TOP PICKS

July 2023

AXIS SECURITIES

Market Likely to Witness Style and Sector Rotation

Axis Top Picks basket delivered an impressive return of 31% in the last one year, outperforming the benchmark Index NIFTY50, which delivered 22% returns in one year, by a notable margin. In Jun'23, the basket inched up further by 2.8%. Furthermore, we are glad to share that our Top Picks basket has delivered an impressive return of 176% since its inception (May'20), which stands significantly higher than the 107% return delivered by NIFTY 50 over the same period. Keeping this in view, we continue to believe in our thematic approach to Top Picks selection.

The Indian market performance has shown resilience in the last couple of months and has outperformed the major global market by healthy margins, thanks to the country's robust and superior outlook vis-à-vis other emerging economies. India now stands tall as the 5th largest market in the world with a $3.5 Tn market cap. Only the US, China, Japan, and Hong Kong market are currently ahead of India. In the last one year, while the benchmark index NIFTY 50 and the S&P 500 moved up by 22% and 16% respectively, the emerging market index declined by 2%. Furthermore, on the last working day of Jun'23, NIFTY 50 touched an all-time high level of 19189, which was led by a) The revival of the FII flows b) Robust economic growth vs. other EM countries, c) Strong earnings outlook, d) Robust demand across sectors, e) The Banking sector's much better shape, and f) Positive expectations in the Private Capex cycle. Concurrently, for the first three months of FY24, India witnessed cumulative FII flows of $12.7 Bn.

In Jun'23, the broad-based recovery continued across sectors and, except media, all sectoral indices closed on a positive note. On Mar'23, 33% of the stocks were trading above the 200-day moving average, indicating the market was in the oversold zone. The market, however, has witnessed a sharp recovery since and now 74% of the stocks are trading above 200 DMA, indicating it to be out of the oversold zone. Moreover, the market positioning has now slightly shifted towards Banks and Domestic-cyclical stocks. Domestic plays of FMCG, Auto, Hospitals, and Industrials have slowly started outperforming the market. Adding to that, PSU stocks are holding the performance with 14 PSU stocks currently hovering near their 52W highs.

Q1FY24 Preview: Margins may surprise positively; Domestic-facing sectors are enjoying the economic recovery: Majority of the domestic high-frequency indicators trended higher during the quarter which is likely to translate into good demand momentum for the domestic corporates. In this context, Banks, Consumers, Industrial, and Automobiles are likely to post robust earnings while Q1FY24 remains critical for the IT sector as it will set the tone for FY24 demand. Moreover, margins for the Consumer sector are likely to post positive surprise, thanks to the recent cool-off in the raw material prices. The commentary on the demand momentum, margin recovery, and the pickup in the rural demand will be keenly watched by the street. Against this backdrop, the market is expected to witness sector and style rotation moving forward. Currently, we foresee FY24/25 NIFTY Earnings at 920/1040 with a growth expectation of 16%/13% respectively. We will revise our estimates after the earnings season.

We believe the macro will continue to drive the market direction moving forward, while all four major styles have given double-digit returns in the last one year, the Momentum theme has given the highest return with the recent rally in the equity market. We believe the market is likely to witness style and sector rotation in the upcoming quarters. The theme 'Growth at a Reasonable Price' continues to look attractive on account of the domestic play of good Rabi season payout, the cool-off in commodity prices and inflation, rural recovery, and the expectation of margin recovery in the upcoming quarters. With the robust GDP data, the market positioning is expected to shift toward domestic-oriented themes comprising Banks and Domestic-cyclical stocks. On the rural front, the upcoming Monsoon will play a critical role in rural growth and its broad-based recovery.

Keeping these latest developments in view, we have made one change to our Top Picks recommendations. This includes booking profit in Dalmia Bharat and adding Rites Ltd. (Railways Infra consultancy). Our modifications reflect the changing market style and shift towards superior-quality and growth-oriented stocks.

Our Key Themes are as follows

Macro factors continue to take centre stage: We believe the worst of the FIIs outflow is now behind us as the strong earnings growth and economic recovery will play out in the remaining months of 2023. For the next 6-9 months, the evolving macroeconomic data points would continue to influence the market.

Though we are currently hovering near the peak of the rising interest rate cycle, the terminal rates are not yet known and hence, it still depends on the evolving data points. Currently, the market is expecting one round of rate hike in the upcoming FOMC meeting. Hence, the tone of FED chairmen remains critical at this juncture. Keeping these developments in view, we believe the following attributes are critical in determining market movement moving forward. These are a) The direction of the bond yields and the dollar index, b) The direction of inflation as well as growth in the developed world, and c) The trend in commodity prices. On the domestic front, the market would watch out for the direction of inflation and oil prices along with the progress of the monsoon.

Relative valuation will continue to attract the flows: Interestingly, FTSE India is trading at a PE premium of 74% to the EM index against the average premium of 40%. During Oct/Nov'23, the Indian market witnessed a previous all-time high level, which was mainly on account of the underperformance of the Chinese equity market due to its zero-Covid policy. During that time, India's PE premium had increased to 110%. However, in the last six months, this huge divergence has already reduced. Now, while Indian markets are trading once again at all-time high levels, its PE premium is only 74% this time around. This indicates that the Indian market is not as expensive as it was last year. Hence, valuation will continue to attract the flows going forward.

Style rotation is the key; 'Growth at a reasonable price' might be the winner in the near term: Cool-off in the key commodity prices coupled with the central bank's actions on front-loading the interest rates have changed the market style in the last three months. While the Growth theme outperformed all other styles by a notable margin in the last twelve months from the oversold zone, Quality and Momentum styles are back on track after the underperformance of several months. The theme 'Growth at a Reasonable Price' looks attractive on account of the domestic play of good Rabi season payout, the cool-off in commodity prices and inflation, rural recovery, and the expectation of margin recovery in the upcoming quarters.

We Maintained Dec'23 NIFTY Target to 20,200

Base case: The Indian economy stands at a sweet spot of growth and remains the land of stability against the backdrop of a volatile global economy. We continue to believe in the long-term growth story of the Indian equity market, supported by the emerging favourable structure as increasing Capex enables banks to improve credit growth. Strong earnings trajectory continues in the NIFTY 50 universe. We foresee NIFTY EPS to post growth of 16%/13% in FY24/25. After Q4FY23, we have seen a marginal drop of 1% in our Dec'25 Nifty EPS expectations. **Thus, we maintain our Dec'23 Nifty target at 20,200 by valuing it at 20x on Dec'24 earnings.** The current level of India VIX is below its long-term average, indicating that the market is currently in a neutral zone (neither panic nor exuberance). While the medium to long-term outlook for the overall market remains positive, we may see volatility in the short run with the market responding in either direction. **Keeping this in view, the current setup is a 'Buy on Dips' market.** We recommend investors to maintain good liquidity (10%) to use any dips in a phased manner and build a position in high-quality companies (where the earnings visibility is quite high) with an investment horizon of 12-18 months.

