Market snapshot

Equities - India	Close	Chg .%	CY24.%
Sensex	76,330	-1.4	8.2
Nifty-50	23,086	-1.5	8.8
Nifty-M 100	52,390	-4.0	23.9
Equities-Global	**Close**	**Chg .%**	**CY24.%**
S&P 500	5,836	0.2	23.3
Nasdaq	19,088	-0.4	28.6
FTSE 100	8,224	-0.3	5.7
DAX	20,133	-0.4	18.8
Hang Seng	6,844	-0.8	26.4
Nikkei 225	39,190	0.0	19.2
Commodities	**Close**	**Chg .%**	**CY24.%**
Brent (US$/Bbl)	83	3.2	-4.5
Gold ($/OZ)	2,663	-1.0	27.2
Cu (US$/MT)	8,979	-0.1	2.2
Almn (US$/MT)	2,562	0.2	7.7
Currency	**Close**	**Chg .%**	**CY24.%**
USD/INR	86.6	0.7	2.9
USD/EUR	1.0	0.0	-6.2
USD/JPY	157.5	-0.2	11.5
YIELD (%)	**Close**	**1MChg**	**CY24 chg**
10 Yrs G-Sec	6.9	0.08	-0.4
10 Yrs AAA Corp	7.4	0.09	-0.5
Flows (USD b)	**13-Jan**	**MTD**	**CYTD**
FIIs	-0.6	0.76	-0.8
DIIs	0.93	4.95	62.9
Volumes (INRb)	**13-Jan**	**MTD***	**YTD***
Cash	1,121	1008	1008
F&O	1,25,169	2,00,767	2,00,767

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

LTIMindtree – Top Pick 2025: Asymmetric risk-reward potential

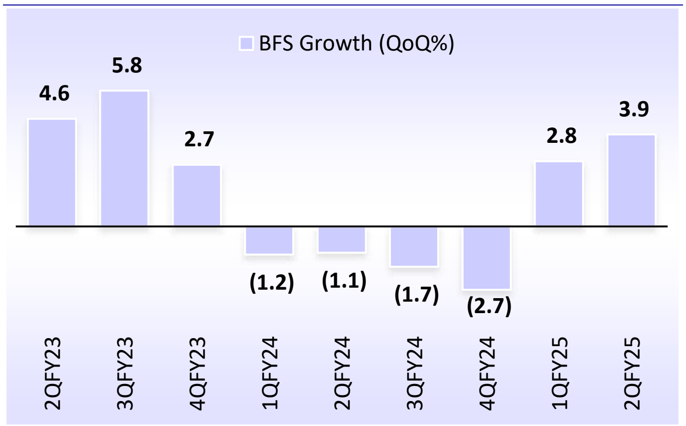
- LTIMindtree (LTIM) stands out as our top pick for CY25, backed by its significant exposure to BFSI and Hi-tech verticals—both projected to rebound strongly over the next 12-18 months.
- The company's capabilities in data, ERP, and application modernization further underpin its ability to seize incremental demand in these segments. Additionally, LTIM's AI-first pivot aligns with rising client reinvestments in next-generation transformation initiatives.
- Despite current uncertainties around management succession and near-term margin headwinds—as reflected in its relatively benign valuation of 27x FY27E EPS—we anticipate meaningful margin recovery by FY27 and leadership clarity by 1HCY25. These factors collectively present an asymmetric risk-reward scenario, reinforcing LTIM's strong case as our top pick for CY25.

Research covered

Cos/Sector	Key Highlights
LTIMindtree	Top Pick 2025: Asymmetric risk-reward potential
BSE	Top Pick 2025: Resilient growth in spite of tough regulations
HCL Technologies	Guidance upgrade dampens enthusiasm
Fund Folio	Equity AUM rises for 11 successive years, net inflows more than double in CY24
Cables and Wires	Domestic demand remains strong; exports gaining traction
Healthcare Monthly	Healthy IPM growth in Dec'24
EcoScope	Dec'24 CPI inflation down to a four-month low of 5.2%
Angel One	Elevated C/I ratio leads to PAT miss
Anand Rathi	PAT in line with estimates; EBITDA margins improve sequentially

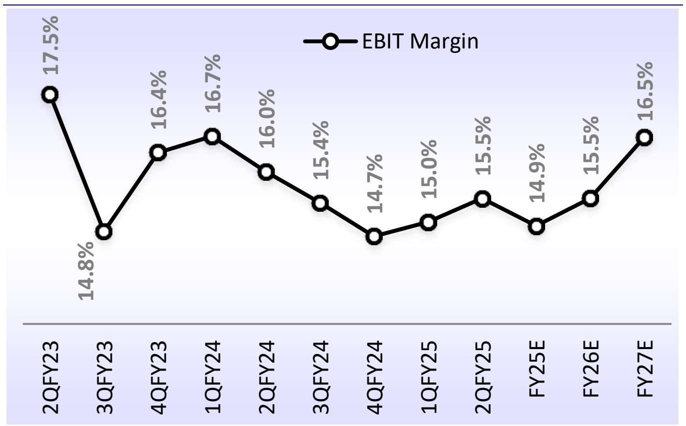
Chart of the Day: LTIMindtree (Asymmetric risk-reward potential)

BFSI vertical is back on the growth trajectory



Source: MOFSL, Company

EBIT margins to expand 160bp in FY27 from FY25



Source: MOFSL, Company

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

JSW Energy gets letter of intent for KSK Mahanadi

JSW Energy emerged as the highest bidder for KMPCL, offering Rs15,985 crore to financial creditors, surpassing Adani Power in an auction concluded in October last year, report had said earlier.

2

Sale of IDBI Bank may carry over to FY26

The government had received multiple expressions of interest (EOI) on January 7, 2023 for a total of 60.72% stake in the bank, including 30.48% (approx. Rs 21,690 crore at current prices) from the government and 30.24% from promoter LIC, along with the transfer of management control in the bank.

3

WeWork India raises Rs 500 crore via rights issue

The funds will be used to repay existing debt, reduce the cost of capital, and help the company achieve a debt-free status, the company stated.

4

AI and GenAI are transforming robotics: ABB robotics global head

Advancements in robotics and AI are transforming Indian industries, with robots improving efficiency in the automotive, manufacturing and logistics sectors.

5

AIG Hospitals to invest Rs 800 crore in new oncology centre in Hyderabad

The Board of AIG Hospitals has also approved the acquisition of Proton Beam Therapy system from Belgium-based IBA, a supplier of equipment and services in the field of proton therapy.

6

2025 Bharat Mobility Expo: BorgWarner to showcase e-mobility solutions

BorgWarner will highlight its latest advancements at the Bharat Mobility Global Expo 2025 in New Delhi, showcasing a comprehensive range of technologies designed to accelerate the shift towards electrification in the Indian market.

7

Puravankara's sales bookings rise 2% to Rs 1,265 cr in December quarter

Real estate company Puravankara Ltd on Monday reported a 2 per cent increase in its sales bookings to Rs 1,265 crore for the latest December quarter on high demand for homes during festivals.

LTIMindtree

BSE SENSEX	S&P CNX
76,330	23,086

CMP: INR6,031 TP: INR8,000 (+33%) Buy

Stock Info

Bloomberg	LTIM IN
Equity Shares (m)	296
M.Cap.(INRb)/(USDb)	1786.8 / 20.6
52-Week Range (INR)	6768 / 4514
1, 6, 12 Rel. Per (%)	-3/14/-9
12M Avg Val (INR M)	2795
Free float (%)	31.4

Financials & Valuations (INR b)

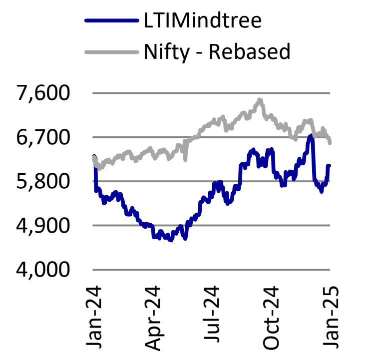
Y/E Mar	FY25E	FY26E	FY27E
Sales	380.6	425.9	481.6
EBIT Margin (%)	14.9	15.5	16.5
PAT	47.9	55.2	66.0
EPS (INR)	161.7	186.5	223.0
EPS Gr. (%)	4.5	15.3	19.6
BV/Sh. (INR)	770.1	878.3	1,007.6
Ratios			
RoE (%)	22.4	22.6	23.6
RoCE (%)	18.3	18.9	20.0
Payout (%)	42.0	42.0	42.0
Valuations			
P/E (x)	37.3	32.3	27.0
P/BV (x)	7.8	6.9	6.0
EV/EBITDA (x)	25.2	21.9	18.0
Div Yield (%)	1.1	1.3	1.6

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	68.6	68.6	68.7
DII	14.9	14.2	13.0
FII	7.4	7.3	8.1
Others	9.1	9.9	10.3

FII includes depository receipts

Stock Performance (1-year)



Asymmetric risk-reward potential

LTIMindtree (LTIM) stands out as our top pick for CY25, backed by its significant exposure to BFSI and Hi-tech verticals—both projected to rebound strongly over the next 12-18 months. The company's capabilities in data, ERP, and application modernization further underpin its ability to seize incremental demand in these segments. Additionally, LTIM's AI-first pivot aligns with rising client reinvestments in next-generation transformation initiatives. Despite current uncertainties around management succession and near-term margin headwinds—as reflected in its relatively benign valuation of 27x FY27E EPS—we anticipate meaningful margin recovery by FY27 and leadership clarity by 1HCY25. These factors collectively present an asymmetric risk-reward scenario, reinforcing LTIM's strong case as our top pick for CY25.

BFSI and Hi-tech verticals to lead CY25 growth, favoring LTIM

- LTIM derives a substantial portion of its revenue from BFSI (~35%) and Hi-tech (~25%), positioning it favorably for growth.
- **We anticipate these two verticals to be the fastest-growing over CY25**, providing a significant opportunity for LTIM to capitalize on their expansion.
- While LTIM remains cautiously optimistic about a recovery in discretionary spending, we believe that a recovering demand environment for discretionary and modernization initiatives, combined with its expertise in governance and regulatory compliance deals, will be key drivers of growth.
- **The Hi-tech vertical is recovering ahead of schedule**: Earlier, we anticipated a more protracted recovery curve for the vertical as we believed that capex on GenAI by big-tech companies could delay service spending. However, we now expect Hi-tech to emerge as the fastest-growing vertical in CY25, alongside US BFSI. LTIM should leverage its strength in this vertical in the short to medium term.

