Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	81,973	0.7	13.5
Nifty-50	25,128	0.7	15.6
Nifty-M 100	59,465	0.4	28.8
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,860	0.8	22.9
Nasdaq	18,503	0.9	23.3
FTSE 100	8,293	0.5	7.2
DAX	19,508	0.7	16.5
Hang Seng	7,580	-0.5	31.4
Nikkei 225	39,606	0.0	18.4
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	78	-2.6	0.4
Gold ($/OZ)	2,649	-0.3	28.4
Cu (US$/MT)	9,526	-1.3	12.6
Almn (US$/MT)	2,555	-2.2	9.0
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	84.1	0.0	1.0
USD/EUR	1.1	-0.3	-1.2
USD/JPY	149.8	0.4	6.2
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.8	-0.01	-0.4
10 Yrs AAA Corp	7.2	0.00	-0.5
Flows (USD b)	**14-Oct**	**MTD**	**CYTD**
FIIs	-0.4	-7.15	4.3
DIIs	0.27	7.42	48.0
Volumes (INRb)	**14-Oct**	**MTD***	**YTD***
Cash	970	1178	1296
F&O	2,39,835	4,00,278	3,81,379

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

IPCA Laboratories: At an inflexion point

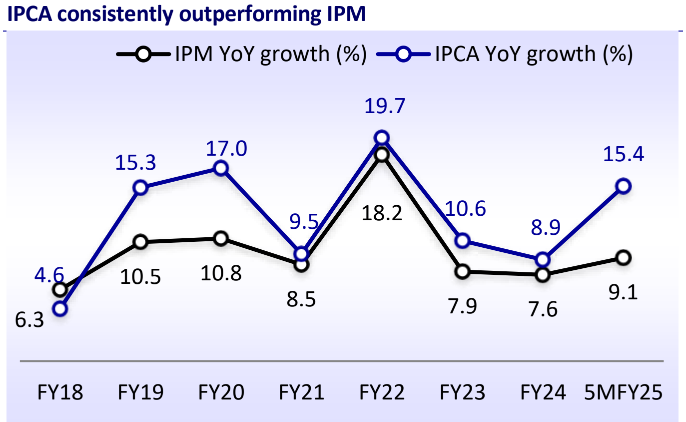
- After three years of declining earnings, IPCA is set for strong growth between FY24-27.
- It has significantly outperformed the domestic formulation (DF) market with 15% YoY growth as of MAT Aug'24 and a 15% CAGR from MAT Aug'21-24.
- IPCA is boosting its export potential through new launches and market share gains in generics exports, alongside synergies from the Unichem acquisition.
- After a decade of underperformance in the US generics business due to compliance issues, IPCA is reviving this segment with improved USFDA compliance and new launches.
- With a 29% earnings CAGR and improved return ratios to 17% over FY24-26, we value IPCA at 38x12M forward earnings, to arrive at a TP of INR1950. We upgrade it to BUY as we factor in better operational efficiency, a revival in US business, synergies from the Unichem acquisition, and well-established DF business.

Research covered

Cos/Sector	Key Highlights
IPCA Laboratories	At an inflexion point; upgrade to Buy
Reliance Industries	Weak results; recovery in O2C and Retail remains key
HCL Technologies	Leading the bounce-back
Dabur India	Bleak 2Q does not necessitate a weak outlook
Expert Speak - Semiconductor	India's Semiconductor Potential
Angel One	PAT beat due to better-than-expected operational efficiency
EcoScope	Sep'24 CPI inflation inches up to nine-month high of 5.5%
	WPI inflation rises to 1.8% in Sep'24

Chart of the Day: IPCA Laboratories (At an inflexion point)

IPCA consistently outperforming IPM



Source: MOFSL, Company

All facilities are compliant to USFDA regulations

Company	City	Inspection End Date	Classification
IPCA	Dhar	Jun-23	VAI
	Ratlam	Jun-23	VAI
	Silvassa	Apr-23	VAI
	Silvassa	Aug-19	OAI
Unichem	Pilerne Bardez	Jul-24	VAI
	Ghaziabad	Feb-24	NAI
	East Brunswick	Sep-23	NAI
	District Raigad	Feb-20	NAI
	Pilerne Bardez	Jan-20	VAI

Note: NAI- No Action Indicated, VAI- Voluntary Action Indicated, OAI- Official Action Indicated,
Source: MOFSL, Company, USFDA

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Voltas, Daikin, and Orient among 38 white goods PLI scheme bidders

According to Sanjiv, joint secretary, Department for Promotion of Industry and Internal Trade (DPIIT) the latest round will attract investment worth Rs 4121 crore

2

Airtel likely to have renewed ₹10k cr deals for 4G, 5G gear

Bharti Airtel has finalized multi-year contracts worth $1.2 billion with Ericsson, Nokia, and Samsung for 4G and 5G equipment, aiming to boost its network capabilities over the next three years.

3

Hero Electric seeks to settle subsidy misappropriation case with Centre

Hero Electric has sought the Ministry of Heavy Industries' intervention to resolve ongoing disputes and release pending EV subsidies.

4

Oyo likely to raise $200 million at 2x valuation of $4.5-5 billion

Fundraise to help it take over budget hotel chain Motel 6

5

CDPQ to buy Ashoka's BOT toll road assets for Rs 4,500 crore

Canadian pension fund CDPQ is poised to acquire five BOT toll road assets from Ashoka Concessions for ₹4,500 crore.

6

India's renewable energy capacity crosses 200 GW

As of October 2024, renewable energy-based electricity generation capacity stands at 201.45 GW, accounting for 46.3 percent of the country's total installed capacity

7

Power ministry pitches for PLI for transmission equipment

The government has projected the cost of the inter-state transmission system to grow at a compound annual growth rate of 14.5% in the next five years.

IPCA Laboratories

BSE SENSEX	S&P CNX
81,381	24,964

Stock Info

Bloomberg	IPCA IN
Equity Shares (m)	254
M.Cap.(INRb)/(USDb)	419.8 / 5
52-Week Range (INR)	1659 / 933
1, 6, 12 Rel. Per (%)	15/15/50
12M Avg Val (INR M)	625
Free float (%)	53.7

Financials Snapshot (INR b)

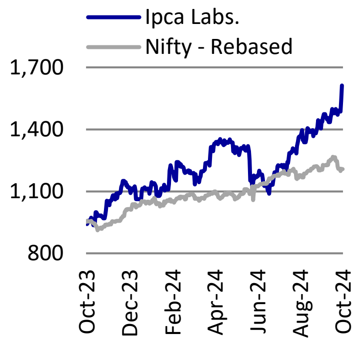
Y/E MARCH	FY25E	FY26E	FY27E
Sales	88.9	101.6	119.6
EBITDA	17.2	20.2	24.9
Adj. PAT	8.5	10.9	14.2
EBIT Margin (%)	14.9	16.0	17.4
Cons. Adj. EPS (INR)	33.4	42.8	55.9
EPS Gr. (%)	60.8	28.1	30.5
BV/Sh. (INR)	278.0	314.4	362.0
Ratios			
Net D:E	0.3	0.2	0.1
RoE (%)	12.7	14.5	16.5
RoCE (%)	11.2	12.1	14.0
Payout (%)	22.0	17.9	19.2
Valuations			
P/E (x)	49.6	38.7	29.7
EV/EBITDA (x)	24.6	20.9	17.0
Div. Yield (%)	0.5	0.5	0.7
FCF Yield (%)	1.1	2.2	2.4
EV/Sales (x)	4.8	4.2	3.5

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	46.3	46.3	46.3
DII	33.8	34.4	35.2
FII	10.9	10.5	10.1
Others	9.1	8.8	8.5

FII Includes depository receipts

Stock performance (one-year)



CMP: INR1,659 TP: INR1,950 (+18%) Upgrade to Buy

At an inflexion point

- **After three years of earnings deterioration, IPCA is well-poised to deliver strong earnings growth over FY24-27.**
- **With broad-based growth in volume and pricing, IPCA has been able to outperform the industry significantly in the domestic formulation (DF) market, with 15% YoY growth in MAT Aug'24 and a 15% CAGR in MAT Aug'21-24.**
- **IPCA is making efforts to augment its export prospects through new launches and market share gains in generics exports. It is also working to drive synergies from the Unichem acquisition.**
- **After a muted performance in the US generics business over the last 10 years due to compliance issues, IPCA is geared up to revive its US business through improving USFDA compliance, new launches over the next 6-8 months, and synergies from the Unichem acquisition.**
- **Considering a 29% earnings CAGR and an anticipated improvement in the return ratio to ~17% over FY24-26, we value IPCA at 38x 12M forward earnings to arrive at a TP of INR1950. We upgrade IPCA to BUY as we factor in better operational efficiency, a revival in US business, synergies from the Unichem acquisition, and well-established DF business.**

DF: Geared up to sustain industry-beating growth

- Given the highest share of acute therapies in the DF market (68% of DF sales MAT Aug'24) and chronic therapies (32% of DF sales MAT Aug'24), IPCA has outperformed IPM consistently over MAT Aug'21-24, led by strong brand equity, efficient management of seasonality, increase in MR productivity and market share gain.
- IPCA's Cardiac/Anti-infective/Derma outperformed IPM by 6%/10.6%/ 13.1% in MAT Aug'24, led by superior execution.
- Although the pharma industry has been witnessing a decline in Pain therapy, IPCA has outperformed IPM by ~680bp over MAT Aug'21-24, led by strong execution and growth in its key brands, including Zerodol and combination.
- IPCA is focusing on improving MR productivity, new launches and market share gain in existing and new launches.
- We expect a 14% sales CAGR in the DF segment over FY25-27.

Exports: Healthy momentum in generics formulation business

- The company's export formulation business grew slowly at a CAGR of 3.6% over FY21-FY24, dragged down by a decline in its institutional business (-11.5%) and slower growth in its generics business (6.7% CAGR).
- We expect IPCA to deliver a 27% CAGR in exports over FY24-27 on the back of a healthy approval pace, a sound compliance record, and new product launches.

Valuation and view

- We believe that the positive factors for IPCA include strong domestic brand franchise, improved USFDA compliance, US business revival, synergic benefits of the Unichem acquisition, and improving operational efficiency.
- We value IPCA at 38x 12M forward earnings to arrive at a TP of INR1,950. We upgrade to BUY.