Bull case: In the bull case, we value NIFTY at 22x which translates into a Dec'23 target of 22,200. Our bull case assumption is based on the overall reduction in volatility and the success of a soft landing in the US market. Currently, we are near the peak of the rate hike cycle and may expect only one rate hike in the US market before US FED takes a pause. If the market sails through the next 1 or 2 quarters smoothly, we would likely see the next level of triggers along with money flowing to EMs. This, in turn, would increase the market multiple.

Bear Case: In the bear case, we value NIFTY at 18x which would translate into a Dec'23 target of 18,200. We assume the Russia-Ukraine war to prolong which would continue to pose inflationary challenges to the developed world. Currently, we are near the peak of the rate hike cycle and may expect one rate hike in the US market before the US FED takes a pause. The market has not seen such levels of interest rate hike in the recent past and hence, chances to go wrong have increased significantly. This would translate into a slowdown or heightened recession in the developed market which will impact the export-oriented growth in the domestic market and concurrently pose challenges to the earnings and market multiple.

***Based on the above themes, we recommend the following stocks:* ICICI Bank, Maruti Suzuki India, State Bank of India, RITES ltd, Federal Bank, Varun Beverages, Ashok Leyland, PNC infra, ITC, Aarti Drugs, Relaxo, Mahindra CIE, Praj Industries, CCL Products (India), Polycab India, and CreditAccess Grameen**

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INVEST IN ONE CLICK

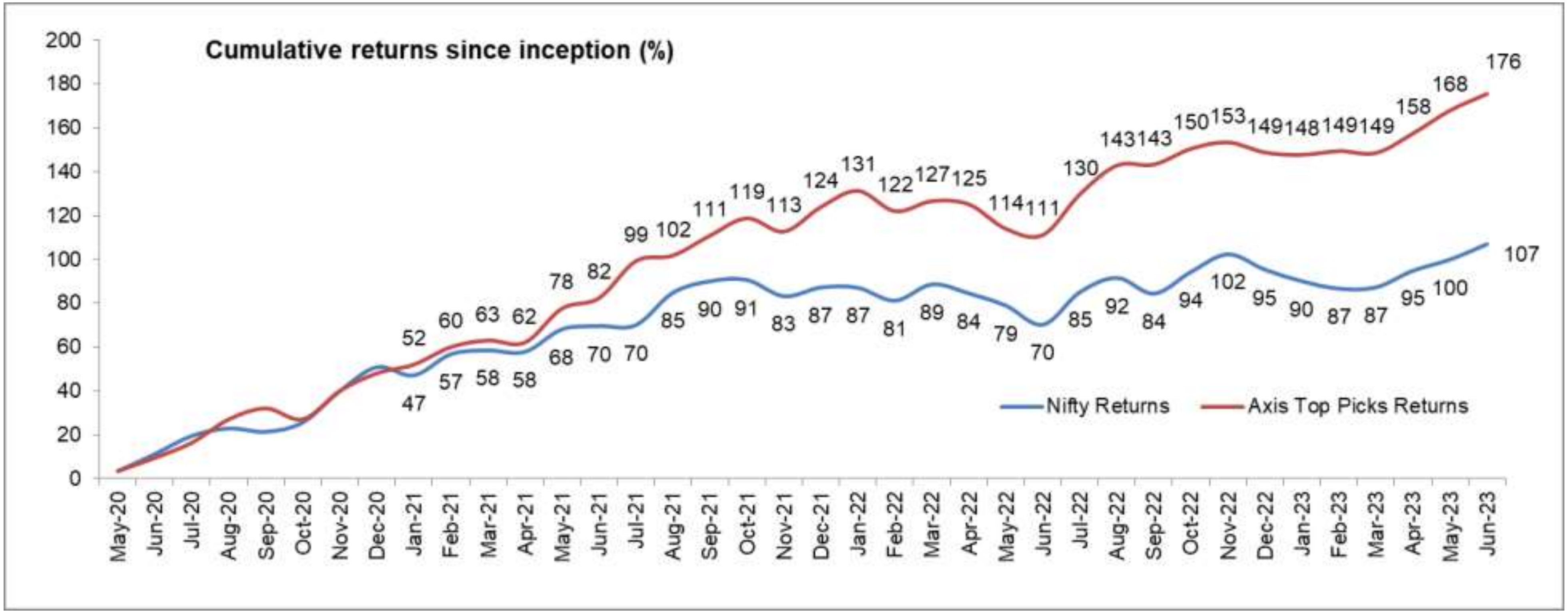
Axis Securities Top Picks

Category	Company Name	Sector	Stock price	Target Price	Upside (%)	12 Month Fwd PE	12 Month Fwd P/BV	Dividend Yield	TR 1M%	TR 3M%	TR 6M%	TR YTD %
Large Cap	ICICI Bank Ltd	Financials	935	1,150	23%	18.1	2.6	0.8	\	6.7	4.6	5.9
Large Cap	Maruti Suzuki India Ltd	Consumer Discretionary	9,789	10,790	10%	27.2	4.4	0.9	2.3	14.1	15.7	15.6
Large Cap	State Bank of India	Financials	573	715	25%	9.1	1.4	2.0	-1.5	11.9	-3.7	-3.9
Large Cap	Varun Beverages Ltd	Consumer Staples	803	930	16%	53.8	15.4	0.1	-3.6	15.6	25.1	23.6
Large Cap	ITC Ltd	Consumer Staples	452	495	10%	26.6	8.1	2.8	2.4	22.4	42.2	42.0
Mid Cap	Polycab India Ltd	Industrials	3,551	3,905	10%	36.9	6.8	0.6	0.3	20.4	37.5	38.7
Mid Cap	Federal Bank Ltd	Financials	126	155	23%	7.7	1.1	0.8	0.6	-4.7	-7.9	-8.8
Mid Cap	Ashok Leyland Ltd	Industrials	167	190	14%	23.7	5.3	1.5	15.1	19.3	14.1	17.3
Mid Cap	Relaxo Footwears Ltd	Consumer Discretionary	909	990	10%	82.5	11.0	0.3	0.7	6.8	0.7	-0.3
Small Cap	RITES Ltd	Industrials	372	450	21%	14.5	3.2	5.4	-1.0	3.7	11.9	11.3
Small Cap	Aarti Drugs Ltd	Health Care	465	600	29%	17.2	3.0	0.2	1.2	35.5	2.9	0.7
Small Cap	Mahindra CIE Automotive Ltd	Consumer Discretionary	516	595	15%	21.8	3.3	0.5	11.3	44.2	54.4	51.4
Small Cap	Praj Industries Ltd	Industrials	378	500	32%	23.6	5.4	1.2	-1.5	10.6	3.1	6.1
Small Cap	CCL Products (India) Ltd	Consumer Staples	664	750	13%	28.2	5.1	0.8	3.8	14.3	22.6	25.5
Small Cap	CreditAccess Grameen Ltd	Financials	1,248	1,400	12%	17.4	3.3	NA	3.5	36.8	42.2	38.4
Small Cap	PNC Infratech Ltd	Industrials	328	425	30%	13.2	1.8	0.2	4.2	15.7	7.2	14.4