Valuations offer asymmetric return potential

- LTIM currently trades at 27x FY27E EPS; on a blended 12M forward basis, the company is still trading close to its five-year average P/E multiple. This is undemanding, in our view.
- While valuations reflect uncertainty around the current management and margin headwinds, we see multiple levers for a potential re-rating.
- With a strengthening demand outlook, focused strategic pivots, and potential catalysts such as improved margins and management clarity, we believe LTIM offers an asymmetric return potential.
- We expect 11-13% constant currency growth rate for FY26-FY27, with FY27 margins recovering by 160bp over FY25 EBIT of 14.9%. This could lead to an earnings CAGR of 17.4% over FY25-FY27E. At 27x FY27E earnings, this presents a compelling entry opportunity, in our view.

Clarity on succession to unlock value

- LTIM's post-merger top-level attrition and uncertainty around succession plans have been major factors in the stock's underperformance.
- However, new hires and reduced leadership churn, as shown in Exhibit 10, are expected to bring greater management stability over the next few quarters.
- Uncertainty around succession plans has remained a near-term overhang on the stock; we expect this to be addressed by Q4FY25.
- We see this as a potential catalyst for multiple expansions.

IMPACT framework – LTIM leads the scorecard

- The IMPACT evaluation framework assesses and identifies stocks that can benefit from the linear nature of GenAI scale-up in the short term, while also evaluating their future readiness when the technology reaches its inflection point.
- LTIM has emerged as one of the top performers in the IMPACT evaluation framework with a total score of 24. Its top-tier ecosystem partnerships and excellent technology readiness position it well for next-gen and pre-GenAI expenditures. The company balances top client relationships with effective new client acquisitions.

Margins serve as a key risk but growth and SG&A leverage may drive recovery

- Margins remain a key monitorable and the biggest risk to our thesis. It is apparent that post-merger synergies have not been realized to the extent previously anticipated, and a challenging demand environment has made it tougher to expand margins.
- We believe that the utilization levels (excl. trainees) are too high (~87%), and in the event of an outsized growth recovery, LTIM will need to hire additional talent to execute effectively.
- However, we believe that SG&A leverage, coupled with a recovery in growth and a strong dollar, could provide a margin cushion in FY26/FY27.

Valuation and view

- We reiterate our BUY rating on LTIM due to its superior offerings in data engineering and ERP modernization, positioning it well to capture pre-GenAI expenditures. We anticipate LTIM to outperform its large-cap peers and expect low double-digit CC growth for FY26. LTIM could have managed its top-level churn rate more effectively post-acquisition. Nonetheless, we believe the top-level attrition rate might remain benign going forward. Additionally, margins remain a concern and the biggest risk to our thesis.

Scenario analysis: Estimating the downside

- In our view, if discretionary spending fails to drive demand in the near future and tech-spend revival is delayed, LTIM is projected to grow by a much lower 6.8%/8.9% YoY CC growth in FY26E/FY27, leading to a ~1.5%/2.5% CQGR during these years, with EBIT margins of 15.1% and 15.5%. This could lead to EPS of INR161.3/176.4/196.7 for FY25E/FY26E/FY27E, translating into an earnings CAGR of 10.5%. We anticipate a potential earnings downgrade of 5-12% for

FY26/FY27 from our base case. In this case, the stock could be valued at 27x FY27 EPS, yielding a TP of INR 5,300, which could serve as a floor for the stock.

- However, on the upside, several catalysts could drive LTIM's performance, such as a possible management change, new directions on margin management, and a tech upcycle favoring its vertical exposure and service lines. This could enable LTIM to achieve 10.9%/13.1% YoY CC growth and expand EBIT margins by 160bp over FY25E, reaching 16.5% by FY27. In this case, LTIM will be valued at 35x, a 20% premium to TCS, suggesting an upside of around 33% with a TP of INR8,000.

LTIM scenario analysis

	Bear				Base		
INRm, unless mentioned otherwise	**FY24**	**FY25E**	**FY26E**	**FY27E**	**FY25E**	**FY26E**	**FY27E**
Revenue (USD m)	4,287	4,512	4,811	5,241	4,524	5,010	5,666
Growth YoY CC (%)		*5.1%*	*6.8%*	*8.9%*	*5.3%*	*10.9%*	*13.1%*
USD/INR	82.84	84.13	85.00	85.00	84.13	85.00	85.00
Revenue	3,55,170	3,79,588	4,08,972	4,45,453	3,80,555	4,25,885	4,81,631
EBITDA	63,874	66,025	70,808	78,903	66,199	75,227	89,857
EBITDA Margin (%)	*18.0%*	*17.4%*	*17.3%*	*17.7%*	*17.4%*	*17.7%*	*18.7%*
EBIT	55,685	56,614	61,810	69,103	56,767	65,857	79,262
EBIT Margin	*15.7%*	14.9%	15.1%	15.5%	*14.9%*	*15.5%*	*16.5%*
Tax Rate (%)	24.2%	25.3%	24.5%	24.5%	25.3%	24.9%	24.9%
PAT	45,846	47,750	52,225	58,226	47,877	55,197	66,014
EPS(INR)	154.8	161.3	176.4	196.7	161.7	186.5	223.0
Growth (%)		*4.2%*	*9.4%*	*11.5%*	*4.5%*	*15.3%*	*19.6%*
P/E Multiple	27				35		
TP (Rounded)	5,300				8,000		
Upside/Downside	-12%				33%		

Source: MOFSL, Company

Comparative valuation of Tier I and Tier II IT companies

Companies Name	CMP*	Target Price	Upside /Downside	Rating	EPS				EPS CAGR FY24-27e, %	P/E			
					FY24	FY25e	FY26e	FY27e		FY24	FY25e	FY26e	FY27e
TCS	4,291	5,000	17%	Buy	126.3	138.0	152.0	166.2	9.6%	34	31	28	26
Infosys	1,962	2,250	15%	Buy	58.4	63.6	71.5	80.1	11.1%	34	31	27	24
Wipro	292	290	-1%	Neutral	10.2	11.5	12.3	13.0	8.4%	29	25	24	22
HCLT	1,989	2,400	21%	Buy	57.9	63.3	71.9	79.7	11.2%	34	31	28	25
TechM	1,660	1,750	5%	Neutral	41.1	47.8	62.1	69.6	19.2%	40	35	27	24
LTIM	6,031	8,000	33%	Buy	154.8	161.7	186.5	223.0	12.9%	39	37	32	27
LTTS	4,853	5,250	8%	Buy	123.0	127.1	153.4	174.7	12.4%	39	38	32	28
Mphasis	2,778	3,200	15%	Neutral	81.8	90.7	104.3	115.1	12.1%	34	31	27	24
Coforge	8,706	11,500	32%	Buy	133.2	145.7	229.2	282.3	28.4%	65	60	38	31
Persistent	6,003	7,500	25%	Buy	75.1	88.5	116.5	136.1	21.9%	80	68	52	44
Zensar	747	800	7%	Neutral	29.1	26.9	30.9	35.3	6.6%	26	28	24	21
Cyient*	1,682	2,100	25%	Buy	62.7	62.0	73.5	80.2	8.6%	27	27	23	21

Source: MOFSL

13 January 2025

Update | Sector: Financials – Non Lending

BSE

BSE SENSEX	S&P CNX
76,330	23,086

CMP: INR5,157 TP: INR6,500 (+26%) Buy

Resilient growth in spite of tough regulations

F&O market share on the rise!

- **BSE has successfully captured over ~29% of the notional options turnover (Dec'24), achieving a significant milestone in its competitive positioning against NSE, aided by product innovation, an increase in member participation, and lesser impact of regulatory changes compared to NSE.**
- **While the restriction on weekly expiry contracts per exchange w.e.f. Nov'24 has impacted industry volumes, BSE has witnessed improvement in premium ADTO (9% absolute growth in Dec'24), premium turnover market share (at 15% in Dec'24), and the premium-to-notional turnover ratio (at 10bp in Dec'24 vs. average of 7.3bp in the previous three months).**
- **Additionally, the decline in notional turnover will lower regulatory charges and clearing & settlement costs, boosting the company's profitability. The change in Sensex expiry day from Friday to Tuesday will also boost BSE's market share.**
- **The scale-up of co-location servers will bring in high-frequency traders and other institutions, leading to higher volumes in long-dated expiry products. This bodes well for realizations as well as costs.**
- **Star MF has delivered a stellar performance and BSE continues to invest in growing this business, as it sees humongous opportunities to increase the revenue contribution from Star MF.**
- **We expect BSE to register a CAGR of 44%/74%/74% in revenue/EBITDA/PAT during FY24-27E, as we believe the improvement in the premium-to-notional turnover ratio will offset the decline in volumes. We reiterate BUY with a TP of INR6,500, based on 45x Sep'26E EPS.**

BSE gaining from reduction in number of weekly expiries to one

- The significant part of the partial implementation of the new F&O regulation from Nov'24 was the reduction of weekly expiry contracts to one per exchange.
- The effect of this regulation is reflected in a 15%/33% decline in F&O notional ADTO and a 12%/11% decline in F&O premium ADTO for the industry (NSE+ BSE).
- BSE, being an emerging player in the derivatives space, had only two weekly expiry products – Sensex and Bankex, as compared to NSE's four. After the regulation, BSE has continued with Sensex derivatives as its only weekly expiry contract, while Bankex and Sensex 50 contracts have been moved to a monthly expiry cycle.
- Compared to the decline in premium volumes for the industry, BSE witnessed 9% growth in premium ADTO in Dec'24, despite a 19% decline in notional ADTO, driven by an increase in trading of options on non-expiry days. Since revenue is linked to the premium turnover, the improvement in the premium-to-notional turnover ratio will boost revenue.
- We expect the notional turnover to decline 10% in FY26 and grow 16% in FY27. However, improvements in the premium-to-notional turnover ratio to 12bp/13bp (8bp in FY25E) will lead to 30%/26% growth in premium turnover and 34%/26% growth in transaction revenue from equity derivatives in FY26/FY27.

