declines. KMB and ICICIBC maintained stable shares at 3.3% and 2.5%, respectively.

How much fee income is ICICIBC truly foregoing?

Despite ICICIBC’s higher retail mix of 65%, its core other income as a percentage of average asset is lower at ~1.2% compared to AXSB’s at 1.4%. Unlike its peers, which reported 15-21% CAGR in bancassurance fees over the past 5-6 years, ICICIBC has posted a 30% decline since FY18. Under Mr. Sandeep Bakhshi’s leadership, the bank has prioritized customer satisfaction and risk management over aggressive cross-selling. Although this approach has led to some loss of fee income opportunities, the bank has delivered the best-in-class returns and has strengthened its reputation as a stable, customer-focused institution. While it is difficult to assess the fee loss that ICICIBC would have incurred due to its differentiated approach to distribution business as a lot of bandwidth would have got consumed in driving growth in the core banking business where ICICIBC has done comparatively much better. We reckon that had ICICIBC matched its peers in bancassurance growth, its profitability could have been ~5% higher, with a corresponding RoE improvement of ~80bp to 19.8%.

Valuation and view

We estimate banking system loan growth to moderate to 12.5% CAGR over FY24-26E and estimate a 15% earnings CAGR for our banking universe over FY25-26E. Robust balance sheets and reasonable sector valuations keep us positive on the sector even as headwinds are likely to persist in growth, margins and credit costs in the near term. Over FY25/FY26, we estimate earnings growth of 11%/16% YoY for private banks and 19%/14% for PSBs. **Our preferred ideas: ICICIBC, SBIN, AUBANK**



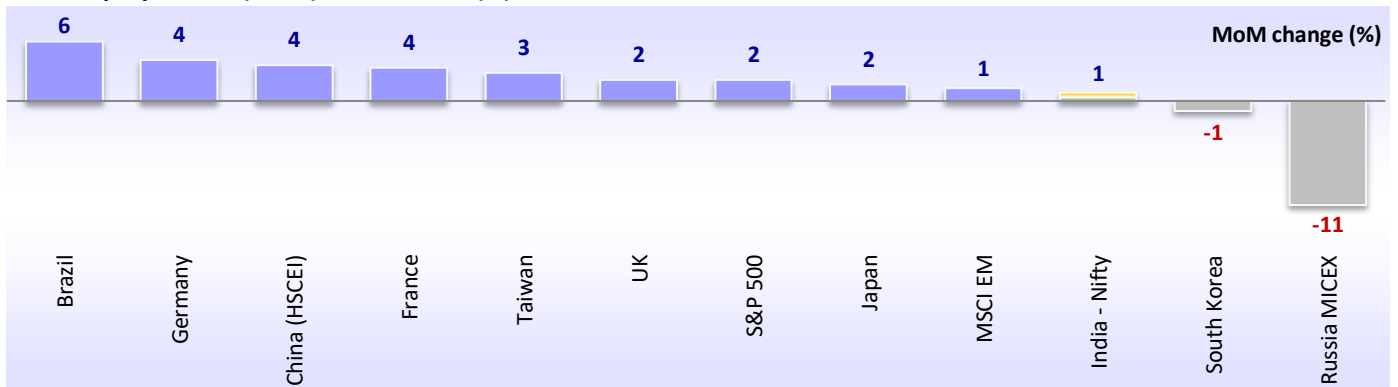
Strategy

INDIA STRATEGY – Sep’24 (The Eagle Eye): India’s outperformance continues amid global volatilities

The key highlights of the 'The Eagle Eye' are as follows:

- a) Indian market at an all-time high, but underperforms key global markets in Aug’24; b) MSCI India’s outperformance continues; c) Nifty Midcap index outperforms key global indices in the last 10 years; d) Healthcare, Technology, and Consumer among the top gainers in Aug’24; e) Dominance of large companies reduces as broad-basing of market continues; f) DIIs clock the highest ever yearly flows; g) NSE500: FII’s ownership across sectors shows high sectoral rotation; DII’s ownership across sectors depicts broad-based improvement; h) Forex reserves hit an all-time high of USD682b; i) India’s market capitalization-to-GDP ratio at an all-time high.
- **Notable Published reports in Aug’24:** a) Signature Global | Initiating Coverage: Growth gem in the making!; b) Gravita India | Initiating Coverage: Getting the ‘Lead Out’ in style!; c) INDIA STRATEGY: Nifty-50 P/E dissection: Devil is in the details!