Source: Company, Axis Securities, CMP as on 30th June 2023

Top Picks Performance

Axis Top Picks Performance						
	1M	2M	3M	6M	1Y	Since Inception (May 20)
Axis Top Picks Returns	2.8%	7.0%	10.8%	10.7%	30.5%	175.5%
Nifty Returns	3.5%	6.22%	10.5%	6.0%	21.6%	107.0%
Alpha	**-0.7%**	**0.8%**	**0.3%**	**4.8%**	**8.9%**	**68.6%**



Note: Equal weight basket Performance as of 30th Jun'23

Sector Outlook

Sector	Current View	Outlook
Automobiles	Over Weight	The Indian Automobile sector is witnessing significant demand improvement which is becoming more broad-based on a sequential basis. Most categories, including 2Ws,are witnessing encouraging traction. In Q4FY23, a notable volume uptick was visible thanks to the improvement in the overall supply of semiconductors, softening of commodity prices along with a robust order book, especially in the PVs segment. Against this backdrop, the long-term outlook for the Auto industry remains positive as domestic demand momentum is likely to sustain. Exports, on the other hand, would still take another 1 or 2 quarters for recovery. We expect new product launches to help drive excitement among buyers with the SUV segment retaining the consumer pulling power. Gross margins continue to see a rebound for most of the OEMs as well as component companies in FY23 from the subdued levels of FY22 on account of price hikes taken in the last few quarters to offset the steep rise in RM cost. This will open the room for earnings upgrades moving forward. Demand momentum in the CV segment is likely to sustain and we expect the CV cycle to maintain its momentum, driven by the pick-up in economic activities and the government's keen focus on infrastructure development. Based on the current development and positive outlook, we continue with our overweight stance on the sector.
Banking and Financial services	Over Weight	FY23 was a robust year for the BFSI sector as most of the Banks/NBFCs under our coverage remain well-placed to capitalize on growth opportunities in FY24 as most of the banks have guided for healthy loan growth going forward. Outlook on the asset-quality front remains encouraging with the expectations of slippages moderating and recoveries remaining healthy, thereby supporting the asset quality improvement across the sector. We believe the growth momentum is likely to remain healthy as pick-up visible in the Retail and SME lending seems sustainable. Moreover, corporate loans have also shown sharp improvement. Q4FY23 proved to be another robust quarter for the Banking stocks, which was primarily led by improving credit growth, improving asset quality trends, and improving return ratios. We believe with the asset quality pain being largely behind (barring certain segments) and the restructured book behaving fairly well, a ramp-up in credit growth and the ability to maintain margins in an increasing interest rate environment is likely to drive valuations for Banks/NBFCs moving forward. Hence we maintain an overweight stance on the sector.
Capital Goods	Equal Weight	The Capital Goods sector normalised towards the end of FY22 and companies are now supported by the rise in the gross fixed capital formation. In Q3/Q4FY23, the domestic revenue of capital goods companies showed impressive growth on a YoY basis. Moreover, the government's Capex cycle continues to be robust and house registrations in the metro cities continue to witness promising traction. The private Capex cycle is also expected to pick up soon, which would further support the sector. Notably, most companies are now witnessing excellent growth traction in terms of order inflows which was not the case for the past 8-10 years. These companies are now commanding significant operating leverage, which essentially implies that the profit growth will be higher than the revenue growth in the upcoming years with improvement in the Capex cycle. Based on these developments, we maintain our **Equal Weight** stance on the sector.

Sector Outlook (Cont'd)

Sector	Current View	Outlook
Cement	Equal Weight	Higher cost of power & fuel was the key concern for cement companies as they were not able to pass on the entire cost inflation to the final consumer. This led to H1FY23 witnessing the impact of cost inflation on margins. On a positive note, the hike in cement prices helped to mitigate the cost to some extent in the second half. Q4FY23 was a transitional quarter in terms of EBITDA growth which was led by moderation in fuel prices. Nonetheless, our long-term outlook on the sector remains positive as demand drivers remain intact. These demand drivers are primarily supported by the government's thrust on infrastructure projects. Encouragingly, management commentaries on demand have been positive and we expect EBITDA/tonne to report an overall improvement from here onwards. The recovery is expected on account of the pick-up in infra projects, sustained housing demand, and the much-expected revival in the rural areas. Hence, we maintain our Equal Weight stance on the sector.
Consumer staples	Equal Weight	In the Consumer Staples space, while pricing drove the performance in FY23, volume growth trends stood subdued. High inflation and the delayed winter have slowed the growth in select categories. We expect staples companies to do better from here onwards on account of likely demand pick-up for the staples products accompanied by likely expansion of Gross and EBITDA margins. Though rural demand continues to remain weak, some green shoots are visible as highlighted by managements in their commentaries on the rural recovery. Nonetheless, we believe the full-fledged recovery is still away and would depend on the monsoon this year (the initial reports are not encouraging). However, good proceeds from the Rabi harvest, low base, and the government's focus on rural growth are expected to translate into rural recovery in the near term. **Hence, we maintain the FMCG sector to Equal Weight.**
Consumer Discretionary	Equal Weight	After eight quarters of outperformance, demand in the Consumer Discretionary space started showing signs of moderation. Multiple reasons for the said slowdown in sales growth have been 1) High base of the last year, 2) Festival season partially in Q2FY23, 3) Slowdown in discretionary spends from mid-Nov'22 onwards, and 4) Inflationary pressure. Some of the categories such as paints and retail had weaker commentary for the first time in the last few quarters. While the Premium segment has remained relatively insulated from demand slowdown, the Value/Economy segment remained impacted during the quarter. The focus is now shifted towards demand recovery as the slowdown in demand could limit the margin expansion from here onwards. Against this backdrop, we continue with our Equal Weight stance on the sector and remain watchful of the key developments in the space.
Information Technology	Equal Weight	Indian IT companies reported a robust performance in FY22 and registered strong broad-based growth, backed by healthy business demand and favourable macros. Though the demand is on the rise, supply-side challenges remain a key concern which may restrict revenue growth momentum moving forward. Moreover, higher employee costs may negatively impact the overall operating margins of the companies. Rising inflation and higher interest rates in North America (a major contributor to the revenue) would also lead to unfavourable macroeconomic conditions, which would contract IT spending across verticals. We foresee a downside risk to current earnings assumptions and hence maintain our **Equal-weight** stance on the sector.