Stock Info

Bloomberg	BSE IN
Equity Shares (m)	135
M.Cap.(INRb)/(USDb)	698.1 / 8.1
52-Week Range (INR)	5838 / 1941
1, 6, 12 Rel. Per (%)	-2/124/125
12M Avg Val (INR M)	6783

Financials Snapshot (INR b)

Y/E March	2025E	2026E	2027E
Net Sales	28.4	35.0	41.8
EBITDA	15.0	20.5	25.3
PAT	13.4	17.5	21.4
Adj PAT	13.4	17.5	21.4
EPS (INR)	98.9	129.0	158.2
EPS Gr (%)	231.3	30.4	22.7
BV / Sh (INR)	274	312	360
Ratios (%)			
RoE	36.2	41.3	44.0
Payout ratio	70.0	70.0	70.0
Valuations			
P/E (x)	52.1	40.0	32.6
P / BV (x)	18.8	16.5	14.3

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	0.0	0.0	0.0
DII	11.7	11.6	8.1
FII	35.9	33.9	33.0
Others	52.4	54.5	58.9

FII Includes depository receipts

Stock performance (one-year)

- Apart from revenue growth, the reduction in notional volumes and an increase in the lot size will also result in lower regulatory charges and clearing & settlement fees, improving the profitability.

Increasing derivatives market share; cash segment under pressure

- As of Dec'24, BSE's options notional/premium market share has improved to 29.4%/14.6% (13.8%/4.8% in Dec'23), driven by: 1) NSE's weekly expiry products reducing from four to one, 2) the launch of innovative monthly expiry products, 3) lower transaction fees vs. competition, and 4) aggressive outreach to brokers to enroll for BSE derivatives.
- BSE has shifted weekly expiry day of Sensex option contracts from Friday to Tuesday. This may boost BSE's market share due to the gap between the existing weekly expiry day of Nifty contracts (Thursday) and the new expiry day of Sensex contracts.
- In the cash segment, BSE's market share has been declining and was at 6% in Dec'24 (8.5% in Dec'23). Higher institutional participation will likely boost BSE's market share in this segment.

Star MF platform to keep thriving

- Star MF, the mutual fund business of BSE, has seen phenomenal growth in the past couple of years and has delivered a stellar performance. On an average, Star MF processed ~50.6m transactions per month in 1HFY25 vs. ~30m in FY24.
- The platform will gain scale benefits and will contribute meaningfully to BSE's total revenue and margin growth.
- To further strengthen its position, BSE will be launching Star MF 2.0 with improved scalability, functionality and order processing.

Co-location could be the next big revenue and profit driver

- When BSE relaunched its derivatives segment, it had 100 racks, which had been consumed. Management mentioned that as and when demand arises, BSE will build more colocation racks.
- The co-location facility attracts institutional investors, which will in turn drive volumes for long-dated options, leading to higher realizations as well as lower clearing and settlement costs.
- Earlier BSE was incurring in-house pocket expenses. After introducing new racks in the Phase I, it has started levying charges to recover the cost of racks and raised the rental in line with the industry.
- Currently, BSE is not charging for orders but may levy charges once volumes grow and utilization of the expanded co-location capacity surpasses optimal levels.

Valuation and View

- We expect the premium-to-notional turnover ratio to improve to 12bp/13bp in FY26/FY27, boosting BSE's revenue. Lower regulatory and clearing costs will be profitability drivers. Additionally, stable momentum in Star MF platform and the scale-up of co-location services will help BSE sustain growth.
- We expect BSE to register a CAGR of 44%/74%/74% of revenue/EBITDA/PAT during FY24-27E, as we believe the improvement in the premium-to-notional turnover ratio will offset the volume decline. Reiterate BUY with a TP of INR6,500 (45x Sep'26E EPS).

HCL Technologies

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	HCLT IN
Equity Shares (m)	2714
M.Cap.(INRb)/(USDb)	5398.6 / 62.4
52-Week Range (INR)	2012 / 1235
1, 6, 12 Rel. Per (%)	8/33/24
12M Avg Val (INR M)	5182

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	1,174	1,299	1,419
EBIT Margin (%)	18.2	18.9	18.8
PAT	174	198	219
EPS (INR)	63.8	72.7	80.7
EPS Gr. (%)	10.2	14.0	11.0
BV/Sh. (INR)	248	245	241
Ratios			
RoE (%)	25.6	29.6	33.2
RoCE (%)	22.8	26.6	29.5
Payout (%)	90.0	90.0	90.0
Valuations			
P/E (x)	31.2	27.3	24.6
P/BV (x)	8.0	8.1	8.3
EV/EBITDA (x)	21.0	18.2	16.7
Div Yield (%)	2.9	3.3	3.7

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	60.8	60.8	60.8
DII	15.8	15.8	15.7
FII	18.9	18.7	19.0
Others	4.5	4.7	4.5

FII Includes depository receipts

CMP: INR1,989 TP: INR2,400 (+21%) Buy

Guidance upgrade dampens enthusiasm

3Q organic revenues miss estimates, but CY25 outlook upbeat

- HCL Technologies (HCLT) reported a revenue of USD3.5b, up 3.8% QoQ and 4.1% YoY in constant currency (CC), above our estimate of 3.7% QoQ CC growth (largely owing to one-month inorganic contribution from HPE CTG acquisition). EBIT margins came in at 19.5%, beating our estimate of 19.1%. New deal TCV stood at USD2.1b (down 5.5% QoQ) in 3QFY25. For FY25, the revenue growth guidance has been upgraded to 4.5%-5.0% YoY cc (including a ~50bp contribution from the HPE CTG acquisition, with organic growth at 4.0%-4.5%) from the earlier range of 3.5%-5.0%. For 4QFY25, the implied organic growth for ITB&S is now in the range of -1.6% to +0.6% QoQ in cc, which is a downgrade, in our view. For 9MFY25, revenue/EBIT/PAT grew 6.6%/6.5%/11.7% compared to 9MFY24. We expect revenue/EBIT/PAT to grow by 7.3%/6.6%/7.3% YoY in 4QFY25. We reiterate our BUY rating on HCLT with a TP of INR2,400, implying a 21% potential upside.

Our view: Implied 4Q growth for IT&BS soft

- HCLT's 3Q numbers and 4Q guidance were underwhelming. The implied organic growth rate for IT&BS in 4Q is approximately 0.6% in CC at the upper end of the guidance. Management attributed this to a planned ramp-down in the Verizon deal and some project completions. However, in an environment where short-cycle deals are gaining momentum, the slower ramp-up of discretionary deals in 4Q is a dampener.
- We previously argued HCLT should trade at a roughly 10% premium to Infosys (see our 1QFY25 HCLT RU - Steady now, strong ahead). This was owing to its superior outperformance to its peers over the past 2-3 years, with improving capital allocation and free cash flow metrics.
- Valuation parity is now achieved for the big three—HCLT, TCS, and Infosys. The hurdle rate for HCLT to now re-rate is higher than its peers.
- Nonetheless, we believe HCLT's diversified portfolio is well-positioned. Often perceived as defensive, its strengths in data, product engineering, and modernization should enable it to benefit from the recovering demand environment.
- More importantly, a 23% increase in ACV (which HCLT started reporting this quarter) despite a muted TCV bodes well for short-cycle deals and should continue to benefit HCLT in the medium term.

Valuations and changes in estimates

- We expect HCLT to deliver 18.2% EBIT margin in FY25, which should recover to 18.9% in FY26 as growth improves. We expect HCLT to deliver a CAGR of 7.5%/11.7% in USD revenue/INR PAT over FY25-27E. We keep our estimates largely unchanged.

Beat on revenues and margins

- Revenue grew 3.8% QoQ in CC vs. our estimate of 3.7% growth (lower than consensus estimates of 4.2%). New deal TCV stood at USD2.1b (down 5.5% QoQ, up 8.7% YoY) in 3QFY25.
- IT business/ER&D business/P&P grew by 1.5%/5.4%/18.7% QoQ CC.
- EBIT margin was 19.5%, beating our estimate of 19.1%.
- For FY25, revenue growth guidance was upgraded to 4.5%-5.0% YoY in CC (similar for IT Services) from 3.5%-5.0%. EBIT margin guidance was maintained at 18.0-19.0% in FY25.
- PAT was up 8.4% at INR46b (up 5.5% YoY) vs. our est. of INR45b.
- LTM attrition was up 30bp QoQ at 13.2%. Net employee headcount increased 1.0% QoQ in 3QFY25. HCLT added 2,014 freshers (2,932 in 2Q) in this quarter.
- LTM FCF-to-net income stood at 134%.
- HCLT declared an interim dividend of INR18/share, including a special dividend of INR6/share.

Key highlights from the management commentary

- The company anticipates increased technology spending in CY25, driven by transformation and efficiency-related initiatives. Discretionary spending is expected to improve overall.
- Growth in small deals was observed, aligning with client spending patterns. Deals were largely driven by AI transformation projects, with a noticeable reduction in average deal cycles.
- **4Q outlook:** A planned reduction in megadeals is expected. Discretionary deal ramp-ups in the telecom sector will taper off in 4Q. Declines are anticipated in the telecom and retail sectors in 4Q, leading to a softer quarter.
- **BFSI:** The company sees continued momentum in client spending. AI adoption is moving from proof-of-concepts (POCs) to enterprise-level implementations in this vertical. Medium and large-sized deals in platform modernization enabled by AI are being observed in Europe.
- **Margin walk:** Software business contributed 114bp improvement, while services dropped 22bp.
- **Guidance:** For FY25, the revenue growth guidance has been upgraded to 4.5%-5.0% YoY cc (including ~50bp contribution from the HPE CTG acquisition, with organic growth at 4.0%-4.5%) from the earlier range of 3.5%-5.0%. Implied organic growth rate for IT Services in 4Q is now 1.6% to 0.6% QoQ. EBIT margin guidance maintained at 18.0%-19.0%.

Valuation and view

- We expect HCLT to deliver 18.2% EBIT margin in FY25, which should recover to 18.9% in FY26 as growth improves. We expect HCLT to deliver a CAGR of 7.5%/11.7% in USD revenue/INR PAT over FY25-27E. We keep our estimates largely unchanged. Reiterate **BUY** with a TP of INR2,400 (based on 30x FY27E EPS).

