## Market snapshot

| Equities - India | Close | Chg .% | CY24.% |
|---|---|---|---|
| Sensex | 76,724 | 0.3 | 8.2 |
| Nifty-50 | 23,213 | 0.2 | 8.8 |
| Nifty-M 100 | 53,899 | 0.4 | 23.9 |
| **Equities-Global** | **Close** | **Chg .%** | **CY24.%** |
| S&P 500 | 5,950 | 1.8 | 23.3 |
| Nasdaq | 19,511 | 2.5 | 28.6 |
| FTSE 100 | 8,301 | 1.2 | 5.7 |
| DAX | 20,575 | 1.5 | 18.8 |
| Hang Seng | 7,012 | 0.3 | 26.4 |
| Nikkei 225 | 38,445 | -0.1 | 19.2 |
| **Commodities** | **Close** | **Chg .%** | **CY24.%** |
| Brent (US$/Bbl) | 83 | 1.5 | -4.5 |
| Gold ($/OZ) | 2,696 | 0.7 | 27.2 |
| Cu (US$/MT) | 9,053 | 0.2 | 2.2 |
| Almn (US$/MT) | 2,588 | 1.8 | 7.7 |
| **Currency** | **Close** | **Chg .%** | **CY24.%** |
| USD/INR | 86.4 | -0.3 | 2.9 |
| USD/EUR | 1.0 | -0.2 | -6.2 |
| USD/JPY | 156.5 | -0.9 | 11.5 |
| **YIELD (%)** | **Close** | **1MChg** | **CY24 chg** |
| 10 Yrs G-Sec | 6.8 | -0.01 | -0.4 |
| 10 Yrs AAA Corp | 7.3 | -0.02 | -0.5 |
| **Flows (USD b)** | **15-Jan** | **MTD** | **CYTD** |
| FIIs | -0.5 | 0.80 | -0.8 |
| DIIs | 0.43 | 4.44 | 62.9 |
| **Volumes (INRb)** | **15-Jan** | **MTD*** | **YTD*** |
| Cash | 982 | 1014 | 1014 |
| F&O | 1,93,269 | 1,92,157 | 1,92,157 |

Note: Flows, MTD includes provisional numbers.
*Average

## Today's top research idea

### Maruti Suzuki – Top Pick 2025: New launches to aid market share recovery

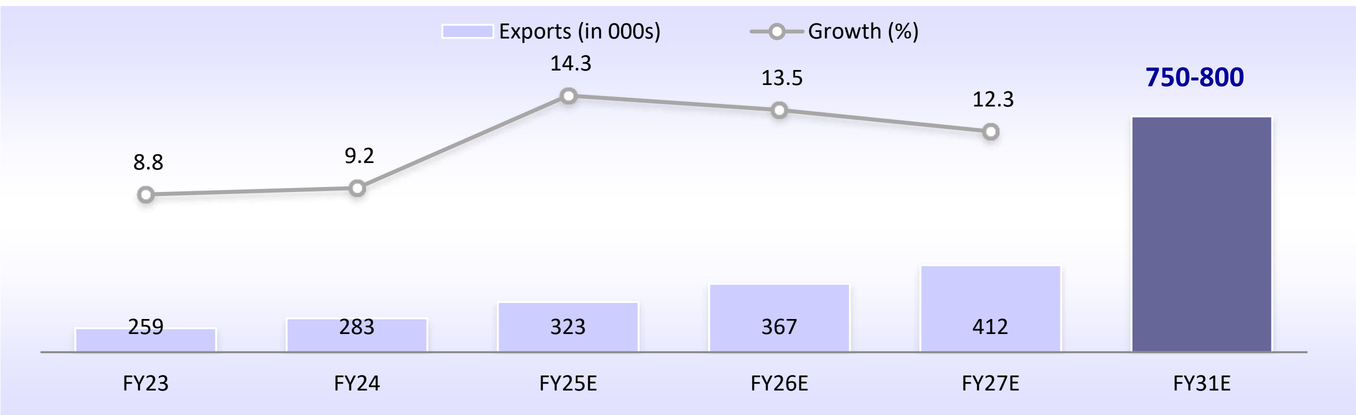
- In our note, we highlight that it is only in two sub-segments within UV's (combined contribution at 10%), where MSIL may find it difficult to gain share and in most of the other segments, MSIL has a potential to ramp-up its presence.
- Given its strong launch pipeline, MSIL appears well placed to gain meaningful market share in UVs in the coming years, thereby allaying Investor concerns around the same. Exports are likely to remain its key growth driver as MSIL targets to achieve exports of 750-800k units by 2031, which translates into a 15% volume CAGR. We believe MSIL's multi-tech approach is best-suited for Indian conditions as India is not yet ready for a transition to electric vehicles (EVs).
- While the timing cannot be predicted, we believe that car demand can revive in the coming years, having seen many years of underperformance, and MSIL is expected to emerge as a major beneficiary of the same, whenever this happens. At 23x FY26E/21x FY27E EPS, MSIL is amongst the few large cap OEMs, which is available at discount to historic valuations. Reiterate our BUY rating with a TP of INR14,500, valuing at 26x Dec'26E EPS.

## Research covered

| Cos/Sector | Key Highlights |
|---|---|
| Maruti Suzuki | Top Pick 2025: New launches to aid market share recovery |
| JSW Energy | Concerns regarding the battery storage project overdone |
| HDFC Life Insurance | VNB margin beats estimate; APE growth weak |
| L&T Technology | Growth steady, but margin reset negative |
| Shoppers Stop | Growth improves slightly; INTUNE ramp-up key trigger |
| NOCIL | Building long-term resilience |
| Other Updates | CEAT \| EcoScope |

## Chart of the Day: Maruti Suzuki (New launches to aid market share recovery)

MSIL targets exports of 750-800k units by FY31E




Source: MSIL, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

# In the news today

Kindly click on textbox for the detailed news link

1

**IRFC signs lease agreement with NTPC for 8 BOBR rakes worth ₹250 crore**

This marks the first phase of IRFC's broader commitment to fund 20 BOBR rakes under the General Purpose Wagon Investment Scheme (GPWIS) of Indian Railways.

2

**RVNL bags ₹3,622 crore contract from BSNL for BharatNet Middle Mile Network Development**

"A Letter of Acceptance has been received from Bharat Sanchar Nigam Limited (BSNL)for the Development (Creation, Upgradation and Operation & Maintenance) of the Middle mile network of Bharat Net on Design Build Operate and Maintain

3

**India's electronics exports hit 24-month high at $3.58 billion in December 2024**

The robust performance reflects the growing momentum in the country's electronics manufacturing sector, driven by favourable government policies, increased global demand, and expanding domestic production capacities

4

**Happiest Minds announces GenAI pact with Coca-Cola Vietnam**

IT firm Happiest Minds Technologies Ltd on Wednesday (January 15) announced a strategic collaboration with Coca-Cola Beverages Vietnam to develop generative AI (GenAI) solutions aimed at enhancing organisational productivity and operational efficiency.

5

**DHL Group to add 30% freight capacity in India**

German logistics giant DHL Group will expand its freighter capacity in India by 30% in 3-5 years in anticipation of its business in the country doubling by then, chief executive of DHL eCommerce Pablo Ciano, said.

6

**Rural sales could rebound in 'big way' in next 4-8 quarters: Hero Moto CEO**

Hero MotoCorp anticipates a big rebound in (2W) sales in rural India over the next 4 to 8 quarters, driven by favourable factors such as a decent monsoon, rising crop prices, improved employment conditions, and increasing consumer confidence - Niranjan Gupta (CEO) said on Wednesday.

7

**Tata Motors integrates artificial intelligence for vehicle safety**

Tata Motors has outlined its focus on incorporating artificial intelligence (AI) and other advanced technologies to improve vehicle safety for both occupants and vulnerable road users.

TOP PICK 2025

15 January 2025

Update | Sector: Automobiles

# Maruti Suzuki

| BSE SENSEX | S&P CNX |
|---|---|
| 76,724 | 23,213 |

**Stock Info**

| | |
|---|---|
| Bloomberg | MSIL IN |
| Equity Shares (m) | 314 |
| M.Cap.(INRb)/(USDb) | 3756.3 / 43.5 |
| 52-Week Range (INR) | 13680 / 9738 |
| 1, 6, 12 Rel. Per (%) | 12/0/13 |
| 12M Avg Val (INR M) | 6784 |
| Free float (%) | 41.8 |

**Financials Snapshot (INR b)**

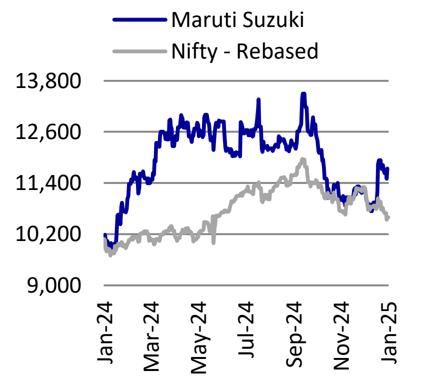
| Y/E MARCH | 2025E | 2026E | 2027E |
|---|---|---|---|
| Sales | 1,501 | 1,673 | 1,863 |
| EBITDA | 179 | 201 | 228 |
| Adj. PAT | 145 | 161 | 180 |
| Adj. EPS (INR) | 461 | 512 | 573 |
| EPS Gr. (%) | 9.7 | 11.1 | 11.9 |
| BV/Sh. (INR) | 2,987 | 3,354 | 3,763 |
| **Ratios** | | | |
| RoE (%) | 14.8 | 15.3 | 15.2 |
| RoCE (%) | 20.5 | 20.3 | 20.2 |
| Payout (%) | 31.4 | 32.2 | 28.8 |
| **Valuations** | | | |
| P/E (x) | 25.9 | 23.3 | 20.8 |
| P/BV (x) | 4.0 | 3.6 | 3.2 |
| EV/EBITDA (x) | 16.8 | 14.6 | 12.5 |
| Div. Yield (%) | 1.2 | 1.4 | 1.4 |