Valuation snapshot

Company	Reco	MCap	EPS (INR)			EPS Gr. YoY (%)		PE (x)		EV/EBITDA (x)		ROE (%)		
		(USD B)	FY24	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY24	FY25E	FY26E
Ajanta Pharma	Buy	5.0	62.3	75.8	87.8	21.7	15.6	44.2	38.2	31.1	27.1	22.7	24.5	23.7
Alembic Pharma	Neutral	2.7	31.5	37.4	41.2	18.8	10.3	31.4	28.4	19.3	17.2	13.5	14.2	13.9
Alkem Lab	Neutral	8.7	159.7	187.8	204.3	17.6	8.8	32.9	30.2	27.9	25.5	19.7	20.1	18.8
Aurobindo Pharma	Neutral	10.2	56.0	66.3	73.8	18.3	11.3	22.5	20.3	11.6	10.7	11.6	12.3	12.2
Biocon	Neutral	4.9	1.8	4.4	9.2	144.4	109.8	78.5	37.4	16.1	12.6	1.1	2.6	5.3
Cipla	Buy	15.5	52.5	58.7	65.6	11.9	11.7	27.2	24.3	18.0	15.7	15.9	15.4	14.9
Divi's Lab.	Neutral	18.8	60.0	77.7	95.1	29.6	22.4	79.0	64.5	53.8	44.9	12.1	14.4	15.9
Dr Reddy's Labs	Neutral	13.0	317.1	353.8	389.0	11.6	9.9	18.7	17.0	11.0	9.2	20.7	19.1	17.7
Eris Lifescience	Neutral	2.3	29.2	30.4	42.0	4.0	38.0	45.5	33.0	17.7	15.4	16.8	15.2	18.2
Gland Pharma	Buy	3.3	47.6	53.4	67.0	12.1	25.6	31.8	25.3	17.8	14.4	9.4	9.6	10.9
Glenmark Pharma	Buy	5.9	2.5	47.5	59.2	1811.9	24.6	37.8	30.3	19.5	16.1	0.8	15.8	16.8
Glaxosmit Pharma	Neutral	5.6	43.3	48.1	53.4	11.1	11.1	57.9	52.1	42.9	38.1	41.3	38.3	35.3
Granules India	Buy	1.7	17.4	22.2	29.4	27.7	32.8	27.2	20.5	14.5	11.8	13.9	15.4	17.5
Ipca Labs.	**Upgrade to Buy**	**4.8**	**20.8**	**33.5**	**43.0**	**61.3**	**28.2**	**49.4**	**38.5**	**24.9**	**20.8**	**8.7**	**12.7**	**14.5**
Laurus Labs	Buy	2.9	3.0	6.7	11.9	121.9	78.3	70.8	39.7	24.7	18.8	4.0	8.4	13.7
Lupin	Neutral	11.6	41.5	59.2	69.8	42.5	17.8	37.6	31.9	21.3	17.9	14.1	17.3	17.4
Mankind Pharma	Buy	12.8	47.8	54.5	62.4	14.1	14.6	51.3	44.7	34.6	29.5	22.8	21.4	20.9
Piramal Pharma	Buy	3.4	0.4	2.6	5.3	509.3	107.2	85.8	41.4	21.8	16.1	0.8	4.2	8.2
Sun Pharma.Inds.	Buy	53.9	41.4	49.2	57.9	18.6	17.8	38.7	32.8	30.5	26.4	16.7	17.2	17.4
Torrent Pharma.	Neutral	13.9	47.1	63.4	82.0	34.6	29.3	55.2	42.7	29.2	24.5	24.4	28.5	30.5
Zydus LifeScience	Neutral	12.6	37.6	43.9	47.3	16.5	7.9	24.3	22.5	15.9	14.3	20.3	19.6	17.4

Source: MOFSL, Company

Reliance Industries

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	RELIANCE IN
Equity Shares (m)	6766
M.Cap.(INRb)/(USDb)	18574.3 / 221
52-Week Range (INR)	3218 / 2220
1, 6, 12 Rel. Per (%)	-6/-18/-10
12M Avg Val (INR M)	18491

Financials & Valuations (INR b)

Y/E Mar	FY24	FY25E	FY26E
Sales	9,011	9,299	9,927
EBITDA	1,622	1,650	2,051
Adj PAT	696	654	877
EBITDA (%)	18%	18%	21%
EPS (INR)	102.9	96.7	129.7
EPS Gr. (%)	4%	-6%	34%
BV/Sh. (INR)	1,231	1,325	1,452
Ratios			
Net D/E	0.3	0.3	0.2
RoE (%)	8.6	7.9	9.8
RoCE (%)	8.4	8.1	9.8
Valuations			
P/E (x)	26.7	28.4	21.2
P/BV (x)	2.2	2.1	1.9
EV/EBITDA (x)	13.0	12.8	10.2
Div Yield (%)	0.2	0.3	0.3
FCF Yield (%)	0.6	0.0	0.0

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	49.1	49.1	49.1
DII	17.3	17.0	15.9
FII	23.5	23.8	24.5
Others	10.2	10.2	10.5

FII Includes depository receipts

CMP: INR2,745 TP: INR3,255 (+19%) Buy

Weak results; recovery in O2C and Retail remains key

- Reliance Industries (RIL)'s 2QFY25 consolidated EBITDA declined 5% YoY (flat QoQ) to INR391b (2% miss) due to a weaker performance in O2C (softer refining/petchem cracks) and Reliance Jio (elevated subscriber churn). Reliance Retail remained weak because of rationalization efforts. Attributable PAT declined ~5% YoY to INR166b (+9% QoQ), but it exceeded our estimate by 4% on lower depreciation and higher other income.
- **Reliance Jio (RJio):** Revenue/EBITDA grew 7%/8% QoQ, but came in 2% below our estimates as the partial flow-through of the recent tariff hike was partly offset by a large subscriber loss (net wireless subs declined ~13m).
- **Reliance Retail (Retail):** Net revenue declined ~4% YoY due to weak demand in the fashion & lifestyle category. We believe the decline in core retail would likely be higher as Connectivity would have benefitted from RJio's tariff hikes. However, reported EBITDA inched up 1% YoY (in line) as margins expanded 35bp YoY to 8.8% (60bp beat). Reported PAT was up ~5% YoY.
- **Standalone EBITDA** declined 30% YoY (-6% QoQ) to INR134b and came in 5% below our estimate, mainly due to softer cracks YoY in both refining and petchem. Standalone PAT declined 31% YoY (up 1% QoQ), but was 10% ahead of our estimate on higher other income and lower DD&A and interest costs. We cut our standalone FY25E EBITDA/PAT by 6%/8% as we build in weaker refining/petchem margins in 2HFY25.
- Consolidated net debt increased by INR40b QoQ to INR1,164b, and 2Q capex rose 18% QoQ to INR340b (down 12% YoY) due to higher capex in O2C and New Energy, while capex in RJio declined.
- We cut our FY25/FY26 consolidated EBITDA estimates by 1-2% and PAT estimates by 6%/3%, as we reduce our estimates for standalone earnings by ~8%, RJio earnings by 1-3% and Retail earnings by 2-10%. We model a CAGR of 12-13% in EBITDA/PAT over FY24-27, driven by more frequent tariff hikes in RJio and a recovery in Retail and O2C earnings.
- Using the SoTP method, we value RIL's standalone business at 8x Dec'26E EV/EBITDA to arrive at a value of INR1,001/sh. We ascribe an equity value of INR1,001/sh to RIL's equity stake in RJio (based on DCF) and INR1,319/sh to RIL's equity stake in Retail, as well as assign INR89/sh to RIL's New Energy business. **Reiterate BUY with a revised TP of INR3,255 (earlier INR3,410).**

RJio – Tariff hike flow-through offset by higher subscriber churn

- RJio's standalone revenue was up 7% QoQ (15% YoY; 2% miss) at INR283b, driven by a partial flow-through of the recent tariff hikes.
- Blended ARPU rose ~7% QoQ/YoY (in line) to INR195/month, while the subscriber base declined ~2.2% QoQ **(~11m QoQ net decline)** to 478.8m due to a heightened churn (2.8% vs. 1.7% QoQ) after the tariff hikes.
- EBITDA grew 8% QoQ (16% YoY) to INR150b (2% miss). The miss was largely due to weaker revenue. EBITDA margin expanded ~50bp QoQ to 53.1% (~20bp miss). Incremental EBITDA margin stood at 60% (vs. 59% in 1Q).

- RJio has significantly ramped up the pace of home connects to 1.8m in 2QFY25 (3x over past four quarters) through its FWA offering, **JioAirFiber.**
- We trim our FY25/FY26 wireless subscriber estimates by 4-6%, considering the accelerated churn after the recent tariff hikes. The impact is partly offset by the ramp-up in FTTH/FWA homes. As a result, we lower our FY25/FY26 revenue and EBITDA estimate by 1-3%. We continue to build in the next round of the tariff hike in Dec'25 (~15% or INR50/month on base pack). For RJio, we expect a CAGR of ~17%/20% in revenue/EBITDA over FY24-27, driven by the tariff hike flow-through and potential market share gains.

Reliance Retail – Weak revenue print (YoY decline), but margin expands

- Reliance Retail's consolidated net revenue declined ~4% YoY (7% miss) due to weaker demand in the fashion & lifestyle category and continued rationalization of smaller/unprofitable stores. The decline in core retail (excluding Connectivity) is estimated to be higher as Connectivity would have benefitted from RJio's tariff hikes (Core-retail revenue declined by 9% YoY to INR473b, as per our estimates).
- Blended **EBITDA grew by a modest 0.5% YoY to INR59b (in line) as margins expanded 35bp YoY to 8.8% (60bp ahead). Margin expansion was driven by its continued focus on** streamlining operations and calibration in B2B.
- In 2QFY25, Retail added 464 stores and closed 436 stores (net 28 store adds), taking the total store count to 18,946. Net area declined by 1.9m sqft to 79.4m sqft, implying the continuation of store/area consolidation.
- The quarter recorded footfall of over 297m across formats (up 14% YoY), while the number of transactions grew by 9% YoY.
- For FY25/FY26, we lower our revenue estimates by 6%/10% and PAT estimates by 2%/10%. We expect a CAGR of 12%/14%/14% in revenue/EBITDA/PAT over FY24-27.

Standalone – 2Q hit by weaker refining, petchem spreads

- Revenue stood at INR1,301b (-5% YoY). EBITDA came in at INR134b (est. INR141b; -30% YoY).
  - The weakness in EBITDA was due to softer cracks YoY in both refining and petrochemicals, even as production meant for sale was marginally up YoY. Standalone results were also impacted marginally by the cut in gas prices for both KG-D6 and CBM production.
- EBITDA/mt stood at ~USD54.8 (-46% YoY; our est. USD60.5/mt) amid weak Gasoline/Gasoil cracks, which were down 48%/53% YoY.
  - Production meant for sale stood at 17.7mmt (+4% YoY).
- Reported PAT was INR77b (est. INR70b, -31% YoY). The 10% beat vs. our estimate was driven by lower-than-expected DDA and interest expenses and higher-than-estimated other income.
- Gas price realization for KG-D6 gas declined to USD9.55/mmBtu in 2QFY25 from USD10.5/mmBtu in 2QFY24. Oil & Gas exploration EBITDA increased 11% YoY to INR52.9b (flat QoQ).

Key macro performance highlights:

- Global oil demand in 2QFY25 rose only 0.8mb/d YoY (vs. 2.5mb/d in 2QFY24) to 103.9mb/d.
- The global refinery throughput was lower by 0.5mb/d YoY at 82.3mb/d in 2Q.
- Crude oil benchmarks declined YoY due to lower-than-expected demand growth, especially in China. Rising supplies from non-OPEC producers drove prices down, despite OPEC+ countries extending their voluntary production cuts.