Quarterly performance (INR b)

Y/E March	FY24				FY25E				FY24	FY25E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QFY25	(%/bp)
Revenue (USD m)	**3,200**	**3,225**	**3,415**	**3,430**	**3,364**	**3,445**	**3,533**	**3,555**	**13,270**	**13,897**	**3,553**	**-0.6**
QoQ (%)	-1.1	0.8	5.9	0.4	-1.9	2.4	2.5	0.6	5.4	4.7	3.1	-60bp
Revenue (INR b)	**263**	**267**	**284**	**285**	**281**	**289**	**299**	**306**	**1,099**	**1,174**	**300**	**-0.2**
YoY (%)	12.1	8.0	6.5	7.1	6.7	8.2	5.1	7.3	8.3	6.8	5.3	-26bp
GPM (%)	**35.6**	**36.2**	**36.7**	**35.0**	**34.5**	**34.9**	**35.6**	**33.7**	**35.9**	**34.7**	**35.0**	**56bp**
SGA (%)	13.6	12.4	11.5	12.0	12.4	11.5	11.3	11.3	12.4	11.6	11.0	27bp
EBITDA	**55**	**59**	**67**	**61**	**58**	**64**	**69**	**64**	**242**	**254**	**68**	**1.4**
EBITDA margin (%)	20.8	22.3	23.5	21.4	20.6	22.1	23.0	21.0	22.0	21.7	22.6	38bp
EBIT	**45**	**49**	**56**	**50**	**48**	**54**	**58**	**53**	**200**	**213**	**57**	**1.7**
EBIT margin (%)	17.0	18.5	19.7	17.6	17.1	18.6	19.5	17.5	18.2	18.2	19.1	38bp
Other income	2	2	3	3	9	3	3	4	9	19	4	-13.5
ETR (%)	24.8	25.3	25.9	24.2	25.4	25.5	25.1	25.0	25.1	25.2	25.5	-42bp
Adjusted PAT	**35**	**38**	**44**	**40**	**43**	**42**	**46**	**43**	**157**	**174**	**45**	**1.4**
QoQ (%)	-11.2	8.4	13.5	-8.4	6.8	-0.5	8.4	-6.7			7.0	145bp
YoY (%)	7.6	9.8	6.2	0.1	20.5	10.5	5.5	7.4	5.7	10.6	4.1	141bp
EPS	**13.0**	**14.1**	**16.0**	**14.7**	**15.7**	**15.6**	**16.9**	**15.8**	**57.9**	**63.8**	**16.7**	1.4

Key Performance Indicators

Y/E March	FY24				FY25E			FY24
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	
Revenue (QoQ CC %)	**-1.3**	**1.0**	**6.0**	**0.3**	**-1.6**	**1.6**	**3.8**	
Costs (% of revenue)								
COGS	**64.4**	**63.8**	**63.3**	**65.0**	**65.5**	**65.1**	**64.4**	**64.1**
SGA	13.6	12.4	11.5	12.0	12.4	11.5	11.3	12.4
Margins								
Gross Margin	35.6	36.2	36.7	35.0	34.5	34.9	35.6	35.9
EBIT Margin	17.0	18.5	19.7	17.6	17.1	18.6	19.5	18.2
Net Margin	13.4	14.4	15.3	14.0	15.2	14.7	15.4	14.3
Operating metrics								
Headcount (k)	223	221	225	227	219	219	221	227
Attrition (%)	16.3	14.2	12.8	12.4	12.8	12.9	13.2	12.4
Key Verticals (YoY CC %)								
BFSI	14.4	12.5	12.9	12.1	-1.3	-4.5	-1.4	12.1
Manufacturing	16.5	3.3	5.8	9.8	3.5	7.1	0.0	9.8
Key Geographies (YoY CC %)								
North America	7.3	3.9	6.7	6.8	8.0	7.5	6.2	6.8
Europe	10.5	3.9	1.7	5.5	3.0	4.2	2.6	5.5

Fund Folio

Indian Mutual Fund Tracker

Equity AUM rises for 11 successive years, net inflows more than double in CY24

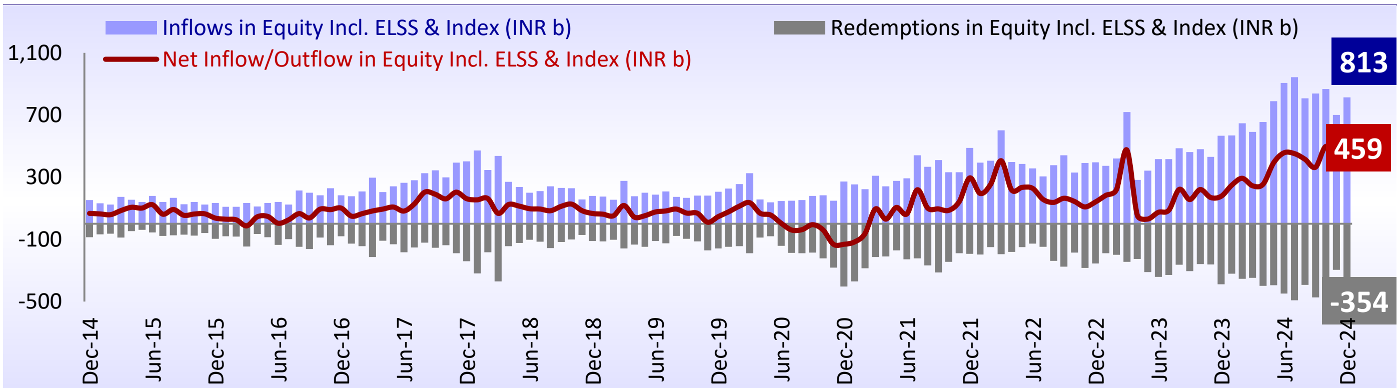
Key observations

- Indian markets celebrated another year of gains in CY24, marking a historic milestone with nine consecutive years of returns! Both the global and Indian markets faced significant challenges in CY24, including geopolitical headwinds, regulatory tightening, a strengthening USD, persistent inflation, high interest rates, a consumption slowdown, earnings moderation, valuation concerns, and volatile FII flows, leading to heightened market volatilities. DII flows into equities were the highest ever at USD62.9b in CY24 vs. inflows of USD22.3b in CY23. Conversely, FII outflows stood at USD0.8b in CY24 vs. inflows of USD21.4b in CY23.
- However, despite the challenges, domestic MFs saw their equity AUM rise for the 11th consecutive year to INR33.4t (+40% YoY) in CY24. AUM growth was fueled by an uptrend in market indices (Nifty: +9% YoY) and higher equity scheme sales (at INR9,120b; +69% YoY). However, redemptions also rose 40% YoY to INR4,645b, leading to a rise in net inflows (more than double YoY) to INR4,475b in CY24 (all-time high) from INR2,063b in CY23.
- The MF industry's total AUM increased 32% YoY (INR16.1t) to INR66.9t in CY24, propelled by the growth in equity funds (INR9,537b), liquid funds (INR1,727b), balanced funds (INR1,533b), other ETFs funds (INR1,424b), and income funds (INR954b).
- Investors continued to park their money in mutual funds, with inflows and contributions in systematic investment plans (SIPs) reaching a new high of INR264.6b in Dec'24 (up 4.5% MoM and 50.2% YoY).

Some interesting facts

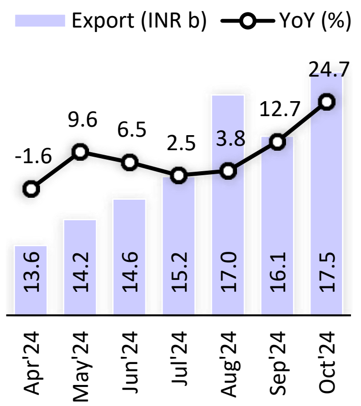
- The year saw a **notable change in the sector and stock allocation of funds.** The **weight of defensives improved 60bp to 30.3%,** propelled by an increase in the weights of Healthcare and Telecom, while Consumer and Utilities moderated (refer to page 4 for detailed charts).
- **The weight of Domestic Cyclicals declined 40bp to 61.5%,** pulled down by BFSI, Chemicals, Media, Cement, and Textiles.
- **Global Cyclicals' weightage, too, decreased** 30bp to 8.2%, dragged down by Oil & Gas and Metals.
- **Healthcare saw a rise in weight to 7.8% (+80bp YoY) in CY24 - improving its position** to fourth from fifth a year ago.
- **The BFSI pack, however, saw a massive 250bp contraction** in weight to 26.5%.
- **Technology's position remained unchanged over the last one year,** with the weightage remaining flat at 9.4%.
- **Consumer witnessed a decline in weight** to 6% (-40bp YoY).
- **Capital Goods saw a rise in weight** to 7.8% (+40bp YoY).

Monthly trends in sales, redemptions, and net amount raised by MFs (equity)

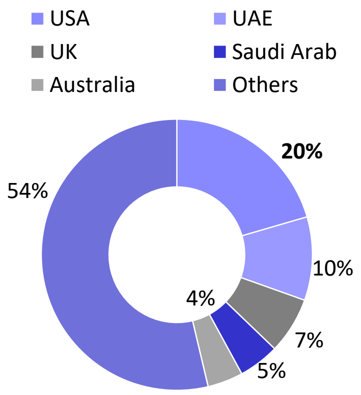


Cables and Wires

C&W exports (in INR b) and growth (%)



Export share of top five countries (Apr-Oct'24)



Domestic demand remains strong; exports gaining traction

C&W exports jump ~25% YoY in Oct'24, up ~8% YoY during Apr-Oct'24

- The Cables and Wires (C&W) exports jumped ~25% YoY to INR17.5b in Oct'24, followed by ~13% YoY growth in Sep'24. Overall exports during Apr-Oct'24 grew ~8% YoY as compared to a growth of ~5% YoY during Apr-Oct'23. Leading companies are expected to benefit the most with a significant rebound in C&W exports. We prefer POLYCAB and KEII among the C&W companies.
- We believe the market is apprehensive about the anticipated new import duties imposed by the US. However, we do not perceive any material threats to cable exports to the US, considering its dependence on cable imports (consumption in the US is estimated at USD47b, and 64% of that total is being imported).
- Further, domestic demand for C&W remained strong, fueled by healthy demand from the power T&D segment, infrastructure development (rail, roads, metro, port, and airport), electrification, real estate, et al. We estimate the domestic C&W market to clock around 11-13% CAGR over FY24-27.

C&W exports improving…

- India's EXIM data depicts that C&W exports grew ~25% YoY to INR17.5b in Oct'24, followed by ~13% growth in Sep'24. Overall exports grew ~8% YoY to INR108b during Apr-Oct'24. Within major export markets, the Middle Eastern countries witnessed higher growth (Saudi Arabia reported around 4.7x jump YoY, followed by Oman at ~+41% and the UAE at ~+17%), while Australia, the UK, and the US experienced a decline in the range of ~6-12%, during Apr-Oct'24.
- The Indian C&W export market is increasing and offering a diverse range of products to global markets. The country's strong production capabilities, adherence to international standards, cost advantage, and low pricing have made it a preferred supplier in this industry.
- The C&W export market posted ~19% CAGR over FY17-24 and is estimated to clock a CAGR of ~10-11% over FY24-29. Key demand drivers in the global markets are expansion in renewable energy, data centers, transition to electric vehicles, modernization of power grids, rising energy consumption in emerging economies, telecommunication, digitization, urbanization, and infrastructure development.

