November 2024

India Strategy

BSE Sensex: 80,234 | **Nifty-50: 24,275**

OUR RECENT STRATEGY REPORTS

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We request your ballot.

The Winners and Laggards!

Presenting our top preferred ideas after a muted earnings season

Corporate earnings moderate YoY after a solid 21% CAGR over FY20-24

After a healthy 21% CAGR over FY20-24, corporate earnings have moderated in 1HFY25. Earnings growth for MOFSL Universe (-1% YoY) and Nifty-50 (+4% YoY) in 2QFY25 was the lowest in 8 and 17 quarters, respectively. However, excluding global commodities, it remained strong at 12%/11% YoY for MOFSL/Nifty-50 Universe. Since Aug'24, we have reduced our FY25 estimates for Nifty EPS by 5%, and we now expect a modest 5% growth for Nifty earnings in FY25, the first year of single-digit growth in five years. However, compared to the muted 1H, we expect corporate earnings to recover in 2HFY25 (9% YoY growth for MOFSL Universe in 2HFY25 vs. flat YoY performance in 1H), aided by a rise in rural spending, a buoyant wedding season in 2HFY25 (30% higher weddings YoY), and a pick-up in government spending.

A welcome correction in equity markets

Indian stock markets corrected 11-12% from the top over Sep-Nov'24, due to a variety of factors, viz. earnings moderation and elevated valuations in mid-caps and small caps, along with global factors, such as a fragile geopolitical backdrop in the Middle East and a strengthening dollar index after the Trump victory. FIIs sold equities worth ~USD14b in Oct-Nov'24. The correction has cooled off the valuations in large-caps, even as mid/small-caps trade at expensive multiples – Nifty-50 is now trading at 19.6x FY26E EPS, while mid-cap/small-cap indices are trading at 30x/23x one-year forward P/E multiples, off from the Sep'24 highs but still rich vs. their own history as well as relative to Nifty-50.

NDA's sweep in Maharashtra to boost sentiment and policy momentum

The BJP's decisive victory in the recent Maharashtra and Haryana assembly elections will boost overall sentiment, strengthen policy momentum, expedite the key infra projects, and increase focus on overall govt. spending going ahead (govt. spending remained flat YoY, while capex was down 17% YoY in 1HFY25), in our view. This poll result will also bolster the perception around the political capital of PM Narendra Modi, especially given the minor setback NDA suffered in 2024 Loksabha polls.

Presenting the WINNERS and LAGGARDS

The recent correction and the consequent moderation in valuations provide an opportunity to add select bottom-up ideas. We notice that even in a muted quarter, several companies delivered resilient performance. In this report, we present (page 3 onwards) 10 WINNERS and 5 LAGGARDS based on the 2Q earnings print. Apart from strong earnings performance, the shortlisted winning ideas are the ones for which MOFSL Research Team has high conviction and/or are part of MOFSL Model Portfolio.

Winners: SBI, L&T, M&M, Sun Pharma, Indian Hotels, Page Industries, Ipca Labs, Angel One, Amber Enterprises, Atul

Laggards: TATA Motors, Asian Paints, Avenue Supermarts, ABB India, IndusInd Bank

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Valuation snapshot: The WINNERS and LAGGARDS of 2QFY25

	MCap (USDb)	CMP (INR)	EPS (INR)			EPS CAGR (%) FY24-26E	PE (x)			PB (x)			ROE (%)		
			FY24	FY25E	FY26E		FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Winners															
St Bk of India	88.7	834	89.3	98.8	115.4	13.7	9.3	8.4	7.2	1.6	1.4	1.1	18.8	17.4	17.2
Larsen & Toubro	60.3	3,698	111.1	137.2	160.3	20.1	33.3	27.0	23.1	5.2	4.5	3.9	16.5	17.9	18.2
Sun Pharma.Inds.	50.0	1,750	49.3	59.3	67.4	16.9	35.5	29.5	26.0	5.7	4.9	4.1	17.2	17.8	17.1
M & M	42.4	3,004	99.7	116.2	136.7	17.1	30.1	25.9	22.0	5.9	5.0	4.2	21.0	20.8	20.8
indian Hotels	13.4	789	11.8	14.8	17.6	22.1	66.9	53.3	44.9	10.0	8.5	7.2	16.2	17.2	17.3
Page Industries	6.0	44,957	603.4	724.6	872.8	20.3	74.5	62.0	51.5	28.6	24.6	21.0	38.4	39.6	40.7
Ipca Labs.	4.7	1,527	34.4	44.8	55.5	27.0	44.4	34.1	27.5	5.5	4.8	4.2	13.0	15.0	16.3
Angel One	3.1	2,910	169.0	189.7	264.1	25.0	17.2	15.3	11.0	4.1	3.5	2.9	31.2	24.5	29.0
Amber Enterp.	2.6	6,473	78.0	113.0	172.3	48.6	83.0	57.3	37.6	9.4	8.1	6.6	12.0	15.1	19.4
Atul	2.6	7,357	177.3	231.0	282.0	26.1	41.5	31.8	26.1	3.9	3.6	3.2	9.8	11.7	12.9
Laggards															
TATA Motors	35.5	784	63.7	63.0	68.3	3.5	12.3	12.5	11.5	2.7	2.2	1.9	24.4	19.7	17.9
Asian Paints	28.4	2,490	47.5	55.2	62.7	14.9	52.4	45.1	39.7	12.4	11.6	10.6	24.0	26.6	27.9
Avenue Supermarts	28.2	3,664	44.3	55.2	67.1	23.0	82.6	66.4	54.6	11.0	9.5	8.1	14.3	15.4	16.0
ABB India	18.4	7,498	88.7	102.5	119.3	16.0	84.6	73.1	62.9	20.7	16.4	13.3	27.6	25.1	23.4
IndusInd Bank	9.3	1,002	94.9	128.2	163.1	31.1	10.6	7.8	6.1	1.1	1.0	0.9	11.2	13.6	15.2

Source: Company, MOFSL

WINNERS

Financials & Valuation (INR b)

Y/E March	FY25E	FY26E	FY27E
NII	1,691	1,868	2,089
OP	1,128	1,246	1,407
NP	712	764	865
NIM (%)	3.0	3.0	3.0
EPS (INR)	79.8	85.6	96.9
EPS Gr. (%)	16.6	7.3	13.2
BV (INR)	471	538	617
ABV (INR)	432	500	578
Cons. BV (INR)	523	618	729
Cons. ABV (INR)	486	579	688
Ratios			
RoA (%)	1.1	1.1	1.1
RoE (%)	18.8	17.4	17.2
Div. Payout (%)			
Valuations			
P/BV (x) (Cons.)	1.6	1.4	1.2
P/ABV (x) (Cons.)	1.7	1.5	1.2
P/ABV (x)*	1.4	1.2	1.0
Div. Yield (%)			
P/E (x)	9.5	8.6	7.3
P/E (x)*	7.4	6.9	6.1

*Adjusted for subsidiaries

State Bank of India: Delivering robust growth and profitability

Earnings Summary – 2QFY25

- **Robust performance; loan growth to accelerate:** SBI reported a strong 2QFY25 with PAT of INR183.3b, up 28% YoY, exceeding our estimate by 12%. Growth was driven by steady NII of INR416.2b, up 5.4% YoY, supported by robust loan book expansion. Despite moderating NIMs (down 8bp QoQ to 3.14%), SBI's profitability was bolstered by a surge in treasury income to INR46.4b.
- **Healthy and broad-based growth:** Advances grew 15.3% YoY, led by broad-based growth across retail (12% YoY), corporate (18% YoY), and SME (17% YoY) segments. The retail segment was led by home loans and personal loans. International advances also grew 15% YoY, reflecting SBI's diverse lending portfolio. The bank guided for robust advances growth of 15% YoY for FY25, implying much stronger growth in 2H.
- **Asset quality strengthens further:** GNPA and NNPA ratios improved to 2.13% and 0.53%, respectively, aided by lower slippages. A healthy PCR of ~75% ensures resilience against potential credit risks. The restructured book remains manageable at 0.4% of advances, underscoring SBI's robust risk management framework.