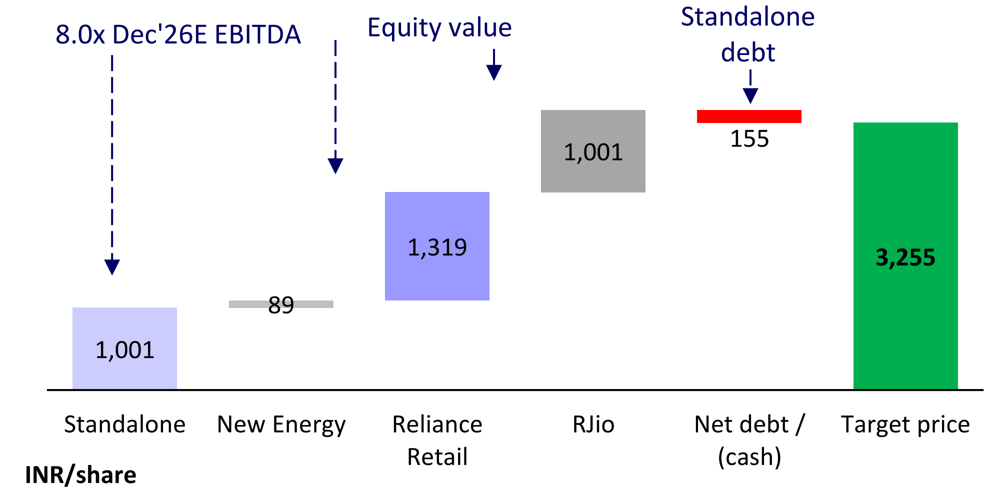
Spreads in Oct'24 have remained weak:

- So far in Oct'24, refining cracks for gasoil, gasoline and jet fuel are down USD1-2/bbl vs. the 2QFY25 average.
- While polymer cracks are flat in Oct'24 to date vs. the 2QFY25 average, PX cracks have continued to decline another 30%.

Valuation and view

- Among the segments, we expect RJio to be the biggest driver of EBITDA growth over FY24-27, driven by more frequent tariff hikes, market share gains in wireless, and the ramp-up of its Homes and Enterprise business. We expect growth recovery in Retail after the recent rationalization of unprofitable stores and B2B, driven by increased footprint, category additions, and a potential foray into quick commerce.
- We value RJio's mobility business on DCF. We build in a CAGR of ~2% in subscriber addition and ~6% in ARPU over FY27-34 to arrive at an enterprise valuation of INR9.8t (or ~USD117b), which implies ~12x FY27E EV/EBITDA. We use the same multiple to value RJio's Homes and JPL businesses to arrive at an overall EV of ~INR12t (or ~USD142b). We ascribe an equity value of INR1,001/share for RIL's ~66.5% stake in JPL.
- We value Retail's core business at 38x EV/EBITDA on Dec'26E and Connectivity at 5x to arrive at an equity value of INR10.7t (INR1,579 per share). RIL's attributable stake in Retail comes to INR1,319/sh. The recovery in Retail revenue growth would be the key near-term trigger.
- Refining cracks are expected to remain soft in 2HFY25 given weak demand and supply from new capacities.
- While polymer cracks in 3QFY25'TD have been flat QoQ, PX spreads have corrected further, and we do not expect a sharp recovery for the petchem segment overall in 2HFY25. The China stimulus and new capacity additions remain key monitorables for the petchem and refining segments.
- We model a capex of INR650b for FY25 and FY26 each in the standalone business, considering RIL's investments in new-age greener businesses (such as solar energy, and a hydrogen ecosystem in India).
- We maintain our capex estimates at ~INR1.2t over FY25-26 as we expect RJio capex to decline but O2C/New Energy capex to pick up.
- Using the SoTP method, we value RIL's standalone business at 8x Dec'26E EV/EBITDA to arrive at a valuation of INR1,001/sh. We ascribe an equity value of INR1,001/sh to RIL's equity stake in RJio (based on DCF) and INR1,319/sh to RIL's equity stake in Retail, as well as assign INR89/sh to RIL's New Energy business. **Reiterate BUY with a revised TP of INR3,255 (earlier INR3,410).**

Exhibit 1: RIL – SoTP valuation (INR/share)



Consolidated - Quarterly Earnings Model (INR b)

Y/E March	FY24				FY25				FY24	FY25	FY25	Var v/s
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	Est. (%)
Net Sales	**2,076**	**2,319**	**2,251**	**2,365**	**2,318**	**2,315**	**2,341**	**2,319**	**9,011**	**9,299**	**2,307**	**0%**
YoY Change (%)	-5.4	0.8	3.6	11.1	11.7	-0.2	4.0	-1.9	2.5	3.2	-0.5	
EBITDA	**381**	**410**	**407**	**425**	**388**	**391**	**424**	**444**	**1,622**	**1,650**	**397**	**-2%**
Margins (%)	18.4	17.7	18.1	18.0	16.7	16.9	18.1	19.1	18.0	17.7	17.2	
Depreciation	118	126	129	136	136	129	134	136	508	535	133	-3%
Interest	58	57	58	58	59	60	65	74	231	258	60	0%
Other Income	38	38	39	45	40	49	38	24	161	149	40	22%
PBT before EO expense	**243**	**265**	**258**	**277**	**232**	**250**	**263**	**258**	**1,043**	**1,007**	**244**	**3%**
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**243**	**265**	**258**	**277**	**232**	**250**	**263**	**258**	**1,043**	**1,007**	**244**	**3%**
Rate (%)	25.2	25.2	24.6	23.7	24.9	23.7	24.6	21.9	24.6	25.3	24.4	
Minority Interest & Profit/Loss of Asso. Cos.	21.7	24.3	22.2	21.9	23.1	25.4	24.4	24.8	90.1	97.7	24.9	
Reported PAT	**160**	**174**	**173**	**190**	**151**	**166**	**174**	**177**	**696**	**654**	**160**	**4%**
Adj PAT	**160**	**174**	**173**	**190**	**151**	**166**	**174**	**177**	**696**	**654**	**160**	**4%**
YoY Change (%)	-12.0	27.0	9.2	-1.8	-5.5	-4.8	0.7	-6.8	2.5	-6.0	-8.2	
Margins (%)	7.7	7.5	7.7	8.0	6.5	7.2	7.4	7.6	7.7	7.0	6.9	

Standalone - Quarterly Earnings Model (INR b)

Y/E March	FY24				FY25		FY25	Var
	1Q	2Q	3Q	4Q	1Q	2Q	2QE	(%)
Net Sales	**1,226**	**1,374**	**1,277**	**1,468**	**1,299**	**1,301**	**1,273**	**2%**
YoY Change (%)	-16.3	0.0	1.5	13.2	5.9	-5.3	-7.4	
EBITDA	**175**	**192**	**176**	**200**	**143**	**134**	**141**	**-5%**
Margin (%)	14.3	14.0	13.7	13.6	11.0	10.3	11.1	
Depreciation	39	44	46	49	47	44	46	
Interest	36	32	30	36	30	27	32	
Other Income	27	29	30	35	35	38	30	
PBT before EO expense	**127**	**145**	**130**	**151**	**101**	**102**	**93**	**9%**
Extra-Ord expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	**127**	**145**	**130**	**151**	**101**	**102**	**93**	**9%**
Tax	31	33	31	38	25	25	23	
Rate (%)	24.4	22.7	23.5	25.0	25.0	24.5	24.8	
Reported PAT	**96**	**112**	**99**	**113**	**76**	**77**	**70**	**10%**
Adj PAT	**96**	**112**	**99**	**113**	**76**	**77**	**70**	**10%**
YoY Change (%)	-32.3	64.9	19.6	-18.0	-20.9	-31.2	-37.4	
Margin (%)	7.9	8.2	7.8	7.7	5.9	5.9	5.5	
Key Assumptions								
Production meant for sale (mmt)	17.2	17.1	16.4	17.1	17.7	17.7	17.5	1%
EBITDA/mt (USD)	95.1	102.0	86.3	100.4	61.7	54.8	60.5	-9%

HCL Technologies

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	HCLT IN
Equity Shares (m)	2714
M.Cap.(INRb)/(USDb)	5036.3 / 59.9
52-Week Range (INR)	1866 / 1212
1, 6, 12 Rel. Per (%)	3/10/21
12M Avg Val (INR M)	4807

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	1,173	1,291	1,419
EBIT Margin (%)	18.2	18.9	18.9
PAT	174	196	218
EPS (INR)	63.7	71.9	80.3
EPS Gr. (%)	10.1	12.9	11.6
BV/Sh. (INR)	247	245	241
Ratios			
RoE (%)	25.6	29.3	33.1
RoCE (%)	22.7	26.3	29.3
Payout (%)	90.0	90.0	90.0
Valuations			
P/E (x)	29.3	25.9	23.2
P/BV (x)	7.5	7.6	7.7
EV/EBITDA (x)	19.6	17.2	15.6
Div Yield (%)	3.1	3.5	3.9

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	60.8	60.8	60.8
DII	15.8	15.0	15.4
FII	18.7	19.9	19.2
Others	4.7	4.3	4.6

FII Includes depository receipts

CMP: INR1,865 TP: INR2,300 (+23%) Buy

Leading the bounce-back

Broad-based growth and outlook reinforce HCLT as our top pick

- HCL Technologies (HCLT) reported a muscular 2QFY25, with revenue of USD3.4b, up 1.6% QoQ (~2.5% organic) and 6.2% YoY in constant currency (CC), above our estimate of flat revenue growth. EBIT margins came in at 18.6%, beating our estimate of 17.4%. New deal TCV stood at USD 2.2b (up 13% QoQ) in 2QFY25. For FY25, HCLT revised the lower end of its growth guidance to 3.5%-5% YoY in CC from 3%-5% earlier. For 1HFY25, revenue/EBIT/PAT grew 7.5%/8.1%/15.3% compared to 1HFY24.
- **Our view:** Growth was broad-based, supported by robust deal wins, underscoring our thesis that the tide around client behavior is turning. The CQGR ask rate for 2HFY25 to achieve the top end of the guidance is now fairly benign at 0-2% cc; we believe a difficult geopolitical backdrop, coupled with client-specific troubles in automotive ER&D, could be informing some of this caution. As highlighted in our Sept'24 thematic report (Technology: Bounce-back! Charting the path to revival for IT services), we anticipate key sectors such as healthcare, manufacturing, and BFSI to drive growth recovery. Additionally, within service lines, we expect data engineering and ERP modernization (especially SAP S4HANA) to lead the way; areas where HCL has a strong advantage over peers.
- **Guidance:** HCLT revised the lower end of its guidance; it now expects overall revenues and services revenues to grow by 3.5%-5% in constant currency terms (3-5% earlier). It kept the EBIT margin guidance unchanged at 18-19%.
- **Margins:** Better-than-expected growth in its high-margin product business and a recovery in its ER&D business lifted margins to 18.6% in 2Q. We expect 2H to witness some headwinds, such as furloughs and wage hikes; however, a seasonally strong quarter for the product business (3Q) and a more measured wage hike cycle should keep EBIT margins comfortably within the guided range.
- **HCLT tops our Impact Framework for large-caps:** HCLT remains our top pick among large-cap IT companies, based on our IMPACT framework. We see HCLT is best positioned to play the short-term slow, medium-term fast GenAI revolution. HCLT's capabilities are comparable to the best in the industry, especially when it comes to new-age projects.
- **Valuations and changes in estimates:** We expect HCLT to deliver 18.2% EBIT margin in FY25. This should recover to 18.9% in FY26 as growth improves. We expect HCLT to deliver a CAGR of 8.4%/11.5% in USD revenue/INR PAT over FY25-27E. We raise our EPS estimates by 2.4%/2.7%/3.4% for FY25/FY26/FY27 as we factor in the 2Q performance and a recovery in discretionary spending in 2HFY25/FY26E. Reiterate **BUY** with a TP of INR2,300 (based on 30x Sep'26E EPS).

