Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	81,635	0.7	13.0
Nifty-50	25,013	0.9	15.1
Nifty-M 100	58,536	2.2	26.8
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,751	1.0	20.6
Nasdaq	18,183	1.4	21.1
FTSE 100	8,191	-1.4	5.9
DAX	19,066	-0.2	13.8
Hang Seng	7,484	-10.2	29.7
Nikkei 225	38,938	-1.0	16.4
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	78	-4.1	0.3
Gold ($/OZ)	2,622	-0.8	27.1
Cu (US$/MT)	9,778	0.0	15.5
Almn (US$/MT)	2,645	0.0	12.8
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	84.0	0.0	0.9
USD/EUR	1.1	0.0	-0.5
USD/JPY	148.2	0.0	5.1
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.8	-0.04	-0.4
10 Yrs AAA Corp	7.3	-0.03	-0.5
Flows (USD b)	**8-Oct**	**MTD**	**CYTD**
FIIs	-0.7	-5.27	6.4
DIIs	0.83	6.39	46.4
Volumes (INRb)	**8-Oct**	**MTD***	**YTD***
Cash	1,199	1308	1302
F&O	4,54,230	4,29,456	3,81,745

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research theme

Power Financiers – Thematic: The Power Play: Key to India's energy transition

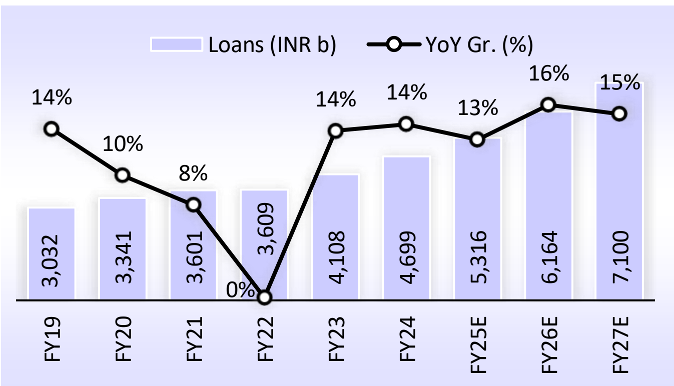
- India's power sector is undergoing a significant transition from a phase of surplus to one of shortage. India is projected to add ~250GW of new power generation capacity over the next five years, nearly three times the 86GW capacity added in the previous five years.
- An investment opportunity of INR42t (INR34t in firm capex + INR8t in optionality) is set to unfold in the Indian power sector over the next decade, with generation accounting for ~85% of this capex.
- **PFC and REC will both be beneficiaries of the revival in power sector capex. For PFC, we expect a loan book CAGR of ~15% and a PAT CAGR of ~12% over FY24-FY27. For REC, we project a loan book CAGR of ~18% and a PAT CAGR of ~15% over the same period.**
- **We believe that we are now in a phase of power upcycle, where we will see stressed asset resolutions continue, leading to further asset quality improvement. We initiate coverage on PFC with a BUY rating and a TP of INR560 and on REC with a BUY rating and a TP of INR630.**

Research covered

Cos/Sector	Key Highlights
Power Financiers – Thematic	The Power Play: Key to India's energy transition
India Politics	A surprise victory for BJP in Haryana
Clean Science & Technology	CFCL – Future growth engine
Avalon Technologies	Recovery in sight; to be repositioned for growth
Financials	ICRA Webinar on Indian Banking Sector: FY25 credit growth to moderate to 11.6-12.5%
Senco Gold	Robust revenue growth; slower store opening

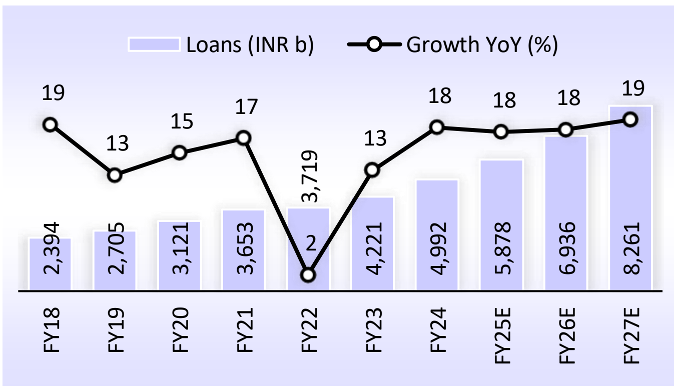
Chart of the Day: Power Financiers (The Power Play: Key to India's energy transition)

PFC Loan book CAGR of 15%...



Source: MOFSL, Company

REC Loan book CAGR of 18% over FY24-27E...



Source: MOFSL, Company

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Margin growth of 22 per cent in 3-4 years achievable: CEO and MD, Tata Technologies

Typically, customers invest for programmes that will be released in 3-4 years. So, even though there is a slowdown in sales, typically the investment in product development is not compromised.

2

Tata powers up wind energy market with mega order; seeks bids for supply of turbines with capacity of 3 GW

Tata Power is pursuing bids for wind turbines to equip its wind-solar hybrid renewable energy projects, expecting to install over 3GW with a potential expansion to 5GW over five years.

3

SpiceJet to induct seven aircraft by end of November

With a ₹3,000 crore fund injection, SpiceJet is set to expand its fleet by adding seven leased aircraft and reintroducing three grounded planes by mid-November. The airline aims to reach a 100-aircraft fleet by 2026, anticipating high demand during the festive season.

4

Cognizant favoured H-1B holders over non-Indian workers

The plaintiffs proved that Cognizant had engaged in intentional discrimination, specifically targeting non-South Asian and non-Indian employees for termination when they were benched.

5

Vi remains engaged with DoT on Rs 25K crore bank guarantee waiver

Vodafone Idea has also initiated a “fresh dialogue” with the government on the likely remedies in the AGR dues matter after the Supreme Court recently dismissed its curative plea on re-computation of the AGR dues.

6

Infosys expands collaboration with Old National Bank for digital transformation

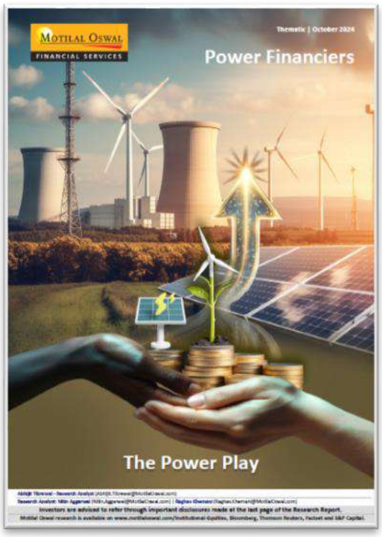
This development deepens their existing partnership, allowing Old National Bank to utilise Infosys' services, solutions, and platforms for operational transformation and process digitisation through automation and Generative AI (GenAI) technologies, the IT major informed the exchanges.

7

Godrej Consumer sees lower EBITDA, sales growth in Q2

While standalone revenue may log a high single-digit growth in both volume and value, the EBITDA growth will remain flat, the company said.

