MOTILAL OSWAL
FINANCIAL SERVICES

12 December 2024

MORNING INDIA

Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	81,526	0.0	12.9
Nifty-50	24,642	0.1	13.4
Nifty-M 100	59,293	0.3	28.4
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	6,084	0.8	27.6
Nasdaq	20,035	1.8	33.5
FTSE 100	8,302	0.3	7.3
DAX	20,399	0.3	21.8
Hang Seng	7,249	-0.8	25.7
Nikkei 225	39,372	0.0	17.7
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	74	0.6	-4.3
Gold ($/OZ)	2,718	0.9	31.8
Cu (US$/MT)	9,074	-0.3	7.2
Almn (US$/MT)	2,557	-0.3	9.0
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	84.8	0.0	2.0
USD/EUR	1.0	-0.3	-4.9
USD/JPY	152.5	0.3	8.1
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.7	0.01	-0.5
10 Yrs AAA Corp	7.2	0.01	-0.5
Flows (USD b)	**11-Dec**	**MTD**	**CYTD**
FIIs	-0.1	3.08	1.1
DIIs	0.24	0.56	59.2
Volumes (INRb)	**11-Dec**	**MTD***	**YTD***
Cash	1,042	1182	1264
F&O	1,53,582	1,80,905	3,71,738

Note: Flows, MTD includes provisional numbers. *Average

Today's top research idea

ICICI Bank: Well poised to deliver sustainable growth and profitability!

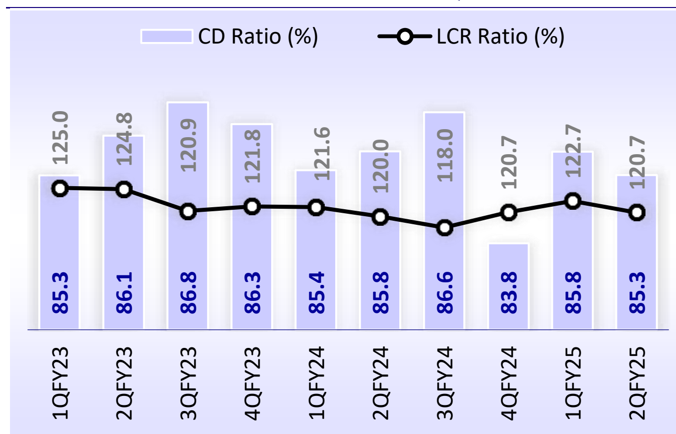
- ICICIBC is poised for a superior performance, driven by healthy loan growth, strong asset quality, and industry-leading return ratios.
- While we anticipate margins to remain in pressure in the near term due to a potential rate cut and rising costs of funds, the bank's operating leverage is emerging as a key driver of earnings growth.
- With robust deposit inflows and a favorable CD ratio—the lowest among large private banks—ICICIBC is well-positioned for profitable growth. Its asset quality outlook remains steady, supported by robust underwriting standards, strong PCR, and a high contingency buffer of ~1% of loans.
- We estimate ICICIBC to achieve a CAGR of 15%/12% in PPoP/PAT over FY25-27E, leading to RoA/RoE of 2.1%/16.7% in FY27.
- ICICIBC remains our top buy in the sector and we reiterate our BUY rating with a TP of INR1,550, based on 2.7x Sep'26E ABV.

Research covered

Cos/Sector	Key Highlights
ICICI Bank	Well poised to deliver sustainable growth and profitability!
Max Healthcare	Brownfield expansion to boost growth
CEAT	Camso brand acquisition to be EBITDA positive immediately; EPS accretive within 1-2 years
Oil & Gas	Robust 3QFY25 trends for OMCs so far
Healthcare	Low base, favorable seasonality drive IPM growth

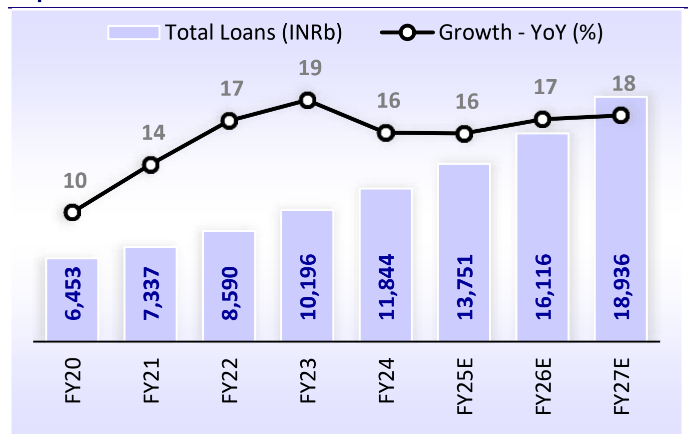
Chart of the Day: ICICI Bank (Well poised to deliver sustainable growth and profitability!)