Beat on revenue growth and margins

- Revenue grew 1.6% QoQ in CC vs. our estimate of flat revenue growth. New deal TCV stood at USD2.2b (up 13.2% QoQ, down 44.1% YoY) in 2QFY25.
- IT business/ER&D business/P&P grew by 1.8%/1.1%/1.4% QoQ CC.
- EBIT margin was 18.6% vs. our estimate of 17.4%.
- For FY25, revenue growth guidance was upgraded to 3.5-5% YoY in CC (similar for Services) from 3%-5% earlier. EBIT margin guidance was maintained at 18.0-19.0% in FY25.
- PAT inched down 0.5% to INR42b (up 10.5% YoY) vs. our est. of INR39b.
- LTM attrition was up 10bp QoQ to 12.9%. Net employee headcount declined 0.4% QoQ in 2QFY25. HCLT added 2,932 freshers in this quarter.
- LTM FCF to Net Income stood at 119%.
- The management declared a dividend of INR12/share.

Key highlights from the management commentary

- 2Q growth was broad-based across segments, barring the financial services vertical, which was impacted by the State Street divestment.
- Incremental demand improved in 2Q across multiple verticals. Growth was driven by the ramp-up of deals signed in the last few quarters, as well as data and SAP application modernization program.
- Two key factors driving 2Q growth: (1) ramp-up of deals signed in the last 2-3 quarters, and (2) increased demand for data/SAP and the initial ramp-up of large application modernization opportunities.
- Furloughs in 3Q are expected to be similar to last year.
- **Financial Services**: Revenue declined 4.5% YoY in CC, primarily due to the USD30m impact of the State Street divestment. BFSI is looking better from the discretionary spending perspective.
- **Manufacturing:** There is pressure on the automotive business in Europe, with a couple of large clients undergoing cost reductions.
- **Guidance:** The lower end of revenue growth guidance was increased; 2% growth is needed in 3Q/4QFY25 to achieve the upper end guidance of 5%. This growth assumes similar furloughs and the execution of deals signed in recent quarters. EBIT margin guidance was maintained at 18-19%.

Valuation and view

- We believe HCLT is best positioned to play the short-term slow, medium-term fast GenAI revolution. Its investments in next-gen platforms also position it well for a recovery in client spends. We value HCLT at 30x Sep'26E EPS. Reiterate BUY with a TP of INR2,300 (implying 23% upside potential). HCLT remains our top pick among large-cap IT companies.

Quarterly performance (INR b)

Y/E March	FY24				FY25E				FY24	FY25E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QFY25	(%/bp)
Revenue (USD m)	**3,200**	**3,225**	**3,415**	**3,430**	**3,364**	**3,445**	**3,577**	**3,608**	**13,270**	**13,994**	**3,379**	**1.9**
QoQ (%)	-1.1	0.8	5.9	0.4	-1.9	2.4	3.8	0.9	5.4	5.5	0.5	196bp
Revenue (INR b)	**263**	**267**	**284**	**285**	**281**	**289**	**300**	**303**	**1,099**	**1,173**	**283**	**1.9**
YoY (%)	12.1	8.0	6.5	7.1	6.7	8.2	5.6	6.4	8.3	6.7	6.2	205bp
GPM (%)	**35.6**	**36.2**	**36.7**	**35.0**	**34.5**	**34.9**	**34.0**	**35.5**	**35.9**	**34.7**	**35.0**	**-10bp**
SGA (%)	13.6	12.4	11.5	12.0	12.4	11.5	11.0	11.5	12.4	11.6	12.5	-104bp
EBITDA	**55**	**59**	**67**	**61**	**58**	**64**	**65**	**68**	**242**	**255**	**59**	**7.4**
EBITDA margin (%)	20.8	22.3	23.5	21.4	20.7	22.1	21.6	22.6	22.0	21.8	21.0	113bp
EBIT	**45**	**49**	**56**	**50**	**48**	**54**	**54**	**58**	**200**	**213**	**49**	**8.7**
EBIT margin (%)	17.0	18.5	19.7	17.6	17.1	18.6	18.0	19.0	18.2	18.2	17.4	116bp
Other income	2	2	3	3	9	3	4	4	9	20	3	-4.3
ETR (%)	24.8	25.3	25.9	24.2	25.4	25.5	25.5	25.5	25.1	25.5	26.0	-50bp
Adjusted PAT	**35**	**38**	**44**	**40**	**43**	**42**	**43**	**46**	**157**	**174**	**39**	**8.6**
QoQ (%)	-11.2	8.4	13.5	-8.4	6.8	-0.5	1.5	6.2			-8.4	787bp
YoY (%)	7.6	9.8	6.2	0.1	20.5	10.5	-1.2	14.5	5.7	10.5	1.8	875bp
EPS	**13.0**	**14.1**	**16.0**	**14.7**	**15.7**	**15.6**	**15.8**	**16.8**	**57.9**	**63.7**	**14.2**	10.3

Key performance indicators

Y/E March	FY24				FY25E		FY24
	1Q	2Q	3Q	4Q	1Q	2Q	
Revenue (QoQ CC %)	**-1.3**	**1.0**	**6.0**	**0.3**	**-1.6**	**1.6**	
Costs (% of revenue)							
COGS	**64.4**	**63.8**	**63.3**	**65.0**	**65.5**	**65.1**	**64.1**
SGA	13.6	12.4	11.5	12.0	12.4	11.5	12.4
Margins							
Gross Margin	35.6	36.2	36.7	35.0	34.5	34.9	35.9
EBIT Margin	17.0	18.5	19.7	17.6	17.1	18.6	18.2
Net Margin	13.4	14.4	15.3	14.0	15.2	14.7	14.3
Operating metrics							
Headcount (k)	223	221	225	227	219	219	227
Attrition (%)	16.3	14.2	12.8	12.4	12.8	12.9	12.4
Key Verticals (YoY CC %)							
BFSI	14.4	12.5	12.9	12.1	-1.3	-4.5	12.1
Manufacturing	16.5	3.3	5.8	9.8	3.5	7.1	9.8
Key Geographies (YoY CC %)							
North America	7.3	3.9	6.7	6.8	8.0	7.5	6.8
Europe	10.5	3.9	1.7	5.5	3.0	4.2	5.5

14 October 2024
Company Update | Sector: Consumer

Dabur India

BSE SENSEX	S&P CNX
81,973	25,128

Stock Info

Bloomberg	DABUR IN
Equity Shares (m)	1772
M.Cap.(INRb)/(USDb)	1005.4 / 12
52-Week Range (INR)	672 / 489
1, 6, 12 Rel. Per (%)	-13/2/-22
12M Avg Val (INR M)	1647
Free float (%)	33.8

Financials Snapshot (INR b)

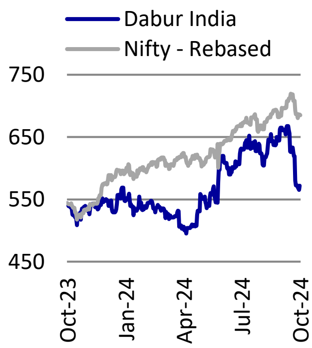
Y/E Mar	2024	2025E	2026E
Sales	124.0	130.1	144.4
Sales Gr. (%)	7.5	4.9	11.0
EBITDA	24.0	24.7	28.7
Margins (%)	19.4	19.0	19.9
Adj. PAT	18.8	19.2	22.1
Adj. EPS (INR)	10.6	10.8	12.5
EPS Gr. (%)	9.2	2.2	15.4
BV/Sh.(INR)	55.7	60.5	65.5
Ratios			
RoE (%)	19.9	18.6	19.8
RoCE (%)	17.3	16.8	18.3
Payout (%)	52.0	64.7	68.1
Valuations			
P/E (x)	53.6	52.4	45.4
P/BV (x)	10.2	9.4	8.7
EV/EBITDA (x)	39.2	37.5	31.9
Div. Yield (%)	1.0	1.2	1.5

Shareholding Pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	66.3	66.3	66.2
DII	13.6	12.6	8.9
FII	15.0	15.8	19.4
Others	5.2	5.4	5.5

FII includes depository receipts

Stock Performance (1-year)



CMP: INR567 TP: INR700 (+23%) Buy

Bleak 2Q does not necessitate a weak outlook

Dabur India (DABUR), in its 2QFY25 preview update, highlighted the impact of heavy rains and floods in parts of the country on out-of-home consumption, particularly for beverages. Besides, the company experienced higher growth in MT, E-commerce, and Quick Commerce during the last few quarters, resulting in high inventory levels for its GT channel. This affected the distributor ROI, and the company made the strategic decision to correct distributor inventory in the GT channel. This led to a temporary decline in revenue in 2QFY25 (which appears to be a high single-digit revenue decline for the India business).

However, on the demand front, the commentary was positive across FMCG companies with a promising outlook for 2HFY25. Our checks suggest that high inventory issues in GT are not limited to DABUR but are also experienced by many brands/categories following the success in alternate channels (especially quick commerce). As such, if volume growth in the industry picks up in 2HFY25, we expect that DABUR will also experience accelerated growth. The company has already indicated that primary growth will return to normal from October. With external drivers remaining consistent, we view the recent stock price correction as an opportunity to be constructive on the stock. DABUR is at 16%, 14%, 9%, and 19% discount to HUL, Britannia, Marico, and Colgate, respectively, on FY26E P/E. Once the company's growth trajectory improves, we expect a re-rating potential in the stock. We reiterate a BUY rating on the stock with a TP of INR700 (at 50x P/E on Sep'24).

Well poised for rural recovery; actively expanding rural reach

DABUR's rural presence stands at approximately 45-50%, second to Emami, positioning it as a key beneficiary of the rural recovery driven by above-average monsoons, rising incomes, and potential government measures to boost rural spending in 2HFY25 and going forward. Over the past three years, DABUR has nearly doubled its village coverage, expanding from 59,000 villages in FY21 to 122,500 in FY24, and plans to reach approximately 130,000 villages by FY25. With a total of 600,000 villages across India, DABUR has ample opportunity for further expansion. The company's extensive distribution network reaches around 7.9m outlets, with direct access to 1.42m. Additionally, DABUR is enhancing its rural portfolio by introducing new, affordable, and rural-specific product packs across various categories to drive demand growth.

Robust growth in emerging channels

DABUR has been actively evolving its portfolio to increase its shelf presence and expand its reach in modern trade and e-commerce channels. E-commerce now contributes 10% to the company's sales, with quick commerce emerging as the fastest-growing sub-channel, showing significant growth, and scaling rapidly. DABUR also focuses on boosting visibility and availability in standalone modern trade stores, which has resulted in double-digit growth. In order to further enhance performance in these outlets, DABUR has introduced channel-specific initiatives, such as the 'Pragati' program. The new emerging channels now contribute ~25% to the overall sales.