Power Financiers



The Power Play: Key to India's energy transition

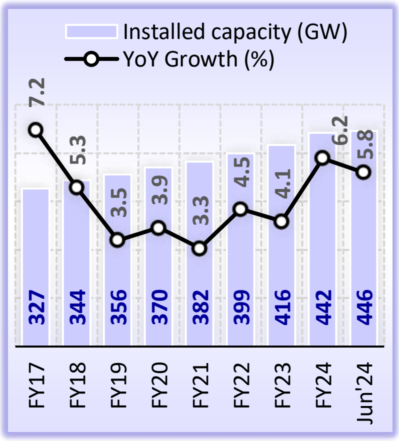
PFC and REC fueling the nation's energy boom

- **Investment opportunity of INR42t and more:** An investment opportunity of INR42t (INR34t in firm capex + INR8t in optionality) is set to unfold in the Indian power sector over the next decade, with generation accounting for ~85% of this capex. The triple tailwinds driving this investment are: 1) power demand accelerating at a higher ~7% CAGR (~5% earlier), 2) the urgent need to upgrade/ replace aging power infrastructure as the electricity mix undergoes a shift (more RE all-day), and 3) the transition to cleaner sources of energy considering India's ambitious target of achieving 500GW of renewable energy (RES) capacity by 2030.
- **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%).
- **India's power sector is undergoing a significant transition from a phase of surplus to one of shortage**. This transition has been driven by a combination of factors, including increased power demand, underinvestment in dispatchable power sources (such as thermal and hydro), and the govt.'s focus on renewable energy. Consequently, there is a renewed emphasis on expanding power generation capacity, which in turn will drive loan book growth for lenders such as Power Finance Corporation (PFC) and Rural Electrification Corporation (REC).
- **India is projected to add ~250GW of new power generation capacity over the next five years, nearly three times the 86GW capacity added in the previous five years.** This expansion will involve substantial investments in renewable energy, along with essential supporting infrastructure such as thermal plants, battery storage, and pumped storage systems.
- The ability of PFC and REC, as state-owned NBFCs, to mobilize and manage substantial amounts of capital renders them indispensable to India's energy ambitions. **Under the National Infrastructure Pipeline (NIP), there is a total capex opportunity of INR29t:** ~INR18t under renewable generation, ~INR7t under T&D, and the remaining under conventional generation. Besides power projects, PFC and REC are also exploring financing opportunities in electric vehicles and charging infrastructure, bio-refinery projects, ethanol blending, solar panels, Flue Gas Desulfurization (FGD), smart metering, and city-gas distribution (CGD) projects. Further, their expansion into financing infrastructure & logistics projects is likely to serve as an additional driver of sustained, healthy loan growth.
- In previous cycles, the power sector was plagued by high levels of NPAs, mainly in thermal projects. However, the current cycle is markedly different, since a majority of loans extended by PFC and REC are now directed towards government entities or private renewable energy companies, both of which exhibit lower default risks. **The GNPA and NNPA ratios are at their multi-year lows, as the power sector has witnessed the resolution of various stressed assets over the past three years.**

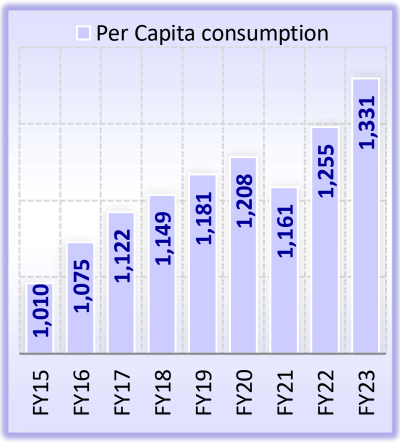
Initiating coverage on PFC and REC

Cos.	Mcap (INR m)	TP INR	Upside (%)
PFC	1449	560	28.0
REC	1317	630	26.0

Total installed power capacity exhibited a ~4% CAGR over FY18-FY24



Per capita power consumption (kwh)



- For PFC, we expect a loan book CAGR of ~15% and a PAT CAGR of ~12% over FY24-FY27. This is for an RoA/RoE of 2.9%/19% and a dividend yield of ~4.2% in FY27E. PFC (standalone) trades at 1.0x FY26E core P/ABV, and the risk rewards are attractive. **We initiate coverage on PFC with a BUY rating and a TP of INR560** (based on a target multiple of 1.2x Sep'26E P/ABV on the standalone business and ~INR211/share for its stake in REC with a holdco discount of 20%).
- For REC, we project a loan book CAGR of ~18% and a PAT CAGR of ~15% over FY24-FY27. This is for an RoA/RoE of 2.6%/21% and a dividend yield of ~4.7% in FY27E. REC trades at 1.4x FY26E P/ABV. **We initiate coverage on REC with a BUY rating and a TP of INR630** (based on a target multiple of 1.6x Sep'26E P/ABV).

Asset quality at its best in nearly a decade

- DISCOMs have historically been the weak link in India's power sector, suffering from poor financial health due to high debt levels, operational inefficiencies, and political interference. Interestingly, not every asset in the power sector is stressed, and various government schemes and reforms such as IPDS, UDAY, and LPS have actually reduced AT&C losses, improved the average realizable revenue - average cost of supply (ARR-ACS) gap, and reduced DISCOM's legacy dues outstanding towards power generation and transmission companies.
- PFC and REC are perceived as financial intermediaries that can raise borrowings at attractive interest rates for deployment in the power sector. While a part of this is true, it is also important to note that PFC and REC play an advisory role in various government initiatives in the power sector. These are also the nodal implementing agencies for various government schemes and packages, and both together have funded more than 40% of the power sector capex in the last five years.
- In the current power upcycle, many distressed power plants have been acquired by larger players, resulting in the resolution of multiple stressed projects. This trend is expected to continue, leading to further recoveries for lenders like PFC and REC. As the power sector recovers, there is potential for provision reversals, particularly in the case of loans to thermal power plants that are now generating positive cash flows. State-guaranteed loans now constitute 81% and 89% of the loan mix for PFC and REC (v/s 83% and 88% in FY19), respectively.

Diversification into infra and logistics to enable a strong sanction pipeline

- Beyond power generation, India's infrastructure sector, including roads, airports, and logistics, is set for significant expansion. PFC and REC have expanded their mandates to include infrastructure financing, opening new avenues for growth. The diversification into infrastructure projects, particularly those backed by government guarantees, will provide PFC and REC with lower-risk, high-reward opportunities.
- Disbursements in renewables and infrastructure projects are usually back-ended, suggesting that a healthy sanction pipeline will translate into healthy disbursement growth in the subsequent yields. We estimate a disbursement CAGR of 11% and 23% for PFC and REC, respectively, over FY24-FY27. However, we should remain wary of higher exposures to private infrastructure/logistics projects and promoter funding to entities in this segment.