**Shareholding pattern (%)**

| As On | Sep-24 | Jun-24 | Sep-23 |
|---|---|---|---|
| Promoter | 58.2 | 58.2 | 56.5 |
| DII | 20.9 | 19.5 | 18.3 |
| FII | 17.7 | 19.0 | 21.8 |
| Others | 3.2 | 3.3 | 3.4 |

FII Includes depository receipts

**Stock Performance (1-year)**




## CMP: INR11,947 TP: INR14,500 (+21%) Buy

## New launches to aid market share recovery

### Exports likely to be the key growth driver

- **In this note, we highlight that it is only in two sub-segments within UVs (combined contribution at 10%), where MSIL may find it difficult to gain share and in most of the other segments, MSIL has a potential to ramp up its presence. Given its strong launch pipeline, MSIL appears well placed to gain meaningful market share in UVs in the coming years, thereby allaying investor concerns.**
- **Exports are likely to remain its key growth driver as MSIL aims to achieve exports of 750-800k units by 2031, which should translate into a 15% volume CAGR.**
- **We believe MSIL's multi-tech approach is best suited for Indian conditions as India is not yet ready for a transition to electric vehicles (EVs).**
- **While the timing cannot be predicted, we believe that car demand can revive in the coming years, having seen many years of underperformance, and MSIL should emerge as a major beneficiary of the revival.**
- **At 23x FY26E/21x FY27E EPS, MSIL is among the few largecap OEMs available at a discount to historic valuations. Reiterate our BUY rating with a TP of INR14,500, valuing at 26x Dec'26E EPS.**

### New launches to help gain share in UVs, allay investor concern

In this note, we highlight that it is only in two sub-segments within UVs (combined contribution at 10%), where MSIL may find it difficult to gain a material share. In most of the other segments, it has the potential to ramp up its presence relative to peers, either with existing launches or upcoming new launches. Further, as per media reports, MSIL is expected to launch six new models in the next three to four years in its focus segments within SUVs. Thus, MSIL is well placed to gain market share even in UVs in the coming years, thereby allaying investor concerns around the same.

### Exports likely to remain key growth driver

MSIL aims to achieve exports of 750-800k units by FY31, which should translate into a 15% volume CAGR in the same period. To achieve the target, MSIL is taking several initiatives: 1) introducing more models in its markets – Fronx and Jimny have emerged as their top two export models; 2) making India the export hub for EVs for Suzuki – starting with the launch of the upcoming eVX, MSIL plans to launch six EVs by FY31; 3) expanding in more markets – Fronx was the first MSIL SUV to be launched in Japan and is seeing good response; 4) further ramping up its distribution network.

## MSIL's multi-tech approach augurs well for India

While electric vehicle adoption seems to be the preferred bet to meet upcoming emissions compliance, we think India is not yet ready to transition to EVs anytime soon. Given this, MSIL's multi-tech approach seems best suited to meet emission compliance in India. In CNG, it is a market leader in PVs and the contribution from CNG has now increased to 24% in FY24 to 450k units with a target to sell 600k units in FY25. It has also introduced strong hybrids in Grand Vitara and Invicto in partnership with Toyota and it also plans to launch Suzuki's low-cost hybrid tech in India for low-end models. Further, in EVs, MSIL targets to achieve scale by focusing on exports first and ramping up presence in the domestic market, as and when EV demand improves. It is also working on vehicles compliant with flex fuels. Further, MSIL would emerge as the major beneficiary if the government considers a tax subsidy on any of these clean technologies (hybrid or flex fuels).

## India will have a healthy mix of cars for a long time

Before writing off the car segment, one has to remember that there is a huge population of 2W customers in India who aspire to own their first car. Further, family nuclearization is driving household growth, which should boost demand for cars in the coming years. Cars are likely to remain relevant in India due to their compact size, fuel efficiency and versatility, making them the ideal choice for first-time buyers. While we do believe that the small car segment will certainly not go back to its previous peak, we expect the contribution of this segment to stabilize at least at the current level if not go up in the near term. Whenever this happens, MSIL is expected to emerge as a major beneficiary given its dominant position in this segment with close to 63% market share.

## Valuation and View

For FY26, we see multiple launch tailwinds for MSIL, such as its first EV for India and exports, hybrid variants, and one SUV. Further, any favorable policy for hybrids by the government may drive a re-rating as MSIL would be the key beneficiary of the same. We expect MSIL to deliver an 11% earnings CAGR over FY24-27E, driven by new launches and strong export growth. While we have factored in stable margins over FY24-27E, there could be an upside risk to our estimates if PV demand revives and MSIL is able to retain the benefits of an improving mix. At 23x FY26E/21x FY27E EPS, valuations appear attractive. Reiterate our BUY rating with a TP of INR14,500, valuing at 26x Dec'26E EPS.

# JSW Energy

| BSE SENSEX | S&P CNX |
|---|---|
| 76,724 | 23,213 |

### Stock Info

| | |
|---|---|
| Bloomberg | JSW IN |
| Equity Shares (m) | 1748 |
| M.Cap.(INRb)/(USDb) | 981.4 / 11.4 |
| 52-Week Range (INR) | 805 / 452 |
| 1, 6, 12 Rel. Per (%) | -11/-16/14 |
| 12M Avg Val (INR M) | 2386 |
| Free float (%) | 30.7 |

### Financials Snapshot (INR b)

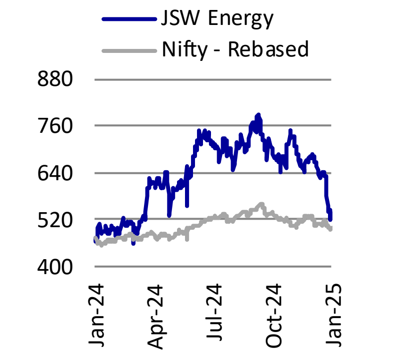
| Y/E March | FY25E | FY26E | FY27E |
|---|---|---|---|
| Sales | 137.6 | 164.4 | 195.6 |
| EBITDA | 65.0 | 84.0 | 109.3 |
| Adj. PAT | 25.1 | 30.9 | 32.6 |
| EPS (INR) | 14.4 | 17.7 | 18.7 |
| EPS Gr. (%) | 36.9 | 23.1 | 5.5 |
| BV/Sh. (INR) | 131.1 | 145.8 | 161.5 |
| **Ratios** | | | |
| Net D:E | 1.5 | 1.6 | 1.6 |
| RoE (%) | 11.5 | 12.8 | 12.2 |
| RoCE (%) | 8.3 | 9.3 | 10.1 |
| Payout (%) | 18.8 | 17.0 | 16.1 |
| **Valuations** | | | |
| P/E (x) | 39.1 | 31.7 | 30.1 |
| P/BV (x) | 4.3 | 3.9 | 3.5 |
| EV/EBITDA (x) | 20.4 | 16.6 | 13.0 |
| Div. Yield (%) | 0.5 | 0.5 | 0.5 |
| FCF Yield (%) | -7.8 | -6.2 | -2.0 |

### Shareholding pattern (%)

| As On | Sep-24 | Jun-24 | Sep-23 |
|---|---|---|---|
| Promoter | 69.3 | 69.3 | 73.4 |
| DII | 9.8 | 9.2 | 9.9 |
| FII | 15.1 | 15.6 | 8.6 |
| Others | 5.8 | 5.9 | 8.1 |

FII Includes depository receipts

### Stock performance (one-year)




## CMP: INR562 TP: INR790 (+41%) Buy

## Concerns regarding the battery storage project overdone

**JSW Energy (JSWE)'s share price has corrected ~18% over the past month amid a wider sell-off in the power utility space, which is likely attributable to the slower growth in power demand for 3QFY25. Regulatory uncertainty related to the battery storage project has also weighed on the stock. Consequently, we cut our FY26/27E EBITDA by 3%/4% as we: 1) remove earnings contribution from the 500MW battery energy storage project and 2) include earnings contribution from the acquisition of 125MW RE capacity from the Hetero Group. We also do not ascribe any value to the battery storage project in our SoTP valuation now. Reiterate BUY with a revised SoTP-based TP of INR790.**

### Battery project uncertainty and soft power demand weigh on the stock

- JSWE's share price has been under pressure recently, down ~18% over the past month (vs. NTPC -12.5%, TPWR -16.7%, and PWGR -13.3%). We believe recent weakness is part of a broader sell-off in the power utility space, which in turn is likely attributable to a deceleration in power demand growth from 8-9% to ~5-6% recently.
- Further, the recent regulatory uncertainty related to the group's battery project has contributed to the share price volatility. We note that in a regulatory setback recently, the Central Electricity Regulatory Commission (CERC) declined to adopt the proposed tariff for the 500MW battery energy storage project contracted with the Solar Energy Corporation of India Limited (SECI). The CERC, in its order dated 2nd Jan'25, cited misalignment of the proposed tariff with prevailing market prices due to delays by SECI. JSWE, according to a company press release (link), is in the process of filing an appeal against this decision.

### Limited impairment risk; 4% of FY26E EBITDA attributable to the project

- The 500MW battery energy storage project in question was expected to contribute ~4-5% to JSWE's EBITDA in FY26/27.
- Despite the recent regulatory setback, we believe the risk of impairment appears to be low, as ~40% of the project's capacity (200MW) was intended for merchant operations, which is not affected by this decision.
- While we seek greater clarity from management, post-3Q result, regarding any battery-pack-related capex incurred, we believe JSWE can redeploy the battery pack in alternative projects.

### Limited downside risk on stress testing valuations

- We currently value the thermal and RE assets at 10x and 15x FY27 EBITDA, respectively. The valuation for RE assets is at a slight discount to the valuation multiple for NTPC Green despite: 1) higher PPA coverage for the awarded pipeline, 2) a better execution track record, and 3) an established wind track record, which is key to sustaining returns by up-trading into complex tenders (link).

- In our stress case, we adjust the valuation multiples downward to 7x from 10x for thermal and 12x from 15x for RE, which results in a TP of INR551, representing downside of 2% from current levels.