Investment thesis: Robust underwriting; RoE remains healthy at ~18%

- **Dominant market position with scale advantage:** With a balance sheet of INR 63t, SBI enjoys an unmatched scale in the Indian banking system, which provides stability and resilience. Its diversified credit portfolio, with RAM accounting for 56% of advances, ensures balanced growth. Corporate credit growth at 18% YoY demonstrates SBI's ability to capitalize on the ongoing capex demand in select sectors, making it a critical beneficiary of India's economic revival.
- **Digital transformation drives operational efficiency:** YONO, SBI's flagship digital platform, continues to be a cornerstone of its digital strategy, with over 74m users and ~63% of new savings account additions. This digital push enhances customer engagement, reduces costs, and accelerates credit delivery. With initiatives like 'YONO for Business,' SBI is further strengthening its presence in corporate and government banking, reinforcing its leadership in digital banking. As a result, SBI has managed its overall C/I ratio, which improved to 48% in 2Q.
- **Steady improvement in asset quality metrics:** SBI's asset quality is currently at its best form in over a decade, with consistent improvements in GNPA and NNPA ratios. Its conservative provisioning policy, high recovery rates, and strengthened underwriting standards have resulted in a sharp reduction in slippages. With a low restructured book and controlled credit costs (guided at 0.5% for FY25), SBI is well-positioned to sustain strong asset quality metrics.
- **Valuation supported by subsidiary contributions:** SBI's subsidiaries, including SBI Life, SBI Cards, and SBI Mutual Fund, continue to deliver strong performance, contributing a combined value of INR254 per share. SBI Life's PAT grew 39% YoY in 2Q, while SBI Mutual Fund saw robust AUM growth. These subsidiaries enhance the bank's overall profitability and provide a diversified revenue base, making SBI a comprehensive investment play in the financial sector.

Our view: SBIN remains our preferred idea among PSU banks

- SBI remains the market leader in credit growth, with management guiding 14-15% YoY advances growth and a stable RoA of ~1%. Its diversified lending portfolio and strong deposit base provide ample support for continued expansion. The bank's leadership in corporate credit and retail lending ensures that it captures growth opportunities across sectors.
- SBI's focus on operational efficiency, including branch rationalization and digital adoption, is expected to lower the cost-to-income ratio to ~50% in FY25 and 49% in FY27 from 59% in FY24. These measures, combined with controlled credit costs and a healthy NIM trajectory, will drive profitability in the coming quarters.
- Despite its stellar performance, SBI's valuation remains attractive at 1.1x FY26E P/ABV, offering favorable risk-reward. We expect a CAGR of 12% in PAT over FY24-26, driven by steady NII growth, cost control, and robust subsidiary performance.

Financial & Valuation (INR b)

Y/E MARCH	2025E	2026E	2027E
Sales	1,097	1,251	1,427
EBITDA	156.9	179.1	207.4
Adj. PAT	119.6	139.3	164
Adj. EPS (INR)	99.7	116.2	136.7
EPS Gr. (%)	12.4	16.5	17.7
BV/Sh. (INR)	512	603	709
Ratios			
RoE (%)	21.0	20.8	20.8
RoCE (%)	20.2	20.1	20.2
Payout (%)	23.5	22.3	21.9
Valuations			
P/E (x)	29.0	24.9	21.1
P/BV (x)	5.6	4.8	4.1
Div. Yield (%)	0.8	0.9	1.0
FCF Yield (%)	2.9	3.4	4.1

Mahindra and Mahindra

- **Strong performance in a weak quarter**: Mahindra & Mahindra (MM) delivered a healthy operational performance in 2QFY25, with EBITDA margins expanding by 150bp YoY to 14.3%, ahead of our estimate of 13.5%. The farm equipment segment (FES) stood out with an impressive core PBIT margin of 18.7% (+120bp YoY) in a seasonally weak quarter. Meanwhile, the auto segment maintained a margin of 9.5%, despite pricing interventions in XUV700. Supported by higher other income, adjusted PAT came in at INR38.4b (est. INR33.7b), up 13% YoY.
- **Well positioned to recover share in UVs**: Over the last few years, MM has rechristened its brand by launching multiple well-designed products at attractive price points, thereby reigniting customer interest. On the back of strong demand for XUV3XO and Scorpio, MM has outperformed UVs for YTDFY25 and gained 140bp share to ~20%. On the EV front, MM has a well-defined transition roadmap, strengthened by its partnership with Volkswagen (VW), under which VW will supply components from its MEB platform to MM's INGLO platform. In order to maintain its growth momentum, MM has lined up nine ICE SUVs (including six new models and three mid-cycle upgrades) and seven BEVs by 2030. Overall, it expects EVs to contribute 20-30% of its mix within the next five years. Given its strong order backlog and a healthy launch pipeline, we expect its outperformance to continue going forward and expect MM to post 12% volume CAGR in UVs over FY24-27E.
- **To emerge as a major beneficiary of the tractor recovery cycle**: MM has done well in this segment, gaining 140bp market share in 1HFY25 to 43.7% (five-year high) in an otherwise weak market (industry growth ~1% YoY). Further, sentiment in the tractor industry has turned positive in 2H, aided by good kharif output, healthy reservoir levels, and positive terms of trade for farmers. As a result, tractor OEMs now expect the industry to post mid-single digit growth in FY25 (implying double-digit growth in 2H) and remain optimistic about the FY26 outlook. Given its dominance in this segment, we expect MM to emerge as a major beneficiary of this uptrend in tractors and expect MM to post 6% volume CAGR over FY24-26E.

- **Value unlocking in growth gems provides option value**: MM has identified nine businesses as its growth gems and has set an ambitious target of achieving 5x growth in the next five years for each of these. The progress on some of these growth gems is encouraging: 1) Last Mile Mobility – IFC has agreed to invest INR6b for a stake of 9.97%-13.64%, valuing it at INR60.2b; 2) MM and Ontario Teachers Pension Board have sponsored an InvIT in the renewable energy space and raised INR13.65b, which will support Mahindra Susten in reaching the next level of growth; and 3) Logistics and Hospitality businesses seem to be on track to achieve their targets. Any incremental value unlocked in any of the growth gems in the coming years is likely to provide additional returns for MM shareholders.
- **Valuation and view**: MM's incremental capital allocation would be focused on delivering long-term value creation for shareholders. While MM has already exceeded its target of 18% RoE in FY24, it maintains this target going forward as it aspires to balance between strong growth and healthy returns. At an implied core P/E of 23x/20x FY25E/FY26E EPS, MM remains a good investment bet over the long term. We have a BUY rating on MM, with a target price of INR3,420, based on Sep'26E SOTP.

Larsen and Toubro: 2QFY25: Core EPC business outperforms estimates

Financial & Valuation (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	2,638.0	2,945.1	3,315.6
EBITDA	280.3	324.8	365.4
Adj. PAT	152.7	188.5	220.4
EPS (INR)	111.1	137.2	160.3
EPS Gr. (%)	19.4	22.2	16.9
BV/Sh. (INR)	714.9	820.6	944.2
Ratios			
RoE (%)	16.8	17.9	18.2
RoCE (%)	9.6	10.3	10.6
Valuations			
P/E (x)	32.9	26.9	23.0
P/BV (x)	5.2	4.5	3.9
EV/EBITDA (x)	18.2	15.7	13.9
Div. Yield (%)	0.7	0.9	1.0

- LT reported better-than-expected consolidated revenue/EBITDA/PAT of INR616b/INR64b/INR34b, which grew 21%/13%/5%. For the core E&C business, order inflows came in above our estimate at INR630b, down 14% YoY vs. our estimate of 25% YoY decline. This outperformance was driven by strong 77% YoY growth in order inflows for the infrastructure segment, mainly from the international market. Core E&C revenue came in at INR445.3b, up 28% YoY vs. our estimate of 14% YoY growth. This is driven by robust execution in international projects, which jumped 83% YoY, while domestic execution was largely flat YoY, presumably owing to monsoons. EBITDA margin at 7.6% for the core business came in below our estimates of 8%. Margins stood flat QoQ and were up 20bp YoY. Core order book stood at INR5.1t, up 13% YoY. Net working capital improved sharply to 12.2% of sales in 1HFY25 vs. 16.7% in 1HFY24. RoE too improved from 15.3% to 16.1% YoY.

Investment thesis

Strong execution, bottoming out of margins to sustain healthy PAT CAGR for core EPC

- LT already has a strong order book of INR5.1t, providing a visibility of 2.5x on revenues, which should help LT sustain healthy revenue growth over the next few years. Despite weaker inflows and muted revenue growth in domestic segment, we expect the international segment inflows and revenue growth to continue to be strong. Revenue growth stood at 23% YoY in 1HFY25, driven by improvement in overseas execution owing to a higher share of international order inflows over the last one year. This, coupled with better collections, improved the net working capital cycle to 12.2% of sales in 1HFY25 vs. 16.7% in 1HFY24. We do see a possibility of LT's revenue growth outperforming its

guidance of 15% in FY25. Its overall prospect pipeline is at INR8.1t and LT is confident of a pickup in domestic ordering, with prospects of INR4.1t across data centers, hospitals, residential and industrial real estate, rail, expressways, airports, hydel-related projects, etc. With most commodities being range-bound in FY25 and the expected completion of legacy projects during 1HFY25, we expect margins to start inching up in the next few quarters.