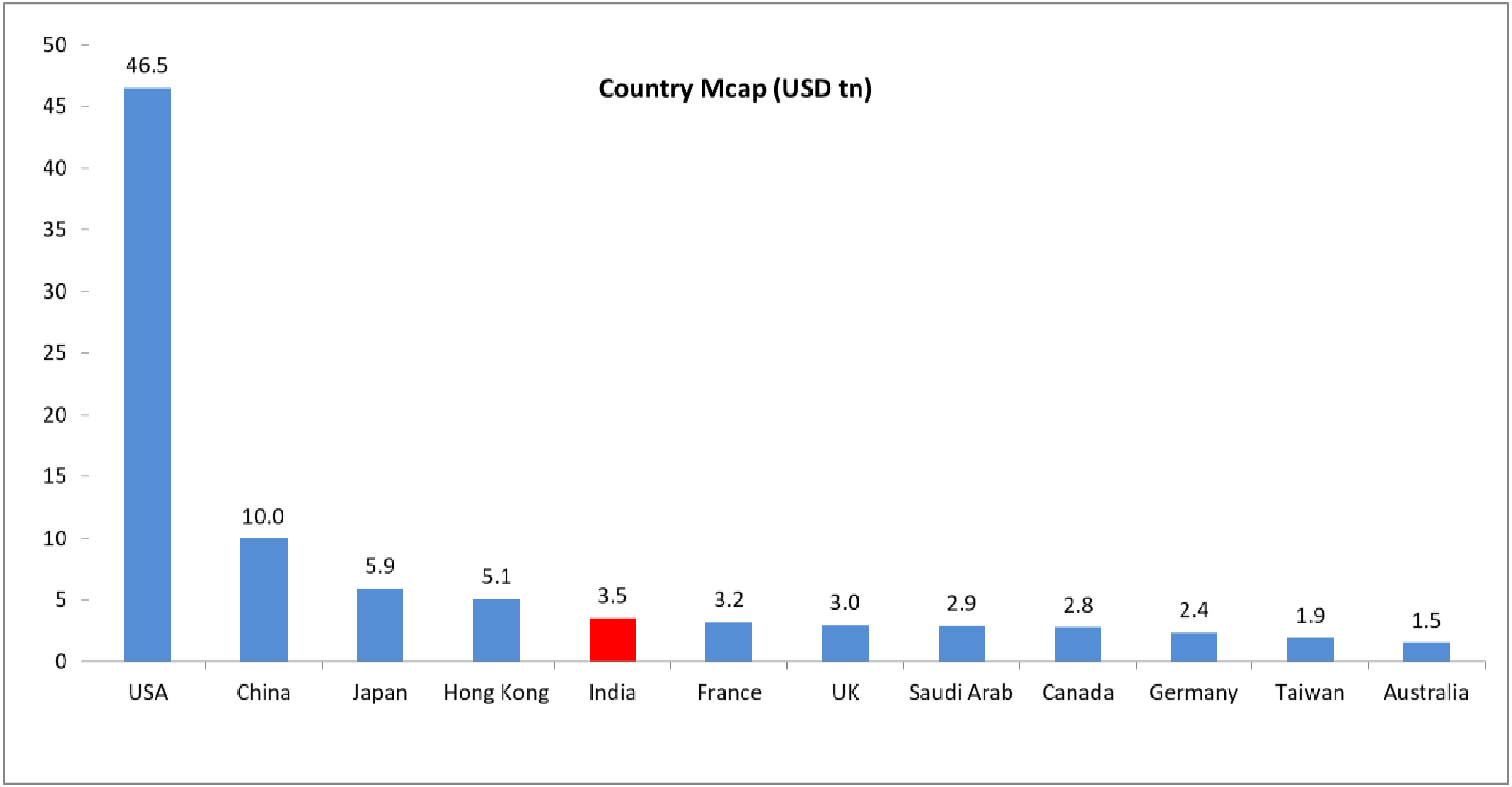
Sector Outlook (Cont'd)

Sector	Current View	Outlook
Metals &Mining	Equal Weight	For the Ferrous metal space, Q3FY23 kicked off with a weak pricing scenario with a notable drop in steel prices during Nov/Dec'22. Lower realization, lower export volume, and an increase in the raw material cost hurt the sector's overall margins in Q3FY23. On the brighter side, profitability is likely to have bottomed out in Q3FY23 on account of higher demand for steel products in the domestic market and the pick-up in the cost-reduction practices by the companies. Some recovery was visible in Q4FY23 with lower coking coal prices coming albeit with a lag. This will support steel profitability moving forward. Furthermore, we expect profitability to recover in FY24 on account of the pick-up in the volume of the steel companies, led by higher infrastructure projects. In the near term, muted global demand and the decline in global metal prices continue to pose challenges. Hence, we maintain our Equal Weight stance on the sector.
Oil &Gas	Equal Weight	For the last several quarters, we have been noticing a high degree of uncertainty in the profitability of Oil marketing companies on account of 1) Limited ability to change the retail prices of automotive fuels and 2) Significant volatility in the crude prices leading to uncertainties in the retail margins. Fundamentally, higher crude prices result in losses for the OMCs and lower crude prices translate into profits. Encouragingly, the GOI cut the excise duty in Nov'21 and May'22 to mitigate the impact of high crude prices. Given the government's top priority clearly being inflation control, it seems unlikely that auto-fuel retail prices will be raised anytime soon. We, therefore, do not see an immediate recovery in the marketing margins of the OMCs. Factoring in these developments, we continue with our Equal Weight stance on the sector and would keep a close tab on further developmentsin the space.
Pharmaceuticals	Equal Weight	The Pharma sector reported mixed-bag results in Q3FY23 primarily due to a weakness in the US generic business, which continues to witness price erosion. A similar trend of price erosion was continued in Q4FY23 as well with an elevated level of RM coststabilizing for most of the products. On the positive side, domestic-oriented companies have posted robust growth which has been driven by price rise and volume growth in the chronic categories. We believe moderate recovery is likely to continue in Domestic Pharma and hence companies are increasing their focus towards Domestic markets over the US.However, significant improvement in the operating metrics is needed for further re-rating of the sector. We foresee risks to this scenario and hence continue with our Equal Weight stance on the sector .

Sector Outlook (Cont'd)

Sector	Current View	Outlook
Real Estate	Equal Weight	The Real Estate sector is witnessing record registrations in metro cities. Demand has picked up and bookings are being witnessed in most of the new launches. The sector is likely to witness more traction going forwards as the RBI has already taken a pause and we are near the peak of the rate hike cycle. Hence, we maintain our Equal weight stance on the sector.
Specialty Chemicals	Over Weight	The Specialty Chemicals sector has been one of the sunrise sectors of the country. India has been gaininga global market share in this space by leveraging its capabilities and supply chain re-alignment from China to India. We believe Indian companies would gain further ground as companies reduce their dependence on China after the COVID-19 pandemic and shift their supply chains to India. Apart from the long-term supply chain shift theme, many specialty chemicals form a part of essentials and the facilities have started opening up post-lockdown relaxations.The decline in raw material prices would support margins and reduce working capital needs further. However, input costs are a pass-through for most companies and benefits may be limited. Overall, the Specialty Chemicals industry is likely to continue performing well in the medium term. Keeping this in perspective, we recommend an Over Weight stance on the sector.
Telecom	Over Weight	Telecom has become the most critical sector during the current challenging times to keep businesses up and running.The sector was seeing an improved pricing environment even before the COVID-19 outbreak. The industry is highly consolidated with two strong and one weak player in the wireless space. We recommend an Over Weight stance on the sector.