CD ratio declined to 85.3% vs 85.8% in 1Q



Source: MOFSL, Company

Expect 17% loan CAGR over FY25-27E



Source: MOFSL, Company

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

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

In the news today

Kindly click on textbox for the detailed news link

1

Reliance Power arm wins 930 MW solar project with battery storage from SECI

Reliance NU Suntech secured the largest individual allocation out of the five companies vying for a total quoted capacity of 2,000 MW of inter-state transmission system-connected solar power projects with 1,000 MW/4,000 MWh energy storage systems.

2

Singapore tribunal orders Varroc Engg to transfer 50% JV stake to Beste Motors

Varroc Engineering Ltd along with its subsidiary VarrocCorp Holding BV, has received a partial arbitration award from the Singapore-based arbitral tribunal under ICC Rules. The ruling addresses a dispute with Beste Motors and TYC Brother Industrial Co Ltd

3

Godawari Power inks 7-year regasified LNG supply pact with GAIL for upcoming pellet plant

Godawari Power and Ispat Ltd has entered into a seven-year agreement with GAIL (India) Ltd for the supply of regasified liquefied natural gas (RLNG) or the company's upcoming pellet plant in the ordinary course of business for a period of 7 years.

4

BEML Secures Rs 136-Crore Contract For High Mobility Vehicles To Boost India's Defence Capabilities

BEML Ltd. has secured a Rs 136-crore contract for the supply of indigenously designed High Mobility Vehicles 8x8. These vehicles will play a pivotal role in the Battlefield Surveillance System project, reinforcing India's defence capabilities and advancing the government's

5

Britannia Raises Prices By Up To 5% In Some Products Amid Rising Commodity Costs

Britannia Industries Ltd. has begun implementing price increases of 3-5% across some of its products, starting in the third quarter of fiscal 2025, as the company deals with rising commodity prices.

6

Shakti Pumps Bags Rs 754-Crore Order From Maharashtra Discom

Shakti Pumps (India) Ltd. received the letter of empanelment from Maharashtra State Electricity Distribution Co. for a Rs 754.3-crore order to provide solar photovoltaic water pumping systems to the state of Maharashtra.

7

Coca-Cola sells 40% stake of bottling arm HCCBL to Jubilant Bhartia Group

Global beverages major Coca-Cola has sold 40% stake in its India bottling business Hindustan Coca-Cola Beverages Pvt Ltd (HCCBL) to Jubilant Bhartia Group. Though the company has not disclosed the amount of the deal, some media reports have pegged it at around ₹10,000 crore.

ICICI Bank

BSE SENSEX	S&P CNX
81,526	24,642

Stock Info

Bloomberg	ICICIBC IN
Equity Shares (m)	7046
M.Cap.(INRb)/(USDb)	9368 / 110.4
52-Week Range (INR)	1362 / 970
1, 6, 12 Rel. Per (%)	3/13/13
12M Avg Val (INR M)	18257
Free float (%)	100.0

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
NII	743	813	908
OP	581	663	748
NP	409	458	507
NIM (%)	4.7	4.4	4.2
EPS (INR)	58.4	65.3	72.2
EPS Gr (%)	27.5	11.8	10.7
ABV/Sh (INR)	315	370	432
Cons. BV/Sh (INR)	363	433	513
Ratios			
RoA (%)	2.4	2.3	2.2
RoE (%)	18.9	18.0	17.1
Valuations			
P/BV (x) (Cons)	3.7	3.1	2.6
P/ABV (x)*	3.4	2.9	2.5
P/E (x)	22.7	20.4	18.4
Adj P/E (x)*	18.3	16.4	14.8

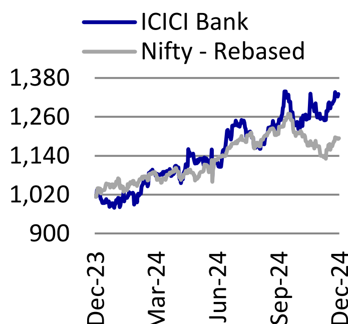
* Adjusted for Investment in subsidiaries

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	0.0	0.0	0.0
DII	35.9	36.2	36.8
FII	56.6	56.1	55.2
Others	7.5	7.7	7.9

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,328 TP: INR1,550 (+17%) Buy

Well poised to deliver sustainable growth and profitability!

Asset quality steady; Estimate RoA to sustain at 2.1% for FY27E

We met with Mr. Rakesh Jha (Executive Director – Retail, Corporate Banking and Small Enterprises) and Mr. Abhinek Bhargava (Head – Investor Relations) from ICICI Bank (ICICIBC) to discuss the bank's business outlook and other key focus areas. Following are the key takeaways from the discussion:

Loan growth remains healthy; focusing on delivering profitable growth

ICICIBC has delivered a robust ~17% CAGR in loans over FY22 to FY24, driven by Retail, Business Banking and SME segments while leveraging data analytics for onboarding and credit assessment. Business Banking segment continues to witness strong traction even as the overall economic environment has softened, as the bank has revamped its strategy, enhanced resources and streamlined internal processes. As a result, the segment has posted ~30% YoY growth in 2QFY25. Overleveraging remains a concern for the industry mainly in unsecured lending segments and the unwinding process is ongoing, which may take a few more quarters and continue to put pressure on the segment's growth in the near term. The bank continues to focus on risk management, especially in unsecured lending, and has tightened underwriting standards, which resulted in slower growth in these segments. We estimate ICICIBC to deliver a 17% CAGR in its loan portfolio over FY24-27E.