## JSWE moves one step closer to acquisition of KSK Mahanadi

- On 13th Jan'25, JSWE received a Letter of Intent from the resolution professional as its resolution plan for KSK Mahanadi Power Company Limited (KMPCL) was approved by the Committee of Creditors. KSK Mahanadi, a thermal asset with 1.8GW of operational capacity (95% of which is tied up under long- and medium-term PPAs), also offers an additional 1.8GW scope for brownfield expansion.
- JSWE has agreed to acquire KMPCL for a consideration of INR159.9b, implying an estimated EV/EBITDA multiple of ~6x. The completion of this transaction is contingent upon obtaining necessary regulatory approvals, including from the National Company Law Tribunal (NCLT) and the Competition Commission of India (CCI).

## We cut our FY26/27E EBITDA by 3/4%; SoTP-based TP revised to INR790

- We revise our earnings estimates for JSWE to reflect the recent developments. We have included earnings contribution from the acquisition of the 125MW RE capacity from Hetero Group. In addition, we have removed the earnings contribution from the 500MW battery energy storage project as we await further clarity. We also do not ascribe any value to the battery storage project in our SoTP valuation now.
- These changes result in a 3%/4% reduction in our EBITDA estimates for FY26/FY27, and a corresponding 2% decline in our SoTP valuation, leading to a revised TP of INR790. **Reiterate BUY.**

**KSK Mahanadi – EBITDA and valuation estimation**

| Particulars | Units | Amount |
|---|---|---|
| Capacity | MW | 1,800 |
| Generation | MU | 12,614 |
| EBITDA at INR2/unit | INRm | 25,229 |
| EV as per Transaction | INRm | 1,59,850 |
| **EV/EBITDA** | **(x)** | **6.34** |
| KSK Mahanadi EBITDA | INRm | 25,229 |
| Multiple - EV/EBITDA | (x) | 9 |
| Value | INRm | 2,24,789 |
| Net debt | INRm | 1,20,000 |
| Market Cap | INRm | 1,04,789 |
| **Per share impact** | **INR/share** | **60** |

Source: Company, MOFSL

# HDFC Life Insurance

| | |
|---|---|
| Estimate change | ↑ |
| TP change | ⟷ |
| Rating change | ⟷ |

| | |
|---|---|
| Bloomberg | HDFCLIFE IN |
| Equity Shares (m) | 2152 |
| M.Cap.(INRb)/(USDb) | 1279.2 / 14.8 |
| 52-Week Range (INR) | 761 / 511 |
| 1, 6, 12 Rel. Per (%) | 0/-1/-8 |
| 12M Avg Val (INR M) | 3030 |

**Financials & Valuations (INR b)**

| Y/E March | 2025E | 2026E | 2027E |
|---|---|---|---|
| Net Premiums | 695.1 | 817.9 | 954.3 |
| PBT | 16.2 | 20.9 | 24.0 |
| Surplus / Deficit | 13.7 | 18.0 | 20.6 |
| Sh. PAT | 16.2 | 20.9 | 24.0 |
| NBP gr - APE (%) | 18.1 | 18.7 | 18.7 |
| Premium gr (%) | 12.2 | 17.7 | 16.7 |
| VNB margin (%) | 25.4 | 26.2 | 26.8 |
| RoEV (%) | 16.9 | 16.5 | 17.1 |
| Total AUMs (INRt) | 3.6 | 4.3 | 5.1 |
| VNB (INRb) | 39.9 | 48.8 | 59.3 |
| EV per share | 257.8 | 300.3 | 351.6 |
| **Valuations** | | | |
| P/EV (x) | 2.3 | 2.0 | 1.7 |
| P/EVOP (x) | 16.1 | 13.9 | 11.5 |

**Shareholding pattern (%)**

| As On | Sep-24 | Jun-24 | Sep-23 |
|---|---|---|---|
| Promoter | 50.3 | 50.4 | 50.4 |
| DII | 13.2 | 11.3 | 6.9 |
| FII | 25.7 | 26.7 | 30.6 |
| Others | 10.8 | 11.7 | 12.2 |

FII includes depository receipts

**CMP: INR594 TP:INR800 (+35%) Buy**

## VNB margin beats estimate; APE growth weak

- HDFC Life Insurance (HDFCLIFE) reported APE of INR35.7b (8% miss) in 3QFY25, up 12% YoY, driven by a 15% increase in sales of policies and a balanced product mix. For 9MFY25, APE grew 20% YoY to INR102.9b.
- VNB rose 9% YoY to INR9.3b (in line) in 3QFY25 and grew 14% YoY to INR25.9b in 9MFY25. VNB margins for 3QFY25 came in 110bp above our estimate at 26.1% vs. 24.3% in 2QFY25 and 26.8% in 3QFY24.
- 3Q PAT grew 14% YoY to INR4.1b, in line with our estimate. For 9MFY25, PAT grew 15% YoY to INR13.3b, aided by 18% YoY growth in the back-book surplus.
- The impact of surrender charges on VNB margins was 30bp in 3QFY25. The company implemented changes in commission constructs, leading to an equal distribution of the impact from surrender charges.
- We have increased our VNB margin assumptions on account of a better-than-expected performance in 3QFY25. We now estimate HDFCLIFE to deliver a 19% VNB CAGR over FY24-FY27E and margin to trend higher going ahead. **Reiterate BUY with a TP of INR800 (based on 2.5x Sep'26E EV).**

## APE growth of 12% led by 27% growth in non-par segment

- For 3QFY25, gross premium income grew 11% YoY to INR172.8b (5% miss), driven by 11%/12% YoY growth in new business/renewal premiums.
- Overall APE growth was 12% YoY, led by 27% growth in the non-par segment and 25% growth in the term business. Individual APE growth was 9%, led by 17% growth in non-par and 12% growth in protection. Share of ULIPs was at 31% on overall APE vs. 20% in 2QFY25 and 32% in 3QFY24.
- The overall channel mix between banca/agents/direct/broker has remained steady at 65%/17%/11%/7% for the past three quarters. On a YoY basis, the share of banca has increased at the cost of agency channel. Counter share at HDFC Bank was steady at 65%.
- The number of policies grew by 15% to 0.88m, outperforming the private sector's growth at 9%.
- For 9MFY25, the persistency ratios for 13th and 61st month improved 110bp and 780bp to 87% and 61%, respectively, reflecting strong customer retention.
- Total AUM as of Dec'24 increased by 18% YoY to INR3.3t, with AUM mix for Debt: Equity at 67:33 as of 9MFY25.
- Embedded value (EV) grew 18% YoY to INR532.5b, with operating return on EV at 16%. The solvency ratio stood at 188% vs. 190% in 3QFY24, well above the regulatory threshold of 150%.
- During 9MFY25, HDFCLIFE reported 20% YoY growth in total APE, driven by 24% YoY growth in individual APE. VNB grew 14% YoY to INR25.9b. VNB margins contracted 140bp YoY to 25.1%, mainly due to a shift toward ULIP share in the product mix. The implementation of surrender value regulations led to a 10bp impact on margins. PAT grew 15% YoY to INR13.3b.

- The management expects margins to remain stable or slightly higher due to better growth in business in 4Q (seasonality impact) and no significant deterioration in the product mix.

## Highlights from the management commentary

- The growth guidance (18% APE growth) has been retained, with 4QFY25 likely to see the benefits of seasonality.
- The company did not revise prices in 3Q, but it expects peers to cut prices due to the impact of the interest rate environment.
- Margins are expected to be in the similar zone or slightly better due to higher business in 4Q and no significant deterioration in the product mix.

## Valuation and view

- HDFCLIFE aims to maintain a balanced product mix and gain a higher market share, focusing on geographical expansions and customer acquisition. Persistency trends have been improving across cohorts, which will keep the renewal premium growth steady. Changes in the commission structure after the discussion will lead to only 20-30bp impact on VNB margins due to the surrender charge regulation. Management has guided for steady or slightly better margins on account of better growth in 4Q and no deterioration in the product mix.
- We have increased our VNB margin assumptions on the back of a better-than-expected performance in 3QFY25. We now estimate HDFCLIFE to deliver a ~19% VNB CAGR over FY24-FY27E and margin to expand from 25.4% in FY25E to 26.8% in FY27E. **Reiterate BUY with a TP of INR800 (premised on 2.5x Sep'26E EV).**