Newer areas will bring results over few years

- LT is focusing on: 1) enhancing technology for participating in the nuclear projects, 2) green energy initiatives, with an emphasis on expanding the electrolyzer capacity in the medium to long term, 3) semiconductor design and enhancing offerings in semiconductors, 4) expanding data center capacity from the existing Mumbai and Chennai locations to other areas too, and 5) further expanding the real estate business, where LT has another 60msf to be developed over the next few years. We expect these initiatives to bear fruit in the next few years.

Valuation and view

- Despite muted ordering trends in FY25 so far, we see the following positive factors for LT: 1) strong order book sustaining healthy revenue growth, 2) an expected revival of domestic order inflows after state elections, 3) bottoming-out of margins, 4) fairly stable working capital, and 5) attractive valuations of 21x FY26E EPS for the core EPC segment. We do believe that, LT's near-term performance may be influenced by narratives surrounding state elections and Middle East tensions; however, our long-term thesis on the company stays intact. We expect L&T core E&C revenue CAGR of 15% PAT CAGR of 22% over FY24-27E.
- We have a BUY rating with our SOTP-based TP of INR4,200, valuing core business at 30x two-year earnings and a 25% holding company discount for subsidiaries.

Sun Pharma

Outperformance in branded generics/lower R&D spend led earnings beat for 2QFY25

- SUNP sales grew 10.5% YoY to INR132b (vs. our est: INR129b) led by Domestic Formulation (DF) (up 11% YoY)while US sales grew 22% YoY, led by strong traction in specialty portfolio and higher contribution from Revlimid (USD517m, up 20% in CC terms; 33% of sales).
- EBITDA margin expanded 330bp to 28.5% (vs our est: 27%). Accordingly, EBITDA grew 25% YoY to INR37.8b (vs our est: INR35) while Adj. PAT grew 22% YoY to INR29.3b (our est: INR28.7b).
- In 1HFY25, revenue/EBITDA/PAT grew 8%/18%/24% YoY to INR257b/INR73b/INR58b.

Investment thesis

Specialty drug: Portfolio expansion underway

- SUNP's specialty pipeline is robust in dermatology (Ilumya, Winlevi, Leqselvi) and is expanding in derma-oncology with additions like Nidlegy (EU) and global

Financial & Valuation (INR b)

Y/E March	2025E	2026E	2027E
Sales	525.8	574.3	636.8
EBITDA	144.3	165.0	186.1
Adj. PAT	118.7	142.6	162.1
EBIT (%)	22.6	24.1	25.0
Core EPS (INR)	49.3	59.3	67.4
EPS Gr. (%)	19.0	20.2	13.7
BV/Sh. (INR)	307.4	360.0	427.4
Ratios			
Net D-E	-0.17	-0.26	-0.36
RoE (%)	17.2	17.8	17.1
RoCE (%)	17.0	17.8	17.3
Payout (%)	13.6	11.3	0.0
Valuations			
P/E (x)	35.5	29.6	26.0
EV/EBITDA (x)	30.4	25.9	22.3
Div. Yield (%)	0.3	0.3	0.0
FCF Yield (%)	1.3	2.6	3.1
EV/Sales (x)	8.3	7.5	6.5

rights for Fibromun. Specialty R&D rose to 38% of total R&D in 2QFY25, up from 22% in FY20. SUNP's specialty portfolio now includes 26 products, focusing on derma, ophthal, and onco-derma, with key trials underway for MM-II, SCD-044 and GL0034. While Deuruxolitinib approval is secured, its launch faces delays due to litigation. We expect specialty and generics sales to grow at a 21% CAGR, reaching USD1.7b by FY25-27.

Domestic formulation: On track to sustain superior execution

- SUNP has consistently outperformed the IPM over the past three years, driven by its chronic-focused approach. It launched an average of 91 products annually during FY21-23, though the pace has slowed recently. The sales force grew by ~45% from FY20 to FY24, reaching 13,984, with PCPM at INR10.6m in FY24. We project an 11% CAGR to INR209b over FY25-27, supported by stronger volumes, new launches, in-licensing opportunities, improved MR productivity, and expanded geographical reach.

US Generics + ROW: Strong product portfolio and brand recall

- SUNP's US generic sales grew at a 10% CAGR to INR153b over FY20-FY24, driven by new launches, despite regulatory challenges at Halol, Mohali, and Dadra. The company has filed 640 ANDAs and 65 NDAs, with 103 ANDAs and 14 NDAs awaiting approval. In the emerging and RoW markets, SUNP operates in 80+ countries with a strong sales force of 2,500 people. This segment grew at an 11% CAGR to INR193b over FY20-24. While business growth was moderate in 1HFY25, it is expected to recover as stronger execution offsets Japanese price cuts. RoW and emerging markets are projected to grow at a 10% CAGR to INR193b during FY25-27, driven by expanded reach, strong brand recall, and a specialized portfolio focus.

View and recommendation

- Overall, SUNP continues to implement efforts toward sustainable levers of growth, such as: a) adding products/improving prescriptions for specialty portfolio, b) clinical development of differentiated products, and c) volume/new introduction in the branded generics market. Expect 10%/14%/17% revenue/EBITDA/PAT CAGR over FY25-27. We value SUNP at 35x 12M forward earnings to arrive at a TP of INR2,280.

Indian Hotels

2QFY25 result summary

- Indian Hotels (IH) reported a strong consolidated revenue growth (up 27% YoY to INR18.3b) in 2QFY25, led by healthy demand across regions. Like-for-like consolidated revenue growth (excluding consolidation of TajSATS) stood at ~16% YoY. Standalone business revenue also grew by ~16% YoY, led by an increase in ARR (up 10% YoY) and better occupancy (up 150bp YoY). EBITDA grew 41% YoY to INR5b, driven by favorable operating leverage. Adj. PAT grew 94% YoY to INR3.2b. We expect IH to post strong FY25 as the growth momentum is likely to continue in 2H (expecting revenue/EBITDA/Adj. PAT growth of ~30%/34%/27% in 2HFY25), driven by strong wedding seasons (~30% YoY higher wedding dates), anticipated increase in foreign tourist arrivals, healthy traction in the MICE segment aided by convention centers, and favorable demand-supply dynamics.

Financial & Valuation (INR b)

Y/E MARCH	2025E	2026E	2027E
Sales	84.2	101.6	111.4
EBITDA	28.1	35.2	40.8
Adj. PAT	16.7	21.0	25.0
EBITDA Margin %	33.4	34.6	36.6
Adj. EPS (INR)*	11.8	14.8	17.6
EPS Gr. (%)	33.0	25.6	18.7
BV/Sh. (INR)	79.2	93.2	110.0
Ratios			
Net D:E	(0.3)	(0.4)	(0.5)
RoE (%)	16.2	17.2	17.3
RoCE (%)	15.9	17.4	17.4
Payout (%)	6.0	5.4	4.6
Valuations			
P/E (x)	63.9	50.9	42.8
EV/EBITDA (x)	37.1	29.1	24.5
Div. Yield (%)	0.1	0.1	0.1
FCF Yield (%)	1.5	1.9	2.3

*Cons.

- Further, we expect the earnings momentum to sustain in the medium term, led by:

1. **Increase in ARR** (driven by healthy demand, asset management strategy and corporate rate hikes) and **higher occupancy** (led by favorable demand-supply dynamics; demand CAGR of ~9-11% v/s supply CAGR of 7-8%)
2. **Strong room addition pipeline** till FY28 in both owned/leased (3,532 rooms) and management hotels (13,822)
3. Higher income from **management contracts** (management fee is expected to clock ~15-18% CAGR, primarily driven by net unit growth)
4. Strong traction within **new and reimagined businesses**. New businesses such as Ginger, Qmin, Ama's and Tree of Life are expected to clock a CAGR of over 30% while reimagined business such as Taj SATS and Chamber will maintain their growth momentum.

Valuation and view

- IH has emerged as a compelling growth story in the Indian hospitality sector following its transformative journey during FY17-24. With a notable financial turnaround, expansions across traditional and new businesses and a clear strategy for long-term growth, IH has become a market leader in the industry and aims to become the most valued, responsible, and profitable hospitality ecosystem in South Asia. The company plans to expand its portfolio to 700 hotels (including pipeline), double consolidated revenues to INR150b, and achieve 25%+ of revenues from innovative and reimagined businesses like Ginger, Qmin, and TajSATS.
- We believe the company's strong operational performance, portfolio diversification, and focus on sustainability will provide a robust foundation for its ambitious 2030 goals. We expect IH to deliver a CAGR of 18%/24%/26% in revenue/EBITDA/Adj. PAT over FY24-27. Hence, we have a BUY rating with a TP of INR880 (based on FY27E SoTP).