New product launches to improve demand trend

DABUR has seamlessly integrated its manufacturing and R&D efforts to drive innovation and quickly adapt to changing market trends. The company invested INR442m in R&D, resulting in the development of 14 new products across various categories in FY24, aimed at expanding its premium portfolio and Total Addressable Market (TAM). These launches include DABUR's entry into emerging and high-growth categories, such as mosquito repellent liquid vaporizers (Odomos Universal Mosquito Liquid Vaporizer), cooling hair oils (Dabur Cool King Thanda Tel), gel toothpastes, teas, and shower gels. The company's Digital First brands have collectively generated over INR1b in turnover. New product developments now contribute 3-4% to the overall sales.

Expecting margin expansion

DABUR's gross margin, which has been under pressure in recent years due to rising commodity costs, is expected to expand in the medium term with stabilization in input prices, premiumization, and cost-efficiency initiatives taken by the company. Additionally, the appointment of Mr. Philipe Haydon, who joined as the head of the healthcare division last year and brings a strong track record in category creation from his tenure at Himalaya, bodes well for the segment's medium-term growth. This growth is particularly significant as the healthcare segment is more profitable than the rest of DABUR's portfolio, with the potential to drive EBITDA growth over the next two years.

Healthcare segment to be a major focus area

DABUR holds a competitive advantage over its FMCG peers through its strong healthcare portfolio. We expect high single-digit growth in this segment, driven by the increasing preference of consumers for Ayurveda-based products, entry into new categories, and premiumization trends. Health supplements, particularly Dabur Glucose, are performing well, with the brand gaining market share. The value-added variants of Dabur Glucose have outpaced regular glucose, contributing positively to margins. The Digestives category is also gaining traction, led by the success of the Hajmola franchise and Pudin Hara. New launches, such as Hajmola Mr. Aam and Hajmola Jeera drinks, have been well-received. Additionally, Health Juices, Dabur Baby, and branded ethical products have experienced strong double-digit growth. DABUR anticipates its health juices to contribute INR 500m to revenue in FY25.

HPC - Oral care to sustain outperformance

DABUR's oral care segment posted double-digit value growth in the last quarter and high single-digit volume growth over the past two years. This performance was driven by market share gains in the natural segment and expansion into non-herbal categories. Meanwhile, the hair oil segment experienced a mixed performance. Coconut oil remains strong, while Dabur Amla hair oil faces challenges due to price cuts and increased competition. In order to boost growth in the hair oil category, DABUR plans to focus on premiumization, explore new sub-segments, and pursue both organic and inorganic growth opportunities. The shampoo category continues to perform well, and Odomos liquid vaporizers are gaining traction as DABUR shifts its focus toward mosquito repellency solutions.

Mixed performance in food and beverages

The beverages segment was under pressure in 1HFY25, with 1Q impacted by severe heat waves and 2Q affected by heavy rains and flooding across parts of the country. In contrast, the food category experienced robust performance, with both the Homemade and Badshah brands delivering strong results. DABUR has set a strategic target to generate INR 6-7b revenue from Badshah over the next three years.

Steady international market

The company utilizes diverse distribution models across regions to facilitate growth, ranging from national distributors to direct sales models. It aims for double-digit growth with plans to expand Badshah into new markets and introduce region-specific products. The company emphasizes natural products, celebrity endorsements, and tailored innovations to meet local needs. Additionally, it aims to strengthen its e-commerce presence globally and expand the gross margin by focusing on premiumization and innovative product development.

Valuation and view

- DABUR mitigated the impact of inflationary pressures through disciplined cost control, operational efficiencies, and judicious price increases. With a broader distribution reach (to ~0.12m villages and ~7.9m outlets), increased direct penetration (~1.4m outlets), and extensive presence/categorical leadership in the rural market, DABUR is better positioned to capitalize on the rural consumption trend compared to its peers.
- The operating margin, which has been hovering around the 20% band over the last 8-9 years (unlike its peers that have experienced expansions), also has room for expansion in the medium term.
- With external drivers remaining consistent, we view the recent stock price correction as an opportunity to be constructive on the stock. DABUR is at 16%, 14%, 9%, and 19% discount to HUL, Britannia, Marico, and Colgate, respectively, on FY26E P/E. Once the company's growth trajectory improves, we expect a re-rating potential in the stock. We reiterate a BUY rating on the stock with a TP of INR700 (at 50x P/E on Sep'24).

MT and e-commerce grew faster than traditional channels

Particulars	FY20	FY21	FY22	FY23	FY24
Direct Reach (m)	1.2	1.3	1.3	1.4	1.4
Total Reach (m)	6.7	6.9	6.9	7.7	7.9
Villages (000)	52.3	59.2	89.8	100.6	122.5
E-commerce (%)	3.0	6.0	6.5	9.0	10.0
Modern Trade* (%)	12.5	13.5	14.0	14.5	15..5

*MOFSL assumption; Source: Company, MOFSL

Expert Speak

India's Semiconductor Potential

We hosted an expert session on capitalizing on India's semiconductor potential with Mr. Ajit Manocha, the president and CEO of SEMI and a member of the India Semiconductor Mission (ISM) advisory board. He brings over four decades of experience in the semiconductor industry, including over five years of service in the US President Obama's committee. Mr. Ajit spoke about the scope of semiconductors in India and how the country can expand its share in semiconductor manufacturing with the help of government initiatives. The Indian semiconductor market is expected to clock 19.6% CAGR and reach INR80.3b by FY28. Several components used in the manufacturing of semiconductors are imported from foreign countries; however, the same can be indigenized in future. The vision, mission, strategy, and ambition are all set in place to transform India into a powerhouse of semiconductors. Additionally, recent policies (ISM 1.0 and expected ISM 2.0) implemented by the government will attract foreign entities to install manufacturing plants in India and facilitate new start-ups to commence business in semiconductor manufacturing.

Mr. Ajit Manocha

Mr. Ajit Manocha is the President and CEO of SEMI. He has 4+ decades of sterling career in the semiconductor industry spreading across companies such as GlobalFoundaries, Philips/NXP, Bell Laboratories and the Semiconductor Industry Association. He had the rare distinction of being inducted into two Hall of Fames:- Silicon Valley Engineering Council – 2020, VLSI Research – 2021. He was honored with the ELCINA Special Jury Award, Ambassador of India Electronics Industry – 2024, and is a Member of India Semiconductor Mission (ISM) Advisory Board.

Key highlights of the discussion

SEMI network is the gateway to the USD3t+ target

Members of SEMI are spread across the value chain, from equipment and materials to fabless and foundry to electronics systems (PCBs, etc.). The idea behind SEMI is to enable the semiconductor industry to grow in the next two decades, driven by Smart Data-AI, Smart Manufacturing, Smart Mobility, and Smart Medtech. According to the expert, the global semiconductor market is expected to reach USD1t by 2030. The demand for semiconductors is driven by three waves: 1) the first wave IoT is led by cloud, IoT, and the transition toward industry 4.0; 2) the second prevailing wave is led by AI; and 3) the third wave Quantum is led by 6G/7G, quantum, and the Industry 5.0 adoption. This is likely to result in 108 300mm and 200mm new fabs coming online between CY23 and CY27, and 50+ more fabs needed through CY30 to support the AI wave. Each investment varies from USD3b to USD22b per fab. This will also result in the production of 60m more wafers spread across memory, logic/foundary, and others. All these factors will support the growth of the semiconductor market, which is expected to post a CAGR of over 10% during CY23-CY30. The market has the potential to continue growing and clock 8% CAGR beyond CY30.

Scope for the Indian semiconductor sector

India's semiconductor market posted 12.6% CAGR, reaching USD33b, during FY17-FY23. It is expected to reach USD80.3b by FY28, posting 19.6% CAGR during FY23-FY28. Although the semiconductor business is capital-intensive in nature, it is a highly profitable industry globally. The government has taken several initiatives to promote semiconductor manufacturing and learn from the experience of global players. India is currently rich in design capacity, with 20% of total design houses located in the country. These houses are also involved in designing AI-enabled chips used across various segments. Further, players are now investing in establishing fab and OSAT facilities. SEMI estimates that around 1m positions will need to be filled in the semiconductors industry by 2030. India, which produces 800k fresh engineers annually and has expertise in software development and design, can play a significant role in addressing the talent shortage globally.

Ecosystem for Indian semiconductor companies

Countries such as Taiwan and South Korea, though relatively smaller, are the powerhouses of semiconductors. India has already initiated path towards manufacturing Fabs and will now have to focus to invite players to invest in key raw materials. Though AI-enabled chips are designed in India, the country largely depends on imports for raw material components, such as SiC, gallium arsenide, chemicals, and gases, of all semiconductor-enabled products. India has a strong chemical industry; however, the materials required for semiconductors are of ultra-high purity, and only a few countries possess the capabilities to produce them. In order to support the growth of the semiconductor market, many material companies are planning to expand their base in India. Japan is a market leader in material substrates, followed by Europe and US. However, we are still awaiting large-scale announcements from players.

ISM2.0 is under discussion

The government launched the initial scheme to incentivize semiconductor manufacturing in Dec'21 with an outlay of INR760b, which is now called ISM 1.0. The government is also working on ISM 2.0, which will be an expanded version of the first phase of the program.

Ramp-up in India's semiconductor journey

In Sep'24, the government of India announced its India Semiconductor Mission, stating it will provide 50% financial support to companies setting up semiconductor manufacturing facilities in India. This policy has attracted investments worth more than INR1.5t in India in a short period, with many more projects in the pipeline.

- **Micron's OSAT Facility, Sanand**

American chipmaker Micron Technology is setting up an OSAT plant in Gujarat's Sanand. The facility will focus on assembling and testing DRAM and NAND products, catering to both domestic and international markets.

- **Tata Electronics, Dholera - Nation's First Fab**

Tata Electronics, in collaboration with PSMC of Taiwan, is establishing a mega semiconductor fabrication facility (fab) at Dholera, Gujarat. This will be India's first advanced chip manufacturing plant and have a production capacity of 50,000 wafers per month.

- **Tata Electronics, Morigaon – Nation's First Indigenous Semiconductor Assembly and Testing Facility**

Tata Electronics is setting up India's first semiconductor unit in the North East region by establishing a greenfield semiconductor assembly and testing facility at Jagiroad in Morigaon, Assam. This unit will focus on three key platform technologies: wire bond, flip chip, and Integrated Systems Packaging (ISP), with a production capacity of 48 million chips per day.

- **CG Power's Sanand OSAT**

CG Power has teamed up with Japan's Renesas Electronics Corporation and Thailand's Stars Microelectronics to establish an OSAT facility in Sanand, Gujarat. The factory will manufacture a diverse range of products, from legacy packages to advanced solutions, serving industries such as automotive, consumer electronics, industrial applications, and 5G technology. It is designed to scale up production to 15 m units per day.

- **Kaynes Semicon Plant, Gujarat**

Kaynes plans to establish its OSAT unit in Sanand, Gujarat, with a total capacity of 6.3m chips per day at an investment of INR33b.

Larger scale to result in cost efficiencies

Currently, due to a smaller scale, India's fabs will be 30% costlier than those made in Taiwan and Southeast Asia. However, as companies achieve scale by targeting demand from a wider user-base segment as well as exports, the pricing of chips will decline.