India maintained the 5th place in the world in terms of Mcap in USD Tn (Earlier it was in Dec'22)



Source: Bloomberg, Axis Securities

Mid-year Scorecard

- The broader market has emerged as a best-performing asset class on a YTD basis
- Indian Market has outperformed the EM by a **significant** margin
- The structural trend for the equity market continues to remain positive
- **Top 3 Winners:** Mid Caps/Small Caps – 7 times out of the last 13 years
- The trend for the broader market is likely to continue in 2023. The broader market is likely to witness margin expansion in upcoming quarters.

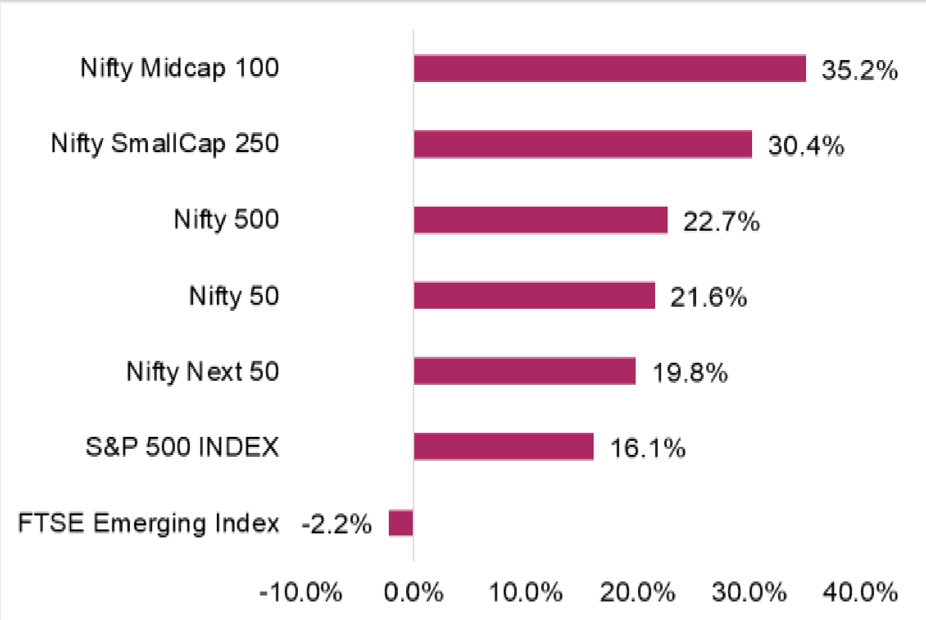
Rank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD (Jan-Jun'23)
1	MCX Gold: 32%	Mid Cap: 39%	S&P 500: 30%	Mid Cap: 56%	Crisil comp Bond: 9%	Crisil comp Bond: 13%	SmallCap: 57%	MCX Gold: 8%	S&P 500: 29%	MCX Gold: 28%	SmallCap: 59%	MCX Gold: 14.3%	S&P 500: 14.5%
2	Crisil comp Bond: 7%	SmallCap: 37%	Nifty 50: 7%	SmallCap: 55%	SmallCap: 7%	EM Index: 10%	Mid Cap: 47%	Crisil comp Bond: 6%	MCX Gold: 25%	Mid Cap: 22%	Mid Cap: 46%	Nifty 50: 4.3%	Midcap: 13.5%
3	S&P 500: 0%	Nifty 50: 28%	Crisil comp Bond: 4%	Nifty 50: 31%	Mid Cap: 6%	MCX Gold: 10%	EM Index: 29%	Nifty 50: 3%	EM Index: 17%	SmallCap: 21%	S&P 500: 27%	Mid Cap: 3.5%	SmallCap: 11.4%
4	EM Index: -21%	EM Index: 14%	Mid Cap: -5%	Crisil comp Bond: 14%	S&P 500: -1%	S&P 500: 10%	Nifty 50: 29%	S&P 500: -6%	Nifty 50: 12%	S&P 500: 16%	Nifty 50: 24%	BSE Bond index: 2.9%	Nifty 50: 6%
5	Nifty 50: -25%	S&P 500: 13%	EM Index: -6%	S&P 500: 11%	Nifty 50: -4%	Mid Cap: 7%	S&P 500: 19%	Mid Cap: -15%	Crisil comp Bond: 11%	Nifty 50: 15%	Crisil comp Bond: 2%	SmallCap: -13.8%	MCX Gold: 5.5%
6	Mid Cap: -31%	MCX Gold: 12%	MCX Gold: -8%	EM Index: -1%	MCX Gold: -7%	Nifty 50: 3%	MCX Gold: 6%	EM Index: -16%	Mid Cap: -4%	EM Index: 13%	EM Index: -2%	S&P 500: -19.2%	Crisil comp Bond: 4.8%
7	SmallCap: -34%	Crisil comp Bond: 9%	SmallCap: -8%	MCX Gold: -6%	EM Index: -18%	SmallCap: 2%	Crisil comp Bond: 5%	SmallCap: -29%	SmallCap: -10%	Crisil comp Bond: 12%	MCX Gold: -4%	EM Index: -19.6%	EM Index: 2.2%

Source: Bloomberg, Axis Securities, Note: Midcap is NSE midcap 100, Smallcap is NSE smallcap100 index, EM is FTSE EM index

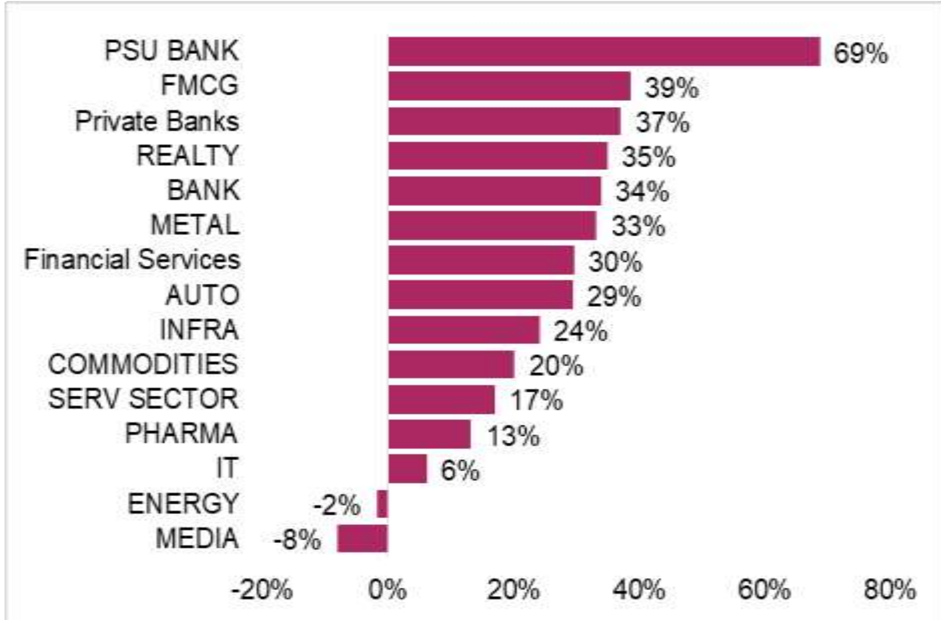
What Has Happened In The Last One Year!