POWER FINANCE CORPORATION

Financials Snapshot (INR b)

Y/E March	FY25E	FY26E	FY27E
NII	178	202	231
PPP	198	224	255
PAT	165	182	205
EPS (INR)	49.9	55.0	62.1
EPS Gr. (%)	15	10	13
BV/Sh. (INR)	275	313	357
ABV/Sh. (INR)	231	270	313
RoAA (%)	3.1	3.0	2.9
RoAE (%)	19.4	18.7	18.5
Div Payout (%)	30.0	30.0	30.0
Valuations			
P/E (x)	8.8	8.0	7.1
P/BV (x)	1.6	1.4	1.2
Core P/E (x)	5.4	4.9	4.4
Core P/BV (x)	1.1	1.0	0.8
Div. Yld (%)	3.4	3.8	4.2

REC

Financials Snapshot (INR b)

Y/E March	FY25E	FY26E	FY27E
NII	196	226	264
PPP	196	228	266
PAT	159	183	211
EPS (INR)	60.5	69.3	80.1
EPS Gr. (%)	14	15	16
BV/Shr (INR)	306	357	417
ABV/Shr (INR)	302	354	413
RoAA (%)	2.7	2.6	2.6
RoE (%)	21.3	20.9	20.7
Div. Payout (%)	29.8	29.6	29.3
Valuation			
P/E (x)	8.3	7.2	6.2
P/BV (x)	1.6	1.4	1.2
Div. Yield (%)	3.6	4.1	4.7

PFC & REC: Benefitting from the power sector's capex revival

- PFC and REC will both be beneficiaries of the revival in power sector capex. With our detailed project-level analysis of stressed assets, we believe that we are now in a phase of power upcycle, where we will see stressed asset resolutions continue, leading to further asset quality improvement. We do not see risks of incremental additions to the stress pool over the next two years, and this should keep credit costs benign at <5bp over FY25E-FY26E.
- For an RoA profile of 3.0%/2.6%, a RoE of ~19%/21%, and dividend yields of ~3.8%/4.1% in FY26E, we believe current valuations of 1.0x and 1.4x FY26E P/ABV for PFC (standalone) and REC, respectively, are attractive. Moreover, both PFC and REC's stock prices have corrected by ~25% from their recent highs, and now even provide a margin of safety in valuations. **While we have a BUY rating on both PFC and REC, we prefer REC over PFC, because of its better execution capability and a stronger RoE profile.**
- **Key downside risks for both PFC and REC:** 1) an increase in exposure to projects without PPA or to private infrastructure projects, 2) the RBI's stricter draft provisioning norms on project financing, 3) compression in spreads/NIM from high competitive intensity in renewable projects, and 4) deterioration in the health of DISCOM and potential haircuts in interest income.

Valuation matrix: Comparison of PFC and REC with other NBFCs

Peers	CMP	MCap	RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
	(INR)	(INR b)	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
PFC*	**439**	**1,449**	**3.1**	**3.0**	**19.4**	**18.7**	**5.4**	**4.9**	**1.1**	**1.0**
REC	**500**	**1,317**	**2.7**	**2.6**	**21.3**	**20.9**	**8.3**	**7.2**	**1.6**	**1.4**
Five-Star	790	231	8.1	7.6	18.7	18.8	21.5	17.8	3.7	3.1
LIC HF	607	334	1.6	1.6	14.7	13.8	6.8	6.5	0.9	0.8
PNB HF	934	243	2.3	2.5	11.5	13.0	13.3	10.5	1.4	1.3
Aavas	1,727	137	3.2	3.2	14.5	15.2	23.2	19.1	3.1	2.7
HomeFirst	1,239	110	3.5	3.4	16.4	17.5	29.2	23.5	4.5	3.8
CanFin	823	110	2.2	2.2	17.9	17.5	13.0	11.3	2.1	1.8
Repco	499	31	3.0	2.9	13.9	13.2	7.2	6.7	0.9	0.8
Cholamandalam	1,481	1,245	2.5	2.8	20.6	22.5	27.8	20.3	5.2	4.0
MMFS*	292	361	2.0	2.4	12.7	15.7	14.1	10.3	1.7	1.5
Shriram Finance	3,302	1,242	3.3	3.3	16.3	17.2	14.7	12.1	2.2	2.0
Indostar	284	35	1.3	1.6	5.1	7.1	22.6	16.1	1.1	1.1
Muthoot*	1,883	756	5.4	5.3	19.3	19.1	14.9	13.0	2.7	2.3
Manappuram	183	155	4.6	4.8	18.5	19.1	6.7	5.5	1.1	1.0
BAF	7,272	4,501	4.0	4.2	19.6	21.3	26.6	20.0	4.7	3.9
Poonawalla	380	295	4.6	4.3	14.8	16.4	22.5	17.8	3.1	2.7
ABCL	225	587	0.0	0.0	12.1	13.9	17.0	13.2	2.0	1.7
LTFH	168	420	2.5	2.6	11.5	13.1	14.8	11.8	1.6	1.5
PIEL	1,003	226	1.0	1.8	3.4	6.4	24.4	12.5	0.8	0.8
MAS Financial	275	50	2.9	3.0	14.5	14.7	16.3	12.6	2.0	1.7
IIFL Finance	436	185	2.1	3.3	9.6	14.9	16.5	9.0	1.4	1.3
CreditAccess	1,145	183	4.4	4.8	18.1	18.4	14.1	11.7	2.4	2.0
Fusion Micro	226	23	-0.1	4.5	-0.6	17.5	-	4.2	0.8	0.7
Spandana Sphoorty	541	39	0.7	3.8	2.5	13.0	42.6	7.4	1.0	0.9

Note: *standalone; Source: MOFSL, Company

India Politics

ELECTION

2024

State election outcomes 2024

State	Majority	Seats won
Haryana	BJP	48/90
J&K	Congress+	48/90

A surprise victory for BJP in Haryana

Regains momentum after LS polls; brings Maharashtra back in the play!

The results of the state elections for Haryana and Jammu & Kashmir (JK) were declared on 8th Oct'24. The Bharatiya Janata Party (BJP) registered an unexpected victory in Haryana, defying the Exit Polls and the anti-incumbency of two terms. The BJP gained in both vote share (+3.5%) and seats (+8 seats) over its 2019 showing. In J&K, the JKNC-Congress alliance won 48 seats and the BJP secured 29 seats. Interestingly, the BJP bagged the highest vote share (+25.6%) for any single party in J&K.

This was the first election after the Loksabha polls, in which the BJP, despite forming the government for the third time in a row, had seen its strength deplete in the parliament (240 seats in 2024 vs. 303 in 2019). The Haryana victory is likely to boost sentiment as some concerns had started to emerge over BJP's softening political strength and consequent inability to push through its tough development agenda. The results also provide momentum to the BJP in the upcoming state elections in Maharashtra, Jharkhand and Delhi – numerically very important as these states constitute 69 out of the 544 Loksabha seats.

The markets, meanwhile, are likely to heave a sigh of relief with this verdict and interpret it as course correction by the BJP after the relatively unexciting outcome of the Loksabha polls. The market has been reeling under heightened geopolitical risks, tactical FII outflows from India to China, and a moderating earnings outlook, thus this verdict offers a near-term respite.