Angel One

BSE SENSEX	S&P CNX
81,973	25,128

Conference Call Details

Date: 15th Oct 2024
Time: 11:00am IST

Link for the call

Financials & Valuations (INR b)

Y/E March	2025E	2026E	2027E
Revenues	48.4	57.9	68.5
Opex	26.6	32.1	37.2
PBT	20.7	24.2	29.3
PAT	15.3	17.9	22.7
EPS (INR)	184.1	215.5	273.7
EPS Gr. (%)	35.5	17.1	27.0
BV/Sh. (INR)	731.8	861.1	1,025.4
Ratios (%)			
C/I Ratio	55.0	55.5	54.2
PAT Margin	31.5	30.8	33.1
RoE	33.5	27.1	29.0
Div. Payout	0.0	40.0	40.0
Valuations			
P/E (x)	14.8	12.6	9.9
P/BV (x)	3.7	3.2	2.7
Div. Yield (%)	0.0	2.9	3.7

CMP: INR2,723 **BUY**

PAT beat due to better-than-expected operational efficiency

- Net brokerage income grew 33% YoY to INR6.9b. Revenue from operations stood at INR9.8b, up 45% YoY.
- Gross broking revenue was at INR9.4b, up 29% YoY (4% below estimates), driven by continued growth in the F&O segment, +23% YoY (9% below estimates); strong growth in the cash segment, +52% YoY (16% better than estimates); and robust growth momentum in the commodity segment, +93% YoY (39% better than our estimates).
- Net interest income stood at INR2.8b (in line with our estimates), reflecting 83% YoY growth, led by strong growth in the MTF book.
- Other income grew 50% YoY (10% beat), resulting in a total income of INR12b, which was largely in line with our estimates.
- Total operating expenses grew 51% YoY (5% lower than our expectations). CI ratio increased YoY to 50.1% vs. 48.7% in 2QFY24 (better than our expectations of 52.5%)
- PAT stood at INR4.2b, up 39% YoY (5% beat on our estimates).

Continuous growth in the F&O and Cash segments

- The 29% YoY growth in gross broking business (INR9.4b) was driven by growth in F&O segment (+23% YoY) and cash segment (52% YoY).
- Net interest income stood at INR2.8b, up 83% YoY and 19% QoQ (in-line). Average client funding book stood at INR38.9b vs. INR14.1b in 2QFY24.
- Other income increased 57% YoY to INR2.2b.

CI ratio declines sequentially on account of lower admin costs

- Total operating expenses grew 51% YoY but declined 13% QoQ (5% lower than expectations). On a sequential basis, the CI ratio declined to 50.1% in 2QFY25 (vs. our expectation of 52.5%).
- Employee costs rose 73% YoY to INR2.3b (11% above est.), while admin and other expenses (incl. IPL cost) surged 41% YoY (12% lower than est.).

Total orders grow 45% YoY

- ADTO stood at INR45.5t, up 54% YoY and 4% QoQ. The total number of orders increased to 489m in 2QFY25 from 338m in 2QFY24.
- The number of F&O orders grew 32% YoY to 349m (264m in 2QFY24). Revenue per order declined to INR21.7 (INR22.1 in Q1FY25).
- Cash ADTO grew 14% QoQ to INR100b (+113% YoY). The number of orders rose 89% YoY to 117m. Sequentially, revenue per order remained flat at INR10.4.
- Commodity ADTO jumped 114% YoY and 25% QoQ to 618b in 2QFY25. However, the total number of orders in the commodities segment increased to 23m.

Valuation and view

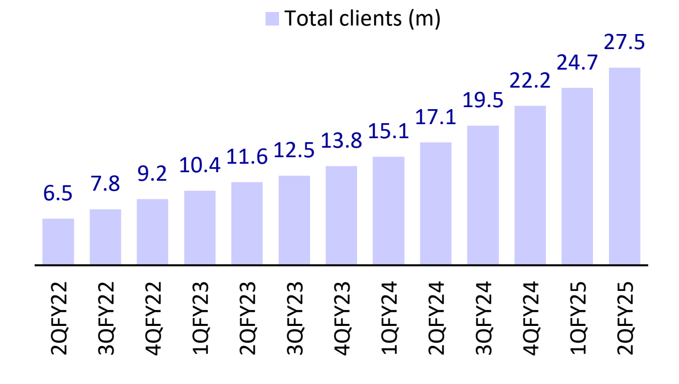
Angel One has demonstrated its ability to protect profitability by taking corrective pricing actions to offset the impact of true to label charges regulations. Going forward, the impact of new F&O regulations for index options — wherein the number of weekly expiries will be restricted to one per exchange and lot sizes will be increased to INR1.5m to INR2.0m, along with other measures — is expected to impact volumes. ANGELONE will decide on its pricing action to offset the impact of these measures post implementation. Nevertheless, the company has maintained that over the longer term, margins will be brought back to 45-50%. Further, new businesses such as distribution of loans, fixed deposits, wealth management, and AMC are likely to gain traction over the medium term. We may review our estimates after the concall on 15th Oct'24.

Quarterly Performance (INR m)

Y/E March	FY24				FY25E		FY24	FY25E	2QFY25E	Act v/s Est. (%)	YoY Growth	QoQ Growth
	1Q	2Q	3Q	4Q	1Q	2Q						
Revenue from Operations	5,198	6,747	6,874	8,742	9,150	9,774	27,562	40,277	9,996	-2.2	45%	7%
Other Income	1,088	1,411	1,401	1,869	1,983	2,210	5,769	8,136	2,004	10.3	57%	11%
Total Income	**6,286**	**8,158**	**8,275**	**10,611**	**11,133**	**11,984**	**33,331**	**48,413**	**11,999**	**-0.1**	47%	8%
Change YoY (%)	22.0	46.0	43.9	64.7	77.1	46.9	45.3	45.2	47.1	-0.4		
Operating Expenses	3,230	3,974	4,635	5,856	6,940	6,007	17,695	26,649	6,297	-4.6	51%	-13%
Change YoY (%)	21.4	49.3	75.1	114.0	114.8	51.2	65.3	50.6	58.5	-12.5		
Depreciation	89	112	131	167	226	256	498	1,085	256	-0.1	129%	13%
PBT	**2,967**	**4,072**	**3,509**	**4,588**	**3,968**	**5,721**	**15,137**	**20,678**	**5,446**	**5.1**	41%	44%
Change YoY (%)	22.3	42.5	16.1	26.9	33.7	40.5	26.9	36.6	33.7	20.0		
Tax Provisions	759	1,027	907	1,188	1,041	1,487	3,881	5,425	1,429	4.1	45%	43%
Net Profit	**2,208**	**3,045**	**2,602**	**3,400**	**2,927**	**4,234**	**11,255**	**15,253**	**4,017**	**5.4**	39%	45%
Change YoY (%)	21.6	42.5	13.9	27.3	32.5	39.1	26.4	35.5	31.9	22.3		
Key Operating Parameters (%)												
Cost to Income Ratio	51.4	48.7	56.0	55.2	62.3	50.1	53.1	55.0	52.5	-236bps	141bps	-1221bps
PBT Margin	47.2	49.9	42.4	43.2	35.6	47.7	45.4	42.7	45.4	236bps	-217bps	1210bps
Tax Rate	25.6	25.2	25.8	25.9	26.2	26.0	25.6	26.2	26.2	-24bps	77bps	-24bps
PAT Margins	35.1	37.3	31.4	32.0	26.3	35.3	33.8	31.5	33.5	185bps	-199bps	904bps
Revenue from Operations (INR m)												
Gross Broking Revenue	5,575	7,270	7,084	9,240	9,173	9,356	29,169	39,449	9,734	-3.9	29%	2%
F&O	4,683	6,180	5,951	7,854	7,705	7,578	24,667	33,408	8,285	-8.5	23%	-2%
Cash	558	800	779	1,016	1,009	1,216	3,153	4,352	1,045	16.4	52%	21%
Commodity	279	291	354	370	459	561	1,293	1,689	405	38.7	93%	22%
Net Broking Revenue	3,933	5,199	5,107	6,822	6,762	6,934	21,062	29,080	7,176	-3.4	33%	3%
Net Interest Income	1,265	1,548	1,767	1,920	2,388	2,840	6,500	11,197	2,820	0.7	83%	19%
Revenue from Operations Mix (%)												
As % of Gross Broking Revenue												
F&O	84.0	85.0	84.0	85.0	84.0	81.0	84.6	84.7	85.1	-4.8	-400bps	-300bps
Cash	10.0	11.0	11.0	11.0	11.0	13.0	10.8	11.0	10.7	21.1	200bps	200bps
Commodity	5.0	4.0	5.0	4.0	5.0	6.0	4.4	4.3	4.2	44.3	200bps	100bps
Net Broking (As % Total Revenue)	75.7	77.1	74.3	78.0	73.9	70.9	76.4	72.2	71.8	-1.2	-611bps	-295bps
Net Interest Income (As % Total Revenue)	24.3	22.9	25.7	22.0	26.1	29.1	23.6	27.8	28.2	3.0	611bps	295bps
Expense Mix (%)												
Employee Expenses	37.1	32.5	29.7	26.4	28.0	36.8	30.6	29.9	31.6	16.4	424bps	872bps
Admin Cost	59.7	64.3	67.1	70.4	68.3	59.3	66.7	66.2	64.5	-8.1	-498bps	-905bps
Depreciation	2.7	2.7	2.7	2.8	3.2	4.1	2.7	3.9	3.9	4.6	135bps	93bps