Building a granular retail franchise; CD ratio comfortable but CASA accretion remains tough

ICICIBC delivered industry-leading deposit growth of ~20% YoY in FY24 (~15.7% in 1HFY25), driven by enhancements in digital banking and robust branch network. The bank has focused on mobilizing low-cost deposits, particularly through corporate salary accounts and transaction banking, while increasing its presence in regions with lower market share. ICICIBC prioritizes profitable growth, with a balance sheet primarily funded by retail deposits, though it continues to engage in the wholesale segment to foster corporate relationships. Despite high competitive pressure on deposit rates, the bank has adjusted its pricing strategies to address specific needs related to maturity outflows, maintaining a CD ratio of around 85%. While the recent draft LCR guidelines could require adjustments, potentially impacting the bank's LCR by ~10-11% and NIMs by ~12bp (our calculation, please refer to our note "Assessing impact of draft LCR guidelines" published on 19th Nov'24 for details), ICICIBC remains confident of sustaining a healthy deposit growth trajectory (with some industry-wide pressure on CASA deposits). We estimate a ~16% CAGR in deposits over FY24-27E.

Pace of NIM compression has moderated; potential turn in rate cycle to further impact margins

ICICIBC continues to focus on strengthening its retail deposit base even as the CASA ratio declined to 40.6% in 2QFY25 due to elevated rate differential; however, LDR has remained favorable at ~85%. Although NIMs have contracted by ~27bp to 4.27% over the past year, the pace of compression has slowed, with a 13bp decline in 1HFY25 vs. a 37bp decline in 1HFY24. The bank expects margins to remain broadly stable in the near term; however, a turn in the rate cycle will dent margins as ~51% of the loan book is linked to repo (16% linked to MCLR and 32% is fixed rate book), which will get repriced promptly. We thus estimate margins to moderate further by ~20bp during FY26E to 4.2% from 4.4% in FY25 and remain watchful given the possibility of a 75-100bp cut in the repo rate in CY25 vs. our earlier view of a 50bp cut.

Fee growth steady; operating efficiency to keep cost ratios under control

ICICIBC reported ~16% growth in core fees in FY24, driven by strategic initiatives in Retail and Business Banking, which accounted for ~78% of overall fees. The bank has significant growth potential in fee income (especially transaction-related fees), while it remains discreet about the distribution of third-party products. The bank's focus on enhancing transaction banking, foreign exchange services and derivatives has strengthened fee income, alongside growth in credit card market share and spending volumes. With ongoing improvements in technology and efficient data analytics boosting digital transactions, a gradual recovery in the corporate portfolio is expected to further enhance fee growth. During 2QFY25, employee expenses declined; however, the bank expect overall opex to increase slightly due to festival spending and continued investments in manpower and technology. In 2QFY25, the cost-to-assets ratio remained stable at ~2.1%, while the C/I ratio improved to 38.6%. We estimate the C/I ratio to remain steady at ~39% by FY27, factoring in ~14% CAGR in operating expenses over FY25-27E. The bank is focusing on leveraging technology to increase volumes in the Retail/Business Banking segments with an aim of improving business productivity.

Asset quality steady; robust underwriting to enable controlled credit cost

ICICIBC has made significant progress in enhancing its asset quality and now maintains a best-in-class PCR of ~79% and contingent provisions of INR131b (1% of loans), which position it well for a favorable credit cost outlook. Over the past three years, the bank has seen a steady decline in slippages (1.8% annualized rate in 2QFY25), supported by strong underwriting and robust digital monitoring capabilities. Delinquencies have increased in unsecured loans (~14% of total loans) due to overleveraging (as reflected in the stress seen in the overall industry), while the secured retail loans have been performing well. ICICIBC expect credit cost to normalize upward on a calibrated basis. The bank’s substantial investments in technology, particularly in analytics and digital capabilities, have strengthened its early delinquency models, effectively managing slippages. We estimate GNPA/NNPA ratios to remain stable at ~1.8%/0.4% by FY27E, with credit cost averaging at ~50bp over FY26-27E.

Other highlights

- ICICIBC aims to strengthen its relationship with quality customers and improve its client penetration. The bank sees healthy opportunities to grow the business by better targeting clients with the underlying core philosophy of "One Bank One Team" and "Return of Capital vs Return on Capital."
- The bank remains comfortable with the current credit-deposit ratio and keeps a watch on LCR rather than the CD ratio. ICICIBC's focus remains on balancing loan growth with deposit mobilization amid a challenging environment.
- Other than third-party product distribution, the bank believes it has significant potential in growing its fee income base, led by transaction banking fees. The bank is actively focusing on opportunities in the NRI segment.
- While the overall asset quality trends remain healthy, the credit cost normalization is likely to continue and the bank will continue to closely monitor and take necessary precautions as the impact of overleveraging plays out over the next few quarters.