Market impact: Positive surprise, focus shifting toward earnings

- A strong showing by the BJP in Haryana comes as a big surprise, as the Exit Polls predicted an adverse result for the party. The BJP returns to power for the third consecutive term, with a clear majority of 48 seats out of 90, unlike in 2019, when the party won only 40 seats. In J&K, however, the BJP has lost the mandate but still emerged as the party with the biggest vote share (25.6%).
- In our view, this outcome provides momentum to the BJP and opens up the contest for the upcoming state elections in Maharashtra, Jharkhand and Delhi over the next four months. Numerically, politically and strategically, Maharashtra assumes far greater importance and its Haryana victory may now keep the market excited and guessing for the outcome in Nov'24 elections.
- **This election might not have been a pivotal event for the markets per se, but an adverse showing would have added to the already persistent headwinds**. Understandably, the equity indices heaved a sigh of relief and gained +1.3% from the lows after a 5% correction from the peak over the last five days.
- In our 2QFY25 earnings preview, titled the 'Tug-of-War', we highlighted that policy continuity and macro stability are needed to maneuver through turbulent waters. The focus would now shift to the upcoming earnings season, which should provide deeper insight into the earnings outlook for 2HFY25.

Valuations supportive in large caps

For 2QFY25, we estimate the MOFSL Universe's earnings to remain flat and the Nifty earnings to grow marginally by 2% YoY. Excluding global commodities (i.e., Metals and O&G), the MOFSL Universe and the Nifty are likely to report 11% YoY and 10% YoY earnings growth, respectively. In terms of valuations, we find comfort in large caps, as the Nifty is trading at a 12-month forward P/E of 21.5x, only 5% above its own LPA. The expensive broader market valuations (NSE Midcap index at 60% premium to Nifty-50 and market cap at 146% of GDP) and the narrowing of market breadth further complicate the risk-reward equation. In our model portfolio allocation, we remain biased toward large caps (75% weights).

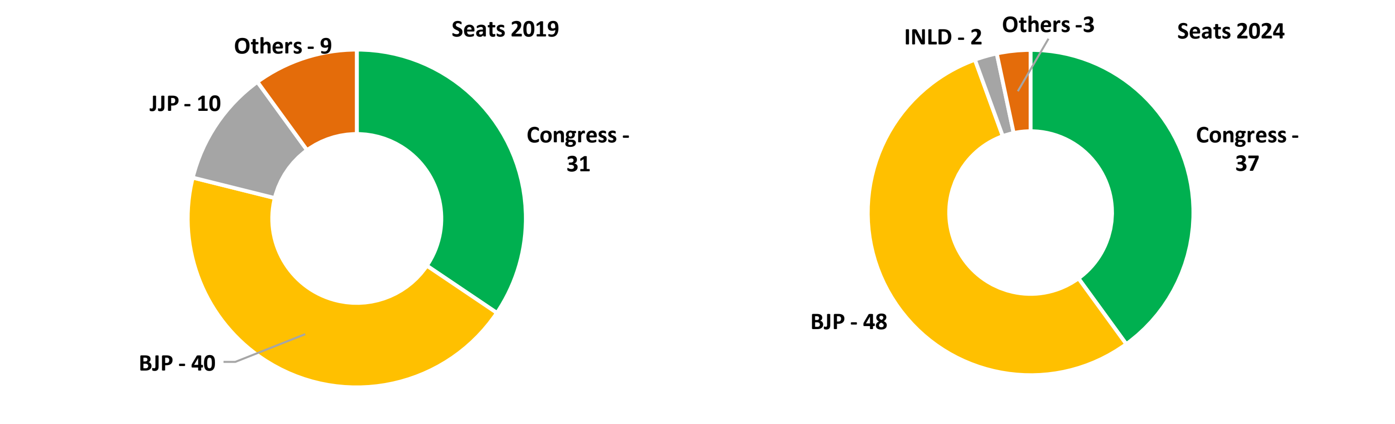
Preferred sectors and ideas:

- We like BFSI, IT, Industrials, Healthcare and Real Estate.

Preferred ideas:

- **Large-caps:** ICICI Bank, HDFC Bank, L&T, HCL Tech, HUL, M&M, Power Grid, Titan, Bharti Airtel and Mankind Pharma
- **Mid-caps and Small-caps**: Indian Hotels, Angel One, Godrej Properties, Persistent Systems, Metro Brands, PNB Housing, Global Health, Cello World, Dixon Tech, and Five Star Business Finance

Exhibit 1: Third consecutive term for BJP in Haryana, contrary to the Exit Polls



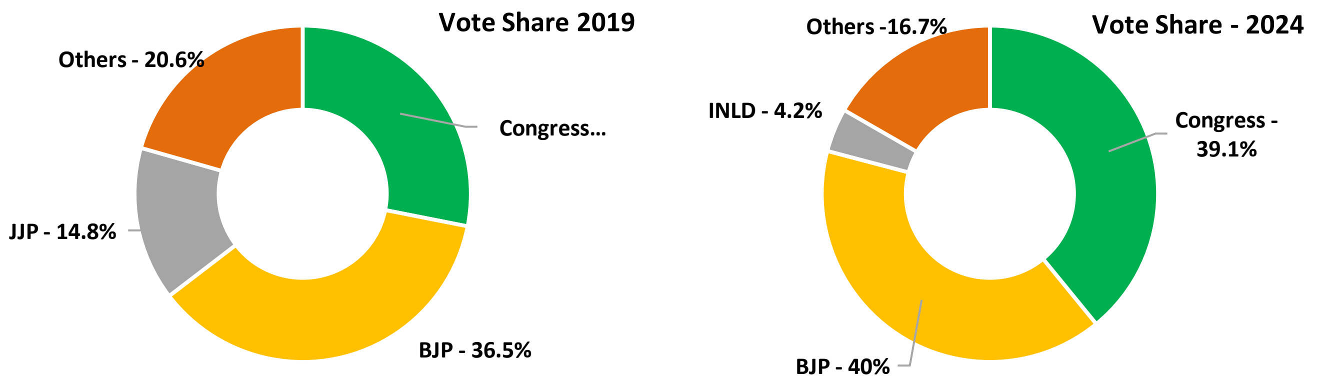
Source: Election Commission, Media, MOFSL

Exhibit 2: Market remained skeptical as Exit Polls predicted a resounding Congress victory in Haryana

Source	INC	BJP	INLD	OTH
Dainik Bhaskar	44-54	19-29	1-5	4-9
People's Pulse	55	26	2-3	3-5
Republic - Matrize	55-62	18-24	3-6	2-5
Jist - TIF Research	45-53	29-37	0-2	4-6
India Today- C Voter	50-58	20-28		10-16
News 24 - Chanakaya	55-62	18-24		2-5
Average	**51-57**	**22-28**		**4-8**