**Quarterly Performance**

| **Policy holder's A/c (INR b)** | **FY24** | | | | **FY25** | | | | **FY25E** | **FY25E** | **V/s est** | **YoY (%)** | **QoQ (%)** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **1Q** | **2Q** | **3Q** | **4Q** | **1Q** | **2Q** | **3Q** | **4QE** | | **3Q** | | | |
| First year premium | 18.5 | 25.7 | 26.8 | 40.1 | 23.6 | 32.5 | 29.7 | 44.4 | 133.4 | 34.5 | -13.9 | 10.8 | -8.8 |
| Growth (%) | 8.4% | 5.9% | -1.7% | -10.1% | 27.4% | 26.8% | 10.8% | 10.7% | 20.0% | 28.7% | | | |
| Renewal premium | 58.0 | 78.4 | 84.0 | 114.1 | 64.1 | 88.3 | 93.8 | 124.4 | 377.1 | 99.6 | -5.8 | 11.7 | 6.2 |
| Growth (%) | 13.8% | 13.5% | 16.8% | 23.3% | 10.5% | 12.7% | 11.7% | 9.1% | 12.8% | 18.6% | | | |
| Single premium | 40.2 | 45.4 | 44.5 | 55.2 | 40.4 | 48.4 | 49.3 | 60.1 | 197.2 | 48.1 | 2.6 | 10.8 | 1.8 |
| Growth (%) | 24.0% | 14.7% | -4.6% | -6.6% | 0.6% | 6.8% | 10.8% | 9.0% | 6.5% | 8.0% | | | |
| **Gross premium inc.** | **116.7** | **149.4** | **155.3** | **209.4** | **128.1** | **169.3** | **172.8** | **229.0** | **707.6** | **182.1** | **-5.2** | **11.3** | **2.1** |
| Growth (%) | 16.2% | 12.5% | 6.5% | 6.7% | 9.7% | 13.3% | 11.3% | 9.4% | 12.2% | 17.3% | | | |
| **Surplus/(Deficit)** | **2.1** | **2.3** | **0.6** | **2.7** | **5.6** | **5.1** | **-1.9** | **0.9** | **13.7** | **2.3** | **-182.6** | **-415.7** | **-137.9** |
| Growth (%) | 0.9% | -7.2% | -81.4% | -52.3% | 165.7% | 122.6% | -415.7% | -65.2% | 77.3% | 282% | | | |
| **PAT** | **4.2** | **3.8** | **3.7** | **4.1** | **4.8** | **4.3** | **4.1** | **3.8** | **16.2** | **4.3** | **-4.3** | **13.7** | **-4.2** |
| Growth (%) | 15.4% | 15.5% | 15.8% | 14.6% | 15.0% | 14.9% | 13.7% | -7.4% | 3.2% | 18.8% | | | |
| **Key metrics (INRb)** | | | | | | | | | | | | | |
| New business APE | 23.3 | 30.5 | 31.9 | 47.3 | 28.7 | 38.6 | 35.7 | 53.0 | 157.0 | 38.7 | -7.7 | 11.8 | -7.5 |
| Growth (%) | 12.8 | 6.8 | -2.1 | -8.4 | 23.1 | 26.7 | 11.8 | 12.0 | 21.1% | 21.2 | | | |
| VNB | 6.1 | 8.0 | 8.6 | 12.3 | 7.2 | 9.4 | 9.3 | 14.0 | 39.9 | 9.7 | -3.8 | 8.6 | -0.9 |
| Growth (%) | 17.8 | 4.0 | -2.2 | -18.3 | 17.7 | 17.1 | 8.6 | 13.5 | 13.9% | 13.0 | | | |
| AUM (INR b) | 2,533 | 2,649 | 2,797 | 2,922 | 3,102 | 3,249 | 3,287 | 3,631 | 3,631 | 3,396 | -3.2 | 17.5 | 1.2 |
| Growth (%) | 18.7 | 17.8 | 19.6 | 22.4 | 22.5 | 22.7 | 17.5 | 24.2 | 24.2% | 21.4 | | | |
| **Key Ratios (%)** | | | | | | | | | | | | | |
| VNB Margins (%) | 26.2 | 26.2 | 26.8 | 26.1 | 25.1 | 24.3 | 26.1 | 26.4 | 25.4 | 25.0 | 106bp | -77bp | 174bp |

# L&T Technology

| | |
|---|---|
| Estimate change | ⟷ |
| TP change | ↑ |
| Rating change | ⟷ |

| | |
|---|---|
| Bloomberg | LTTS IN |
| Equity Shares (m) | 106 |
| M.Cap.(INRb)/(USDb) | 513.7 / 5.9 |
| 52-Week Range (INR) | 6000 / 4200 |
| 1, 6, 12 Rel. Per (%) | -4/3/-16 |
| 12M Avg Val (INR M) | 911 |

**Financials & Valuations (INR b)**

| Y/E Mar | FY25E | FY26E | FY27E |
|---|---|---|---|
| Sales | 107.0 | 126.8 | 142.7 |
| EBIT Margin (%) | 15.4 | 15.0 | 15.5 |
| PAT | 13.2 | 15.7 | 18.2 |
| EPS (INR) | 125.4 | 150.0 | 174.4 |
| EPS Gr. (%) | 1.9 | 19.7 | 16.2 |
| BV/Sh. (INR) | 567.3 | 662.4 | 772.6 |
| **Ratios** | | | |
| RoE (%) | 23.5 | 24.1 | 23.9 |
| RoCE (%) | 18.3 | 18.5 | 18.5 |
| Payout (%) | 35.0 | 30.0 | 30.0 |
| **Valuations** | | | |
| P/E (x) | 38.7 | 32.3 | 27.8 |
| P/BV (x) | 8.6 | 7.3 | 6.3 |
| EV/EBITDA (x) | 24.2 | 20.7 | 17.5 |
| Div Yield (%) | 0.9 | 0.9 | 1.1 |

**Shareholding Pattern (%)**

| As On | Sep-24 | Jun-24 | Sep-23 |
|---|---|---|---|
| Promoter | 73.7 | 73.7 | 73.8 |
| DII | 14.0 | 13.3 | 11.0 |
| FII | 4.4 | 4.5 | 5.9 |
| Others | 8.0 | 8.5 | 9.3 |

FII includes depository receipts

**CMP: INR4,852 TP: INR5,500 (+13%) Buy**

## Growth steady, but margin reset negative

### Strong 4Q exit on the cards; margin expectations reset for FY26/FY27

- L&T Technology's (LTTS) 3QFY25 revenue was up 1.7% QoQ/7.3% YoY in USD terms vs. our estimate of ~3.7% QoQ growth. In CC terms, revenue was up 3.1% QoQ/8.7% YoY. Growth was led by Hi-tech (up 9.8% QoQ), followed by Sustainability (up 3.1% QoQ). EBIT margin stood at 15.9%, up 80bp QoQ but down 130bp YoY (after adjusting one-time non-operational M&A expense, it was 16.2%). PAT stood at INR3.1b (est. INR3.5b), down 0.9% QoQ/5.8% YoY. For 9MFY25, revenue grew 8.1%, but EBIT/PAT declined 2.1%/1.3% compared to 9MFY24. We expect revenue/EBIT/PAT to grow by 13.6%/5.6%/9.2% in 4QFY25 YoY. We reiterate our BUY rating on the stock with a revised TP of INR5,500 (based on 31x FY27E EPS).

### Our view: Growth worries quelled, margin reset slightly worrying

- **Broad-based growth, excluding Mobility:** 3Q growth was largely in line with our estimates, driven by strong performance in **Hi-Tech** and **Sustainability**, while Mobility declined **7.1% QoQ**, in line with the industry-wide slowdown. That said, management commentary points to a recovery in mobility ahead.
- **Low automotive exposure a silver lining:** The company's limited presence in automotive could work in its favor in FY26E, with demand expected to recover in aerospace, rail, trucks, and off-highway sectors—more than offsetting continued headwinds in the automotive sector.
- **Intelliswift acquisition enhances diversification:** The Intelliswift acquisition allows LTTS to diversify into software and platform engineering, opening new verticals such as BFSI, retail, and healthcare. Strong relationships with hyperscalers could also pay dividends as technology spending in Hi-tech and platforms recovers in CY26.
- **Margin expectations reset a fall from grace:** While 3Q margins held up despite wage hikes, LTTS has reset expectations in light of the Intelliswift acquisition. EBIT margins are now guided to be at ~15% in FY26, with only a modest recovery to mid-16% by FY28—a clear fall from grace for a company once proud of its "industry-leading" 17% margins.
- That said, LTTS remains a diversified ER&D play, and with the added platform engineering capabilities from Intelliswift, it could be in pole position to capture the medium-term growth recovery.

### Valuation and changes in estimates

- We expect USD revenue CAGR of 13% over FY24-27, with EBIT margins of 15.4%/15.0%/15.5% in FY25/26/27. We have slightly lowered our FY25/FY26 EPS estimates by 1.3%/2.2% due to the recalibration of margin expectations, while maintaining our estimates for FY27.
- The recent correction in the stock price (down ~19% from peak) makes valuations relatively comfortable. We reiterate our BUY rating on the stock with a revised TP of INR5,500 (premised on 31x FY27E EPS).

## Revenues miss our estimates (in line with consensus), margins in line

- USD revenue grew 3.1% QoQ CC, below our estimated growth of 4.0% QoQ CC (but in line with consensus). Revenue stood at USD312m.
- FY25 guidance is “near ~10% CC” (8-10% earlier). We estimate 2% contribution from Intelliswift in FY25. This implies 4.5% organic QoQ cc growth.
- Growth was led by Hi-Tech (up 9.8% QoQ) and Sustainability (up 3.1% QoQ), while Mobility declined 7.1% QoQ.
- EBIT margin stood at 15.9% (after adjusting one-time non-operational M&A expense, it was 16.2%), up 80bp QoQ but down 130bp YoY vs. our estimate of 15.9%. PAT was down 0.9% QoQ at INR3.2b but below our estimate of INR3.5b.
- The employee count declined 0.9% QoQ to 23,465. Attrition was up 10bp at 14.4%.
- Deal signings: One USD50m deal, two USD35m deals, two USD25m deals, and three USD10m deals.
- YTD cash conversion was at 101% FCF/PAT.

## Key highlights from the management commentary

- The demand outlook is steadily improving. The company expects all verticals to grow in 4Q.
- The "go deeper scale" strategy implemented in 1HFY25 is yielding results, as reflected in deal bookings. No significant impact on large deal ramp-ups is expected in the coming quarter.
- The company has an aspirational organic EBIT margin target of 16% for FY25. Tailwinds include improved revenue quality, a better employee pyramid structure, and operational efficiencies.
- While automotive saw furloughs in 3Q, aero and rail segments were unaffected. Automotive will likely face stress for a couple of quarters, but other sub-segments are expected to expand.
- Product engineering and plant modernization activities are ramping up.
- Communication growth is fueled by network performance management, network modernization, and AI-driven initiatives.
- The company has reiterated its guidance of 10% YoY CC growth, with organic contribution to be around 8%. LTTS is confident of achieving its guidance, supported by deal wins in 3Q and seasonality. The inorganic contribution from Intelliswift will further aid in achieving the upper end of the guidance.