Valuation and view: Reiterate BUY with a TP of INR1,550

ICICIBC is poised for a superior performance, driven by healthy loan growth, strong asset quality, and industry-leading return ratios. While we anticipate margins to remain in pressure in the near term due to a potential rate cut and rising costs of funds, the bank's operating leverage is emerging as a key driver of earnings growth. With robust deposit inflows and a favorable CD ratio—the lowest among large private banks—ICICIBC is well-positioned for profitable growth. Its asset quality outlook remains steady, supported by robust underwriting standards, strong PCR, and a high contingency buffer of ~1% of loans. We estimate ICICIBC to achieve a CAGR of 15%/12% in PPoP/PAT over FY25-27E, leading to RoA/RoE of 2.1%/16.7% in FY27. ICICIBC remains our top buy in the sector and we reiterate our BUY rating with a TP of INR1,550, based on 2.7x Sep'26E ABV.

Max Healthcare

BSE SENSEX	S&P CNX
81,526	24,642

Bloomberg	MAXHEALT IN
Equity Shares (m)	972
M.Cap.(INRb)/(USDb)	1100.6 / 13
52-Week Range (INR)	1137 / 631
1, 6, 12 Rel. Per (%)	8/35/47
12M Avg Val (INR M)	2020
Free float (%)	76.3

Financials Snapshot (INR b)

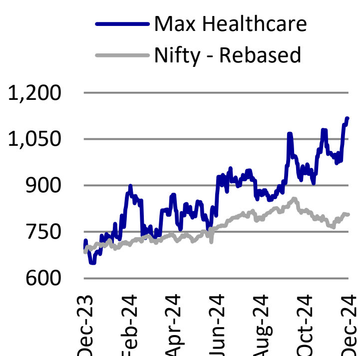
Y/E MARCH	FY24	FY25E	FY26E
Sales	68.2	84.2	103.5
EBITDA	18.7	25.7	30.1
Adj. PAT	13.3	17.5	21.4
EBIT Margin (%)	23.3	25.9	24.7
Cons. Adj. EPS (INR)	13.7	18.0	22.1
EPS Gr. (%)	18.6	31.4	22.3
BV/Sh. (INR)	95.9	113.6	135.6
Ratios			
Net D:E	(0.0)	(0.1)	(0.2)
RoE (%)	15.3	17.2	17.7
RoCE (%)	13.5	15.6	16.8
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	82.5	62.8	51.4
EV/EBITDA (x)	58.6	42.5	35.5
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	(0.3)	0.5	1.9
EV/Sales (x)	16.1	13.0	10.3

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	23.7	23.7	23.8
DII	15.1	15.4	11.4
FII	57.3	57.0	60.4
Others	3.8	3.9	4.5

FII includes depository receipts

Stock Performance (1-year)



CMP: INR1,133 TP: INR1,380 (+22%) Buy

Brownfield expansion to boost growth

- **We have analyzed the capex plans of listed hospital companies focusing on brownfield and greenfield bed additions to assess the impact on margins and their ability to achieve EBITDA breakeven after capacity expansion.**
- **Over FY25-27, listed hospitals plan to add a total of 16,707 beds (vs. 6,330 beds added over FY20-24) for a combined capex of INR202b. About 52% of those beds would be added through greenfield/inorganic projects and 48% via brownfield.**
- **Max Healthcare plans to increase its total bed capacity by 84% (3,332 beds) to 7,130 by FY27 for a capex of INR73b. Max will account for 20% of total additions by listed players – the largest expansion over the same period. It is also one of the companies with the highest brownfield expansion (70%). The remaining 30% of beds will be added through greenfield/inorganic expansions. Beyond FY27, it aims to add ~4,500 beds to increase its total capacity to over 11,000 beds.**
- **We believe that Max's expansion via a combination of brownfield, greenfield and inorganic will drive strong revenue growth and pave the way for quicker EBITDA breakeven for new beds, thus driving higher operating leverage benefits. We expect a CAGR of 18.4%/16.2%/20.5% in revenue/EBITDA/PAT over FY25-27. We have a BUY rating on Max with our SoTP-based TP of INR1,380.**

Hospital sector on expansion spree across India

- Over FY25-27, listed hospitals plan to add a total of 16,700 beds, with 52% allocated to greenfield/inorganic projects and 48% to brownfield.
- They plan to invest INR202b to expand their bed capacity over FY25-27, significantly higher than the 6,330 beds added over FY20-24.
- North/South India regions are expected to benefit the most from this expansion, with planned bed additions of 6,960/5,480.
- Since FY22, hospitals like Max, Aster DM, and KIMS have pursued aggressive acquisitions to enter new markets, while Rainbow, Jupiter, and Medanta have focused on organic expansions.

Max growth to outpace its peers

- Over FY25-27, Max plans to add 3,332 beds, the highest among listed players, which will increase its bed capacity by 84% to 7,130.
- A planned brownfield expansion of ~70% and a quicker breakeven from new beds will drive higher operating leverage benefits.
- Max plans to focus primarily on Tier I cities in North India, with ~82% of its bed additions in this region. The remaining 18% of beds will be added in Western India. The expansion in Tier I cities should drive faster growth in ARPOB and profitability for Max.
- Considering its expansion into Tier I cities, Max is expected to have the highest capex per bed of INR22m (vs. industry average of INR12m).
- Its EBITDA per bed is the highest among its peers at INR7.1m vs. industry average of INR4.7m.