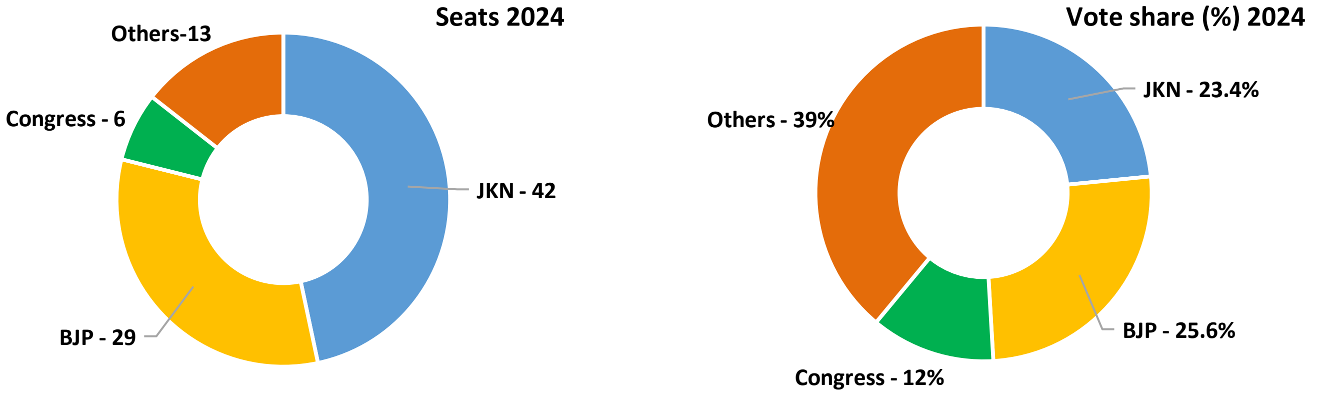
Source: Media, MOFSL

Exhibit 3: Haryana Vote share: Both BJP and Congress gained vote share in 2024 vs. 2019



Source: Election Commission, MOFSL

Exhibit 4: Jammu and Kashmir: Congress+ alliance won, but BJP secured the highest voter share for a single party



Source: Election Commission, Media, MOFSL

Clean Science & Technology

BSE SENSEX	S&P CNX
81,635	25,013

CMP: INR1,541 TP: INR1,580 (+3%) Neutral

CFCL – Future growth engine

- **CLEAN's R&D, focused on innovation and sustainability, achieved key milestones in FY24, including the commercialization of HALS series and the development of pharma intermediates. Currently, there are 10 new molecules in progress, which should drive future growth in the pharmaceuticals, polymers, and sustainable agrochemicals segments of the company.**
- **Clean Fino Chem (CFCL), a wholly owned subsidiary of CLEAN, is scaling up HALS production (current total capacity of 10.5ktpa) and expanding its capacity through Unit-4 and Unit-3 to meet rising global demand in pharmaceuticals, agrochemicals, and polymers. The new plastic application lab would further support HALS growth, while all future capex would happen in CFCL.**
- **During FY25-27, the company is expected to generate INR6b in FCF and plans to incur a capex of INR5.5b. The stock is currently trading at ~43x FY26E EPS of INR36 and ~32x FY26E EV/EBITDA. We value the stock at 40x Sep'26E EPS to arrive at our TP of INR1,580.**

Stock Info

Bloomberg	CLEAN IN
Equity Shares (m)	106
M.Cap.(INRb)/(USDb)	163.8 / 2
52-Week Range (INR)	1690 / 1243
1, 6, 12 Rel. Per (%)	1/5/-18
12M Avg Val (INR M)	265
Free float (%)	25.0

Financials Snapshot (INR b)

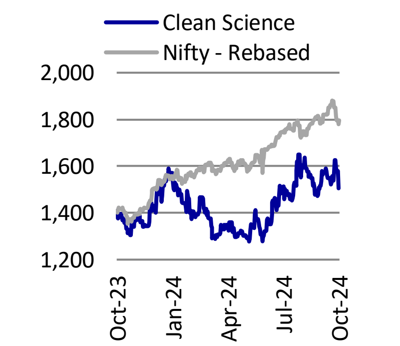
Y/E March	FY25E	FY26E	FY27E
Sales	9.4	12.6	15.6
EBITDA	4.0	5.0	6.0
PAT	2.8	3.8	4.6
EPS (INR)	26.6	36.0	43.1
EPS Gr. (%)	15.7	35.3	19.8
BV/Sh.(INR)	136.3	167.6	205.1
Ratios			
Net D:E	-0.0	-0.1	-0.2
RoE (%)	21.3	23.7	23.1
RoCE (%)	20.9	23.3	22.8
Payout (%)	13.1	13.1	13.1
Valuations			
P/E (x)	57.7	42.6	35.6
P/BV (x)	11.2	9.1	7.5
EV/EBITDA (x)	40.9	32.3	26.4
Div. Yield (%)	0.2	0.3	0.4
FCF Yield (%)	0.4	1.4	1.9

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	75.0	75.0	75.0
DII	4.6	5.0	6.4
FII	6.1	5.9	5.8
Others	14.4	14.1	12.8

FII Includes depository receipts

Stock performance (one-year)



R&D forms the cornerstone of CLEAN's operations

- CLEAN's R&D has been a key driver of its growth and competitive advantage, with a focus on innovation, sustainability, and catalytic process improvement. It has increased its investments in R&D infrastructure and developed a strong pipeline of new products that position it well to capture future growth opportunities across its product segments.
- In FY24, CLEAN achieved significant R&D milestones with the development and commercialization of the HALS series (770 and 622) for polymer stabilization, alongside new pharmaceutical intermediates like 4-Hydroxy Tempo and DCC, both in high demand for API production and pharmaceutical applications. The increase in R&D expenses (up 7% YoY to INR67m) highlights the management's commitment to innovation and long-term growth.
- CLEAN is developing over 10 new molecules across key sectors, boosting future growth prospects for the pharmaceuticals and polymers segments. It is focusing on reducing pharma intermediate imports and creating sustainable agrochemical formulations for food security, in line with the Indian government's "Atmanirbhar Bharat" initiative.

CFCL – Dawn of a new era

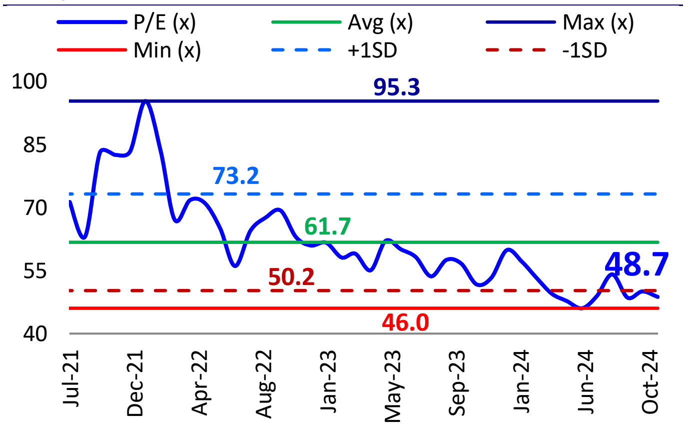
- CFCL has the largest facility in the company's history, with a land parcel of 34 acres. CLEAN has invested INR3.4b in CFCL (since Mar'22) funded through internal accruals. The management aims to enhance supply chain stability, optimize costs, and ensure strict product quality control.

- CLEAN is the first Indian company to develop the HALS series and it is scaling up capacity to meet domestic and global demand. The total production capacity of HALS is 10.5ktpa currently, with Cleanlight Stab 770 securing the REACH registration. The Unit-4 greenfield project and Unit-3 expansion will address the growing needs in pharmaceuticals, agrochemicals, and performance chemicals. All future expansions for the company are going to happen in CFCL going forward.
- Global HALS demand (USD1b) is projected to grow at a 10% CAGR by CY30, positioning CLEAN as a key player. CFCL commercialized some HALS products in FY24 (e.g., 770, 622), with more in the pipeline *(see exhibit 8)* to meet rising demand from polymers, paints, and the automotive industries. The new plastic application lab would also enhance product quality and support future HALS growth.