- In the last one year, while the benchmark index NIFTY 50 and S&P 500 moved up 22% and 16% respectively, the Emerging Market index has declined by 2%. This outperformance was led by the country's robust economic outlook.
- The broader market has also shown resilience in the last one year with Mid Cap/Small Cap index moving up by 35%/30% respectively
- Moreover, Indian investors have shown a good deal of maturity in the last one year – a pivotal reason why the Indian Market didn't witness adverse panic reactions as seen in other economies.
- On the sector front, PSU Banks, FMCG, Realty, Metals, and Private Bank indices have closed on a positive note in the last one year while Media, Energy, IT, and Pharma have closed on a weaker note over the same period.

Benchmark Returns in the Last One Year



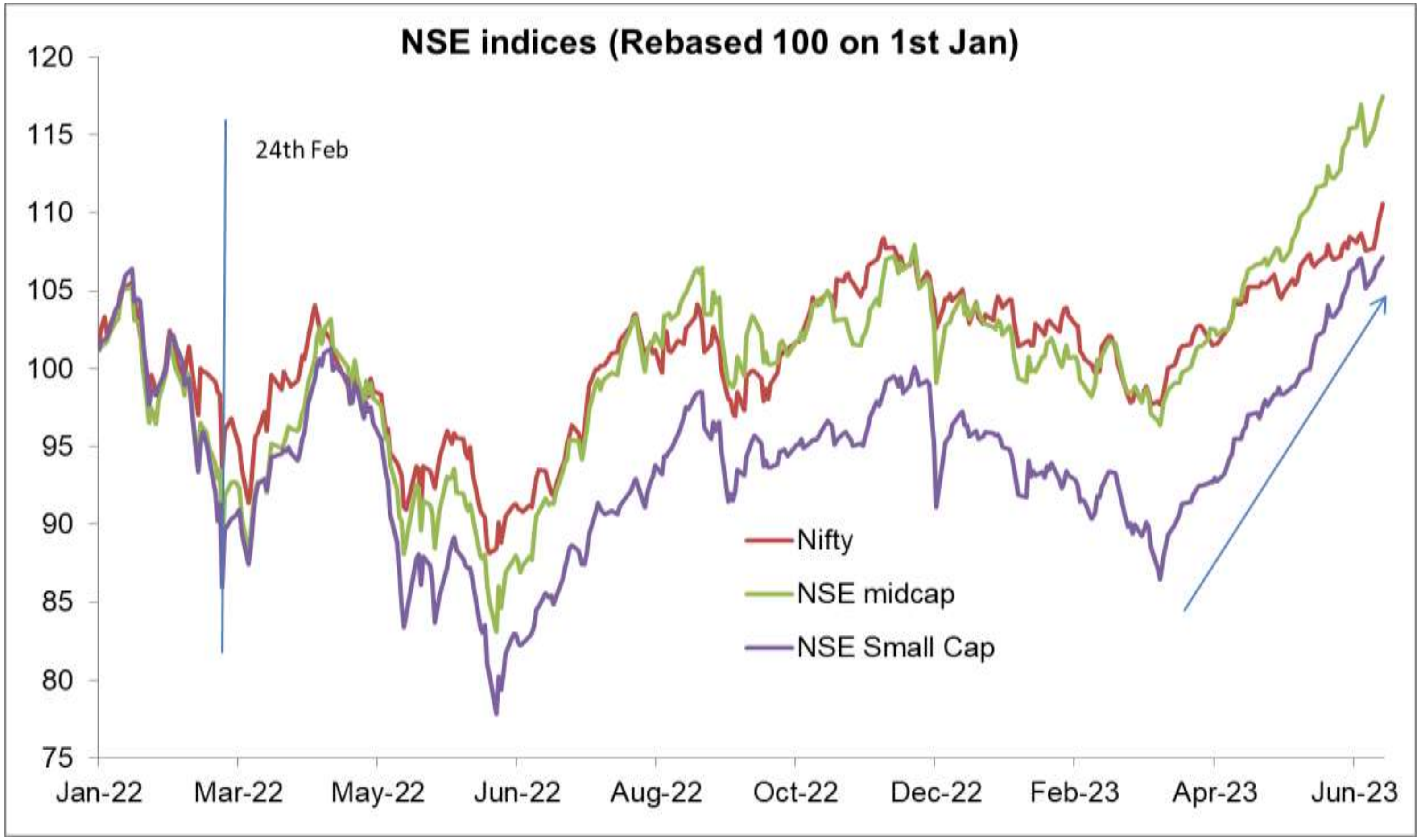
Sector-Wise Returns in the Last One Year



Source: Bloomberg, Axis Securities, Performance as of 30th June'23

All Three Indices Moving in Tandem (Strong Recovery Seen in the Last 2 Months)

- Strong recovery was seen in the broader market after the bottom seen in Mar'23, thanks to improved sentiments at the macro level.
- Mid Caps are in a sweet spot of growth and have recently outperformed the Large Caps by a significant margin.
- In Small Caps, it's a bottom-up play as well as the earnings visibility play in the near term before a broad-based recovery.