Valuation and view

- We expect a CAGR of 18.4%/16.2%/20.5% in revenue/EBITDA/PAT over FY25-27. We value Max on the SoTP basis (35x EV/EBITDA for hospital business, 26x EV/EBITDA for Maxlab business, 6x EV/Sales for Max@home) to arrive at our TP of INR1,380.
- We remain positive on Max on the back of a robust industry outlook in its focus markets (Delhi, UP, Maharashtra, Punjab, Uttarakhand, Haryana).
- Along with efficient execution, Max is tripling its bed capacity over the next five years, thus providing strong headroom for growth. **Reiterate BUY.**

Valuation Snapshot

Companies	MCap (INR b)	CMP	EPS			PE (x)			EV/EBITDA(x)			ROE(%)		
			FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Apollo	1,055	7,341	101	135	174	72.7	54.3	42.3	35.5	28.6	23.5	19	21	22
Max	**1,101**	**1,132**	**15**	**19**	**24**	**77.0**	**58.4**	**47.3**	**49.8**	**38.5**	**31.7**	**14**	**16**	**17**
Medanta	302	1,124	19	24	29	58.2	46.8	39.0	33.6	27.8	23.5	16	17	18
Fortis Health	539	714	11	13	17	67.8	53.2	41.1	34.6	28.5	23.8	10	11	13
Narayana	262	1,280	39	44	51	33.2	29.4	25.2	21.7	18.9	16.4	24	22	21
AsterDM	244	489	7	10	13	68.6	50.2	38.1	30.9	24.8	20.1	9	12	13
KIMS	245	612	10	12	16	61.5	50.9	37.6	32.3	26.9	21.1	18	19	21
Rainbow	167	1,644	25	32	39	66.2	50.8	41.7	34.0	27.8	23.8	18	20	20
HCG	70	504	5	9	13	98.0	58.3	39.2	18.3	14.7	13.1	8	11	14
Shalby	26	245	8	13	13	31.8	19.4	18.5	16.7	12.0	10.5	6	10	13
Yatharth	54	629	18	22	31	35.5	28.1	20.1	22.1	17.3	12.3	14	14	17
Jupiter	105	1,602	32	39	44	50.2	40.8	36.3	34.3	28.6	25.9	16	17	16
Artemis	46	336	6	8	11	60.6	42.9	29.4	25.6	20.0	15.4	13	14	18

Source: MOFSL, Company

CEAT

BSE SENSEX	S&P CNX
81,526	24,642

Financials & Valuations (INR b)

INR Billion	FY25E	FY26E	FY27E
Sales	132.6	146.0	162.4
EBITDA	14.6	16.8	19.5
EBIDTA Margin (%)	11.0	11.5	12.0
Adj. PAT	5.3	7.1	9.3
EPS (Rs)	131.9	176.3	229.5
EPS Growth (%)	-22.2	33.6	30.2
BV/Share (INR)	1,106	1,248	1,432
Ratios			
RoE (%)	12.5	15.0	17.1
RoCE (%)	11.7	13.3	15.5
Payout (%)	19.0	19.9	19.6
Valuations			
P/E (x)	23.9	17.9	13.7
P/BV (x)	2.8	2.5	2.2
Div. Yield (%)	0.8	1.1	1.4
FCF Yield (%)	2.1	5.0	6.7

CMP: INR3,149 Buy

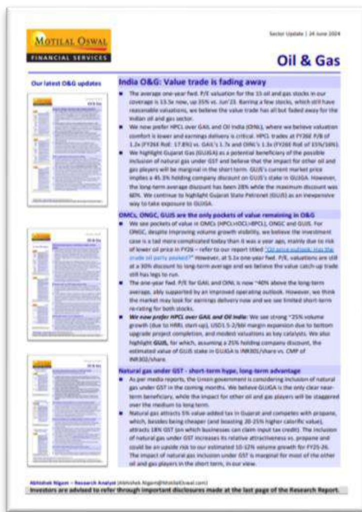
Camso brand acquisition to be EBITDA positive immediately; EPS accretive within 1-2 years