Valuation and view

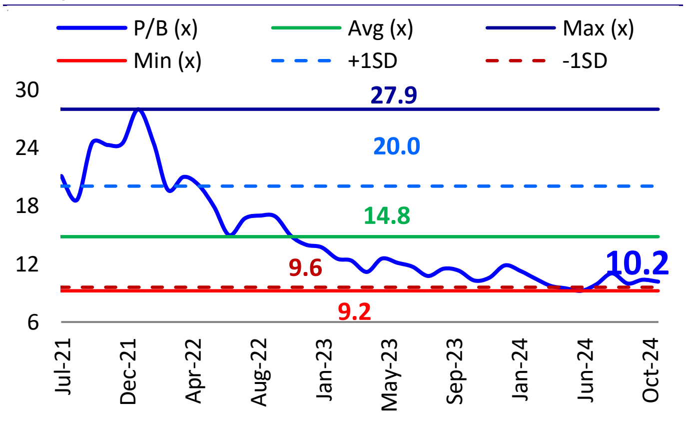
- CLEAN is actively pursuing R&D and has entered the HALS series, which has an estimated global market size of USD1b. While the commercial production from CFCL has commenced, the management expects HALS utilization to reach 80% in three years.
- The company is expected to generate INR6b in FCF during FY25-27, with a planned capex of INR5.5b for the same period. The company plans to finance this capex through internal accruals and is projected to maintain a net cash position in the future. The stock is currently trading at ~43x FY26E EPS of INR36 and ~32x FY26E EV/EBITDA. We value the stock at 40x Sep'26E EPS to arrive at our TP of INR1,580.

One year forward P/E



Source: Company, MOFSL

One year forward P/B



Source: Company, MOFSL

Avalon Technologies

BSE Sensex	S&P CNX
81,635	25,013

Bloomberg	AVALON IN
Equity Shares (m)	66
M.Cap.(INRb)/(USDb)	36.2 / 0.4
52-Week Range (INR)	668 / 425
1, 6, 12 Rel. Per (%)	8/-5/-31
12M Avg Val (INR M)	145

Financials & Valuations (INR b)

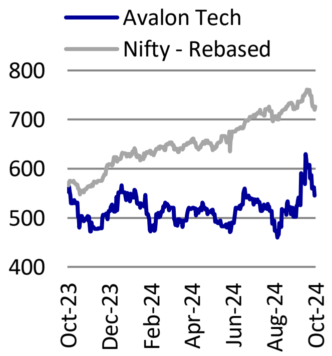
Y/E Mar	FY25E	FY26E	FY27E
Sales	10.5	14.1	18.4
EBITDA	0.8	1.6	2.3
PAT	0.4	1.0	1.6
EBITDA (%)	7.8	11.0	12.4
EPS (INR)	6.7	15.1	23.9
EPS Gr. (%)	58.3	123.3	58.7
BV/Sh. (INR)	90.0	105.1	129.0
Ratios			
Net D/E	(0.0)	(0.1)	(0.1)
RoE (%)	7.8	15.4	20.4
RoCE (%)	7.6	14.2	19.1
Valuations			
P/E (x)	81.6	36.5	23.0
EV/EBITDA (x)	43.7	23.0	15.6

Shareholding pattern (%)

As on	Jun-24	Mar-24	Jun-23
Promoter	50.9	50.9	51.2
DII	23.2	22.5	16.6
FII	2.6	2.4	12.5
Others	23.4	24.2	19.7

Note: FII includes depository receipts

Stock's performance (one-year)



CMP: INR549 TP: INR690 (+26%) Buy

Recovery in sight; to be repositioned for growth

Avalon Technologies (AVALON) stands out in the EMS landscape as the only player with a significant manufacturing presence in the US. While this has historically been a competitive advantage for the company, recent economic headwinds in the region have posed challenges. However, the company is successfully navigating these issues with a well-defined recovery plan for its US business, alongside continued growth in its domestic operations.

- **The US business is witnessing recovery with a shift in stance from destocking to restocking. Further, various strategic steps taken by the company during the leaner period are yielding results as the company is securing new orders and onboarding new clients.**
- **AVALON's domestic business is expected to thrive with significant wins in the aerospace, defense, EV, and industrial sectors. The company is expanding into new areas such as solar and servers while preparing to meet increasing demands with two new facilities in Chennai.**
- **Overall, we expect that majority of the pain is behind the company. AVALON's domestic as well as US businesses are expected to ramp up over 2HFY25 and FY26, leading to strong growth for the company.**

Light at the end of the tunnel for the US business

- AVALON witnessed a decline in revenue (down 16% YoY in FY24) and losses in its US business, driven by macroeconomic challenges that led to inventory destocking among several customers.
- However, the company believes that the destocking phase has now bottomed out, with signs of a shift toward restocking. Several customers are already nearing 100% of their original demand levels. Accordingly, the company's order inflow is expected to improve going forward.
- During this lean period, AVALON has taken several strategic steps to strengthen its US business for long-term growth. These include cost rationalization, relocating labor-intensive production to India, increasing the wallet share from existing clients, and acquiring new customers.
- The company has made significant inroads into the clean energy space and expects to benefit from the Inflation Reduction Act (IRA). A key customer in this segment has also received product compliance certification, leading to strong supplies from 2HFY25, which will be further ramped up in FY26.
- Sunrun – one of the key clients of Lunar Energy, which is a major customer of AVALON within the clean energy segment, in its recent concall, highlighted a stronger outlook for 2HFY25 with materially higher net subscriber value and positive cash flow generation.
- Further, Avalon has onboarded two auto-component companies as well as secured significant contracts with two major industrial companies. Additionally, the company has expanded into cable harnesses and lighting products within the aerospace sector, signing a 15-year master term agreement with a major global aerospace player.
- Factoring the momentum within the US business, going forward, we expect the company's US business to clock ~25% revenue CAGR over FY24-FY27 with margins to improve, led by favorable operating leverage.

Indian business to spearhead growth ahead

- While AVALON addressed challenges in its US operations, it remained focused on scaling its Indian business and strengthening its presence in the domestic market.
- The company has reinforced its foothold in established sectors such as industrial, rail, and automotive while expanding into high-growth areas such as solar, defense, and servers.
- Its concentrated efforts in the domestic market have led to major new wins in the aerospace, defense, and EV sectors, securing contracts with large multinational companies. Additionally, the company has secured new business from leading players in the industrial and energy sectors.
- AVALON is collaborating with key industry leaders in the rail sector on anti-collision Kavach systems, a development that could significantly boost its domestic rail business.
- To meet the rising demand, AVALON is set to launch two new facilities in Chennai, India. With prototyping orders already secured, we expect a ramp-up in domestic operations starting in 2HFY25, with further expansion in FY26.
- We anticipate AVALON’s Indian business to clock ~32% revenue CAGR over FY24-FY27, contributing ~50% to consolidated sales by FY27 (v/s ~41%/46% in FY23/FY24).