World equity indices (MoM) in USD terms (%)



Share of companies as % of total market cap

Top Companies by Mkt Cap	Dec’19	Dec’20	Dec’21	Dec’22	Dec’23	Aug’24
Top 10	31%	32%	28%	27%	24%	22%
Total ex Top 10	69%	68%	72%	73%	76%	78%
Top 50	61%	60%	55%	57%	51%	48%
Total ex Top 50	39%	40%	45%	43%	49%	52%
Top 100	74%	73%	68%	69%	64%	62%
Total ex Top 100	26%	27%	32%	31%	36%	38%
Top 250	89%	89%	85%	85%	82%	81%
Total ex Top 250	11%	11%	15%	15%	18%	19%
Top 500	96%	96%	94%	94%	92%	91%
Total ex Top 500	4%	4%	6%	6%	8%	9%
Top 1000	99%	99%	98%	98%	98%	97%
Total ex Top 1000	1%	1%	2%	2%	2%	3%
Total market cap (INR t)	156	189	267	283	366	468



EAI – Monthly Dashboard: Economic activity weakened in Jul'24

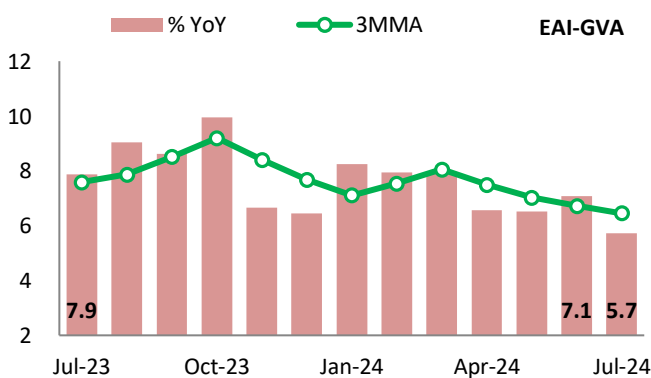
Expect real GVA/GDP growth at 6.0-6.5% in 2QFY25 vs. the RBI's projection of 7.2%

- Preliminary estimates indicate that India's EAI-GVA growth decelerated to a 21-month low of 5.7% YoY in Jul'24 vs. 7.1%/7.9% in Jun'24/Jul'23. The deceleration in growth was primarily led by the services sector, which was partly offset by robust growth in industry and 19-month highest growth in the farm sector.
- On the other hand, EAI-GDP growth was subdued at 2.2% YoY in Jul'24 vs. 1.0%/22.7% YoY in Jun'24/ Jul'23. Total consumption improved in Jul'24 (highest in three months); however, investment growth was at six-month low and the external sector was a big drag to EAI-GDP growth. Excluding fiscal spending, EAI-GDP grew 2.4% YoY in Jul'24, higher than 1.8% YoY a month ago but weaker than 8.1% YoY a year ago.
- Selected high-frequency indicators (HFIs) confirm that growth remained subdued in Aug'24. Power generation grew at slower pace, CV sales marked their third consecutive fall (the worst in 42 months), PV sales contracted for the second consecutive month, air cargo traffic fell for the first time in 13 months, and vahan registrations saw sluggish growth. At the same time, manufacturing and services PMIs remained resilient.
- After growing at ~8% or more (close to or above 8%) in the previous four quarters, real GDP growth decelerated to 6.7% in 1QFY25, marking the first miss in five quarters. For Jul'24, our estimates suggest that EAI-GVA moderated further and likely remained subdued in Aug'24 as well. Accordingly, we believe that real GVA/GDP growth could soften further to 6.0-6.5% in 2QFY25, lower than the RBI's projection of 7.2%.