- CEAT has signed a definitive agreement with Michelin to acquire the off-highway construction equipment bias tire and tracks business under the Camso brand. Although the acquisition details have been shared earlier, following are the key highlights from the conference call:
- **Details related to the acquisition:** CEAT has announced its first significant acquisition at a valuation of USD225m (INR19b).
  - It will acquire the rights to the entire Camso brand after a three-year licensing period.
  - Fund outflow is scheduled to commence in six months, with consolidated financials expected to reflect from 1QFY26. The transaction was executed as an asset purchase, consistent with CEAT's capital allocation strategy.
  - The acquisition will be funded through a mix of internal accruals and debt (up to 70%), with the debt-equity ratio maintained at <1x and debt/EBITDA of <3x post-acquisition.
  - All required regulatory applications are underway.
- **Strategic rationale:** The acquisition aligns with CEAT's strategic goals of premiumizing its product portfolio, investing in high-margin specialty segments, and accelerating export growth.
  - The acquisition provides CEAT with entry into: i) the rubber track market, a USD1b segment, and ii) the compact construction tire market, a USD1b segment. Camso holds a 20% market share in rubber tracks and a 10% share in tires, with leadership in the premium segment.
  - CEAT's extensive experience in Sri Lanka ensures familiarity with the local ecosystem, regulations, and market dynamics.
- **Camso overview:** Camso is a premium Off-Highway Tires (OHT) player with a strong presence in Europe and North America. It caters to over 40 OEMs and 200 aftermarket dealers, with key clients such as JCB, CNH, and Kubota. The brand holds a substantial market share in tires and tracks.
  - Its revenue is entirely export-driven, supported by favorable government policies. Revenue distribution: 60% from North America, 30% from Europe, 4% from South America, and 6% from the rest of the world.
  - OEMs account for 53% of Camso's revenue. The acquisition includes 1,600 employees with no anticipated layoffs.
  - Rubber tracks are 100% bias, while tires include bias and limited radialization.
  - The off-highway segment is expected to contribute 20-25% to CEAT's revenue post-acquisition.
  - It operates at high margins of approximately 20%, with product realizations in the range of USD5.5-7/kg compared to CEAT's USD3-4/kg.

- **Future growth plans:** CEAT aims to enhance capacity utilization in Sri Lanka, expand into additional track segments, and explore leveraging the Camso brand in agriculture. Post-acquisition, CEAT's overseas revenues are projected to rise to 26% of the total revenue, with enhanced realizations in the OHT segment.
- **No significant capex is anticipated for the next 3-4 years**. Depreciation is estimated to remain in the 5-6% range.
  - Its facilities operate at 35% capacity headroom with current capacity at 200MT/day, evenly split between tires and tracks. Sri Lanka's manufacturing facility has been operational for over 40 years. Additionally, Michelin has upgraded the facility over the last 3-4 years.
- **Others**
  - Michelin's Exit: Camso was acquired by Michelin in 2018, which is now divesting to prioritize its focus on radialization.
  - SKU Expansion: The acquisition adds over 750 SKUs to CEAT's portfolio, expanding the total to 1,700+.
  - Financial Impact: Margins will be accretive immediately, while EPS accretion is expected within 1-2 years. Return on Capital Employed (ROCE) is projected to surpass CEAT's current levels.
  - Market Outlook: CY24 may experience temporary revenue and margin pressure due to OEM transitions. Additional manufacturing opportunities are being explored in India.

Valuation and view: In the Indian business, management has guided for double-digit volume growth in both replacement and export segments. It also expects OE demand to pick up, led by new model wins and higher share of business in PVs/2Ws/CVs. Management has strategically focused on increasing its share in segments such as 2Ws, PVs, and off-highway to enhance margins. This acquisition will help further bolster its presence in the global OHT segment. While the acquisition is expected to be EBITDA accretive from the outset, it will likely take 1-2 years to become EPS accretive. The stock trades at 17.9x/13.7x FY26E/FY27E EPS.

Oil & Gas



Robust 3QFY25 trends for OMCs so far

- **In 3QFY25'TD, refining margins have remained stable with current SG GRM at USD5.2/bbl (2QFY25: USD3.6/bbl), even as MS/HSD GRMs are stable QoQ at USD10-13/bbl.**
- **MS/HSD marketing margins have remained robust, averaging INR13.6/INR10.7 per lit in 3QFY25'TD (vs. INR3.3/lit each, we assume for FY26E-27). While crude prices have corrected sharply over the past six months, further downside risks to oil prices remain a source of upside earnings risk for OMCs' marketing business in FY26.**
- **Based on 3QFY25'TD refining and marketing margins and LPG prices, we estimate that OMC EBITDA may rise by 60-80% QoQ in 3QFY25. While LPG's under-recovery has risen QoQ, it will likely be offset by higher marketing margins. We believe that lower inventory losses QoQ in both refining and marketing could also boost profitability.**
- **Assuming 3QFY25'TD profitability to continue in 2HFY25, we see 20%-40% upside risk to our FY25E EBITDA for OMCs. HPCL is our preferred pick among OMCs with a BUY rating and a TP of INR470.**

Refining segment: SG GRM expands

- In 2QFY25, IOCL/HPCL/BPCL posted a 57%/41%/42% miss on our EBITDA estimates due to subdued refining margins, with reported GRMs coming in at USD1.6/USD4.4/USD3.1 per bbl. The weak profitability was a combination of soft core GRMs as well as inventory losses as Brent prices corrected from 1QFY25 average of USD 85/bbl to USD 79/bbl (2QFY25).
- Singapore GRM (SG GRM) has shown steady recovery in 3Q, averaging USD5.2/USD6 per bbl in 3QFY25'TD/Oct'24 (vs. USD3.6/bbl in 2QFY25). MS/HSD GRMs have been stable at USD10-13/bbl range in 3QFY25'TD. We believe that stable to modestly improving refining GRMs, together with lower inventory losses (amid stable to slightly lower crude prices), can drive healthy refining segment EBITDA growth QoQ for OMCs.