Page Industries - growth acceleration to sustain

PAGE INDUSTRIES LIMITED

Financial & Valuation (INR b)

Y/E March	2025E	2026E	2027E
Sales	50.0	57.5	66.5
Sales Gr. (%)	9.1	15.1	15.5
EBITDA	9.9	11.7	13.9
EBITDA Gr. %	13.2	19.0	18.5
EBITDA Margin (%)	19.7	20.4	20.9
Adj. PAT	6.7	8.1	9.7
Adj. EPS (INR)	603.4	724.6	872.8
EPS Gr. (%)	18.2	20.1	20.5
FCF to PAT	1.3	0.8	0.9
BV/Sh.INR	1571.0	1831.1	2144.4
Ratios			
RoE (%)	38.4	39.6	40.7
RoCE (%)	37.9	39.9	41.0
Payout (%)	90.0	75.0	75.0
Valuations			
P/E (x)	75.4	62.8	52.1
P/BV (x)	29.0	24.8	21.2
EV/EBITDA (x)	50.9	42.6	35.7
Div. Yield (%)	1.0	1.0	1.2

Earnings Summary – 2QFY25

- **Beat on volume growth**: Sales grew 11% YoY to INR12.5b (est. INR12.0b), while demand remained subdued but improved vs. 1Q. Sales volume was up 6.7% YoY in 2Q (2.6% in 1QFY25; 3.5% our est.) at 55.2m pieces. The festive season also partially supported growth in 2Q. Festive demand was healthy, with improvement in secondary growth.
- **Network expansion continues**: Exclusive brand outlets (EBOs) are also a key area, with the company aiming to increase EBOs from 150-180 annually to around 1,550 by FY25. Technology upgrades, like the ARA system, are enhancing distribution and inventory management, while athleisure is emerging as a major growth area.
- **Surprise on margin:** Gross margin expanded ~80bp YoY to 56.5% (est. 56.3%) and EBITDA margin expanded 185bp YoY to 22.6% (est. 20.9%). The margin expansion was led by stable input costs and improved operating efficiency. EBITDA grew 21% YoY to INR2.8b (est. INR2.5b). Adj. PAT was up 30% YoY at INR1.9b (est. INR1.7b).

Investment thesis:

- **Long-term category growth potential intact:** The innerwear category forms ~8% of the India's domestic apparel industry and it is growing at rapid pace. As per industry estimates, the innerwear category is expected to grow from INR670b in 2023 to INR755b in 2025 (11% CAGR). It will be led by favorable demographic (higher mix of youth population, etc.) and rising income level to further increase the mix of branded products.
- **Strong foundations for success:** PAGE's moat lies in its strong product innovation capabilities, steady quality, and understanding of consumer upgradation. Jockey is a mass premium brand with aspirational value at competitive price points. With 80% in-house production across 16 manufacturing units in Karnataka and Tamil Nadu, the company ensures quality consistency. Brand's ground presence is improving at a rapid pace as the company has been expanding its network across markets with all distribution channels. It has robust distribution network with 107,702 MBOs, 1,387 EBOs and e-commerce, supported by 3,987+ distributors in 2,710+ cities. The company is also particular about its capital allocation and invests primarily in core projects with a minimum 20% ROCE threshold. Additionally, it maintains a high dividend payout ratio of over 50%.
- **Recent trend positive:** In 2QFY25, PAGE saw a stable operating environment, with the festive season boosting demand despite subdued consumer sentiment. Rural consumption is gradually recovering, aiding overall demand, while Tier 3 and Tier 4 cities continue to outpace average growth. The focus remains on metros, Tier 2, and Tier 3 cities. No price hikes were undertaken, and the gap between volume and value growth reflects premiumization, a changing category mix, and higher e-commerce sales.
- **Channel inventory normalizing:** PAGE exited the quarter with ~40 days of distributor inventory, a three-day improvement from FY24 and reflecting better secondary vs. primary performance. Management expects further inventory reduction in 2HFY25 and aims for optimal inventory levels across channels by FY25-end. However, athleisure inventory remains elevated, with no plans for near-term channel filling.
- **Margin expansion headroom:** Yarn and cotton saw a sharp rise during 2020–2022 but have since stabilized, leading to margin expansion in 2QFY25. We expect RM price stability to continue, supporting GM of 55-56% in FY25/FY26. While innerwear companies faced margin pressure due to higher discounts recently, PAGE avoided aggressive discounting to drive volumes. With demand picking up, inventory levels are gradually normalizing, and soft input prices, we anticipate PAGE to sustain an EBITDA margin of ~20% in FY25E/FY26E.

Our view:

- We expect demand improvement to continue in 2HFY25, along with normalizing channel inventory. We estimate a CAGR of 13%/17%/19% in sales/EBITDA/PAT over FY24-27E.
- With PAGE's strong execution history and a large market opportunity, we expect an uptick in the earnings cycle and the valuation will also see quick re-rating. BUY with a revised TP of INR54,000, premised on 60x Mar'27E EPS.

Financial & Valuation (INR b)			
Y/E March	**FY25E**	**FY26E**	**FY27E**
Sales	89.7	102.1	119.8
EBITDA	16.7	20.3	24.3
Adjusted PAT	8.7	11.4	14.1
EBIT Margin (%)	14.2	15.9	16.8
Adj EPS (INR)*	34.4	44.8	55.5
EPS Gr. (%)	65.3	30.3	23.8
BV/Sh. (INR)	278.8	316.9	364.0
Ratios			
Net D-E	0.1	0.0	-0.1
RoE (%)	13.0	15.0	16.3
RoCE (%)	12.2	14.0	15.2
Payout (%)	21.5	17.2	19.3
Valuation			
P/E (x)	44.3	34.0	27.4
EV/EBITDA (x)	23.2	19.1	15.9
Div. Yield (%)	0.5	0.5	0.7
FCF Yield (%)	2.0	1.9	2.5
EV/Sales (x)	4.3	3.8	3.2

*Cons.

IPCA

Superior execution in DF/Unichem drives 2QFY25 earnings

- IPCA's 2QFY25 sales grew 15.8% YoY to INR23.5b (our est: INR22.8b), driven by growth in both domestic formulation (DF) and exports. DF sales increased by 11.3% YoY, outperforming IPM growth by ~500bp, with acute growth exceeding by +500bp and chronic by +700bp vs. IPM. Export performance was mixed, with 15% growth in the export formulation business, an 8% increase in generic exports, and an impressive 85% growth in the institutional segment.
- Gross margin (GM) expanded 110bp YoY to 67.8%, due to a superior product mix and lower RM costs.
- EBITDA margin expanded 110bp YoY to 18.8% (our est: 20.7%). EBITDA grew 22.7% YoY to INR4.4b (our est: INR4.7b). Adj. PAT grew 36.4% YoY to INR2.3b (our est: INR2.4b).
- In 1HFY25, revenue/EBITDA/PAT grew 23%/28%/31% YoY. We expect Revenue/EBITDA/PAT to grow 11%/28%/120% in 2HFY25.

Investment thesis

Domestic Formulation: Geared up to sustain industry-beating growth

- Given the highest share of acute therapies in the DF market (68% of DF sales) and chronic therapies (32% of DF sales), IPCA has outperformed IPM consistently for the past three years, 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 the past three years, 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.

Synergies of Unichem, approvals to boost exports

- Unichem business, after the consolidation in Sep'23, grew 53% YoY over Dec'23-Sep'24. Driven by efficient cost optimization, Unichem's EBITDA margins expanded by 1,030bp YoY to 12.4% in 2QFY25. The US remains a key market for the company, with ~58% contribution to total Unichem revenue and 40% YoY growth in FY24. IPCA's North America (NA) business grew by a meager 7% over FY18-24, due to regulatory issues at three sites. However, after the clearance of the three sites, IPCA is working on filing new products in the US market, which would yield benefits over the medium term. Further, with the integration of Unichem business, IPCA would restructure its US business faster. Furthermore, the company is also foraying into biosimilar business, which would benefit over the longer term.

Valuation and view

- Considering a 27% earnings CAGR and an anticipated improvement in the return ratio to ~16% over FY25-27, we value IPCA at 36x 12M forward earnings to arrive at a TP of INR1930. IPCA is working on multiple fronts to maintain its strong earnings momentum over the next 2-3 years. The momentum will be driven by: 1) re-launch of products in the US market, 2) new offerings through its own site as well as Unichem sites, c) outperforming the industry in DF/ROW markets, and d) building synergy between IPCA and Unichem's operations. We have a BUY rating.