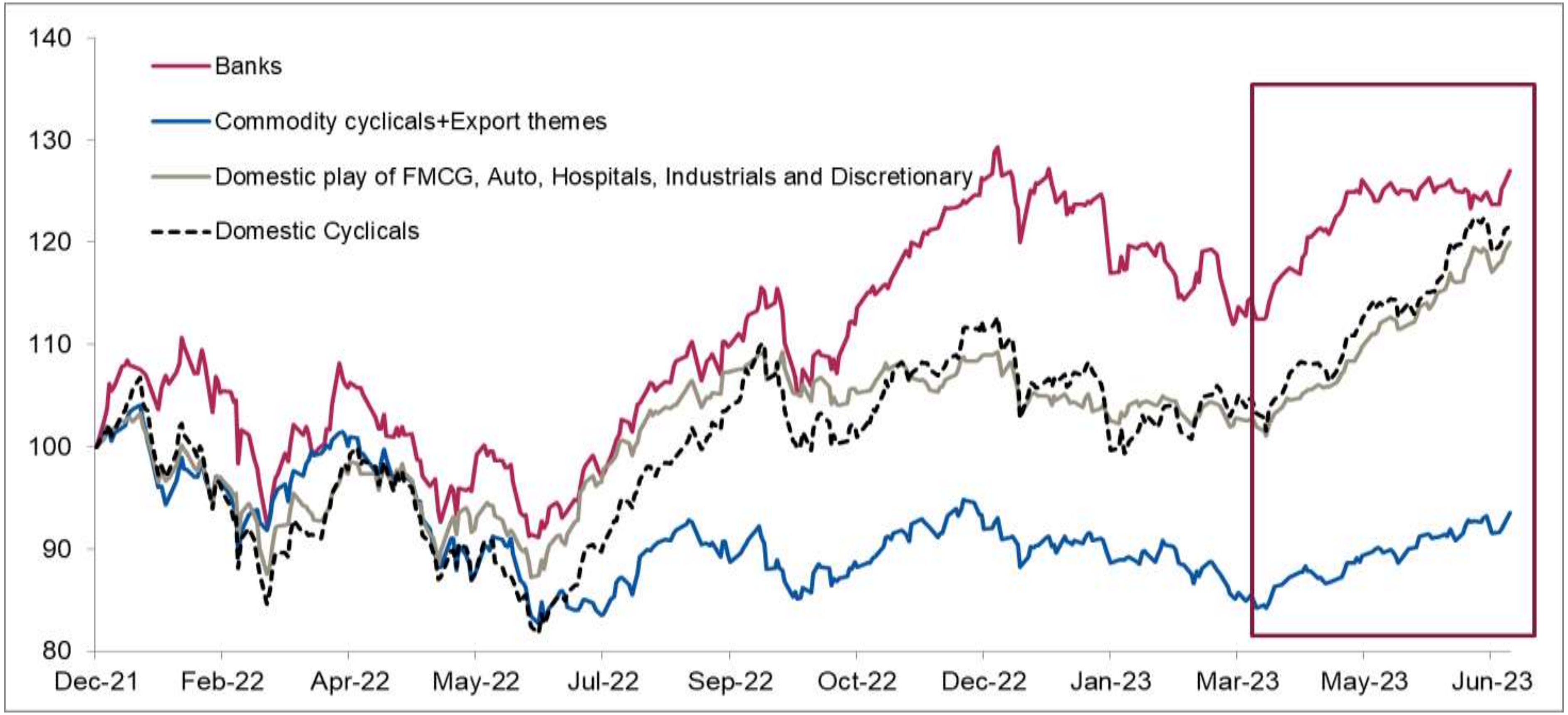
Returns since 31st Mar'23

- **Nifty 50**: 11%
- **NSE Mid Cap 100:** 19%
- **NSE Small Cap 250:** 20%

Source: Bloomberg, Axis Securities

Banks & Domestic Plays Back In Limelight

- The market positioning has now slightly shifted towards Banks and Domestic-cyclical stocks
- Domestic plays of FMCG, Auto, and some Discretionary have slowly started outperforming the market
- Export-oriented themes continue to be volatile based on the volatile macroeconomic conditions
- **Cyclical and Export sectors:** Oil & Gas, Metals, Building Materials, Agri & Chemicals, IT, and Pharma



Source: Bloomberg, Axis Securities

Quarterly Scorecard

Mar'22: Led by Russia-Ukraine War, Energy, Metals, and commodities have been the biggest winners while IT has been the biggest underperformer
Jun'22: Export-oriented themes lost momentum; IT, Metals, and Commodities were the biggest losers while domestic themes such as Automobiles, FMCG, and Banks outperformed the market.
Sep'22: Strong recovery in the market led by economic momentum
Dec'23: Some consolidation was seen in the market; PSU banks and Financial stocks outperformed the market
Mar'23: Hit by macroeconomic volatility, only 25% of the sectors outperformed the market. Outperformance seen in FMCG, Auto, and IT Indices
Jun'23: Strong recovery in the market, 56% of the sectors outperformed the market. The strong rally in Realty, Auto, FMCG, and Infra index

	Quarterly returns (%)					
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
% of sectors outperformed the market	56%	50%	75%	38%	25%	56%
Nifty 50	1%	-10%	8%	6%	-4%	11%
Nifty Next 50	-3%	-11%	16%	0%	-10%	16%
Nifty 500	-1%	-10%	11%	4%	-6%	13%
Nifty Midcap 100	-2%	-11%	16%	3%	-5%	19%
Nifty SmallCap 250	-4%	-14%	14%	3%	-7%	20%
AUTO	-4%	11%	9%	-1%	-3%	23.7%
BANK	3%	-8%	16%	11%	-6%	10.2%
COMMODITIES	7%	-16%	11%	7%	-7%	8.6%
Financial Services	-1%	-10%	13%	8%	-5%	11.1%
ENERGY	14%	-3%	2%	1%	-12%	8.2%
FMCG	-3%	4%	18%	-1%	4%	13.7%
IT	-6%	-23%	-3%	6%	0%	3.0%
INFRA	1%	-8%	7%	6%	-3%	12.7%
MEDIA	7%	-20%	9%	-3%	-15%	2.6%
METAL	16%	-27%	24%	17%	-18%	12.9%
PHARMA	-4%	-10%	7%	-3%	-5%	14.6%
PSU BANK	8%	-11%	23%	44%	-14%	10.6%
Private Banks	2%	-9%	19%	10%	-6%	11.2%
REALTY	-4%	-17%	10%	2%	-10%	34.2%
SERV SECTOR	-1%	-12%	10%	6%	-7%	8.0%
BSE Utility	16%	-1%	15%	-7%	-22%	10.2%

Source: Bloomberg, Axis Securities, Note: Outperforming sectors (vs. Nifty during the quarter) highlighted in green for the quarter

52W High Analysis

- 154 stocks are now trading at all-time high levels vs. only 5 stocks on 23rd Dec'22
- Correction of over 30% from the 52W-high was higher in the Small Cap stocks. On the brighter side, a strong recovery has been seen in the last two months
- 213 stocks are trading between 5%-20% below their 52W highs
- The broader market looks attractive at current levels
- Now 14 PSU stocks are trading above the 52W high

		Current level of number of stocks as compared to the 52W-high			
Sector	**No of Stocks**	**Near to 52W high**	**5%-20% below 52W high**	**20%-30% below 52W high**	**Below 30%**
Agri & Chem	42	3	17	15	7
Auto &Anc	36	24	9	2	0
Banks	28	9	9	6	4
Build Mate	34	10	15	6	3
Discretionary	54	17	21	7	8
Healthcare	42	19	16	4	3
Industrials	40	13	20	4	2
IT	36	9	19	5	3
Metals & min	16	3	12	1	0
NBFC	51	18	28	3	2
Oil & gas	14	3	10	0	1
Others	49	8	19	13	9
Staples	26	9	9	5	3
Tele & Media	12	3	3	3	2
Transport	8	1	3	2	2
Utilities	13	5	3	2	3
Total	**501**	**154**	**213**	**78**	**52**
Large cap	**100**	**50**	**35**	**7**	**8**
Mid cap	**150**	**48**	**60**	**24**	**15**
Small cap	**250**	**55**	**118**	**47**	**27**
PSUs	**55**	**14**	**23**	**7**	**3**