Preliminary estimates indicate that India's EAI-GVA grew 5.7% YoY in Jul'24, the slowest in 21 months

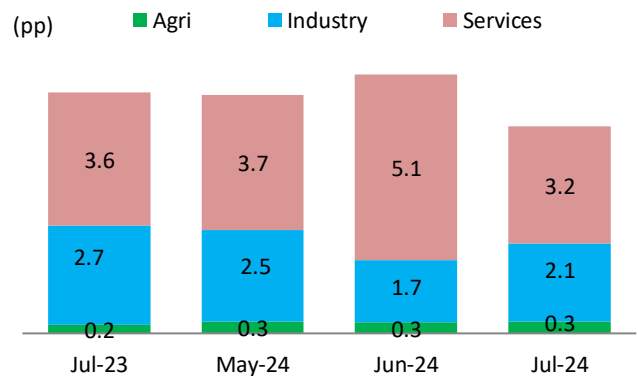
- **EAI-GVA growth at 21-month low in Jul'24:** Preliminary estimates indicate that India's EAI-GVA growth decelerated to a 21-month low of 5.7% YoY in Jul'24 vs. 7.1%/7.9% in Jun'24/Jul'23. The deceleration in growth was primarily led by the services sector, which was partly offset by robust growth in industry and 19-month highest growth in the farm sector (*Exhibits 1 and 2*).
- **EAI-GDP growth was subdued at 2.2% in Jul'24:** On the other hand, EAI-GDP growth was subdued at 2.2% YoY in Jul'24 vs. 1.0%/22.7% YoY in Jun'24/ Jul'23. Total consumption improved in Jul'24 (highest in three months); however, investment growth was at six-month low and the external sector was a big drag to EAI-GDP growth. Excluding fiscal spending, EAI-GDP grew 2.4% YoY in Jul'24, higher than 1.8% YoY a month ago but weaker than 8.1% YoY a year ago (*Exhibits 3 and 4*).

Exhibit 1: EAI-GVA growth at 21-month low in Jul'24...



Please refer to our earlier [report](#) for details

Exhibit 2: ...led by deceleration in the services sector



Contribution of various components to EAI-GVA
Source: Various national sources, CEIC, MOFSL



Ashok Leyland: Not Too Worried About Decline In M&HCV Sales In July & August; Sanjeev Kumar, President

- Vehicles to be connected to i-Alert
- Heavy rains have negatively impacted market sentiment and sales performance
- Sales decline in July & August is temporary
- Big project proposals are slowly taking off

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Blue Star: Not Seeing Any Supply Demand Mismatch In Room AC Segment; B Thiagarajan, MD

- 50% growth in AC sales during the summer season
- Margin sustainable at 8.5-9% for FY 25
- Order book to remain healthy
- 20% revenue growth during the upcoming festive season

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Fortis Healthcare: Profitability For Diagnostics Is Improving & Expect Improvement From Q1 Levels; Ashutosh Raghuvanshi, MD & CEO

- Fortis Healthcare will purchase a 31.8% stake in Agilus Diagnostics
- To raise funds via non-convertible debenture
- Net debt at Rs 308cr as of Q1FY25
- Management focuses on improving operational performance

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RailTel Corporation of India: Kavach Tender Is Of Around ₹7,000 Cr & Will Open On Sep 19; Sanjai Kumar, CMD

- Bags 70cr order from eastern railway
- Wins 52.6cr order from UP police
- Exploring international markets, including South Africa and the Caribbean
- Company aims for a revenue growth of 25-30% this fiscal year, with EBITDA margins projected between 17-18%
- RailTel's order book currently stands at ₹4,900 crore, reflecting steady progress

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BLS Intl: Have Invested ₹81 Lk For SLW Media Acquisition, Objective Was To Enhance Co's Brand Equity; Shikhar Aggarwal, JMD

- Acquires a 51% stake in SLW Media
- Acquisition aimed with expansion and diversification within the growing sports sector
- Will see BLS's brand equity enhancement, particularly among clients in the golf industry
- One-stop luxury solution for HNIs. Corporate clients and govt officials

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NOTES

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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