## Valuation and view

- LTTS remains a diversified ER&D play, and with the added platform engineering capabilities from Intelliswift, it could be in pole position to capture the medium-term growth recovery. We expect USD revenue CAGR of 13% over FY24-27, with EBIT margins of 15.4%/15.0%/15.5% in FY25/26/27. We have slightly lowered our FY25/FY26 EPS estimates by 1.3%/2.2% due to the recalibration of margin expectations, while maintaining our estimates for FY27.
- LTTS should benefit due to its strong capabilities, multi-vertical presence, and solid wallet share. The recent correction in the stock price (down ~19% from peak) makes valuations relatively comfortable. We reiterate our BUY rating on the stock with a revised TP of INR5,500 (premised on 31x FY27E EPS).

### Quarterly performance (INR m)

| Y/E March | FY24 | | | | FY25E | | | | FY24 | FY25E | Est. | Var. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4QE | | | 3QFY25 | (% / bp) |
| **Revenue (USD m)** | **280** | **288** | **291** | **305** | **295** | **307** | **312** | **355** | **1,164** | **1,269** | **318** | **-1.9** |
| QoQ (%) | 9.8 | 2.9 | 0.9 | 5.0 | -3.2 | 3.9 | 1.7 | 13.8 | 17.6 | 9.0 | 3.7 | -200bp |
| **Revenue (INR m)** | **23,014** | **23,865** | **24,218** | **25,375** | **24,619** | **25,729** | **26,530** | **30,147** | **96,472** | **1,07,025** | **26,818** | **-1.1** |
| YoY (%) | 22.8 | 19.6 | 18.2 | 21.1 | 7.0 | 7.8 | 9.5 | 18.8 | 20.4 | 10.9 | 10.7 | -119bp |
| **GPM (%)** | **30.0** | **28.0** | **29.2** | **28.9** | **29.3** | **29.3** | **29.0** | **28.8** | **29.0** | **29.1** | **28.9** | **5bp** |
| SGA (%) | 10.4 | 8.1 | 9.1 | 9.1 | 10.8 | 11.2 | 10.3 | 11.0 | 9.1 | 10.8 | 10.0 | 31bp |
| **EBITDA** | **4,528** | **4,756** | **4,877** | **5,028** | **4,562** | **4,660** | **4,947** | **5,366** | **19,189** | **19,535** | **5,069** | **-2.4** |
| **EBITDA Margin (%)** | **19.7** | **19.9** | **20.1** | **19.8** | **18.5** | **18.1** | **18.6** | **17.8** | **19.9** | **18.3** | **18.9** | **-25bp** |
| **EBIT** | **3,954** | **4,075** | **4,162** | **4,282** | **3,836** | **3,877** | **4,219** | **4,522** | **16,473** | **16,454** | **4,264** | **-1.1** |
| **EBIT Margin (%)** | **17.2** | **17.1** | **17.2** | **16.9** | **15.6** | **15.1** | **15.9** | **15.0** | **17.1** | **15.4** | **15.9** | **0bp** |
| Other income | 357 | 286 | 493 | 428 | 491 | 531 | 180 | 543 | 1,564 | 1,745 | 483 | -62.7 |
| ETR (%) | 27.6 | 27.6 | 27.6 | 27.5 | 27.5 | 27.4 | 27.4 | 26.5 | 27.6 | 27.2 | 26.5 | 87bp |
| **PAT** | **3,111** | **3,154** | **3,362** | **3,409** | **3,136** | **3,196** | **3,166** | **3,723** | **13,036** | **13,221** | **3,489** | **-9.3** |
| QoQ (%) | 0.5 | 1.4 | 6.6 | 1.4 | -8.0 | 1.9 | -0.9 | 17.6 | | | 9.2 | |
| YoY (%) | 13.5 | 11.7 | 10.7 | 10.1 | 0.8 | 1.3 | -5.8 | 9.2 | 11.4 | 1.4 | 3.8 | |
| EPS (INR) | 29.4 | 29.8 | 31.7 | 32.2 | 29.6 | 29.8 | 30.4 | 35.7 | 123.0 | 125.4 | 32.5 | -6.4 |

E: MOFSL estimates

### Key performance indicators

| Y/E March | FY24 | | | FY25 | | | FY24 |
|---|---|---|---|---|---|---|---|
| | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | |
| Revenue (QoQ CC %) | 3.2 | 0.9 | 5.1 | -3.1 | 3.4 | 3.1 | |
| **Margins (%)** | | | | | | | |
| Gross Margin | 28.0 | 29.2 | 28.9 | 29.3 | 29.3 | 29.0 | 29.0 |
| EBIT Margin | 17.1 | 17.2 | 16.9 | 15.6 | 15.1 | 15.9 | 17.1 |
| Net Margin | 13.2 | 13.9 | 13.4 | 12.7 | 12.4 | 11.9 | 13.5 |
| **Operating metrics** | | | | | | | |
| Headcount | 23,880 | 23,298 | 23,812 | 23,577 | 23,698 | 23,465 | 23,812 |
| Attrition (%) | 16.7 | 15.8 | 14.8 | 14.8 | 14.3 | 14.4 | 14.8 |
| **Key Geographies (YoY %)** | | | | | | | |
| North America | 1.7 | 2.1 | 6.7 | -1.3 | 1.1 | 1.2 | 3.8 |
| Europe | 15.9 | 20.9 | 15.2 | 23.9 | 24.0 | 17.6 | 15.4 |

# Shoppers Stop

| | |
|---|---|
| Estimate change | ↓ |
| TP change | ↑ |
| Rating change | ↔ |

| | |
|---|---|
| Bloomberg | SHOP IN |
| Equity Shares (m) | 110 |
| M.Cap.(INRb)/(USDb) | 68.8 / 0.8 |
| 52-Week Range (INR) | 944 / 574 |
| 1, 6, 12 Rel. Per (%) | 10/-19/-16 |
| 12M Avg Val (INR M) | 92 |

**Financials & Valuations Stand (INR b)**

| Y/E March | FY24 | FY25E | FY26E |
|---|---|---|---|
| Sales | 42.1 | 45.1 | 50.0 |
| EBITDA | 7.1 | 7.0 | 8.1 |
| Adj. PAT | 0.6 | 0.1 | 0.1 |
| EBITDA Margin (%) | 16.9 | 15.6 | 16.3 |
| Adj. EPS (INR) | 5.5 | 0.8 | 0.6 |
| EPS Gr. (%) | -50.1 | -85.6 | -21.5 |
| BV/Sh. (INR) | 29.5 | 39.8 | 40.7 |
| **Ratios** | | | |
| Net D:E | 8.2 | 8.7 | 11.1 |
| RoE (%) | 21.8 | 2.7 | 2.0 |
| RoCE (%) | 8.6 | 6.0 | 5.8 |
| Payout (%) | 0.0 | 0.0 | 0.0 |
| **Valuations** | | | |
| P/E (x) | 112.3 | 780.4 | 994.0 |
| EV/EBITDA (x) | 13.4 | 13.8 | 13.0 |
| EV/Sales (x) | 2.3 | 2.2 | 2.1 |
| Div. Yield (%) | 0.0 | 0.0 | 0.0 |

**Shareholding Pattern (%)**

| As On | Dec-24 | Sep-24 | Dec-23 |
|---|---|---|---|
| Promoter | 65.6 | 65.6 | 65.6 |
| DII | 25.3 | 22.7 | 22.0 |
| FII | 3.3 | 7.1 | 6.9 |
| Others | 5.8 | 4.7 | 5.6 |

FII includes depository receipts

**CMP: INR625 TP: INR700 (+12% ) Neutral**

## Growth improves slightly; INTUNE ramp-up key trigger

- Shoppers Stop (SHOP) reported in-line results, with a slight pick-up in revenue growth (+9% YoY) on 4% LFL growth (-4% YoY in 2Q).
- EBITDA rose 11% YoY, driven by higher gross margins on lower write-offs and improved intake margins in private brands.
- The management reiterated its guidance of maintaining ~5% LFL for 2HFY25 (4% in 3Q), supported by a higher number of weddings, and expects to open ~32 stores in 4Q (6 Department, 26 INTUNE).
- SHOP has aggressive store expansion plans for its fast fashion format, INTUNE (90-100 store openings in FY26), with break-even targeted by 3Q-4QFY26. We believe the ramp-up in INTUNE will remain the key trigger.
- Our FY25-26 revenue/EBITDA estimates are broadly unchanged. We build in ~10% revenue/EBITDA CAGR for SHOP over FY24-27E.
- We value SHOP at 12x Mar'27E EV/EBITDA to arrive at our TP of INR700 (earlier INR670). **Reiterate Neutral**.

## In-line results, slight pick-up in growth

- SHOP's standalone revenue grew 9% YoY to INR13.1b (in-line, 4% YoY in 2Q) driven by 4% LFL growth, while net store additions remained muted.
- The company added 1 Department store (closed 4), 6 Beauty stores (closed 8), and 9 INTUNE stores. The respective store counts stand at 109, 85, and 59, bringing the total store count to 284 (net addition of 4 stores QoQ).
- Gross profit was up 11% YoY to INR5.3b (in-line), as gross margins expanded ~90bp YoY to 40.7%, driven by higher intake margins in private brands, lower write-offs, and optimized markdowns.
- Employee cost/other expenses increased 10%/11% YoY.
- EBITDA rose 11% YoY to INR2.4b (in-line) as EBITDA margins expanded 45bp YoY to 18.3%. This was driven by gross margin expansion, which was partly offset by other expenses.
  - ➢ SHOP generated **INR1.1b EBITDA (Pre-Ind-AS) for 3QFY25,** with pre-Ind-AS margin **expanding 100bp YoY to 7.8%**.
- Depreciation and interest costs were up 16%/12% YoY.
- Reported PAT came in at INR488m (vs. est. of INR408m), primarily driven by higher other income.
- Net debt declined INR0.8b QoQ to INR0.9b.

## INTUNE continues to ramp up; slight moderation in the Beauty segment

- Revenue from INTUNE stood at INR630m (vs. INR410m QoQ), with its presence expanding to 59 stores (vs. 50 QoQ). The company expects to open 26 INTUNE stores in 4Q.
- Private Brands revenue declined ~2% YoY to INR1.9b (vs. 15% YoY decline in 2Q).
- The Beauty segment reported modest ~3% YoY revenue growth to INR2.7b (excl. the distribution channel) and 6% YoY growth (incl. the distribution channel).