…and India is a net exporter of C&W

- India has been a net exporter of C&W since FY20. Government strategies such as PLI schemes, component manufacturing ecosystems, import substitution, and the China+1 plan help domestic companies improve production capacities and expand into new markets.
- Recent news flows indicated that the US is considering the imposition of new import duties, which could have an impact on global trade. However, we do not perceive any material threats to C&W exports from India as: 1) the US is a high-potential market with a market size of USD47b (net of exports), 2) the US remains a net importer of cables with ~64% of that total being imported, 3) other export opportunities are available across different geographies, and 4) global companies adopt the China+1 strategy.

- India's C&W exports to the US clocked ~44% CAGR over FY17-24 to INR22.2b. Further, the US accounted for ~20% of total C&W exports of India (in FY24/Apr-Oct'24) vs. ~5% in FY17.

Leading C&W companies to benefit from high exports

- Export revenue of POLYCAB/RRKABEL/KEII recorded at a CAGR of 42%/27%/15% over FY19-24. In FY24, exports contributed ~8%, ~13%, and ~26% of POLYCAB, KEII, and RRKABEL's total revenue, respectively.
- However, most of the players' export revenue declined due to a slowdown in 1HFY25 and some logistics issues (the Red Sea crisis and higher freight costs). POLYCAB's export revenue declined ~21% YoY in 1HFY25 due to demand slowdown in 1QFY25 and moving to a distribution-based model in the US. Further, KEII's export revenue dipped ~15% YoY in 1HFY25 due to a substantial decline (~24%) in 1QFY25, amid logistics-related issues. However, exports for RRKABEL rose ~5% YoY in 1HFY25.
- We believe with a rebound in exports of C&W, the leading companies (POLYCAB, KEII, and RRKABEL) should also benefit in terms of higher revenue growth and margin improvement.

Valuation and view

- Among the consumer durable companies under our coverage (including C&W), we maintain a positive outlook on the C&W segment. We expect demand momentum to remain strong in power cables, driven by the power T&D sector and growth in private capex and the real estate sector. Further, strong traction in the real estate segment is estimated to drive robust demand for wires, switches, fans, and lighting in CY25.
- Further, in our 3QFY25 preview, we highlighted that the C&W segment is estimated to report mid-teens growth, led by continuing strong demand for cables. In wires, dealers stocked up on inventory in 2QFY25 due to a sudden spike in copper prices. However, with a drop in copper prices, wire demand slowed down during the quarter. We estimate the C&W EBIT margin will improve sequentially, led by moderating RM prices, a price hike in cables in Oct'24, and a better product mix.
- In the consumer durables space, POLYCAB remained our preferred pick, followed by KEII.

Valuation summary

Company	M-cap (INR b)	CMP (INR)	TP (INR)	Rating	EPS (INR)			EPS CAGR	P/E (x)			RoE (%)			RoIC (%)		
					FY25E	FY26E	FY27E	(FY25-27E)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
HAVL	961	1,533	1,830	Hold	24	30	37	24%	64	52	42	17.8	19.3	20.7	23.8	27.6	31.9
POLYCAB	939	6,250	8,810	BUY	129	153	184	20%	49	41	34	20.0	20.0	20.2	24.8	25.4	27.0
VOLT	527	1,593	2,070	BUY	27	35	44	28%	59	46	36	13.4	15.2	16.6	28.0	31.9	35.4
KEII	378	3,980	5,150	BUY	72	88	108	22%	55	45	37	15.4	13.6	14.5	20.7	18.7	19.3
RRKABEL	149	1,317	1,900	BUY	22	37	51	54%	61	36	26	12.7	19.2	22.8	12.1	17.7	21.8

Source: MOFSL, Company

Performance of top companies in Dec'24

Company	MAT growth (%)	Dec'24 (%)
IPM	7.6	6.5
Abbott*	8.9	10.0
Ajanta	10.8	7.0
Alembic	0.8	-1.4
Alkem*	4.5	5.3
Cipla	6.8	7.2
Dr Reddys	9.8	8.1
Emcure*	5.0	4.0
Eris	5.9	-0.4
Glaxo	1.1	1.9
Glenmark	11.8	8.0
Intas	11.2	7.3
Ipca	13.5	10.2
Jb Chemical*	11.5	11.0
Lupin	7.7	3.0
Macleods	6.2	5.1
Mankind	8.0	2.9
Sanofi	5.0	1.3
Sun*	9.7	8.3
Torrent	8.4	5.7
Zydus*	7.6	5.4

Healthy IPM growth in Dec'24

- The India pharma market (IPM) grew 6.5% YoY in Dec'24 (vs. 10.7% in Nov'24 and 5.0% in Dec'23), driven by strong outperformance in Cardiac/Anti-diabetes/Respiratory by 380bp/90bp/120bp.
- Acute therapy growth stood at 5% in Dec'24 (vs. 11% in Nov'24 and 3% Dec'23). The growth moderated due to weak seasonality during the month.
- For the 12 months ending in Dec'24, IPM grew 7.6% YoY, led by price/new launches/volume growth of 4.3%/2.5%/0.8% YoY.
- Out of top 10 brands, Duolin/PAN clocked a growth of 14% YoY each to INR600m/INR580m.
- Azithral/Shelcal saw a double-digit decline of 10%/11% to INR380m/INR340m.
- Out of top 40 brands, Rybelsus/Duphalac grew more than 25% in Dec'24.

JB Chemicals/IPCA/Abbott outperform in Dec'24

- Among the top-20 pharma companies, JB Chemical (up 11% YoY), IPCA (up 10.2% YoY), and Abbott (up 10% YoY) recorded higher growth than IPM.
- Alembic/Eris were the major laggards with a decline of 1.4%/0.4%.
- JB Chemical outperformed IPM, aided by strong growth of 44.7% in ophthal therapy and 12.8% growth in cardiac therapy.
- IPCA outperformed IPM, led by strong double-digit growth across key therapies, like Cardiac/Derma/Gastro.
- Abbott outperformed IPM, driven by double-digit growth in top 4 therapies.
- IPCA reported industry-leading volume growth of 5.4% YoY on the MAT basis. Torrent reported the highest price growth of 7.1% YoY on MAT basis. Eris posted the highest growth in new launches (up 4.0% YoY).

Cardiac/Derma/Gastro lead YoY growth on MAT basis

- On the MAT basis, the industry reported 7.6% growth YoY.
- Chronic therapies witnessed 8% YoY growth, while Acute therapies saw moderate growth in Dec'24.
- Cardiac/Anti-diabetes/Respiratory grew 10.3%/7.4%/7.7% YoY. Gynae sales underperformed IPM by 650bp.
- The acute segment's share in overall IPM stood at 61% for MAT Dec'24, with YoY growth of 6.1%. The chronic segment (39% of IPM) grew 10% YoY.

MNCs outperform domestic companies in Dec'24

- As of Dec'24, Indian pharma companies hold a majority share of 84% in IPM, while the remaining is held by multi-national pharma companies (MNCs).
- In Dec'24, MNCs grew at a higher rate of 8.2%, while Indian companies grew 6.2%.
- Among MNCs, Abbott registered the highest growth of 10% YoY, while Sanofi posted slow growth of 1.3% in Dec'24.

Dec’24 CPI inflation down to a four-month low of 5.2%

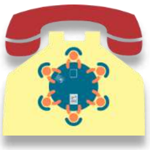
Deceleration was broad-based

- **Headline CPI inflation came down to a four-month low of 5.2% YoY in Dec'24 vs. 5.5% in Nov'24. The deceleration was broad-based. Food inflation eased to a four-month low of 8.4% (vs our forecast of 8.8%) and core inflation stood at 3.6% from 3.7% in the previous two months (vs our forecast of 3.8%). On a sequential basis, inflation declined 0.6% in Dec'24. The inflation number was slightly lower than the market consensus of 5.3% and our forecast of 5.4%. In 3QFY25, inflation stood at 5.6% vs. 4.2%/5.4% in 2QFY25/3QFY24.**
- **Food inflation came down to 8.4% YoY in Dec'24 (lowest in four months) vs. 9.0% in Nov'24. Details suggest that lower food inflation (vs last month) was mainly driven by the 30-month lowest increase in cereal prices, 25-month lowest increase in pulse prices, and some moderation in vegetable prices (26.6% in Dec'24, lowest in four months). On the other hand, prices of oil & fats went up sharply to a 32-month high of 14.6% in Dec'24. Additionally, prices of protein-based items (eggs, meat & fish, and milk products) also went up during the month. CPI, excluding veggies, stood at a 10-month high of 3.7% in Dec'24. Notably, the prices of fuel and light items continued to contract in Dec'24 (-1.4% YoY in Dec'24 vs -1.8% in Nov'24).**
- **Other details suggest that: 1) Services stood at 3.5% YoY in Dec’24, similar to Nov’24 , while goods inflation came down to a four-month low of 5.7% in Dec’24; 2) CPI, excluding veggies (weight 94%), stood at a 10-month high of 3.7% YoY; 3) Imported inflation jumped to a 22-month high of 5.4% in Dec’24, while domestically generated inflation came down to 5.2%, lowest in four months (vs 5.6% in Nov’24) (Exhibit 3); 4) Standard core inflation (excluding food & energy) stood at 3.9% YoY in Dec’24, similar to Nov’24; and 6) Details confirm that 29% of the CPI basket posted 5%+ inflation in Dec’24 (vs 28% in Nov’24).**
- **Going forward, we see headline inflation at ~4.8% vs the RBI forecast of 4.5% in 4Q (depends on vegetables to a great extent), easing further toward 4% in 2QFY26 and lower in 2HFY26. With weak growth and continued fiscal deficit consolidation, headline inflation forecasts of 4-4.5% suggest that rate cut has a high probability in Feb'25.**

Anand Rathi

BSE Sensex	S&P CNX
76,330	23,086

Conference Call Details



Date: 14th January 2024
Time: 14:00 AM IST
Link for the call

Financials & Valuations (INR b)