Financial & Valuation (INR b)

Y/E March	2025E	2026E	2027E
Sales	89.2	110.0	134.7
EBITDA	7.0	8.9	11.7
Adj. PAT	2.6	3.8	5.8
EPS (INR)	78.0	113.0	172.3
EPS Gr. (%)	97.7	44.9	52.5
BV/Sh. (INR)	690.7	803.7	976.0
Ratios			
RoE (%)	12.0	15.1	19.4
RoCE (%)	11.3	13.1	16.2
Valuations			
P/E (x)	82.6	57.0	37.4
P/BV (x)	9.3	8.0	6.6
EV/EBITDA (x)	32.7	25.3	19.0
Div. Yield (%)	0.0	0.0	0.0

Amber Enterprises

2QFY25 performance

- Amber posted a relatively strong set of numbers in 2QFY25, with EBITDA/PAT margin improving by 40bp/180bp YoY. Consolidated revenue grew 82% YoY to INR16.8b, beating our estimates by 33%, mainly due to increased demand in the RAC segment in the quarter and the company's presence in PCB assembly and manufacturing. Absolute EBITDA grew by 91% YoY to INR1.14b, exceeding our estimate by 28%. Margin improved 40bp YoY to 6.8% vs. our estimate of 7.0%. While the Street was expecting a loss, a trend similar to the company's previous 2Q results, Amber's PAT beat our estimate by 105% at INR192m vs. our estimate of INR94m. PAT margin was 1.1% vs. our estimate of 0.7%.

Investment thesis

Improved RAC growth offsetting weakness in railways

- The RAC market stood at 10m units in FY24 and is currently growing at a fast pace of 40%. The company has maintained its market share of 25-26% in the RAC market and expects a similar trend in future. Amber is also adding new clients in consumer durable business. Amber's revenue from the railway sub-systems and mobility segment has been weak for the past few quarters, primarily due to a delay in the Mumbai metro project amid a shortage of rolling stock and a change of focus of Indian Railways toward non-AC coaches. Amber expects improvement in this segment from FY26 onward, led by product trials of the Yujin JV greenfield facility.

Electronics segment to witness a higher growth trajectory

- Amber aims to become a key player in PCB assembly and manufacturing. It has strategically taken steps to grow this segment in the last 1-2 years by: 1) focusing on newer sectors with a higher margin and growing its PCBA business; 2) entry into PCB manufacturing by acquiring Ascent Circuits; 3) expanding capacity in the electronics segment with a targeted capex of INR5-6b over the next two years that will provide incremental revenue to the company; and 4) JV with Korea Circuits for advanced manufacturing of PCB. With these initiatives, we expect electronics segment to remain on a high growth trajectory, coupled with scope for margin improvement.

View and recommendation

- Amber is diversifying its presence beyond consumer durables. Its AC segment is benefiting from improved RAC demand and increased sales of components. For the electronics division, the company is adding new customers in segments such as automotive, defense, medical, and telecom and is targeting to grow its electronics division at a fast pace. The company is also continuously expanding the scope of addressable market in railways, though ordering remains slow in this segment. We maintain our positive stance on Amber on account of its ability to grow other segments beyond RAC. We thus expect revenue/PAT to grow at 26%/63% over FY24-27E for Amber. We have a BUY rating with a TP of INR7,350.

AngelOne

Financial & Valuation (INR b)

Y/E March	2025E	2026E	2027E
Revenues	45.4	52.2	63.4
Opex	25.4	29.4	33.6
PBT	18.9	21.2	27.8
PAT	14.0	15.7	21.9
EPS (INR)	169.0	189.7	264.1
EPS Gr. (%)	24.4	12.3	39.2
BV/Sh. (INR)	716.8	830.7	989.1
Ratios (%)			
C/I ratio	55.9	56.3	53.0
PAT margin	30.8	30.1	34.5
RoE	31.2	24.5	29.0
Div. Payout	0.0	40.0	40.0
Valuations			
P/E (x)	17.4	15.5	11.1
P/BV (x)	4.1	3.5	3.0
Div. Yield (%)	0.0	2.4	3.3

Angel One

PAT beat driven by better-than-expected operational efficiency

- In 2QFY25, Angel One reported 45% YoY growth in operating revenue at INR9.8b (5% beat on our est.), driven by 45% YoY growth in number of orders to 489m and a strong surge in MTF book. However, gross broking revenue per order declined 11% YoY to INR19.1, led by a 19% drop in cash segment (price rationalization) and a 7% fall in F&O realizations. Total operating expenses grew 51% YoY, largely owing to 38% YoY increase in finance costs and 73% YoY jump in employee costs (led by investments into new businesses). This resulted in YoY increase in the CI ratio to 50.1% compared to 48.7% in 2QFY24 (better than our estimate of 52.5%). PAT grew 39% YoY to INR4.2b (5% beat), aided by better-than expected operational efficiency. In 1HFY25, total income/PAT posted a solid 60%/36% YoY growth.

Investment Thesis

New F&O regulations to impact 13-14% of revenues; aims to maintain profitability

- New F&O regulations have recently been implemented with two big measures: 1) increase in lot sizes and 2) restricting exchanges to only one weekly expiry. These regulations have been anticipated to hit ANGELONE's revenues and earnings. Management has guided for a 13-14% hit on revenues because of these measures. Also, there are levers to offset the impact of these regulations such as price hikes. In the recently implemented true-to-label charge regulations, ANGELONE increased the cash segment realizations, along with few other measures, demonstrating its aim of maintaining profitability.

Business diversification in progress

- While concerns related to F&O regulations have been lingering over the past one year, ANGELONE has been investing in diversifying its revenue base and building foundation for loan distribution, wealth management, and AMC to offset the cyclicality of core broking business. With significant amount of data available on the behavior and financial strength of customers, ANGELONE is well poised to increase LTV of these customers by distribution of other financial products. Industry tailwinds for each of these segments and robust execution backed by strong management teams will provide large growth opportunities in each of the new segments. We believe these segments can contribute about INR3b to revenues in FY27.

Revamp of assisted business channel to drive further growth

- The assisted business with >11k partners currently contributes ~22-23% of the overall revenue. This channel is key to the company's strategy of enhancing the LTV of its existing customer base. A complete revamp of this channel is in progress, such as: 1) rehashing the NXT platform for enhancing partner-client interaction, 2) building strong data analytics capabilities, and 3) extensive training for partners to build capability to sell multiple financial products such as MFs, PMS, insurance and loans. The company plans to focus on on-boarding more APs with the ability to distribute a broader range of financial products.
- ANGELONE stock has been range-bound over the past few months amid concerns about the impact of new F&O regulations. However, with

management guidance ahead of street expectations and possibility of price hikes in future, the concerns would allay. Scale-up of new businesses will further boost revenue and profitability in the longer run. We expect FY25-27 CAGR of 18%/25% in revenue/ PAT, without factoring in revenue upsides from new businesses. We have a BUY recommendation with a one-yr TP of INR3,600 (16x Sep'26E EPS).

Financial & Valuation (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	54.3	61.6	68.5
EBITDA	9.6	11.4	13.5
PAT	5.2	6.8	8.3
EPS (INR)	177.3	231.0	282.0
EPS Gr. (%)	61.2	30.3	22.1
BV/Sh.(INR)	1,881.1	2,070.1	2,300.9
Ratios			
Net D:E	0.0	0.0	-0.0
RoE (%)	9.8	11.7	12.9
RoCE (%)	9.1	10.6	11.9
Payout (%)	18.2	18.2	18.2
Valuations			
P/E (x)	41.7	32.0	26.2
P/BV (x)	3.9	3.6	3.2
EV/EBITDA (x)	22.9	19.1	15.9
Div. Yield (%)	0.4	0.6	0.7
FCF Yield (%)	0.0	1.6	2.3

Atul

Earnings Summary – 2QFY25: Impressive show continues across segments

- **EBITDA in line with our estimate:** Revenue stood at INR13.9b (+17% YoY). Life Science Chemicals' revenue was INR4.1b (+13% YoY). Performance chemicals revenue was INR10.2b (+18% YoY). EBITDA came in at INR2.4b (est. of INR2.4b, +56% YoY). PAT stood at INR1.4b (est. of INR1.3b, +53% YoY).
- **Margin expanded across segments:** Gross margin was at 53.1% (+900bp YoY) and EBITDA margin was at 17.4% (+440bp YoY). EBIT margin expanded YoY for both segments. Life Science Chemicals' margin stood at 20.5% (+900bp YoY); Performance Chemicals' margin was at 9.7% (+140bp YoY.
- **Impressive show in 1HFY25:** Revenue was at INR27.1b (+14% YoY), EBITDA was at INR4.7b (+38% YoY), with PAT at INR2.5b (+30% YoY). EBITDAM for 1HFY25 stood at 17.2% (+300bp YoY)..