## Highlights from the management commentary

- **Demand trends:** Demand trends in 3QFY25 were mixed, with strong LFL growth in October driven by the festive season, followed by a weak November. Management indicated that demand trends in Dec'24 were below expectations for most retailers. Discretionary spending remained subdued, though slightly better than 2QFY25.
- **Demand outlook:** Management reiterated its guidance of ~5% LFL growth in 2HFY25 (delivered 4% LFL in 3Q), driven by the wedding season. SHOP expects to sustain ~5% LFL over the medium term, supported by its customer-relevant campaigns.
- **Store openings:** SHOP plans to open 32 stores in Q4 across all formats (6 Department/26 INTUNE). Management noted that ~11 INTUNE stores could not be opened in 3QFY25 due to the GRAP order banning construction in Delhi NCR. For FY26, the company aims to add gross 12-15 Department stores (closure of 2-3) and ~80-90 INTUNE stores.
- **INTUNE:** Management indicated that INTUNE is closer to store EBITDA breakeven at current store productivity levels of ~INR9k/sq ft. Mature stores (>6 months) are at ~25% higher productivity levels. 3QFY25 was the first winter season for most INTUNE stores, so the company was conservative on the availability of winter wear, which pulled down productivity. However, overall trends remained positive. SHOP expects to achieve complete breakeven for INTUNE by 3QFY26/4QFY26.

## Valuation and view

- SHOP's focus on: 1) opening smaller stores (30k sq ft vs. existing average of 50k sq ft) to improve store efficiency; 2) rationalizing unprofitable stores; 3) reviving private label brands; 4) focusing on the high-growth and margin-accretive Beauty segment; and 5) an aggressive store ramp-up in INTUNE, could help sustain growth amid the weak discretionary demand environment.
- SHOP has aggressive store expansion plans for its fast fashion format, INTUNE (90-100 store openings in FY26), with break-even expected by 3Q-4QFY26. We believe the ramp-up in INTUNE will remain a key trigger. However, expanding design and private label merchandising capabilities in INTUNE will be crucial to enhance its value proposition.
- Our FY25-26 revenue/EBITDA estimates are broadly unchanged. We build in ~10% revenue/EBITDA CAGR for SHOP over FY24-27E.
- We value SHOP at 12x Mar'27E EV/EBITDA (earlier Dec'26E EV/EBITDA) to arrive at our TP of INR700 (earlier INR675). **Reiterate Neutral**.

**Standalone - Quarterly Earning Model** (INR m)

| Y/E March | FY24 | | | | FY25 | | | | FY24 | FY25E | FY25 | Est. Var |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4QE | | | 3QE | (%) |
| **Total Revenue from Operations** | **9,816** | **10,252** | **12,068** | **9,997** | **10,337** | **10,681** | **13,115** | **10,961** | **42,132** | **45,094** | **12,938** | **1** |
| YoY Change (%) | 4.2 | 1.7 | 6.6 | 9.1 | 5.3 | 4.2 | 8.7 | 9.6 | 5.4 | 7.0 | | |
| Total Expenditure | 8,093 | 8,654 | 9,914 | 8,356 | 8,916 | 9,213 | 10,715 | 9,205 | 35,016 | 38,050 | 10,570 | 1 |
| **EBITDA** | **1,723** | **1,598** | **2,154** | **1,641** | **1,421** | **1,468** | **2,399** | **1,756** | **7,116** | **7,044** | **2,368** | **1** |
| EBITDA Margin (%) | 17.6 | 15.6 | 17.8 | 16.4 | 13.7 | 13.7 | 18.3 | 16.0 | 16.9 | 15.6 | 18.3 | (0) |
| Depreciation | 1,050 | 1,081 | 1,112 | 1,118 | 1,167 | 1,214 | 1,293 | 1,298 | 4,361 | 4,971 | 1,262 | 2 |
| Interest | 541 | 548 | 579 | 568 | 604 | 638 | 647 | 502 | 2,236 | 2,391 | 658 | -2 |
| Other Income | 73 | 105 | 33 | 346 | 35 | 97 | 223 | 76 | 557 | 432 | 98 | 127 |
| **PBT before EO expense** | **204** | **74** | **496** | **301** | **-314** | **-286** | **682** | **32** | **1,076** | **114** | **545** | **25** |
| Extra-Ord expense | 0 | -49 | 0 | -16 | 0 | -21 | 0 | 0 | -65 | 0 | 0 | |
| **PBT** | **204** | **25** | **496** | **285** | **-314** | **-307** | **682** | **32** | **1,011** | **114** | **545** | **25** |
| Tax | 55 | 8 | 141 | 69 | -89 | -87 | 195 | 8 | 272 | 26 | 137 | |
| Rate (%) | 26.9 | 29.9 | 28.3 | 24.2 | 28.4 | 28.3 | 28.5 | 25.2 | 26.9 | 23.3 | 25.2 | |
| **Reported PAT** | **149** | **18** | **356** | **216** | **-225** | **-220** | **488** | **24** | **739** | **87** | **408** | **20** |
| **Adj PAT** | **149** | **52** | **356** | **48** | **-225** | **-199** | **488** | **24** | **605** | **87** | **408** | **20** |
| YoY Change (%) | -34.4 | -74.1 | -42.7 | -70.5 | -250.7 | -482.6 | 37.2 | -50.1 | -50.1 | -85.6 | -34.3 | |

E: MOFSL Estimates

**Valuation based on Mar'27E EV/EBITDA**

| | Methodology | Driver (INR b) | Multiple | Fair Value (INR b) | Value/sh (INR) |
|---|---|---|---|---|---|
| **Enterprise Value** | EV/EBITDA | 9.5 | 12 | 114 | 1,043 |
| Less Net debt | | | | 38 | 343 |
| **Equity Value** | | | | **77** | **700** |
| Shares o/s (m) | | | | 110 | |
| CMP (INR) | | | | | 618 |
| **Upside (%)** | | | | | **13** |

Source: MOFSL, Company

15 January 2025

Update | Sector: Chemicals

# NOCIL

| BSE SENSEX | S&P CNX |
|---|---|
| 76,724 | 23,213 |

NOCIL LIMITED

**Stock Info**

| | |
|---|---|
| Bloomberg | NOCIL IN |
| Equity Shares (m) | 167 |
| M.Cap.(INRb)/(USDb) | 38.2 / 0.4 |
| 52-Week Range (INR) | 336 / 218 |
| 1, 6, 12 Rel. Per (%) | -10/-16/-23 |
| 12M Avg Val (INR M) | 282 |
| Free float (%) | 66.2 |

**Financials Snapshot (INR b)**

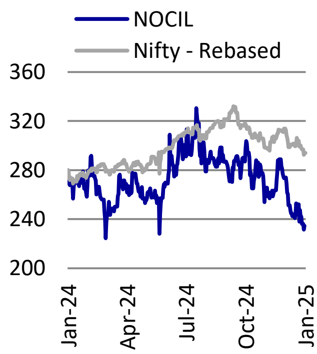
| Y/E March | FY25E | FY26E | FY27E |
|---|---|---|---|
| Sales | 15.1 | 17.8 | 21.4 |
| EBITDA | 1.6 | 2.1 | 3.1 |
| PAT | 1.3 | 1.4 | 2.1 |
| EPS (INR) | 7.8 | 8.7 | 12.9 |
| EPS Gr. (%) | -1.1 | 11.1 | 48.7 |
| BV/Sh.(INR) | 106 | 111 | 119 |
| **Ratios** | | | |
| Net D:E | -0.1 | -0.0 | -0.0 |
| RoE (%) | 7.5 | 8.0 | 11.2 |
| RoCE (%) | 7.1 | 7.6 | 10.6 |
| Payout (%) | 38.1 | 38.1 | 38.1 |
| **Valuations** | | | |
| P/E (x) | 29.2 | 26.3 | 17.7 |
| P/BV (x) | 2.2 | 2.0 | 1.9 |
| EV/EBITDA (x) | 22.6 | 18.0 | 12.2 |
| Div. Yield (%) | 1.3 | 1.4 | 2.2 |
| FCF Yield (%) | 2.2 | (0.6) | 2.2 |

**Shareholding Pattern (%)**

| As On | Dec-24 | Sep-24 | Dec-23 |
|---|---|---|---|
| Promoter | 33.8 | 33.8 | 33.8 |
| DII | 5.9 | 6.2 | 2.9 |
| FII | 7.8 | 7.9 | 7.0 |
| Others | 52.5 | 52.2 | 56.3 |

FII includes depository receipts

**Stock performance (one-year)**




## CMP: INR229 TP: INR235 (+3%) Neutral

## Building long-term resilience

- **NOCIL faces challenges of flat demand trends and import pressures in the short to medium term. However, the company expects improvement in 1HCY25. It has also filed a plea for anti-dumping duty (ADD) on Sulphenamides Accelerators, which form ~45% of its portfolio.**
- **NOCIL aims to build long-term resilience through export growth, innovation, portfolio expansion, and diversification in the non-rubber segment, with initiatives expected to yield results in three years.**
- **NOCIL currently trades at a premium of ~51% to its long-term average of 19.1x on a one-year forward P/E basis. The stock is also trading at 26x FY26E EPS of INR8.7 and 18x FY26E EV/EBITDA. Our TP of INR235 is premised on 20x Dec'26E EPS. Reiterate Neutral.**

### Pressure likely to persist in the short to medium term

- NOCIL is experiencing challenging times currently, with no green shoots visible in the near future. Demand trends have also been flat. However, the company expects the business to improve 1HCY25 onward, when volumes are expected to see a stable trend and prices are expected to grow. Chinese consumption has not recovered as expected, because of which the Chinese government has been announcing stimulus packages at regular intervals.
- Hence, China Sunsine (global leader in rubber chemicals) has been able to keep pace in terms of volumes during these times. In our various interaction with the management, NOCIL has highlighted that competition from Chinese companies has always been there and NOCIL follows China Sunsine for prices, but in terms of per-kg margin, NOCIL is better off on 1/3rd capacity of China Sunsine.
- NOCIL has also been facing pressure from imports, which have been hurting its margin. DGTR has earlier rejected its plea for ADD on one product (PX-13). NOCIL has again filed an ADD application with DGTR for a couple of Sulphenamides Accelerators imported from China, European Union and the US. Accelerators account for ~45% of NOCIL's product portfolio.