Y/E March	2025E	2026E	2027E
Revenues	10.0	12.9	15.2
Rev Gr. (%)	37.5	29.7	18.0
Opex	5.7	7.1	8.3
PBT	4.2	5.7	6.9
PAT	3.1	4.2	5.1
EPS (INR)	75.3	102.1	122.5
EPS Gr. (%)	39.3	35.5	20.0
BV/Sh. (INR)	34.4	50.1	68.6
Ratios (%)			
EBIDTA Margin	42.9	44.7	45.3
PAT margin	31.4	32.8	33.3
RoE	45.9	48.3	41.3
Div. Payout (%)	26.5	23.5	24.5
Valuations			
P/E (x)	53.4	39.4	32.9
P/BV (x)	116.9	80.4	58.7
Div. Yield (%)	0.5	0.6	0.7

CMP: INR4,026 **Neutral**

PAT in line with estimates; EBITDA margins improve sequentially

- Anand Rathi Wealth (ARWM) reported revenue from operations of INR2.4b in 3QFY25, up 30% YoY but flat QoQ (6% lower than our estimates). For 9MFY25, it grew 33% YoY to INR7.2b.
- MF revenue grew 52% YoY to INR1.1b (in line) and revenue from distribution of financial products grew 16% YoY to INR1.3b (10% below our estimates).
- Operating expenses for 3QFY25 grew 27% YoY to INR 1.3b (down 6% QoQ). CIR for 3QFY25 stood at 54.8% (est. 56.6%) vs. 56.3% in 3QFY24.
- Employee costs came in at INR1b, up 28% YoY and 11% below our estimate of INR1.1b. Other expenses grew 21% YoY to INR294m (est. INR301m).
- EBIDTA came in at INR1.1b, in line with our estimates (+34% YoY and flat QoQ). EBIDTA margins stood at 45% in 3QFY25 (est. 43.4%) vs. 43.8% in 3QFY24 and 43% in 2QFY25.
- Other income came in at INR72m, up 48% YoY but flat QoQ (7% below our estimate). In 3QFY25, Anand Rathi reported PBT of INR1b, up ~34% YoY.
- AUM came in at INR764b (+2% QoQ and +39% YoY). Digital Wealth business AUM grew 23% YoY to INR18.3b.
- For 3QFY25, consolidated PAT stood at INR773m, up 33% YoY but flat QoQ (in line with our estimate). For 9MFY25, it grew 34% YoY to INR2.3b.
- The board has approved a bonus share in the ratio 1:1 for 41,510,317 equity shares of INR5/share.

Valuation and view

- ARWM is one of the rare companies in the listed space that has consistently outperformed its stated guidance. For FY23/FY24, it beat its revenue guidance by 9%/14% and PAT guidance by 8%/10%.
- For FY25, management has guided for revenue/PAT of INR9.8b/INR3b vs. our estimates of INR9.9b/INR3.1b.
- We expect ARWM to post a CAGR of 28%/28%/ 31% in AUM/revenue/PAT during FY24-27E. The current valuation of 39x FY26E P/E prices in robust cash generation (OCF of INR9.5b during FY24-27E), RoE of 40%+, and a healthy balance sheet. **We have a Neutral rating with a one-year TP of INR4,500 (premised on 40x Sep'26E P/E).**
- We will update our estimates after the conference call scheduled for 14th Jan'24.

Quarterly Performance (INR m)

Y/E March	FY24				FY25				FY24	FY25E	3Q FY25E	Act. Vs Est. (%)	YoY	QoQ
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE						
MF – Equity & Debt	522	625	715	804	890	1,057	1,087	1,163	2,666	4,197	1,099	-1	52.0	2.8
Distribution of Financial Products	1,215	1,187	1,095	1,024	1,471	1,352	1,267	1,608	4,521	5,698	1,406	-10	15.7	-6.3
Other Operating revenue	13	14	14	15	15	15	16	18	56	64	16	-1	14.3	6.7
Revenue from Operations	**1,750**	**1,826**	**1,824**	**1,843**	**2,376**	**2,424**	**2,370**	**2,789**	**7,243**	**9,959**	**2,522**	-6	29.9	-2.2
Change YoY (%)	33.0	34.2	32.2	28.9	35.8	32.7	29.9	51.3	32.0	37.5	4.0			
Operating Expenses	1,016	1,051	1,026	1,111	1,394	1,384	1,300	1,611	4,204	5,688	1,428	-9	26.7	-6.1
Change YoY (%)	33.9	38.8	34.5	35.2	37.2	31.6	26.7	44.9	36	35	3			
EBIDTA	734	775	798	732	982	1,040	1,070	1,178	3,039	4,271	1,094	-2	34.1	2.9
Depreciation	45	46	50	52	57	61	65	60	194	243	63	4	30.0	6.5
Finance Cost	14	16	16	18	14	30	35	31	65	110	32	11	115.9	19.8
Other Income	34	65	48	129	78	72	72	88	276	310	77	-7	48.3	0.2
PBT	709	778	780	790	990	1,021	1,041	1,175	3,057	4,227	1,076	-3	33.5	2.0
Change YoY (%)	34.1	35.2	33.8	32.8	39.6	31.3	33.5	48.7	34	38	5			
Tax Provisions	177	200	200	221	256	259	269	321	798	1,104	280	-4	34.6	3.8
Net Profit	533	577	580	569	734	762	773	855	2,259	3,124	797	-3	33.2	1.4
Change YoY (%)	34.3	34.5	34.5	33.3	37.9	32.0	33.2	50.2	34	38	4			
Key Operating Parameters (%)														
EBIDTA Margin	41.9	42.4	43.8	39.7	41.3	42.9	45.2	42.2	41.9	42.9	43.4	179 bps	141 bps	224 bps
Cost to Income Ratio	58.1	57.6	56.3	60.3	58.7	57.1	54.8	57.8	58.1	57.1	56.6	-179 bps	-141 bps	-224 bps
PBT Margin	40.5	42.6	42.7	42.9	41.7	42.1	43.9	42.1	42.2	42.4	42.7	125 bps	119 bps	181 bps
Tax Rate	24.9	25.8	25.6	28.0	25.8	25.3	26.0	26.0	26.1	26.1	26.0	0 bps	40 bps	66 bps
PAT Margins	30.4	31.6	31.8	30.9	30.9	31.4	32.6	30.6	31.2	31.4	31.6	101 bps	79 bps	115 bps

Angel One

BSE SENSEX	S&P CNX
76,330	23,086

Conference Call Details

Date: 14th Jan 2025

Time: 11:00am IST

[Link for the call]

Financials & Valuations (INR b)

Y/E March	2025E	2026E	2027E
Revenues	43.0	49.1	61.5
Opex	24.1	28.5	33.8
PBT	17.9	19.0	25.7
PAT	13.2	14.1	20.5
EPS (INR)	159.3	169.7	246.8
EPS Gr. (%)	17.3	6.5	45.5
BV/Sh. (INR)	707.1	808.9	957.0
Ratios (%)			
C/I ratio	56.0	58.1	54.9
PAT margin	30.7	28.6	33.2
RoE	29.7	22.4	28.0
Div. Payout	0.0	40.0	40.0
Valuations			
P/E (x)	18.9	17.8	12.2
P/BV (x)	4.3	3.7	3.2
Div. Yield (%)	0.0	2.1	3.0

CMP: INR2,447 **Buy**

Elevated C/I ratio leads to PAT miss

- Net brokerage income at INR6.2b grew 22% YoY/fell 10% QoQ (5% beat). The sequential decline was due to the impact of F&O regulations on F&O brokerage and weak market sentiment on cash brokerage.
- Gross broking revenue at INR8.2b grew 15% YoY (2% beat), driven by continued growth in F&O segment (+11% YoY and 9% beat). The company posted 26% YoY growth in cash segment (16% miss) and robust growth momentum in commodity segment (+62% YoY but 6% below estimates).
- Net interest income at INR2.7b (up 50% YoY) was 8% better than our estimate, led by continued momentum in the MTF book.
- True-to-label regulations impacted other income (ancillary transaction charges), resulting in 21% miss on other income (-31% YoY). Total income of INR9.9b was largely in line with our estimates.
- Total operating expenses grew by 23% YoY (13% above our expectations). CI ratio increased to 58% from 56% in 3QFY24 (higher than our expectation of 52.6%), driven by higher-than-expected admin and other expenses.
- PAT at INR2.8b grew 8% YoY (11% miss).
- The board declared the first interim dividend of INR11/ share.

Regulatory impact on sequential growth

- The F&O regulations implemented in Nov'24 resulted in a 13% sequential decline in brokerage from F&O segment. Weak market sentiment also resulted in a 19% sequential decline in brokerage from cash segment.
- Net interest income stood at INR2.7b, up 50% YoY/down 6% QoQ (8% beat). Average client funding book stood at INR40.5b vs. INR18.6b in 3QFY24.
- Other income declined 31% YoY to INR963m due to the impact of True-to-Label regulations on ancillary transaction income.

Elevated CI due to higher customer acquisition costs

- Total operating expenses grew 23% YoY but declined 5% QoQ (13% higher than expectations). On a sequential basis, the CI ratio increased to 58% in 3QFY25 (vs. our expectation of 52.6%).
- Employee costs rose 68% YoY to INR2.4b (5% below est.), while admin and other expenses grew 5% YoY (29% higher than est.), despite 30% sequential decline in gross client acquisition to 2.1m in 2QFY25.

Orders down 14% QoQ due to F&O regulations and weak market sentiment

- ADTO stood at INR40t, up 11% YoY and down 12% QoQ. The total number of orders declined to 422m in 3QFY25 from 489m/350m in 2QFY25/3QFY24.
- The number of F&O orders declined 11% YoY/grew 18% YoY to 309m, reflecting the impact of the partial implementation of F&O regulations in Nov'24. Revenue per order declined to INR21.4 (INR21.7 in 2QFY25).

- Cash ADTO declined 27% QoQ to INR73b (+33% YoY). The number of orders declined 24% QoQ/grew 20% YoY to 89m. Sequentially, revenue per order increased to INR11, driven by the recent introduction of brokerage in cash segment to tackle the impact of True-to-Label regulations.
- Commodity ADTO jumped 88% YoY (2% QoQ) to INR632b in 3QFY25. The total number of orders in commodities segment remained flat QoQ at 23m.

Management change – New CEO appointed

- Mr. Ambarish Kenghe was appointed as Group CEO. He previously served as Vice President at Google Pay APAC.