Investment thesis:

- **Recovery in international market to aid volume growth:** The Life Science segment has seen increased demand for intermediates used in the pharma and personal care industries, with high demand for crop protection chemicals in the international market. Lower prices would be offset by higher volumes across all sub-segments in both the domestic and international markets and lower input costs for the company.
- **Unrealized sales potential provides further upside:** The capex cycle is almost over for the company and the unrealized sales potential currently stands at INR17.1b from existing capacities. Incremental sales of INR8b could be contributed by various projects at different stages of commissioning currently. Total revenue potential stands at INR72.4b currently (FY24 revenue at INR47.3b).
- **Subsidiaries to start contributing positively once again:** Performance Chemicals' sales and profitability were aided by an improvement in demand for epoxy and sulphones product groups, along with an improved performance of the subsidiaries. Operations at Atul Products also stabilized during the quarter. Contribution from the subsidiaries/JVs turned positive (profit at INR108m in 2QFY25, vs. loss of INR121m).
- **Financials to remain robust:** We estimate a revenue/ EBITDA/PAT CAGR of 13%/28%/37% during FY24-27. EBITDAM is estimated to improve by 620bp in FY27 vs. FY24 level. We recently upgraded the stock as we believe that ATLP is ready to make a comeback in the next 2-3 years, and our view has already been supported by a strong show in 1HFY25.

Valuation and view

- The end-user market demand has picked up, and we believe that overall demand will also accelerate in 2HFY25. The company is undertaking various projects and initiatives aimed at improving plant efficiencies, expanding its capacities for key products, debottlenecking its existing capacities, capturing a higher market share, and expanding its international presence.
- ATLP has completed the expansion of its Liquid Epoxy Resin plant of 50ktpa in Oct'24 (revenue potential of INR8b). Its caustic soda plant (300tpd) also faced teething issues in Dec'23, which were largely resolved in 1HFY25. Anaven (monochloro acetic acid) is also likely to ramp up its plant for optimum utilization due to better offtake in FY25.
- The stock is trading at ~31x FY26E EPS of INR231 and ~19x FY26E EV/EBITDA. We value the stock at 40x Sep'26E EPS to arrive at our TP of INR10,260. We have a BUY rating on the stock. The upside risk could be a faster-than-expected ramp-up of new projects and products. Downside risks include weaker-than-expected revenue growth and margin compression amid further delays in the commissioning of new projects.

LAGGARDS

TATA MOTORS

Financial & Valuation (INR b)			
Y/E March	2025E	2026E	2027E
Net Sales	4,402	4,872	5,368
EBITDA	581.7	644.9	706.2
Adj. PAT	234.4	231.5	251.3
Adj. EPS (INR)	63.7	63	68.3
EPS Gr. (%)	9	-1	9
BV/Sh. (INR)	290.5	349.3	413.4
Ratios			
Net D/E (x)	0.1	0	-0.1
RoE (%)	24.4	19.7	17.9
RoCE (%)	15.3	14	13.7
Payout (%)	6.6	6.7	6.1
Valuations			
P/E (x)	12.3	12.4	11.5
P/BV (x)	2.7	2.2	1.9
EV/EBITDA (x)	5.3	4.5	3.7
Div. Yield (%)	0.5	0.5	0.5

Tata Motors

Weak 2QFY25 result:

- TTMT reported a weak 2QFY25 performance, with margins contracting ~150bp YoY to 11.6% (vs est. 13.2%), primarily driven by weaker volumes and high cost pressures at JLR. While the India business showed resilience despite subdued demand, JLR faced challenges from lower wholesales and elevated selling costs. The Indian operations performed relatively better in both CV and PV segments. For overall consolidated business, 2HFY25 revenues are estimated to remain flat YoY, while EBITDA/adj. PAT are expected to decline 4%/2% YoY.

Management maintains JLR margin guidance, we remain circumspect:

- Management has maintained its EBIT margin guidance for JLR for both FY25/FY26 but has cautioned that there is limited headroom to achieve the same. While management has maintained its stance, we expect margin pressure to sustain at JLR going forward given: 1) continued weakness in demand in Europe and China, 2) weak demand would drive higher VME and FME costs, 3) gradual normalization of mix, 4) normalization of capitalization rate, and 5) margin-dilutive EV ramp-up. We expect JLR margins to remain under pressure at 14% over our forecast period.

Gradually losing its dominance in domestic CVs:

- TTMT is facing significant competitive pressure across different segments in domestic CVs. While TTMT has been able to maintain its share in MHCV goods for 1H, it is still much lower than the 52% levels it used to enjoy in FY21. Further, it continues to lose share in LCV goods segment, which has fallen another 300bp to 29.5% - this continues to be a major cause of worry (given that its share in LCV segment was at around 40% as of FY22). Further, CV demand continues to be weak even in 3Q with hopes of some revival in 4Q. We expect TTMT's India CV business to see a 4% volume CAGR (FY24-26E).

India PV business seems to be stagnating:

- Despite multiple new launches over the last couple of years, its PV market share has remained stable at 13.8% for FY24 and now fallen to 13.3% for YTDFY24. Further, despite multiple EV variant launches across key product categories, its EV sales remain at around 5k units per month. Further, the PV industry outlook remains subdued. While Curvv EV has not picked up yet, it remains to be seen whether the ICE variant is accepted in the Indian market. In PVs, we expect TTMT to post a much slower 3% volume CAGR, that too back-ended.

Valuation and view:

- While JLR posted impressive performance in FY24, there are clear headwinds ahead, which should put pressure on margin for the company. Given this margin pressure and its capex imperatives, there is a risk that debt may start rising from hereon. Further, the outlook for India PV and CV businesses remains weak. Given the lack of near-term triggers, we have a Neutral rating with Sep'26E SOTP-based TP of INR840.

asianpaints

Financials & Valuation (INR b)

Y/E March	2025E	2026E	2027E
Sales	350.5	388.1	436.2
Sales Gr. (%)	-1.2	10.7	12.4
EBITDA	64.4	75.2	85.3
EBIT Margin (%)	18.4	19.4	19.6
Adj. PAT	45.6	52.9	60.2
Adj. EPS (INR)	47.5	55.2	62.7
EPS Gr. (%)	-18.0	16.2	13.6
BV/Sh.(INR)	200.9	214.2	234.8
Ratios			
RoE (%)	24.0	26.6	27.9
RoCE (%)	20.6	22.7	23.5
Payout (%)	86.3	74.3	65.4
Valuation			
P/E (x)	52.7	45.4	39.9
P/BV (x)	12.5	11.7	10.7
EV/EBITDA (x)	36.1	30.9	27.1
Div. Yield (%)	1.6	1.6	1.6

Asian Paints - Industry challenges persist

Earnings Summary – 2QFY25

- **Miss in volume growth:** Consol. net sales declined 5% YoY to INR80.3b (est. INR85.2b), impacted by weak demand conditions, price cuts, a shift in the mix, and increased discounts. Volume declined by 0.5% (est. +5.5%, 7% in 1QFY25) in the domestic decorative paints business.
- **Sharp contraction in operating margin:** Gross margins contracted 260bp YoY to 40.8% (est. 43%). EBITDA margin contracted 480bp YoY and 340bp QoQ to 15.4% (est. 17.6%). EBITDA declined 28% YoY to INR12.4b (est. INR15.0b). Adj. PAT declined 29% YoY to INR8.7b (est. INR10.8b).
- **Currency devaluation continues to affect growth:** The international business portfolio registered a marginal decline in revenues in 2QFY25 (8.7% growth in CC terms) due to a weak macroeconomic condition and currency devaluation in Ethiopia, Egypt, and Bangladesh.