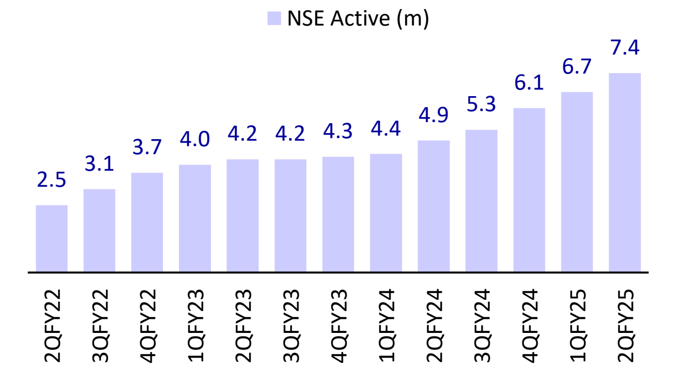
Key exhibits

Total number of clients continued to rise



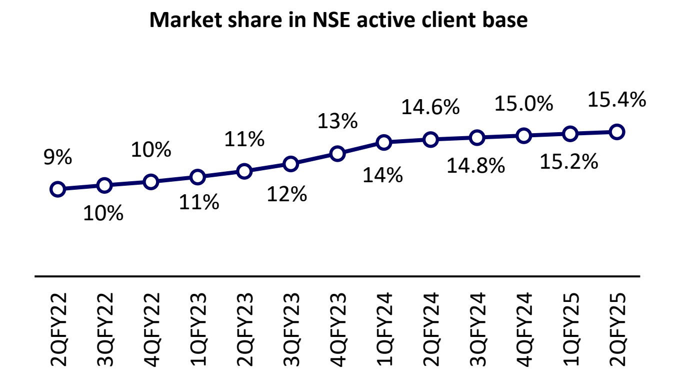
Source: MOFSL, Company

NSE active clients increased QoQ



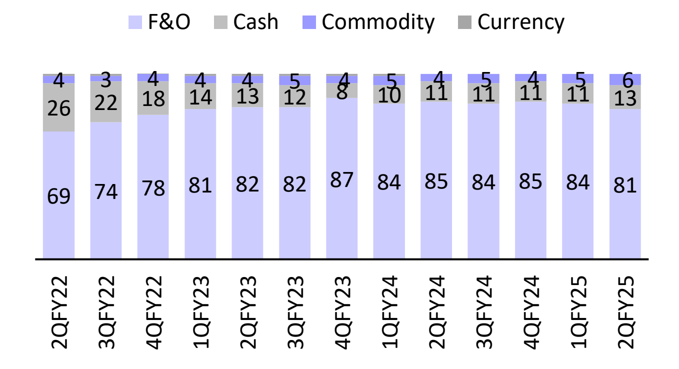
Source: MOFSL, Company

Market share in NSE active clients continues to rise



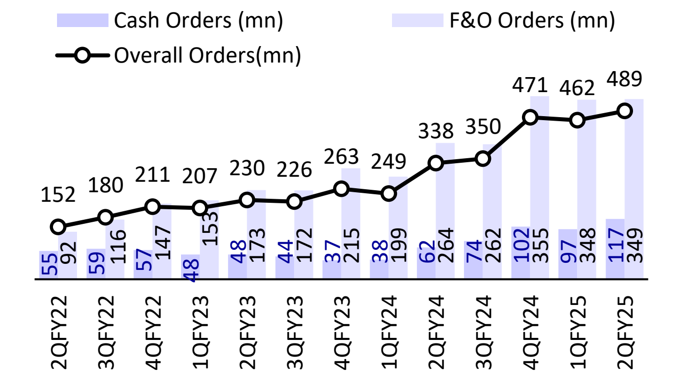
Source: MOFSL, Company

Gross broking revenue mix



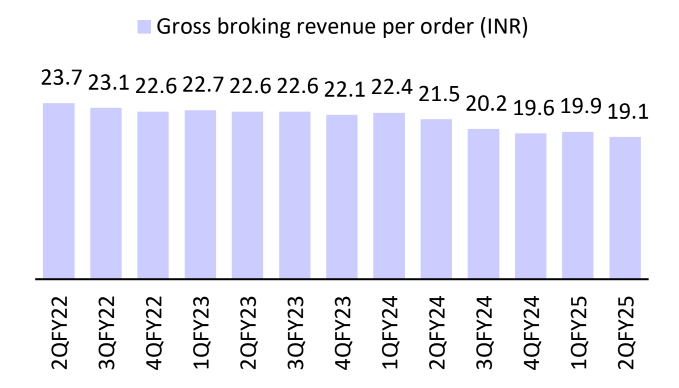
Source: MOFSL, Company

Number of orders increased sequentially…



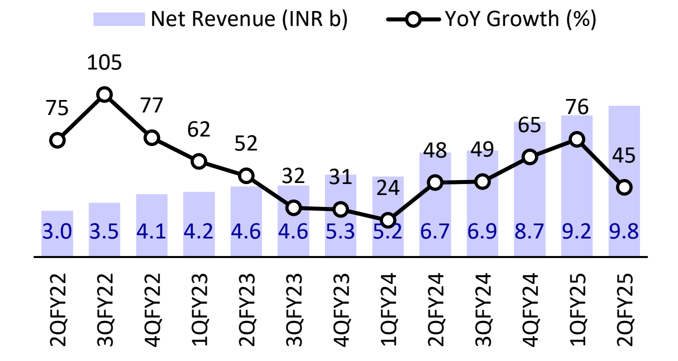
Source: MOFSL, Company

…whereas gross broking revenue per order declined marginally



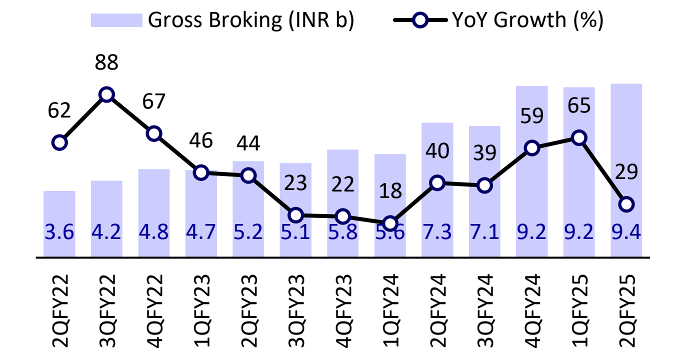
Source: MOFSL, Company

Net revenue grows 45% YoY...



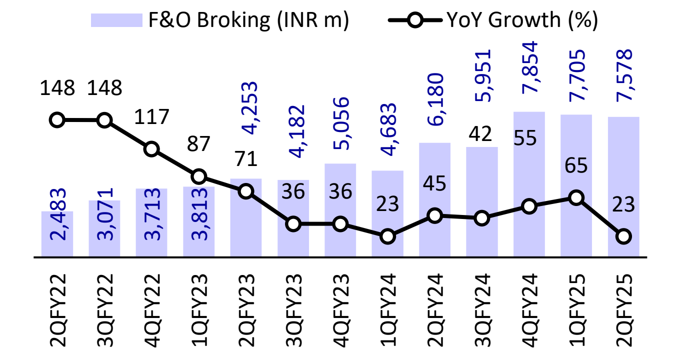
Source: MOFSL, Company

...as gross broking revenue grows 29% YoY



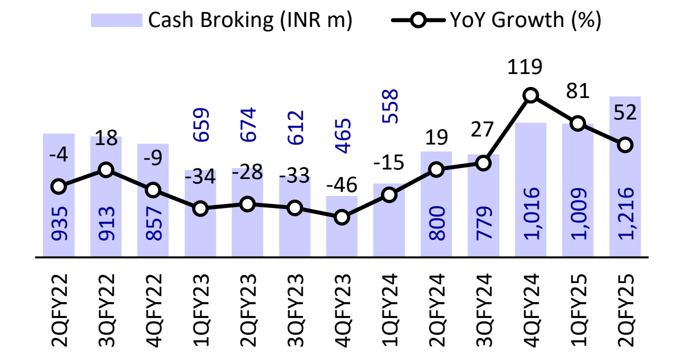
Source: MOFSL, Company

Strong revenue growth in the F&O segment



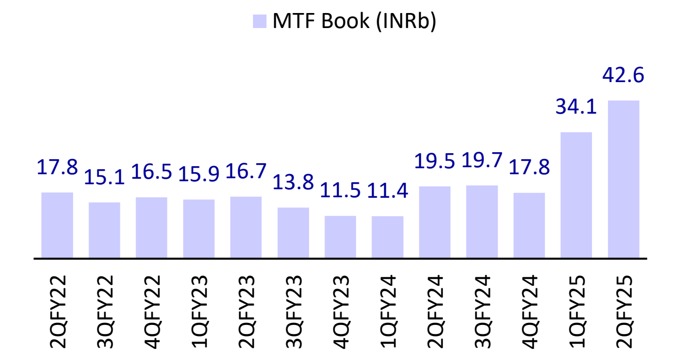
Source: MOFSL, Company

Revenue momentum in cash broking continues



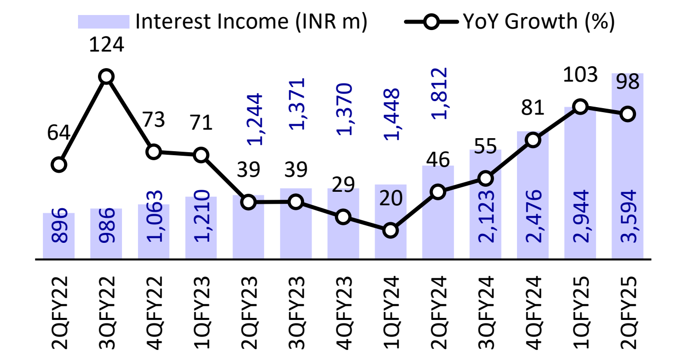
Source: MOFSL, Company

MTF book surged over 2x to INR42.6b



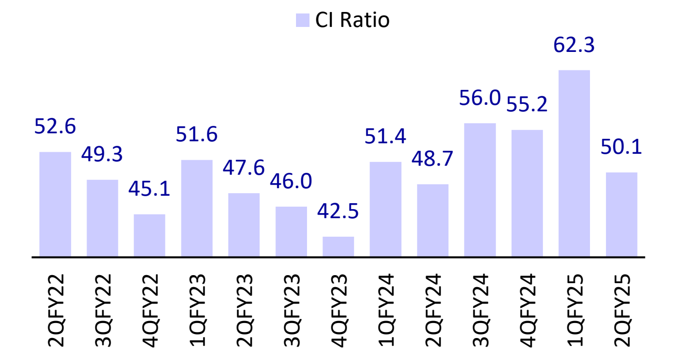
Source: MOFSL, Company

Interest income increases sequentially



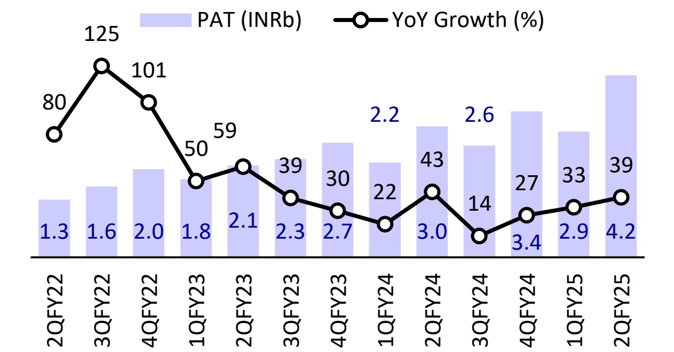
Source: MOFSL, Company

CI ratio declines QoQ



Source: MOFSL, Company

Trend in PAT growth



Source: MOFSL, Company

Consistent total net revenue from every cohort

		Actuals				
(₹ Mn)	Gross Acquisition (Mn)	FY20	FY21	FY22	FY23	FY24
Pre-FY20		3,589	3,358	3,606	3,439	3,681
FY20	0.6	1,116	2,066	1,801	1,743	1,894
FY21	2.4		3,472	6,455	5,760	6,037
FY22	5.3			4,885	8,233	8,483
FY23	4.7				3,728	7,081
FY24	8.8					6,156
Total Net Revenue		**4,706**	**8,896**	**16,747**	**22,902**	**33,331**
(-) Employee + Opex (Ex-Branding Spend)		3,205	4,436	7,951	10,479	16,817
Margin (Ex-Branding Spend)		**1,500**	**4,460**	**8,797**	**12,423**	**16,514**
Margin (Ex-Branding Spend)		*31.9%*	*50.1%*	*52.5%*	*54.2%*	*49.5%*
(-) Branding Spend		103	165	243	202	878
Operating Profit		**1,397**	**4,295**	**8,554**	**12,221**	**15,637**
Operating Profit Margin (%)		*29.7%*	*48.3%*	*51.1%*	*53.4%*	*46.9%*
Break-even (# of months)				5	7	7