Valuation and view

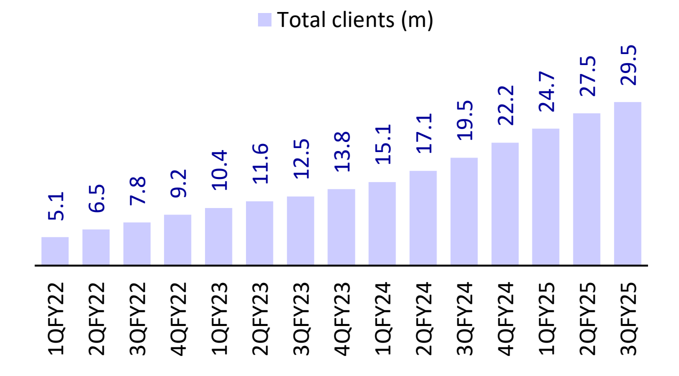
- ANGELONE has demonstrated its ability to protect profitability by taking a corrective pricing action to offset the impact of true-to-label regulations. The partial implementation of new F&O regulations, wherein the number of weekly expiries has been restricted to one per exchange, has impacted revenue. Going ahead, the increase in lot sizes from INR1.5m to INR2.0m is expected to impact volumes. ANGELONE will decide on its pricing action to offset the impact of these measures after the implementation. Nevertheless, the company has maintained that over the longer term, margins will be brought back to 45-50%. Also, new businesses such as distribution of loans, fixed deposits, wealth management and AMC are likely to gain traction over the medium term. We may review our estimates after the concall on 14th Jan’25.

Quarterly Performance **(INR m)**

Y/E March	FY24				FY25E			FY24	FY25E	3QFY25E	Act v/s Est. (%)	YoY Growth	QoQ Growth
	1Q	2Q	3Q	4Q	1Q	2Q	3Q						
Revenue from Operations	5,198	6,747	6,874	8,742	9,150	9,774	8,895	27,562	37,057	8,437	5.4	29%	-9%
Other Income	1,088	1,411	1,401	1,869	1,983	2,210	963	5,769	6,228	1,216	-20.8	-31%	-56%
Total Income	**6,286**	**8,158**	**8,275**	**10,611**	**11,133**	**11,984**	**9,858**	**33,331**	**43,284**	**9,653**	**2.1**	19%	-18%
Change YoY (%)	22.0	46.0	43.9	64.7	77.1	46.9	19.1	45.3	29.9	16.6	14.9		
Operating Expenses	3,230	3,974	4,635	5,856	6,940	6,007	5,717	17,695	25,344	5,080	12.5	23%	-5%
Change YoY (%)	21.4	49.3	75.1	114.0	114.8	51.2	23.3	65.3	43.2	9.6	143.3		
Depreciation	89	112	131	167	226	256	267	498	1,045	286	-6.7	104%	4%
PBT	**2,967**	**4,072**	**3,509**	**4,588**	**3,968**	**5,721**	**3,874**	**15,137**	**16,894**	**4,287**	**-9.6**	10%	-32%
Change YoY (%)	22.3	42.5	16.1	26.9	33.7	40.5	10.4	26.9	11.6	22.2	-53.1		
Tax Provisions	759	1,027	907	1,188	1,041	1,487	1,059	3,881	4,497	1,114	-5.0	17%	-29%
Net Profit	**2,208**	**3,045**	**2,602**	**3,400**	**2,927**	**4,234**	**2,816**	**11,255**	**12,398**	**3,173**	**-11.3**	8%	-34%
Change YoY (%)	21.6	42.5	13.9	27.3	32.5	39.1	8.2	26.4	10.2	21.9	-62.6		
Key Operating Parameters (%)													
Cost to Income Ratio	51.4	48.7	56.0	55.2	62.3	50.1	58.0	53.1	58.6	52.6	537bps	199bps	787bps
PBT Margin	47.2	49.9	42.4	43.2	35.6	47.7	39.3	45.4	39.0	44.4	-511bps	-311bps	-844bps
Tax Rate	25.6	25.2	25.8	25.9	26.2	26.0	27.3	25.6	26.6	26.0	133bps	147bps	133bps
PAT Margins	35.1	37.3	31.4	32.0	26.3	35.3	28.6	33.8	28.6	32.9	-431bps	-288bps	-677bps
Revenue from Operations (INR Mn)													
Gross Broking Revenue	5,575	7,270	7,084	9,240	9,173	9,356	8,182	29,169	35,816	8,049	1.6	15%	-13%
F&O	4,683	6,180	5,951	7,854	7,705	7,578	6,627	24,667	28,207	6,063	9.3	11%	-13%
Cash	558	800	779	1,016	1,009	1,216	982	3,153	5,319	1,376	-28.7	26%	-19%
Commodity	279	291	354	370	459	561	573	1,293	2,290	610	-6.1	62%	2%
Net Broking Revenue	3,933	5,199	5,107	6,822	6,762	6,934	6,236	21,062	26,872	5,966	4.5	22%	-10%
Net Interest Income	1,265	1,548	1,767	1,920	2,388	2,840	2,659	6,500	10,185	2,472	7.6	50%	-6%
Revenue from Operations Mix (%)													
As % of Gross Broking Revenue													
F&O	84.0	85.0	84.0	85.0	84.0	81.0	81.0	84.6	78.8	75.3	568bps	-300bps	0bps
Cash	10.0	11.0	11.0	11.0	11.0	13.0	12.0	10.8	14.8	17.1	-510bps	100bps	-100bps
Commodity	5.0	4.0	5.0	4.0	5.0	6.0	7.0	4.4	6.4	7.6	-58bps	200bps	100bps
Net Broking (As % Total Revenue)	75.7	77.1	74.3	78.0	73.9	70.9	70.1	76.4	72.5	70.7	-59bps	-419bps	-83bps
Net Interest Income (As % Total Revenue)	24.3	22.9	25.7	22.0	26.1	29.1	29.9	23.6	27.5	29.3	59bps	419bps	83bps
Expense Mix (%)													
Employee Expenses	37.1	32.5	29.7	26.4	28.0	36.8	39.7	30.6	34.5	46.3	-668bps	995bps	290bps
Admin Cost	59.7	64.3	67.1	70.4	68.3	59.3	55.9	66.7	61.5	48.3	756bps	-1121bps	-341bps
Depreciation	2.7	2.7	2.7	2.8	3.2	4.1	4.5	2.7	4.0	5.3	-87bps	171bps	37bps