Investment thesis:

- **Rise in competitive intensity:** APNT highlighted rising competitive intensity, with higher discounts across all segments and rising competitive activity in the economy segment from both organized and unorganized players. Weak demand, particularly in seasonal markets, has made the market leader more susceptible to competitive actions. Regarding Birla Opus, APNT noted no major disruption but is preparing to ramp up activity. Competitive pressures are unlikely to ease soon. APNT is countering by increasing investments for its salesforce.
- **Slowdown in project/institutional business:** The projects and institutional business has experienced slower growth due to a deceleration in construction and government sectors. After general elections, activity from the public sector in infrastructure has remained subdued and is expected to continue at the same pace.
- **Currency devaluation continues to affect growth:** The international business remains under pressure due to economic uncertainty, forex crises, and liquidity challenges in key markets across Asia and Africa. Weak demand in Asia and forex losses in Ethiopia have significantly affected profitability. Management expects demand challenges to persist in these regions.
- **Weak 3Q/2HFY25:** APNT expects persistent weakness in 3Q and 2HFY25 due to a muted festive season and subdued urban consumer sentiment. It expects flat revenue growth in FY25. Gross margin declined by 150bp in 1HFY25 due to RM inflation, price cut impact, and weak product mix. EBITDA margin contracted by 450bp due to higher employee costs and lower operating leverage. Besides growth weakness, margin outlook also looks muted, and to achieve guidance of 18–20%, EBITDA margin should be on the lower side of the band for FY25.

Our view:

- The near-term demand outlook looks bleak given the weak demand and curtailed festive period due to extended monsoon and early Diwali. Rising competition also partially impacted the performance. Further, the operating margin is expected to witness weakness in the near term, as the company needs to reinvest in the business to counter competition.

- The stock has massively underperformed (down 18% in the last three years) and is not likely to offer respite in the near term. Industry volume recovery and competitive strategy on pricing/incentives will be key monitorables. We maintain our **Neutral rating with a TP of INR2,650 (based on 45x Sep'26E EPS).**

ABB

Financials & Valuation (INR b)			
Y/E Dec	2024E	2025E	2026E
Sales	120.3	141.5	169.7
EBITDA	22.9	26.4	30.5
Adj. PAT	18.8	21.7	25.3
EPS (INR)	88.7	102.5	119.3
EPS Gr. (%)	50.5	15.6	16.3
BV/Sh. (INR)	362.1	456.2	565.2
Ratios			
RoE (%)	27.6	25.1	23.4
RoCE (%)	27.8	25.2	23.5
Valuations			
P/E (x)	82.7	71.5	61.4
P/BV (x)	20.2	16.1	13.0
EV/EBITDA (x)	66.7	57.3	48.8
Div. Yield (%)	0.2	0.3	0.4

3QCY24 performance was below expectations

- ABB reported a miss in 3QCY24 vs. our and consensus expectations. Revenue at INR29.1b grew 5% YoY, missing our expectation of INR34.3b as the order book tilted toward slightly longer gestation projects. Robotics & Motion/ Electrification segments grew 8%/11% YoY, while Process Automation declined 12% YoY. With robust demand, stable commodity prices, price hikes, and a better product mix, gross margin expanded ~670bp YoY to 43.4%. Other expenses rose during the quarter due to higher warranty costs. EBITDA margin came in at 18.6% vs. 15.8% in 3QCY23. PAT grew 22% YoY to INR4.4b, aided by higher other income (+21% YoY). Order inflows at INR33.4b rose 11% YoY, taking the order book to INR99.9b (+25% YoY). Cash balance stood at INR50b at the end of 3QCY24.

Investment thesis

Changing mix of OB toward slightly longer gestation projects

- ABB has a large installed base across base industries, and nearly 45-50% of the business originates from this segment, which is growing at less than 10%. About 15-20% of the business comes from the fast-growing segments, which are experiencing 20%+ growth, and the remaining 30-35% of the business comes from the moderate growth segments. Due to longer gestation of the projects in high-growth segments, revenue growth was hurt during the quarter. However, as the pace of growth improves across base industries, we expect that overall revenue growth will start improving again.

Overall demand environment remains strong

- The emerging and high-growth segments like data centers, railways and metros continue to provide growth momentum to overall order inflows. Renewables, water and power distribution would be other catalysts of business growth. The government's focus on low-carbon technology and energy transition is also providing a leg-up to different business segments of ABB India. ABB India is continuously benefiting from higher localization, expanded offerings across markets and geographies, client preference for quality players, and productivity measures.

View and recommendation

- We maintain our positive stance on ABB based on its ability to benefit from the high growth segments with its wide offerings and deeper penetration network. We do expect the near-term execution velocity to be affected by slower-than-expected growth in order inflows and a shift of order book toward longer-gestation projects. However, with higher value-added content in large-sized order inflows, we expect margin performance to remain healthy. The company's

improved penetration into Tier II and Tier III cities, higher localization efforts, benefits from global feeder factories for exports, and improved product portfolio are helping it expand its presence across markets spanning 23 market segments. We expect revenue/PAT CAGR of 17%/27% over CY23-26E. We have a BUY rating with a DCF-based TP of INR8,500.

Financials & Valuation (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	508.0	589.0	700.0
EBITDA	41.0	47.0	59.0
Adj. PAT	25.0	29.0	36.0
EBITDA Margin. %	8.1	8.0	8.4
Adj. EPS (INR)	39.0	44.0	55.0
EPS Gr. (%)	6.0	14.0	24.0
BV/Sh. (INR)	287.0	332.0	387.0
Ratios			
Net D:E	0.0	0.0	0.0
RoE (%)	14.6	14.3	15.4
RoCE (%)	14.3	14.1	15.2
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	93.9	82.5	66.3
EV/EBITDA (x)	58.0	50.4	40.5
EV/Sales (X)	4.7	4.1	3.4
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	0.0	-0.1	0.1

Avenue Supermart

Weak 2Q; impact from Quick Commerce key monitorable

- DMART reported weak results in 2QFY25 as consolidated revenue growth moderated to 14% YoY (from 19% YoY in 1Q) with modest EBITDA growth of 9% YoY (7% miss) due to the higher cost of retailing (CoR).
- Management indicated that the impact of online grocery formats was clearly visible, especially on large metro stores that operate at a high turnover per store. DMart reported a moderation in like-for-like (LFL) growth for 2+ year old stores to 7.5% in 1HFY25, with a sharp moderation to ~5.5% in 2Q (vs. ~10% in FY24).
- However, EBITDA margins declined 40bp YoY on weaker store productivity (revenue/sqft flat YoY) and higher CoR (opex up 10% YoY on cost/sqft). As a result, EBITDA increased 9% YoY (7% miss) and PAT was up 6% YoY (11% miss).
- DMART added six stores in 2QFY25 (12 in 1HFY25). Accelerated store additions remain the biggest growth driver for DMART and we expect the pace of store additions to pick up in 2HFY25 (four added in Oct'24).

Store additions key growth driver; QC impact a key monitorable

- DMART's revenue growth remains dependent on its ability to add store area. With the increase in capex, we believe store additions can pick up pace starting 2HFY25. We model 40/45/50 store additions in FY25/FY26/FY27.
- DMART's LFL growth has been recently impacted by a moderation in inflation and a fast ramp-up of quick commerce (QC) services. We would watch out for impact of quick commerce on DMART's LFL growth and the ramp-up in DMart Ready over the next few quarters.
- We believe Quick Commerce and value formats such as DMart can co-exist in the longer term. However, this hypothesis would likely be tested over the next few quarters.
- We estimate a CAGR of 17%/20% in revenue/PAT over FY24-27, aided by 13/4% growth in footprints/revenue productivity and ~50bp margin improvement.

Valuations & view

- We assign a 51x EV/EBITDA multiple (implies ~83x PE) on Dec'26E basis, in line with DMART's long-term 1-yr forward multiples to arrive at a TP of INR5,300.
- DMart stock has corrected sharply (down 32% in last 2M) and now trades at ~66x FY26E P/E (vs 100x average LT 1-year forward PE). We believe the risk-reward seems attractive after the recent correction. **We have a BUY rating on the stock with a TP of INR5,300.**

IndusInd Bank

Financials & Valuation (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
NII	219.5	260.1	310.3
OP	155.4	189.2	231.3
NP	73.8	99.8	126.9
NIM (%)	4.0	4.2	4.3
EPS (INR)	94.9	128.2	163.1
EPS Gr. (%)	-17.9	35.1	27.2
BV/Sh. (INR)	889	1,000	1,146
ABV/Sh. (INR)	867	975	1,118
Ratios			
RoA (%)	1.4	1.6	1.8
RoE (%)	11.2	13.6	15.2
Payout (%)	16.9	13.3	10.1
Valuations			
P/E (X)	10.6	7.8	6.2
P/BV (X)	1.1	1.0	0.9
P/ABV (X)	1.2	1.0	0.9

IndusInd Bank – Muted performance; asset quality outlook remains uncertain

Earnings Summary – 2QFY25

- **Loan growth tepid:** IIB's advances grew 13% YoY (2.7% QoQ) to INR3.6t, led by the corporate and commercial books. However, the slowdown in the MFI segment (down 12% QoQ, dragged down overall growth. Retail loan growth also remained subdued due to cautious disbursements.
- **NIM contraction impacts profitability:** NIM fell sharply by 17bp QoQ to 4.08% due to a rising cost of deposits and slower growth in high-yielding segments. NII grew 5% YoY to INR 53.5b but dipped sequentially by 1%.
- **Asset quality deteriorates:** Fresh slippages rose 17% QoQ to INR17.9b, driven by stress in the consumer finance book. GNPA/NNPA ratios increased to 2.11%/0.64% (up 9bp/4bp QoQ). The MFI segment remained the primary pain point, with a 30-90 DPD bucket rising to 4% in 2QFY25 from 2% in the 1QFY25.
- **Weak bottom-line:** PAT dropped significantly by 40% YoY to INR13.3b, impacted by a one-off contingency provision of INR5.25b.