Marketing segment: MS/HSD marketing margins rise strongly QoQ

- Marketing margins for both MS and HSD were up 34% QoQ in 3QFY25'TD. Note that the 2QFY25 profitability for OMCs was also impacted by marketing inventory losses due to MS/HSD cracks correcting sharply in 2QFY25 vs 1QFY25.
- In 3QFY25, stable MS/HSD cracks QoQ, together with robust marketing margins, should deliver sequentially strong marketing segment performance in 3Q, we believe.

LPG's under-recovery may increase ~18% QoQ

- In 2Q, OMCs' earnings took a significant sequential hit due to the LPG under-recovery, amounting to INR37b/INR21b/INR21b for IOCL/HPCL/BPCL.
- With Propane prices averaging USD630/ton in 3QFY25'TD (vs. USD592/ton in 2QFY25), we estimate LPG under-recovery to increase ~18% QoQ in 3QFY25.
- We also estimate that for every USD100/ton change in propane prices, the 2QFY25 LPG under-recovery shall change by ~47%.
- With LPG prices averaging USD645/ton and touching a peak of USD940/ton over the last three years, we continue to believe that LPG under-recovery remains a risk to OMCs until any support is received from the government of India.

OMCs the best way to play downside risk to crude price theme

- IEA estimates global oil demand for CY25 to be ~1mb/d. The persistent weakness in oil demand, as per IEA, is driven by low demand in key oil markets such as China, resumption of crude output from Libya, planned unwinding of OPEC+ production cuts, an expanding EV fleet, and an increase in vehicle efficiency.
- Apart from the gradual unwinding of 2.2mb/d voluntary cuts by OPEC+ from Jan'25, IEA estimates another 1.5mb/d oil supply growth from non-OPEC players in CY25. IEA projects that even if the OPEC+ cuts remain in place, global supply shall exceed demand by more than 1mb/d in CY25.
- While we are building in oil prices of USD75/bbl in FY26, we believe risks to a lower oil price curve continue to rise, given the strong non-OPEC supply response in CY25 and beyond. ***We think that the best way to play a range-bound oil price environment with rising downside risks is OMCs, where HPCL is our preferred pick.***

Valuation and view: HPCL remains our preferred pick

- HPCL/BPCL/IOCL are currently trading at FY26 PB of 1.6/1.5/1 vs the historical average of 1.8/1.9/1.4, respectively.
- **HPCL:** We model a marketing margin of INR3.3/lit for both MS and HSD in FY26E-27E, while the 3QFY25'TD MS/HSD marketing margins are INR13.6/lit and INR10.7/lit, respectively. HPCL is our preferred pick among the three OMCs.
- We see the following as key catalysts for HPCL: 1) demerger and potential listing of the lubricant business, 2) the commissioning of its bottom upgrade unit in 4QFY25, and 3) the start of its Rajasthan refinery in 1QFY26'end.
- HPCL currently trades at 1.6x FY26E P/B, which we believe offers a reasonable margin of safety, as we estimate an FY26E RoE of 15.3%. Our SoTP-based TP includes:
  - The standalone refining and marketing business at 7x Dec'26 EV/EBITDA;
  - INR38/share as the potential value unlocking from the de-merger of the lubricant business;
  - HMEL at 12x P/E based on its FY24 PAT (HPCL's share), deriving a value of INR52/share;
  - Chhara Terminal at 1x P/B and HPCL's HRRL stake at 0.5x of HPCL's equity investment in the project to date. The MRPL stake is valued at MOFSL's TP.
  - All these lead to a TP of INR470. **Reiterate BUY.**

HPCL SoTP-based valuation

Particulars	Earning metric		Val metric	Multiple	Amount (INR m)
HPCL standalone	Dec'26E EBITDA	1,76,684	EV/EBITDA	7	12,70,365
(-) Standalone Dec'26E Net Debt					6,17,110
Standalone Market Cap					**6,19,676**
+ Lubricant business- value unlocking	FY24 EBITDA	10,000	EV/EBITDA	8	80,000
+ MRPL	MOFSL TP	38,621			38,621
+ HMEL	FY24 PAT	9,310	P/E	12	1,11,720
+ Chhara terminal	Book Value	12,232	P/B	1	12,232
+ HRRL	Equity invested till date		P/B	0.5	1,05,440
SoTP					**9,67,688**
(/) shares outstanding					**2,128**
TP (INR/share)					**470**

Performance of top companies in Nov'24

Company	MAT growth (%)	Nov'24 (%)
IPM	7.5	10.7
Abbott*	8.4	12.4
Ajanta	10.6	16.9
Alembic	1.0	1.6
Alkem*	4.5	11.2
Cipla	6.9	6.3
Dr Reddys	9.6	14.9
Emcure*	4.9	5.6
Eris	6.6	6.2
Glaxo	0.6	3.9
Glenmark	11.8	12.4
Intas	11.6	10.8
Ipca	13.4	18.8
Jb Chemical*	11.4	12.5
Lupin	8.0	8.9
Macleods	6.1	8.1
Mankind	8.5	10.4
Sanofi	5.2	1.7
Sun*	9.4	13.0
Torrent	8.4	9.4
Zydus*	7.5	11.5