### Building long-term resilience

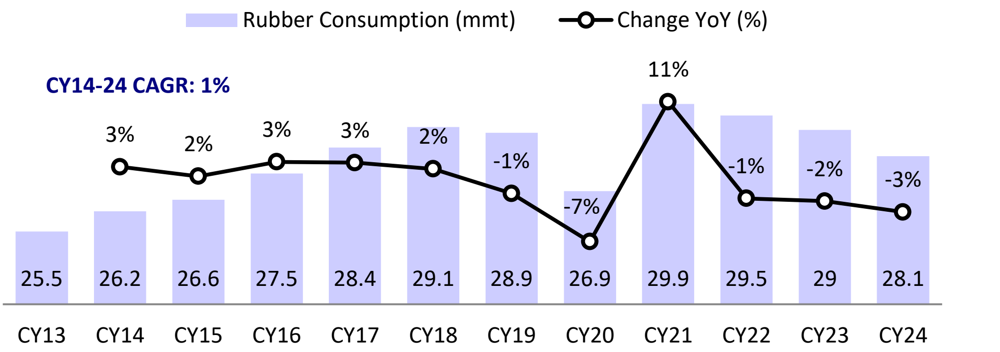
- NOCIL has been having fruitful discussions with customers as reflected in CY24 when exports grew in double digits. The management has greater visibility that the business should pick up. Some quarterly aberrations could be expected in the short term, but that would be majorly because of the nature of contracts with customers.
- NOCIL is also studying new applications of existing products and expanding its portfolio through new products, which should boost margins. Specialty makes up 17% of the total portfolio, down from 25% earlier due to a slump in the latex market. NOCIL is also considering technological tie-ups for inorganic growth as well.

- All in all, NOCIL aims to build long-term resilience in its core business operations through continuous innovations to safeguard itself from pricing pressure from Chinese supplies. In the non-rubber business, it is looking at adjacent chemistries. These initiatives should bear fruit in the next three years.

## Valuation and view

- NOCIL is expanding its capacities (20% of the current capacity of 110ktpa) in anticipation of a demand uptrend in the near term. The new capacity is expected to come online by Sep'26. The top three global players are also expanding their capacities. The pickup in China's domestic consumption is expected to play a key role in easing pricing pressure for NOCIL, though we do not anticipate this to happen in the near term. There is currently no timeline for the optimum utilization of its existing facilities.
- NOCIL currently trades at a premium of ~51% to its long-term average of 19.1x on a one-year forward P/E basis. The stock is also trading at ~26x FY26E EPS of INR8.7 and ~18x FY26E EV/EBITDA. Our TP of INR235 is premised on 20x Dec'26E EPS. Reiterate Neutral.

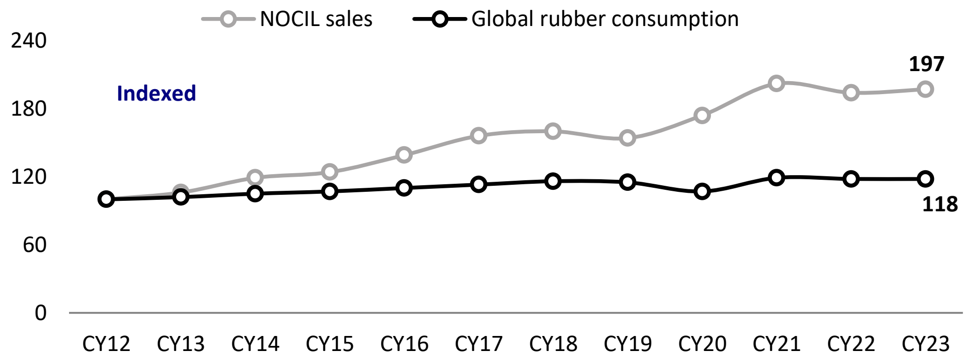
**Global rubber consumption (natural + synthetic)**




**CY24 is as of 2QFY25 earnings*

Source: Company, MOFSL

**NOCIL grew over 6 times the global market growth**




Source: Company, MOFSL

# CEAT

| BSE SENSEX | S&P CNX |
|---|---|
| 76,724 | 23,213 |

## Conference Call Details

**Date:** 16th Jan 2025
**Time:** 4pm IST
**Dial-in details:** [Diamond pass]

**Financials & Valuations (INR b)**

| INR Billion | FY25E | FY26E | FY27E |
|---|---|---|---|
| Sales | 131.8 | 145.1 | 161.4 |
| EBITDA | 14.6 | 17.0 | 19.5 |
| EBIDTA Margin (%) | 11.1 | 11.7 | 12.1 |
| Adj. PAT | 5.3 | 7.1 | 9.3 |
| EPS (Rs) | 131.0 | 176.1 | 230.9 |
| EPS Growth (%) | -22.7 | 34.5 | 31.1 |
| BV/Share (Rs) | 1,105 | 1,246 | 1,432 |
| **Ratios** | | | |
| RoE (%) | 12.4 | 15.0 | 17.2 |
| RoCE (%) | 11.6 | 13.2 | 15.5 |
| Payout (%) | 19.1 | 19.9 | 19.5 |
| **Valuations** | | | |
| P/E (x) | 23.3 | 17.4 | 13.2 |
| P/BV (x) | 2.8 | 2.5 | 2.1 |
| Div. Yield (%) | 0.8 | 1.1 | 1.5 |
| FCF Yield (%) | 2.2 | 5.3 | 6.9 |

## CMP: INR3,058 Buy

## Operationally in line; higher interest and tax lead to PAT miss

- Net sales grew 8% YoY to INR33b (in line), mainly due to healthy YoY volume growth in replacement and exports.
- Revenue during the quarter grew ~11% YoY at ~INR33b (in line), led by healthy YoY volume growth in replacement and international business segments. This was further benefitted by improving realizations on both YoY/QoQ basis.
- Gross margin contracted ~450bp YoY/60bp QoQ at 36.8% at 63.2% (est. 63.1%) due to increasing RM costs. As a result, EBITDA declined 18% YoY to INR3.4b (in line).
- EBITDA margins contracted 380bp YoY/60bp QoQ at 10.3% (est. 10.5%).
- The company reported lower-than-expected Adj. PAT at INR863m (-53% YoY, est. INR1.2b), led by higher-than-expected interest costs and tax.
- Working capital was reduced on a QoQ basis, which led to a debt reduction of ~INR500m sequentially to INR18.35b. D/E stood at 0.43x, while debt/EBITDA stood at 1.22x (stable QoQ).
- Capex for the quarter was INR2.8b, funded through internal accruals. The company has announced investments of INR4b toward capacity addition in Nagpur, which will increase the capacity by 30% by the end of FY28.
- Mr. Arnab Banerjee, MD & CEO, CEAT Limited, said, "*We witnessed a strong year-on-year double-digit growth, driven by the replacement segment. While the rising raw material costs have impacted our margins, we progressively passed on part of the increase through price increase in select categories during the quarter. The demand continues to remain stable, and our order book pipeline is robust across all segments. Raw material prices look flattish in Q4 and we expect growth momentum to continue.*"
- Mr. Kumar Subbiah, CFO of CEAT Limited, said, "*The gross margins were impacted during the quarter due to the increase in raw material cost. A part of it we managed through price increase and cost controls. Meanwhile, our capex during the quarter was Rs 283 crores, which was fully funded through internal controls and hence, our debt level has remained at a similar level.*"
- **Valuation & view:** The stock trades at 17x/13x FY26E/FY27E EPS.