Valuation and view

- We believe that going forward, AVALON will be well-positioned for growth on account of: 1) recovery within the US business led by restocking from existing customers and new orders from recently onboarded clients; 2) continued growth within the Indian business led by new order wins and ramp up of upcoming plants; and 3) an increase in the mix of box build through new orders or increasing the wallet share from existing customers.
- We estimate AVALON to clock a CAGR of 28%/54%/78% in revenue/EBITDA/Adj. PAT over FY24-FY27. We reiterate our BUY rating on the stock with a TP of INR690 (40x Jun’26E EPS).

ICRA Webinar on Indian Banking Sector: FY25 credit growth to moderate to 11.6-12.5%

GNPA estimated to be in the range of 2.5-2.9% in FY25

ICRA hosted a webinar to discuss industry credit growth, asset quality, and profitability outlook. The webinar was presented by Mr. Karthik Srinivasan, Senior Vice President and Group Head; Mr. Anil Gupta, Senior Vice President and Co-Group Head; and Mr. Sachin Sachdeva. Following are the key insights from the session.

Focus to remain on mobilizing retail deposits

- Banks experienced significant changes in deposit structures, with a notable decline in retail and small deposits. Between 2021 and 2024, the share of retail deposits fell by 480bp to 59% from 64%, especially in PSBs. The CoF is expected to stay higher amid elevated deposits competition, despite potential rate cuts in the future, banks are expected to focus on reducing their lower-yielding wholesale deposit portfolios to offset pressures on NIMs.
- The decline in the share of CASA deposits to 38%, a multi-year low, is also adding to margin pressure for both private banks and PSBs. LCRs have been impacted by the shift away from retail deposits and focus towards wholesale deposits, resulting in higher outflow rates. Overall, banks are likely to focus on increasing retail deposits and curbing wholesale deposits to manage their CD ratios and LCRs effectively.

Expect credit growth to moderate to 11.6-12.5%

Credit growth remains strong, though it has moderated. As of 2024, it stands at 13% YoY, while deposit growth is at 11.6% YoY. The CD ratio has slightly dipped to 77.4%, excluding the HDFC merger, and 79.4% incl. merger. Retail credit growth remains robust at 14%, remaining a key driver for overall sector growth. However, there has been a contraction in credit to NBFCs, and overall credit growth is expected to moderate further to 11.6-12.5% by FY25. The unsecured loan segment is also slowing, with its growth rate decreasing in 2HFY24 and 1QFY25. This moderation in unsecured is expected to continue in FY25. Overall, ICRA expects credit growth is to moderate to 11.6-12.5% in FY25.

Asset quality manageable; GNPA expected to be in 2.5-2.9% by Mar'25

Asset quality is expected to witness some pressure as customer over-leveraging and the seasoning of new loan portfolios contribute to higher delinquencies. Although GNPA and NNPA ratios are expected to decline, with PSBs' GNPA likely to fall to 3.1% and private banks' GNPA to fall to 2.1% by Mar'25, the risk of slippages persists, particularly in the retail segment. Despite these pressures, the overall asset quality remains manageable, with potential macroeconomic changes likely influencing profitability. ICRA expects GNPAs to decline slightly to 2.5-2.9% by Mar'25, from 2.7% in Jun'24.

Expect RoA of 1.5-1.6% for private banks and 0.9-1.0% for PSBs

Banks' profitability and RoA are expected to moderate but will remain healthy. NIMs are likely to remain under pressure through FY25, largely due to high deposit rates. Credit costs are projected to increase slightly but will remain manageable, accounting for 17-24% of operating profit by FY25. PSBs are expected to achieve RoA of 0.9-1% and RoE of 13-14%, while PVBs are expected to maintain RoA of 1.5-1.6% and RoE of 13-14%.

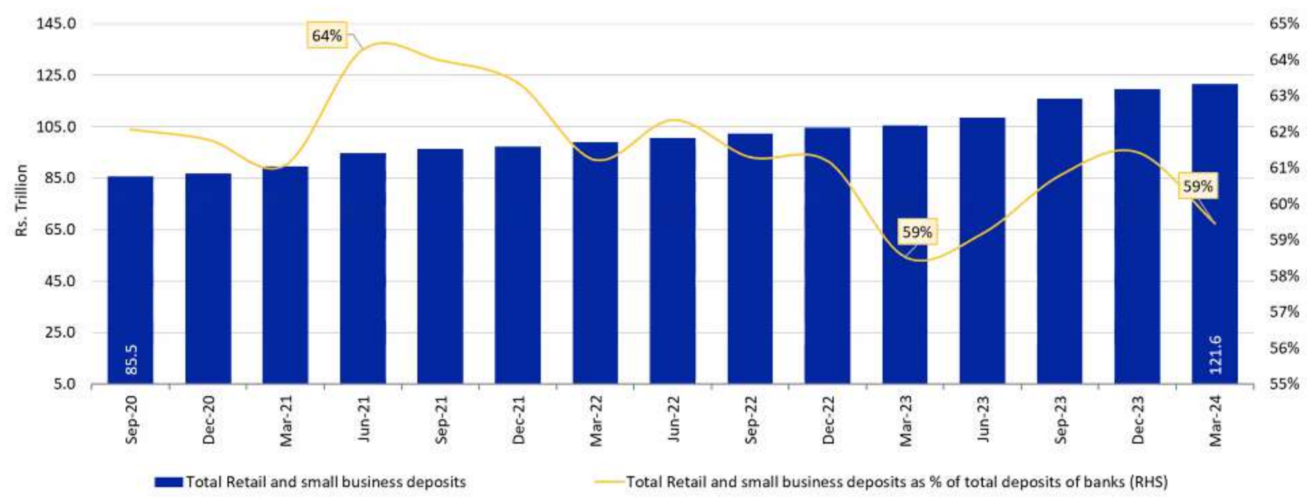
Credit cost likely to rise to 0.7% for PSBs and 0.9% for private banks by Mar'25

The credit cost has remained benign so far but is expected to rise marginally in FY25. It is expected to reach 0.7% for PSBs and 0.9% for private banks by Mar'25. This increase reflects the broader moderation in asset quality, particularly as newly originated loan portfolios begin to season and potential slippages increase.

Outlook for FY25

In FY25, ICRA expects the GNPA ratio to decline slightly to 2.5-2.9% by Mar'25 from 2.7% in Jun'24. The NNPA ratio is projected to remain stable at 0.5-0.6%. Banks' capital positions are expected to remain robust, with Tier-1 capital projected at 14.3-14.7%. No significant capital requirements are anticipated, given the projected credit growth of 11.6-12.5% in FY25. Solvency is expected to improve incrementally, supported by healthy profitability and low NNPAs. RoA and RoE metrics are likely to moderate, with RoA projected to be at 1.1-1.2% and RoE at 13.2-14.3% by FY25.