Low base, favorable seasonality drive IPM growth

- The India pharma market (IPM) grew 10.7% YoY in Nov'24 (vs. 5.2% in Oct'24 and 3.4% in Nov'23). The growth was driven by strong outperformance in Derma/Pain/Cardiac.
- Acute therapy growth stood at 11% in Nov'24 (vs. 2% in Oct'24 and Nov'23 each), driven by strong growth in Pain and high-single digit growth in AI and Respiratory.
- Derma/Pain/Cardiac outperformed IPM by 560bp/240bp/210bp.
- For the 12 months ending in Nov'24, IPM grew 7.5% YoY, led by price/new launches/volume growth of 4.3%/2.6%/0.6% YoY.
- Out of top 10 brands, Duolin/Clavam clocked a growth of 15%/14% YoY to INR570m each in Nov'24.
- Out of top 40 brands, Zerodol SP/Ryzodeg/Rosuvas/Cilacar/Rybelsus/Duphalac grew more than 20% in Nov'24.

IPCA/Ajanta/DRRD outperform in Nov'24

- In Nov'24, among the top-20 pharma companies, IPCA (up 18.8% YoY), Ajanta (up 16.9% YoY), and DRRD (up 14.9% YoY) recorded higher growth rates vs. IPM.
- Acute-focused companies like Alembic (69% acute)/Alkem (82% acute)/ Mankind (63% acute) recorded 670bp/980bp/830bp QoQ growth.
- IPCA outperformed IPM, aided by strong double-digit growth across top 10 therapies, led by Urology and Derma. IPCA's pain segment outperformed IPM by 600bp.
- Ajanta outperformed IPM, led by double-digit growth in top 4 therapies.
- Excl. respiratory, DRRD's top 5 therapies grew in double digits, thus driving overall company outperformance.
- IPCA reported industry-leading volume/price growth of 5.2%/6.9% YoY on the MAT basis. Eris posted the highest growth in new launches (up 4.8% YoY).

Cardiac/Derma/Gastro lead YoY growth on MAT basis

- On the MAT basis, the industry reported 7.5% growth YoY.
- Acute therapies clocked strong growth in Nov'24 but still underperformed IPM on MAT basis.
- Cardiac/Derma/Gastro grew 11.7%/9.5%/8.7% YoY. Respiratory/Anti-Infectives sales underperformed IPM by 690bp/450bp.
- The acute segment's share in overall IPM stood at 61% for MAT Nov'24, with YoY growth of 5.9%. The chronic segment (39% of IPM) grew 10% YoY.

India and MNC pharma see strong growth in Nov'24

- As of Nov'24, Indian pharma companies hold a majority share of 84% in IPM, while the remaining is held by multi-national pharma companies (MNCs).
- In Nov'24, Indian companies grew 10.8%, while MNCs grew 10.2% YoY.
- Among MNCs, Abbott registered the highest growth of 12% YoY, while Sanofi posted a slow growth of 2% in Nov'24.

Unicommerce eSolutions: Margin has expanded faster than revenue; expect trajectory to continue; Kapil Makhija , MD & CEO

- Growth in the sportswear segment is notable due to the partnership with HMEL.
- The company added over 100 enterprise logos in Q2, demonstrating strong demand.
- The festive season saw a 15-20% sales spike, but market softness persists.
- Operating margins are expected to continue expanding faster than revenues

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Vishal Mega Mart: Store expansion will be funded via internal cash & no funds are required ; Gunender Kapur, MD & CEO

- Revenue has nearly doubled, indicating robust growth prospects.
- The company focuses on the lower and middle-income segments amidst intense competition.
- Ongoing litigations are disclosed, ensuring clarity for potential investors.
- Revenue has nearly doubled, indicating robust growth prospects.

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MobiKwik: IPO funds will be used for product development, data, machine learning, and AI; Upasana Taku, ED & Bipin Singh, CEO

- MobiKwik's revenue surged from ₹300 Cr in FY21 to ₹890 Cr in FY24.
- Focus on distributing financial products like savings, investments, and insurance to consumers.
- MobiKwik has shown growth despite intense competition and external market challenges.
- The company's platform can adapt to market changes, ensuring long-term growth potential.

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Sai Life Sciences: Post-Repayment, we'll have negligible debt and finance cost savings; Sivaramakrishnan Chittor, CFO & Krishnam Raju Kanumuri, MD & CEO

- Majority of proceeds will be used to repay ₹720 crore of debt, leading to negligible debt levels.
- Projected interest savings of ₹75-80 crore, enhancing profit margins.
- Revenue growth of approximately 60% from FY22 to FY24, with margin improvements.
- Positive long-term growth outlook driven by changing global supply chains and strategic partnerships.

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SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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