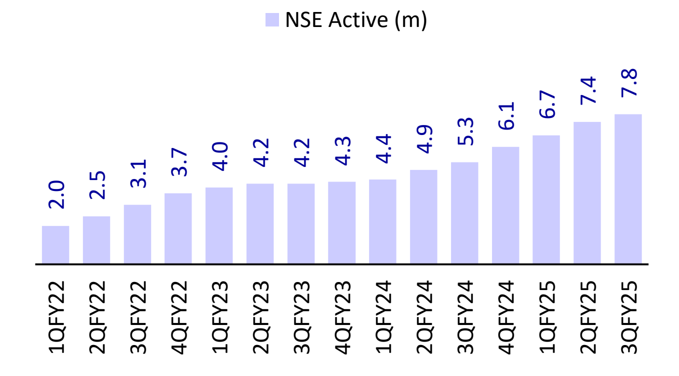
Key exhibits

Total clients continued to rise



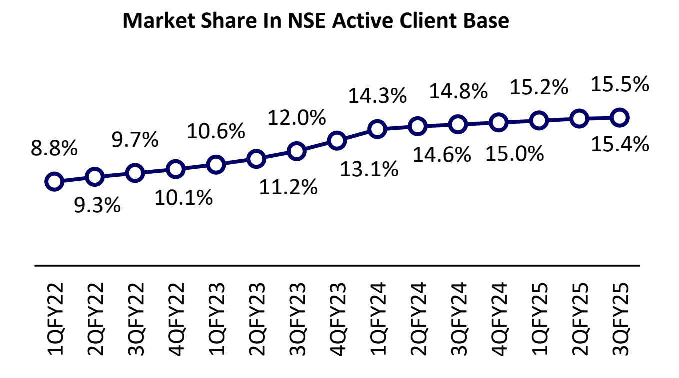
Source: MOFSL, Company

NSE active clients increased QoQ



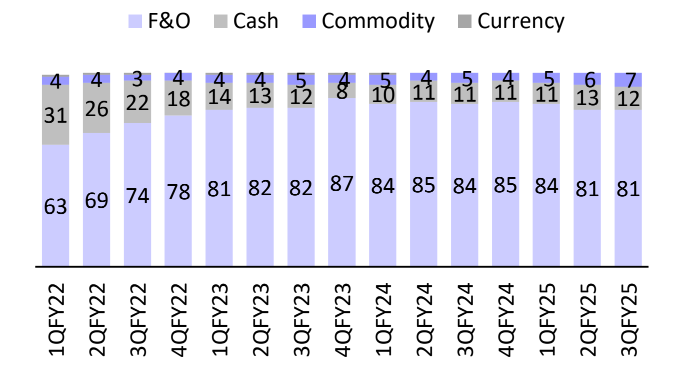
Source: MOFSL, Company

Market Share in NSE active clients continue to rise



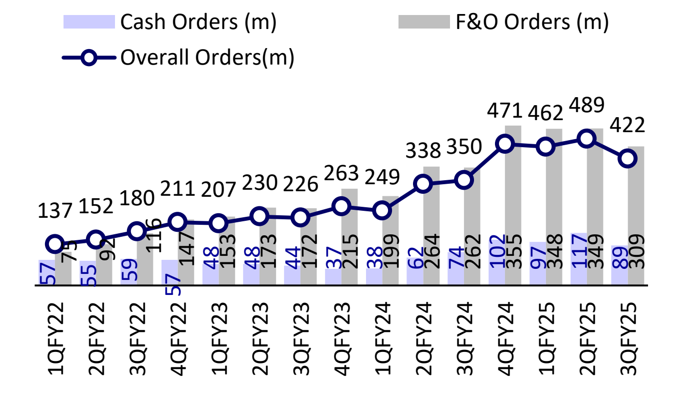
Source: MOFSL, Company

Gross broking revenue mix



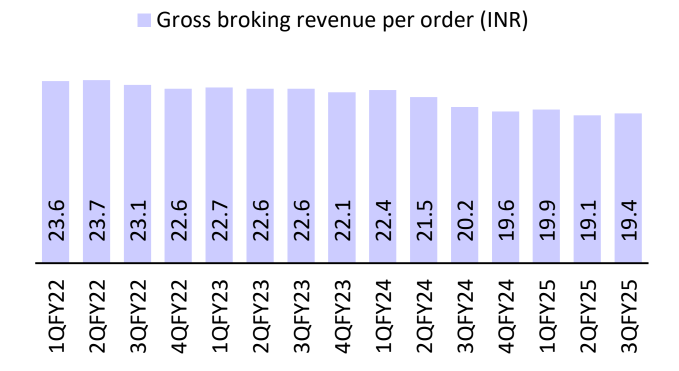
Source: MOFSL, Company

No. of orders declined sequentially…



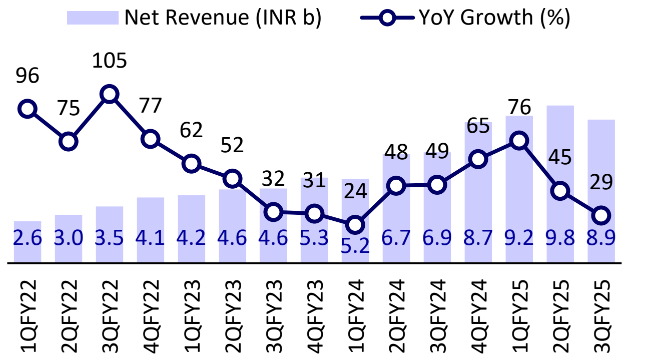
Source: MOFSL, Company

…whereas gross broking revenue per order increased marginally



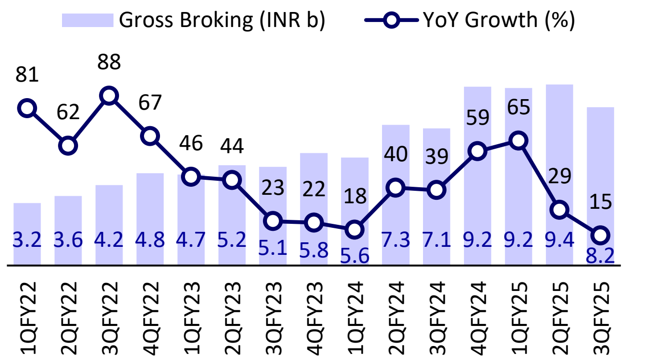
Source: MOFSL, Company

Net revenue grows 29% YoY…



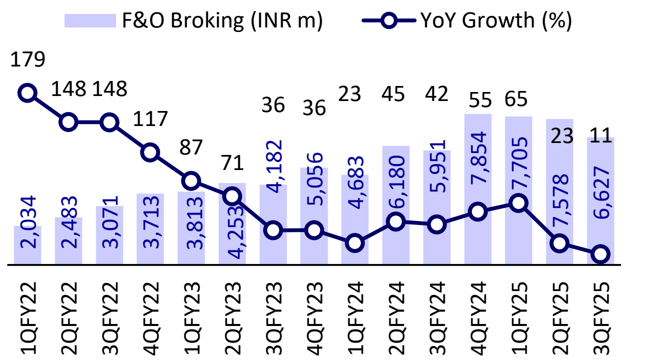
Source: MOFSL, Company

…as Gross broking revenue grows 15% YoY



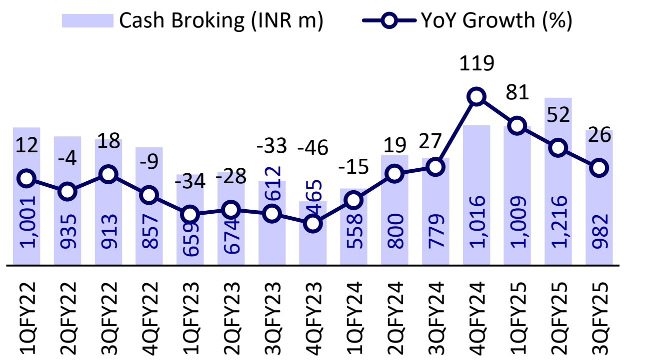
Source: MOFSL, Company

Regulations impact growth in F&O segment



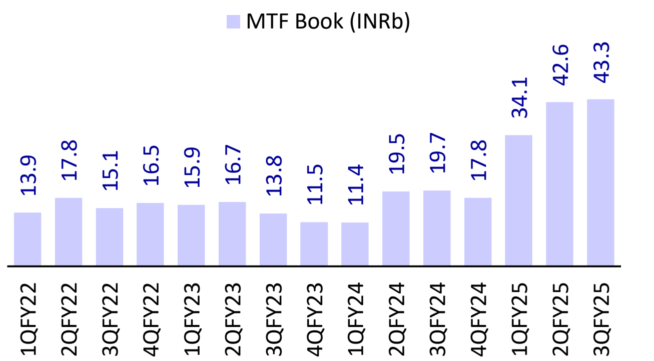
Source: MOFSL, Company

Weak market sentiments impact Cash broking



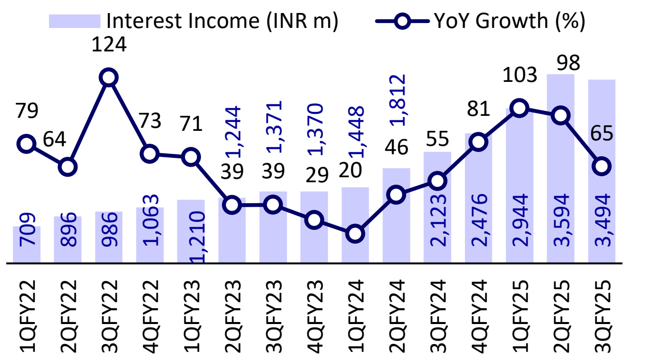
Source: MOFSL, Company

MTF book continues to surge



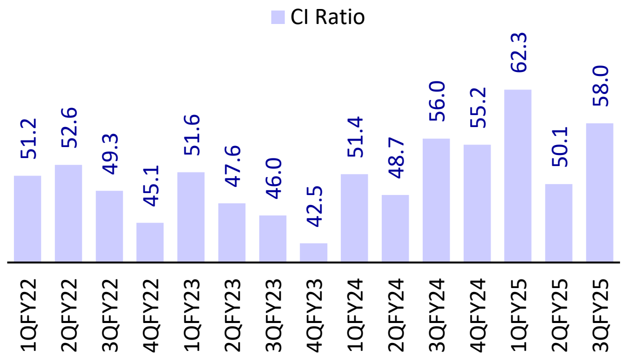
Source: MOFSL, Company

Interest income increases YoY



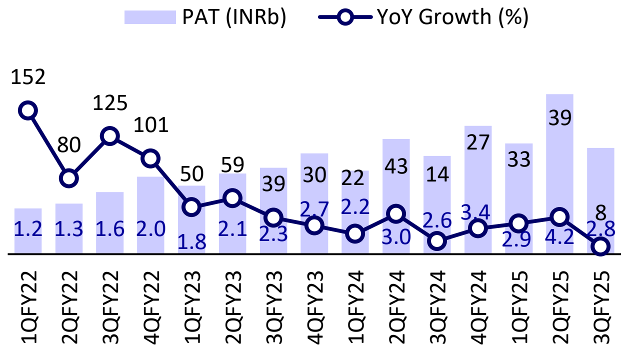
Source: MOFSL, Company

CI ratio increases QoQ



Source: MOFSL, Company

Trend in PAT growth



Source: MOFSL, Company

Consistent Total Net Revenue From Every Cohort

		Actuals				
(₹ Mn)	Gross Acquisition (Mn)	FY20	FY21	FY22	FY23	FY24
Pre-FY20		3,589	3,358	3,606	3,439	3,681
FY20	0.6	1,116	2,066	1,801	1,743	1,894
FY21	2.4		3,472	6,455	5,760	6,037
FY22	5.3			4,885	8,233	8,483
FY23	4.7				3,728	7,081
FY24	8.8					6,156
Total Net Income		**4,705**	**8,896**	**16,747**	**22,902**	**33,331**
(-) Employee + Opex (Ex-Branding Spend)		3,205	4,436	7,951	10,479	16,817
Margin (Ex-Branding Spend)		**1,500**	**4,460**	**8,797**	**12,423**	**16,514**
Margin (Ex-Branding Spend)		*31.9%*	*50.1%*	*52.5%*	*54.2%*	*49.5%*
(-) Branding Spend		103	165	243	202	878
Operating Profit		**1,397**	**4,295**	**8,554**	**12,221**	**15,637**
Operating Profit Margin (%)		*29.7%*	*48.3%*	*51.1%*	*53.4%*	*46.9%*
Break-even (# of months)				5	7	7

Source: MOFSL, Company

Hyundai Motors: Ready to meet any demand for Creta SUVs ; Tarun Garg, COO

- Believe Creat EV will become a symbol of electric SUVs
- Price of Creta EV will be announced on Jan 17 when the vehicle is formally launched
- INR15-25 lk is the sweet spot for EVs; maximum number if buyers in this price range
- Sold close to 1.1M creta SUVs

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IREDA: Setting up a retail subsidiary, have submitted the business plan to RBI & approval is awaited; Pradip Kumar Das, IREDA

- Waste energy & Bio Energy account slipped in 3QFY25
- INR433 Cr. of new NPA added in Q3, expect this nos. to come down in coming quarters
- Fair recovery rate was seen in more than 95% of accounts which got settled
- NIMs should remain between 3-3.5%

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Gulf Oil: The impact of rise in crude oil prices comes with lag of 1-2 months; Manish Gangwal, CFO

- Higher base oil prices will be a concern for us
- Rupee depreciation also impacts the landed cost
- If crude prices remain elevated, pricing decisions may need to be adjusted accordingly
- We have largely been able to pass on cost increase to consumers

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Standard Glass: Will do about INR650-670 Cr. on revenue (FY25) with similar growth in FY26 ; Nageswara Rao, MD

- Will be cash flow positive in 6 months
- Will see exports at 20% in FY26
- Will do about INR650-670 Cr. on revenue (FY25) with similar growth in FY26

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GNA Axles: Expect growth of 4-5% for FY25; Ranbir Singh, MD & CEO

- Growth in domestic CV & tractors remained flat 9MFY25
- Class 8 truck sales in N America increased by 15-20% vs 15-20% declines in Europe
- Sales were impacted in Germany & other major European economies
- We expect a growth of 4-5% for FY25

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Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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