Share of retail and small deposits has declined to 59%



Source: ICRA, MOFSL

Senco Gold

BSE SENSEX	S&P CNX
81,635	25,013

Financials Snapshot (INR b)

Y/E March	2024	2025E	2026E
Sales	52.4	63.0	73.4
Sales growth (%)	28.5	20.2	16.6
EBITDA	3.8	4.9	5.6
EBITDA Margin (%)	7.2	7.7	7.7
Adj. PAT	1.8	2.4	2.9
EPS (INR)	23.3	31.3	37.4
EPS Gr. (%)	1.6	34.4	19.5
BV/Sh. (INR)	175.7	205.0	239.5
Ratios			
Debt/Equity	0.7	0.7	0.6
RoE (%)	15.7	16.4	16.8
RoIC (%)	11.8	12.4	12.6
Valuations			
P/E (x)	59.0	43.9	36.7
EV/EBITDA (x)	28.6	22.1	19.1

CMP: INR1,359

Robust revenue growth; slower store opening

Senco Gold (SENCO) released its pre-quarterly update for 2QFY25. Here are the key takeaways:

Industry update

- The consistent northward movement of gold prices was driven by active purchases made by the Central Bank, Fed rate cut, global war and uncertainty, and the emergence of gold as a store of value.
- Gold prices rose 5% QoQ and 31% YoY, while silver prices rose 3% QoQ and 30% YoY.
- Good monsoon in Eastern India acted as a tailwind for robust growth in tier 3 and tier 4 cities. The reduction of custom duty by 9% (15% to 6%) in Jul'24 also bolstered the pent-up demand of Q1.
- The high growth momentum until the first fortnight of the quarter was impacted by gold price crossing USD2,680/0z in the international market, along with the Shraddha period in the last week of Sept'24.

Business performance

- Retail growth was robust at 27% in 2Q YoY (in line) and 19% in 1H YoY.
- SSG growth substantially improved to 20% in 2Q (est. 20%) vs. 4% in 1Q, yielding 12% SSG growth in 1H.
- Stud ratio substantially improved to 11.1% in 2Q vs. 9.9% in 1Q, yielding 10.5% in 1H.
- SENCO opened 2 showrooms in 2QFY25.

Other highlights

- The company launched fresh 15,700 gold jewelry designs and 7,400 diamond jewelry designs in H1FY25.
- Old gold exchange continues to reinforce the non-organized to organized transition with 32% contribution from old gold and over 62% from non-SENCO.
- The Swarna Yojna customer base crossed 80,000, providing a captive base that usually contributes 8-10% of the total topline. Meanwhile, the Digi gold customer base reached 75,000.
- The company launched Marigold fixed and flexi gold plans to de-risk customers from gold price volatility and plan their wedding and festive purchases in advance.

Outlook for FY25

- SENCO plans to launch 18-20 jewelry showrooms, including 10-12 franchisees in FY25, with 8 already launched in H1.
- The company is guiding for 18-20% YoY revenue growth for FY25, supported by a strong festive season (Dhanteras, Diwali, and Durga Puja), which is traditionally a high-demand period for jewelry purchases.
- The company aims to launch new collections and efforts to improve the stud ratio to over 12%, while also boosting ASPs and overall margins, as studded jewelry offers higher profitability.

Consolidated Quarterly Performance (INR m)

Y/E March	FY24				FY25E				FY24	FY25E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Stores	**142**	**145**	**155**	**159**	**163**	**167**	**171**	**175**	**159**	**175**
Net Sales	**13,054**	**11,466**	**16,522**	**11,373**	**15,469**	**13,873**	**20,239**	**13,541**	**52,414**	**63,123**
Change (%)	29.6	25.8	23.3	39.7	18.5	21.0	22.5	19.1	28.5	20.4
Raw Material/PM	11,422	10,111	13,439	9,429	13,504	12,278	16,353	11,205	44,401	53,341
Gross Profit	**1,632**	**1,354**	**3,083**	**1,944**	**1,965**	**1,595**	**3,886**	**2,336**	**8,014**	**9,782**
Gross Margin (%)	12.5	11.8	18.7	17.1	12.7	11.5	19.2	17.2	15.3	15.5
Operating Expenses	960	960	1,272	1,067	1,156	1,105	1,635	1,345	4,259	5,239
% of Sales	7.4	8.4	7.7	9.4	7.5	8.0	8.1	9.9	8.1	8.3
EBITDA	**672**	**395**	**1,811**	**877**	**809**	**491**	**2,251**	**991**	**3,755**	**4,543**
Margin (%)	5.1	3.4	11.0	7.7	5.2	3.5	11.1	7.3	7.2	7.2
Change (%)	22.1	21.2	11.3	31.5	20.4	24.3	24.3	13.0	18.6	21.0
Interest	266	234	283	298	285	266	311	305	1,081	1,167
Depreciation	126	133	158	184	151	159	193	195	601	698
Other Income	94	110	89	128	113	118	110	124	422	465
PBT	**375**	**139**	**1,459**	**524**	**487**	**184**	**1,857**	**614**	**2,495**	**3,142**
Tax	98	20	366	202	122	46	466	154	685	789
Effective Tax Rate (%)	26.1	14.1	25.1	38.6	25.1	25.1	25.1	25.1	27.5	25.1
Adjusted PAT	**277**	**119**	**1,093**	**322**	**365**	**138**	**1,391**	**460**	**1,810**	**2,353**
Change (%)	22.7	35.9	5.8	23.6	31.8	15.1	27.2	43.0	14.2	30.0

E: MOFSL Estimates

NALCO: Aluminium prices are expected to be in the range of $2300-2500/t; Sridhar Patra, CMD

- Expect Alumina prices at 600$/tn
- Global market deficit at 1 mt
- Alumina capacity expansion on stream in mid FY26
- Expect captive coal savings of Rs.350 cr in FY25 and Rs.650 cr in FY26

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HEG: Bought GrafTech Stake As Valuations Were Attractive; Manish Gulati, Executive Director

- Not averse to buying more stake in Graftech
- Targetes volumes at 75k tns in FY25
- H2 margins To Be Better Than H1 as GE market looking up
- Cash on Books at 350 Cr ex Working Capital

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Hi-Tech Pipes: Have Received Good Demand For QIP From Both Domestic & Foreign Funds; Anish Bansal, CEO

- Will repay 350 Cr debt with QIP money
- Will double capacity to 2 mt by FY29 vs 1mt as of FY25
- EBITDA/tn will improve to Rs.4500/tn vs Rs.3500/tn now
- ROCE will improve to 20%

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Antony Waste Handling: Have Bid For Orders Worth ₹5,000 Cr & May Win ₹2,000-2,500 Cr Worth Of Orders; NG Subramanian, CFO

- Subsidiary wins order worth 908cr with concession for 9 yr period
- Order is for doo-to-door collection & transformation of municipal solid waste
- Guides for 18% revenue growth with margins of 23-24% in FY26
- Expect margin to improve by 125-150 bps in FY26

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Omaxe: Plans To Invest Around ₹10,000 Cr Over Next 2-3 Years; Mohit Goel, Group MD

- Looking to invest around 2500cr in residential and 1000cr in commercial
- Targeting sales worth Rs 5,000 cr from their upcoming launches in FY25.
- Current order book around 9000cr
- May become debt free by FY25

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NOTES

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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

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