Source: MOFSL, Company

Sep'24 CPI inflation inches up to nine-month high of 5.5%

Led by a spike in food inflation

- **Headline CPI inflation accelerated to a nine-month high of 5.5% YoY in Sep'24 vs. 3.7% in Aug'24. The acceleration was mainly led by higher food inflation (especially fruits & vegetables, highest in 56 months), which went up to a three-month high of 9.3% in Sep'24. Additionally, core inflation inched up to 3.5% (vs. 3.4% in Aug'24). The inflation number was higher than our forecast of 5% and the Bloomberg consensus of 5.1%. In 1HFY25, inflation stood at 4.5% vs. 5.6% in 1HFY24.**
- **Food inflation came in at 9.3% YoY in Sep'24 vs. 5.7% in Aug'24. Details suggest that higher food inflation (vs. last month) was mainly driven by a spike in the prices of fruits & vegetables (27.5% in Sep'24, highest in 56 months) and oils & fats. Vegetable prices grew 36% in Sep'24 (highest in 14 months), following a 10.7% YoY increase in Aug'24. CPI, excluding veggies, stood at a three-month high of 3.4% in Sep'24 (vs. 3.1% in Aug'24). At the same time, inflation in cereals, pulses and eggs came down during the month, though still remained high. Notably, the prices of fuel and light items contracted at the slowest pace in 13 months (-1.3% YoY in Sep'24 vs. -5.2% in Aug'24).**
- **Other details suggest that: 1) Core inflation (excluding F&B and F&L) rose 3.5% in Sep'24, highest in eight months. Excluding mobile charges (weight = 1.82%), core inflation stood at 3.3% in Sep'24; 2) Services inflation was at an 11-month high of 3.5% YoY, led by an increase in housing inflation (2.8% in Sep'24, highest in eight months) and higher inflation in the personal care & effects category. Core services inflation (services excluding housing) stood at 4% in Sep'24 vs. 3.9% in Aug'24; 3) CPI, excluding veggies (weight 94%), stood at a three-month high of 3.4% YoY; 4) Imported inflation jumped to a 19-month high of 3.1% in Sep'24, while domestically generated inflation increased to 5.8%, highest in six months (vs. 4% in Aug'24) (Exhibit 3); 5) Standard core inflation (excluding food & energy) stood at 3.7% YoY in Sep'24 (vs. 3.5% in Aug'24), highest in eight months; 6) Details confirm that 27% of the CPI basket posted 5%+ inflation, which was the highest in six months.**
- **Overall, the inflation print came in much higher than our estimates. Inflation in 2QFY25 averaged 4.2%, higher than the RBI's forecast of 4.1%. We expect inflation at ~4.5%-5.0% YoY in 3QFY25. With this higher inflation print, uncertainties regarding food inflation and the risks of rising crude oil prices (due to Middle East tensions), we believe that a rate cut is difficult in the Dec'24 policy. Thus, we do not see any impact of this data on the monetary policy. We continue to expect a rate cut in 2025 unless growth falters.**

- **CPI inflation at nine-month high in Sep'24:** Headline CPI inflation accelerated to a nine-month high of 5.5% YoY in Sep'24 vs. 3.7% in Aug'24. The acceleration was mainly led by higher food inflation (especially fruits & vegetables, highest in 56 months), which went up to a three-month high of 9.3% in Sep'24. Core inflation inched up to 3.5% (vs. 3.4% in Aug'24) *(Exhibit 1).* The inflation number was higher than our forecast of 5% and the Bloomberg consensus of 5.1%. In Apr-Sep'24, inflation stood at 4.5% vs. 5.6% in Apr-Sep'23.
- **Food inflation inched up to 9.3% in Sep'24:** Food inflation came in at 9.3% YoY in Sep'24 vs. 5.7% in Aug'24. Details suggest that higher food inflation (vs. last month) was mainly driven by a spike in the prices of fruits & vegetables (27.5% in Sep'24, highest in 56 months) and oils & fats. Vegetable prices grew 36% in Sep'24 (highest in 14 months), following a 10.7% YoY increase in Aug'24. CPI, excluding veggies, stood at a three-month high of 3.4% in Sep'24 (vs. 3.1% in Aug'24) *(Exhibit 2).* At the same time, inflation in cereals, , pulses and eggs came down during the month, though still remained high. On the other hand, prices of spices contracted for the third consecutive month in Sep'24 (-6.3% YoY vs. -4.4% in Jun'24). Notably, the prices of fuel and light items contracted at the slowest pace in 13 months (-1.3% YoY in Sep'24 vs. -5.2% in Aug'24).

WPI inflation rises to 1.8% in Sep'24

Led by a spike in food prices

- **The Wholesale Price Index (WPI)-based inflation went up to 1.8% in Sep'24 (vs. 1.3% in Aug'24 and -0.1% in Sep'23), led by a 25-month high food inflation, which was only partly offset by a contraction in prices of fuel & power and five-month slowest increase in non-food manufacturing products inflation. WPI-based inflation remained in the positive territory for the 11th consecutive month after having been in the deflationary zone for the majority of the previous financial year *(Exhibit 1).* Sequentially, WPI increased 0.1% in Sep'24 vs. a contraction of 0.5% in Aug'24. The figure was slightly lower than the Bloomberg consensus of 2% and our forecast of 1.9%.**
- **The acceleration in WPI was primarily driven by a 25-month high food inflation (9.5% YoY in Sep'24 vs. 3.3% in Aug'24). WPI, excluding food, contracted 1.2% in Sep'24 (lowest in six months) vs. growth of 0.5% in Aug'24 *(Exhibit 2)*. Within the food category, prices of primary food articles increased 11.5% in Sep'24 vs. 3.1% in Aug'24 (the highest in 15 months), while prices of manufactured food products rose 5.5% in Sep'24 vs. 3.6% in Aug'24 (the highest in 25 months). Within primary food articles, the increase in the prices of vegetables (+48.7% YoY in Sep'24, highest in 14 months) was the major driver of higher food inflation. Meanwhile, the prices of cereals, fruits and pulses decelerated during the month, though still remained high.**
- **Notably, WPI for fuel and power contracted 4.1% in Sep'24 (lowest in 13 months) vs. a contraction of 0.7% in Aug'24, led by a contraction in prices of mineral oils (-5.8%, lowest in 13 months) and electricity.**
- **WPI for non-food manufacturing products declined to a 5-month low of 0.1% in Sep'24 (vs. 0.7% in Aug'24), led by a rise in prices of motor vehicles, trailers & semi-trailers and machinery & equipment.**
- **Agro output inflation increased to a 14-month high of 9% in Sep'24 vs. 2.2% in Aug'24. At the same time, agro input prices contracted 2% YoY in Sep'24 (lowest in four months) vs. a contraction of 1.5% YoY in Aug'24. With this combination of a faster increase in output prices and a decline in input prices, agricultural terms of trade growth accelerated to a 10-month high of 11.2% in Sep'24 (vs. 3.7% in Aug'24) (*Exhibit 4).* Prices of imported items contracted 1.9% in Sep'24 (vs. an increase of 0.4% in Aug'24). On the other hand, non-agro domestic inflation fell to a five-month low of 1.3% YoY in Sep'24 (vs. 1.7% in Aug'24). *(Exhibit 3).***
- **We expect WPI to inch up to ~2.5% in 3QFY25 on the back of uncertainty in food inflation trends, increasing tensions in West Asia, and a sequential rise in crude oil and global commodity prices in early Oct'24.**

Exhibit 1: WPI rises 1.8% YoY in Sep'24 vs. 1.3% in Aug'24…

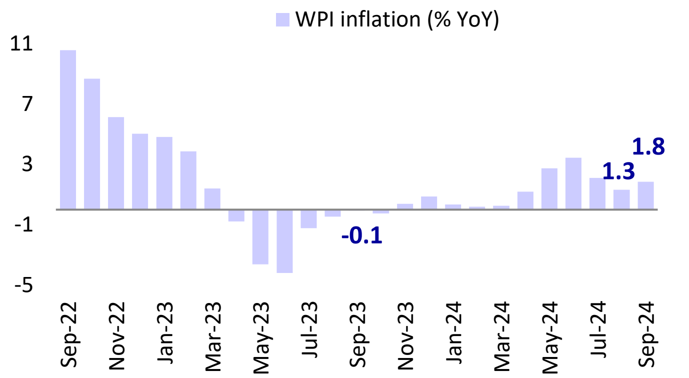


Exhibit 2: …led by a 25-month high food inflation

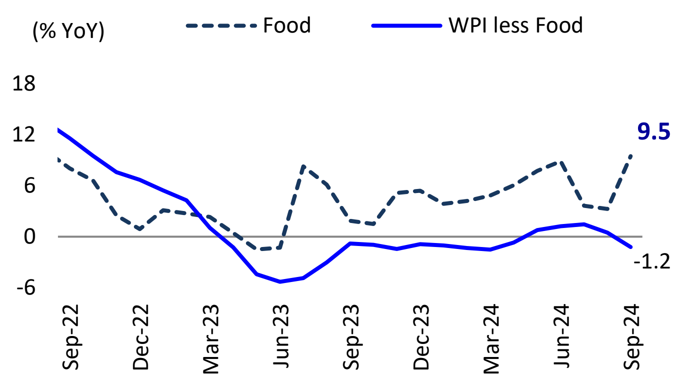
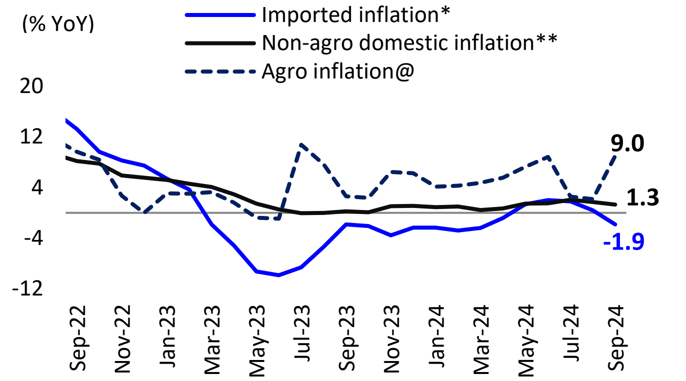
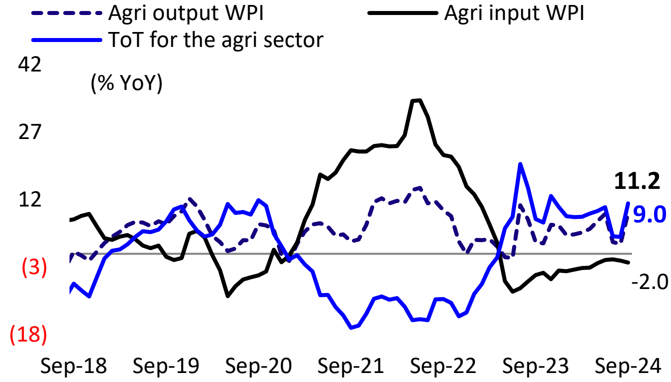


Exhibit 3: Agro inflation increased to a 14-month high of 9% in Sep'24 vs. 2.2% in Aug'24



*Constituting ~41.8% weightage in the WPI basket
**Constituting ~38.8% weightage in the WPI basket
@Constituting ~19.4% weightage in the WPI basket

Exhibit 4: Terms of trade for the agri sector grew at a 10-month high of 11.2% in Sep'24



Source: Office of Economic Adviser, MOFSL

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- Current medical devices division expected to generate sufficient cash without significant external funding

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- Focus remains on maintaining net debt levels while increasing project launches

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