Investment thesis: Loan growth moderates; asset quality outlook uncertain

- **Loan growth moderates:** While vehicle finance (26% of the book) remains a cornerstone of IndusInd's portfolio, growth in this segment has been slower than industry expectations, with OEM-driven sourcing facing challenges. The corporate and commercial books saw steady traction, but the cautious stance on unsecured lending, particularly cards and MFI, is expected to cap overall credit growth at ~13% for FY25, lower than earlier management guidance.
- **NIM moderates sharply; potential turn in rate cycle to boost margins:** Funding cost remains tight (2bp QoQ increase in 2Q), while moderation in lending yield as mix of MFI declined sharply adversely impacted margins. A shift toward term deposits (now 64% of total deposits) has caused a moderation in CASA ratio to 35.9%, further driving NIM compression. However, the potential turn in the rate cycle will likely aid margins as the loan portfolio remains dominated by fixed-rate loans.
- **Asset quality outlook uncertain:** IndusInd Bank's MFI portfolio, which contributes ~9.2% to the total loan book, remains under pressure due to rural stress, over-leveraging and other uncertainties. Delinquencies in key geographies such as Bihar and Maharashtra are on the rise, with GNPA in the MFI business likely to peak during 3QFY25. While the bank has tightened underwriting standards and moderated disbursements, the drag from this high-yielding segment is expected to persist.
- **Profitability under pressure:** Despite contingency provisions, we remain watchful on provisioning requirement as unsecured/MFI loan segments continue to witness elevated stress. The bank has guided for a credit cost of 110-130bp and this appears optimistic given rising slippages, particularly in consumer finance. Fee income has seen weakness, and operating expenses remain elevated due to investments in digital and branch expansion. These factors will likely delay profitability normalization.
- **Management continuity critical for a quick recovery:** The pending RBI approval for the renewal of the MD & CEO's term adds an overhang, particularly at a time

when business performance is already subdued. The continuity in management term and robust governance standards are crucial to navigating the current challenges and enabling quick recovery in the stock price.

Our view: Valuations reasonable; Clarity in business performance, management critical for re-rating

- IndusInd Bank's financial performance in 2QFY25 highlights the challenges of rising costs, subdued loan growth and asset quality pressures. The MFI business, in particular, remains a drag, and any broader economic or regulatory disruptions could further impact recovery.
- With cost pressures mounting, adverse asset mix and limited scope for immediate CASA recovery, NIMs are likely to remain under pressure. The bank's focus on secured lending and cautious approach in unsecured segments may limit near-term growth opportunities.
- The stock has underperformed broader indices over the last year due to rising concerns over asset quality and growth. Despite the bank's efforts to strengthen its balance sheet and diversify its portfolio, the lack of near-term triggers and uncertainty around management tenure suggest limited upside.
- The stock remains susceptible to execution risks, competitive pressures, and macroeconomic uncertainties. Asset quality recovery, especially in the MFI business and margin pick-up particularly as the rate cycle turns, are key near-term indicators for a potential re-rating.

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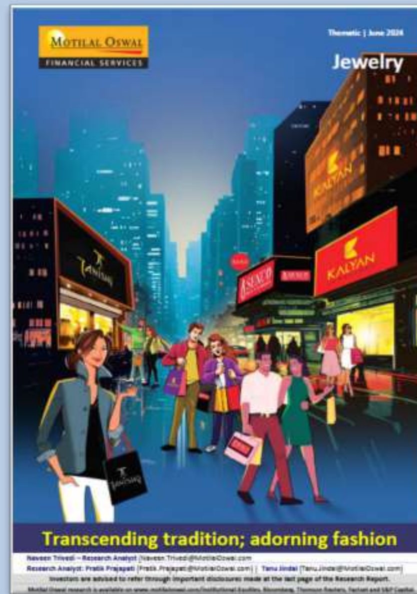

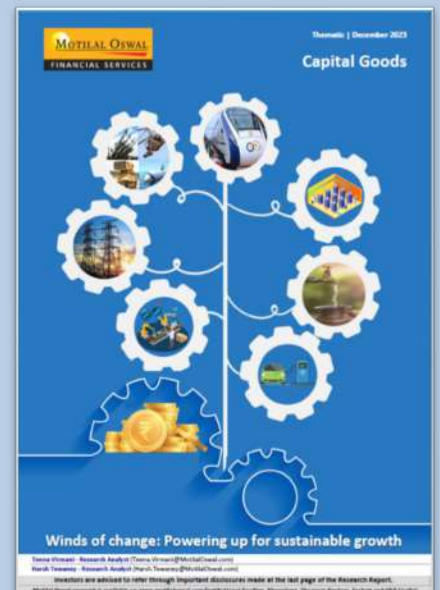

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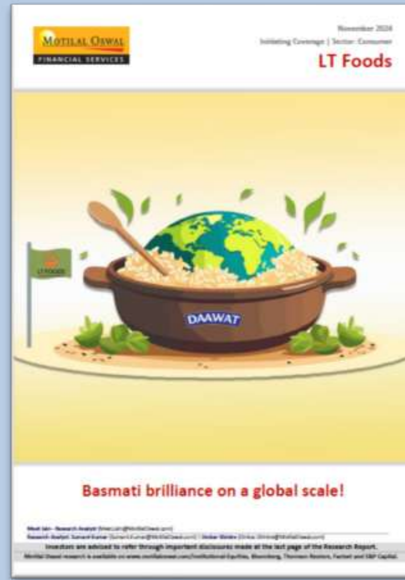

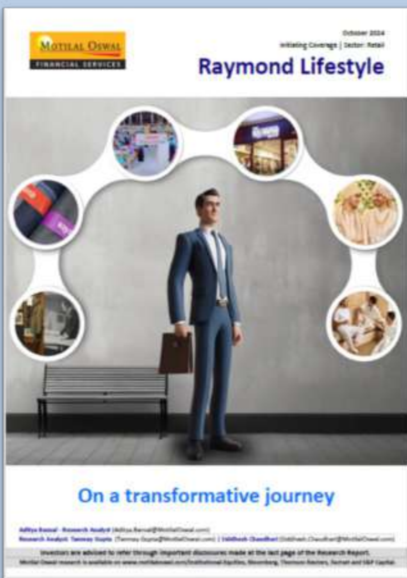

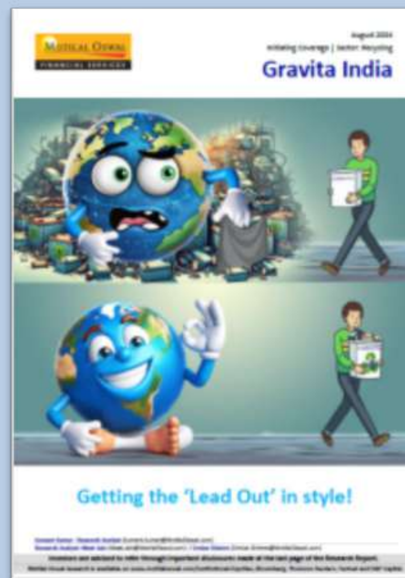

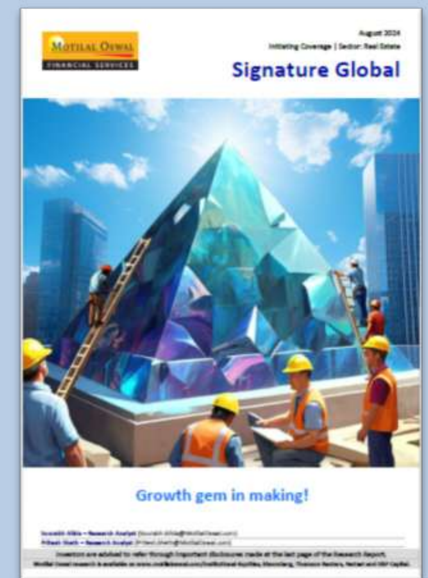

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