**Consolidated - Quarterly Earning Model** **(INR M)**

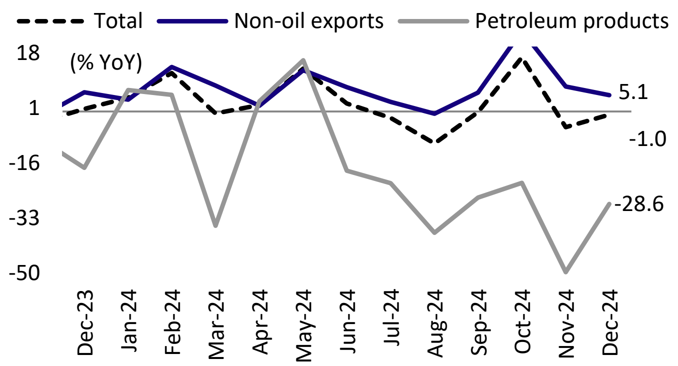
| Y/E March | FY24 | | | | FY25E | | | | FY24 | FY25E | 3QE | Var. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | | % |
| **Net Sales** | **29,352** | **30,533** | **29,631** | **29,919** | **31,928** | **33,045** | **32,999** | **33,789** | **1,19,435** | **1,31,762** | **33,483** | **-1.4** |
| YoY Change (%) | 4.1 | 5.5 | 8.7 | 4.1 | 8.8 | 8.2 | 11.4 | 12.9 | 5.6 | 10.3 | 13.0 | -160bps |
| RM cost (%) | 58.9 | 56.7 | 58.7 | 57.7 | 60.8 | 62.6 | 63.2 | 62.6 | 58.0 | 62.3 | 63.1 | 10bps |
| Employee cost (%) | 6.7 | 7.1 | 7.3 | 7.2 | 6.1 | 6.6 | 6.5 | 6.2 | 7.1 | 6.4 | 6.6 | -10bps |
| Other expenses (%) | 21.2 | 21.3 | 19.9 | 22.0 | 21.1 | 19.8 | 20.0 | 19.9 | 21.1 | 20.2 | 19.8 | 20bps |
| **EBITDA** | **3,871** | **4,561** | **4,175** | **3,915** | **3,829** | **3,623** | **3,409** | **3,785** | **16,522** | **14,645** | **3,516** | **-3** |
| Margins (%) | 13.2 | 14.9 | 14.1 | 13.1 | 12.0 | 11.0 | 10.3 | 11.2 | 13.8 | 11.1 | 10.5 | -20bps |
| Depreciation | 1,209 | 1,245 | 1,273 | 1,361 | 1,318 | 1,371 | 1,415 | 1,353 | 5,088 | 5,457 | 1,380 | 3 |
| Interest | 701 | 717 | 656 | 617 | 619 | 665 | 751 | 546 | 2,691 | 2,579 | 650 | 16 |
| Other Income | 33 | 105 | 29 | 31 | 62 | 35 | 34 | 150 | 197 | 280 | 70 | -51 |
| **PBT before EO expense** | **1,993** | **2,704** | **2,276** | **1,969** | **1,954** | **1,622** | **1,278** | **2,035** | **8,941** | **6,889** | **1,556** | **-18** |
| Exceptional item | 0 | 0 | 0 | 582 | -75 | 0 | 0 | 74 | 582 | 0 | 0 | |
| **PBT** | **1,993** | **2,704** | **2,276** | **1,387** | **2,029** | **1,621** | **1,278** | **1,961** | **8,359** | **6,889** | **1,556** | **-18** |
| Tax Rate (%) | 26.5 | 25.3 | 23.9 | 33.0 | 26.6 | 28.6 | 28.3 | 21.8 | 26.5 | 26.0 | 26.0 | |
| Minority Int. & Profit of Asso. Cos. | 18 | -59 | -84 | -157 | -53 | -61 | 53 | -140 | -282 | -200 | -55 | |
| **Reported PAT** | **1,446** | **2,080** | **1,815** | **1,086** | **1,542** | **1,219** | **863** | **1,675** | **6,427** | **5,298** | **1,206** | **-28** |
| **Adj PAT** | **1,446** | **2,080** | **1,815** | **1,513** | **1,486** | **1,219** | **863** | **1,729** | **6,854** | **5,298** | **1,206** | **-28** |
| YoY Change (%) | 1,383 | 745 | 408 | 8 | 3 | -41 | -52 | 14 | 227 | -23 | -33.5 | |

## Trade deficit lowest in three months

### Led by deceleration import growth

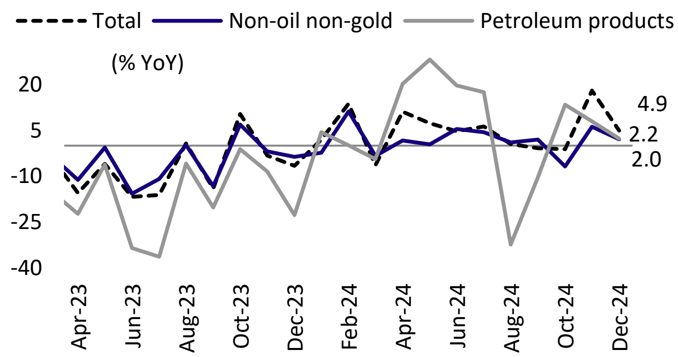
- **Merchandise exports declined 1.0% YoY to USD38.0b in Dec'24 (vs. USD32.1b in Nov'24 and USD38.4b in Dec'23), led by a seventh consecutive drop in petroleum exports (-28.6% YoY in Dec'24 vs. -49.7%/-17.5% in Nov'24/Dec'23) and a second consecutive fall in gems & jewelry exports (-26.5% YoY in Dec'24 vs. -26.3%/14.0% in Nov'24/Dec'23). Additionally, growth of non-oil non-gold exports decelerated to 5.1% YoY in Dec'24 from 7.7%/5.9% in Nov'24/Dec'23 (Exhibit 1).**
- **Major drivers of merchandise exports growth in Dec'24 were electronic goods, engineering goods, rice, RMG of all textiles and cotton yarn, handloom products, etc. In Apr-Dec'24, exports stood at USD321.8b (up 1.6% YoY) compared to USD316.6b in Apr-Dec'23 (down 5.8%).**
- **Merchandise imports stood at USD60b in Dec'24 (up 4.9% YoY) vs. USD65b (18% YoY) in Nov'24. Notably, Nov'24 imports were revised downward from USD70b (27% YoY) due to a downward revision in gold import figures to USD9.9b from USD14.8b earlier. In Dec'24, gold imports stood at USD4.7b, higher by 55.4% YoY.**
- **On the other hand, growth in petroleum imports decelerated to 2.2% YoY in Dec'24 to USD15.3b vs. USD16.1b (7.9% YoY)/USD14.9b (-22.8% YoY) in Nov'24/Dec'23 *(Exhibit 2).* Notably, non-oil non-gold imports stood at USD40b in Dec'24 (up 2.0% YoY) vs. USD39b in Nov'24 (6.2% YoY) and USD39.2b in Dec'23 (-3.7% YoY). Imports of Coal, Coke & Briquettes (-43.42%), Pearls, Precious & Semi-Precious Stones (-42.02%), Iron & Steel (-18.58%), Project Goods (-12.4%), Leather & Leather Products (-12.33%), Artificial Resins, Plastic Materials, Etc. (-3.8%), Transport Equipment (-0.96%), Fertilizers, Crude & Manufactured (-0.89%) and Non-Ferrous Metals (-0.47%) contracted YoY in Dec'24.**
- **Consequently, the merchandise trade deficit widened to USD21.9b in Dec'24 (vs. USD18.8b in Dec'23 and USD32.8b in Nov'24). However, the trade deficit in Dec'24 was the lowest in three months, led by a deceleration in import growth. Notably, Nov'24 trade deficit was revised downward to USD32.8b from USD37.8b on the back of a revision in gold imports. The merchandise trade deficit for Dec'24 was lower than the market consensus of USD25.6b (Exhibit 3).**
- **In Apr-Dec'24, exports grew 1.6% vs. a contraction of 5.8% in the same period last year. On the other hand, imports grew faster at 5.4% in Apr-Dec'24 vs. a contraction of 7.7% in Apr-Dec'23. Consequently, the merchandise trade deficit widened to USD211.8b in Apr-Dec'24 vs. USD189.7b in Apr-Dec'23 (Exhibit 4).**

**Exhibit 1: Exports contracted 1.0% YoY in Dec'24**




Source: Ministry of Commerce and Industry, MOFSL

**Exhibit 2: Imports rose 4.9% YoY in Dec'24 vs. 18% in Nov'24**




Source: Ministry of Commerce and Industry, MOFSL

**Exhibit 3: Trade deficit widened to USD21.9b in Dec'24**

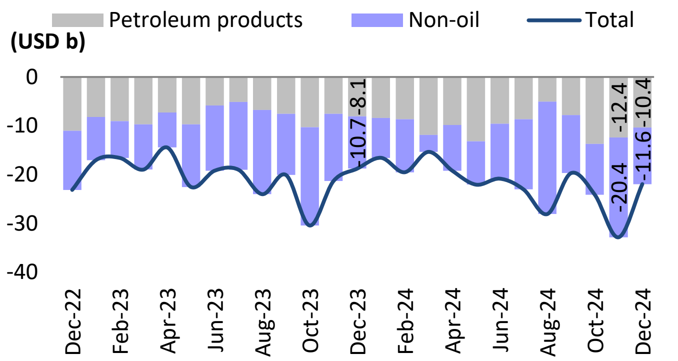
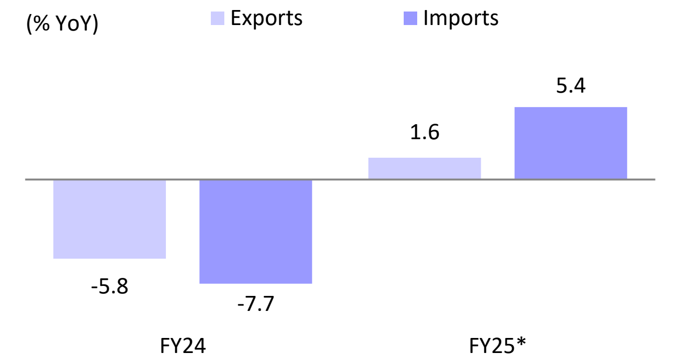



**Exhibit 4: Imports grew faster than exports in Apr-Dec'24**



## Shoppers Stop: We are aiming for double-digit growth in the beauty business; Kavindra Mishra, MD & CEO

- Momentum from Q3 has continued into Q4
- Set a target of 5% like-for-like growth for 4Q
- Premiumisation trend continues, AOV expected to increase by 4-5% QoQ
- Private label in apparel should increase from 18% to 21-22%

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## JSW Energy: KSK Mahanadi is a very high-quality operating asset generating good EBITDA & revenue; Sharad Mahendra, Jt. MD & CEO

- Have received LoI for KSK Mahanadi & now NCLT nod will take its own course
- Of KSK Mahanadi's 3.6 GW capacity, 50% is operational
- We have cash surplus from other sources
- Have received the LoI & ultimately decision has to come from NCLT

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## Waaree Energies: KSK Mahanadi is a very high-quality operating asset generating good EBITDA & revenue; Hitesh Doshi, CMD

- Using backward integration to expand to other energies
- Enel has operating assets in Wind & Solar in India
- Pipeline will climb to Rs.10K+ MW with this acquisition
- New project will be funded by internal accruals only

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## DHL Group: Will invest in surface transport & E-commerce segments of Blue Dart; Tobias Meyer, CEO

- Facility connects multiple air & ground services b/w N. India and the rest of the country
- Facility equipped for palletized cargo handling, with the capacity to handle over 5.5 lakh shipments/day
- Facility also integrates with the upcoming Gati Shakti Logistics Corridor
- Launches India's largest integrated operating facility at Bijwasan, Delhi

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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 |

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|---|---|
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