Source: Bloomberg, Axis Securities, **Performance as of 30th Jun'23**

NSE200 Top Gainers & Losers (Last 1 Month)

Top Gainers	Last Price	% 1M Chg	Top Losers	Last Price	% 1M Chg
One 97	868	24.4%	Gujarat Fluoroch	2,932	-14.0%
Shriram Finance	1,735	24.0%	Bandhan Bank	242	-9.7%
ICICI Pru Life	573	22.9%	SRF	2,289	-9.1%
Tata Comm	1,595	22.8%	Zee Entertainment	177	-9.1%
L&T Fin.Holdings	128	22.6%	KotakMah. Bank	1,847	-8.3%
PiramalEnterp.	942	22.2%	Gujarat Gas	465	-8.2%
Hind.Aeronautics	3,793	21.7%	SBI Cards	847	-7.6%
Prestige Estates	575	19.0%	Voltas	760	-7.5%
FSN E-Commerce	149	18.8%	AdaniWilmar	410	-6.0%
Power Fin.Corpn.	216	18.4%	Varun Beverages	803	-5.3%

NSE200 Top Gainers & Losers (Last 3 Months)

Top Gainers	Last Price	% 3M Chg	Top Losers	Last Price	% 3M Chg
L&T Fin. Holdings	128	55.6%	Adani Total Gas	655	-24.6%
Dixon Technolog.	4,389	53.4%	AdaniTransmissi	767	-22.7%
Godrej Propert.	1,568	52.1%	Zee Entertainment	177	-16.4%
Cholaman.Inv.&Fn	1,142	50.0%	Gland Pharma	1,063	-16.2%
Astral	1,983	48.3%	Shree Cement	23,886	-8.8%
Zomato Ltd	75	47.2%	Ipca Labs.	743	-8.3%
M & M Fin. Serv.	336	45.2%	Voltas	760	-7.1%
IDFC First Bank	79	44.2%	Infosys	1,336	-6.5%
REC Ltd	165	42.6%	NMDC	105	-6.2%
Prestige Estates	575	42.6%	SRF	2,289	-5.1%

Source: Bloomberg, Axis Securities

NSE 500 Universe (200-Day Moving Average)

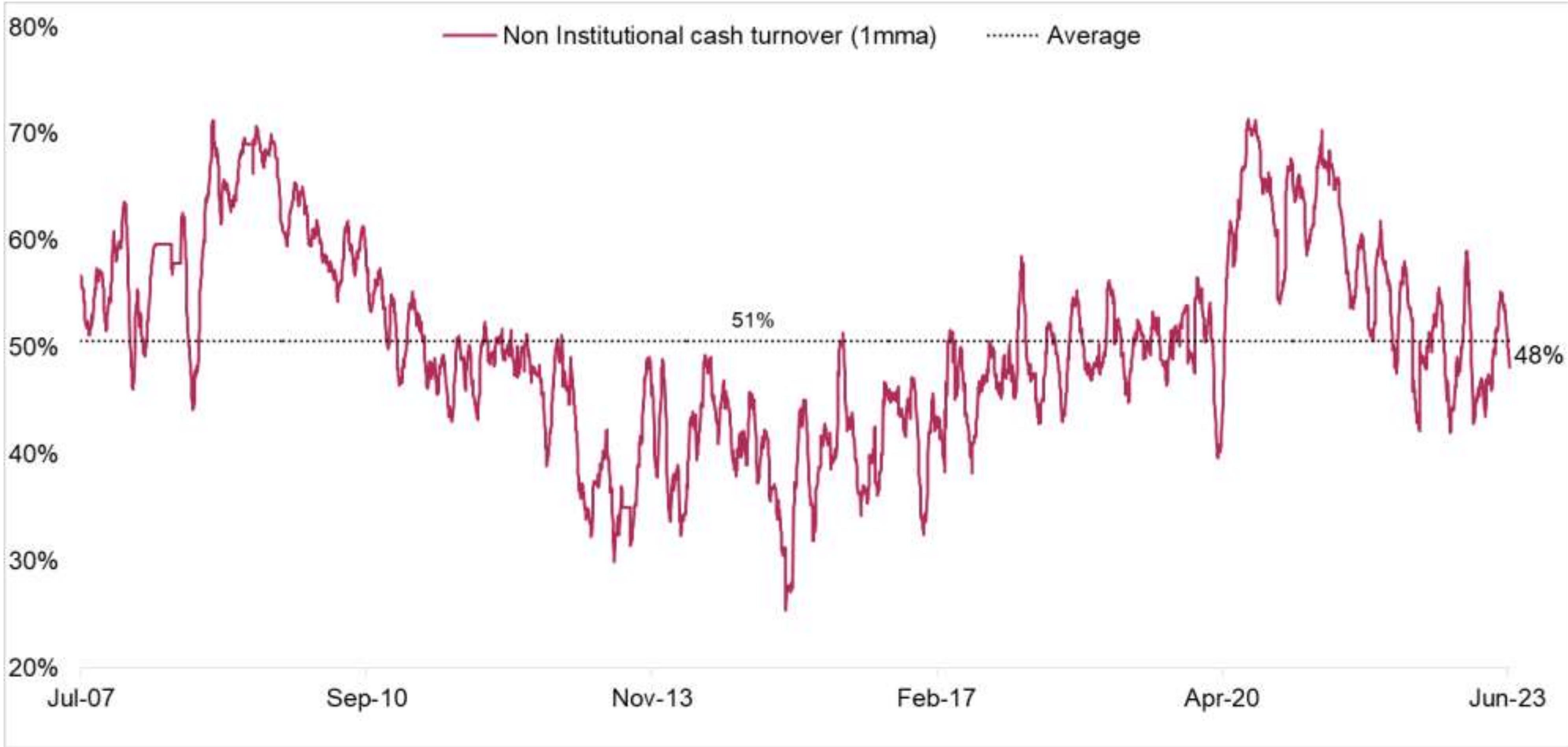
After volatile Feb'23 and Mar'23, the market recovered in Apr/May/Jun'23 on account of recovery in macroeconomic conditions. In Mar'23, 33% of the stocks were trading above the 200-day moving average, indicating the market was in the oversold zone. The market has witnessed a sharp recovery since and now 74% of the stocks are trading above 200 DMA, indicating it to be out of the oversold zone. However, in the near term, the market will continue to be driven by the macroeconomic data and the performance is likely to be range-bound at least for one quarter till the signs of inflation moderating become visible. Sector and Style rotation is likely to be visible in the market moving forward.

Source: Bloomberg, Axis Securities

Non-Institutional Turnover Recovered in the Last One Month

Non-Institutional (Retail) turnover currently stands at 48%, near its long-term average of 51%. It went below LTA in Feb/Mar'23 on account of volatility in the domestic market. However, some recovery has been seen in the last two months.

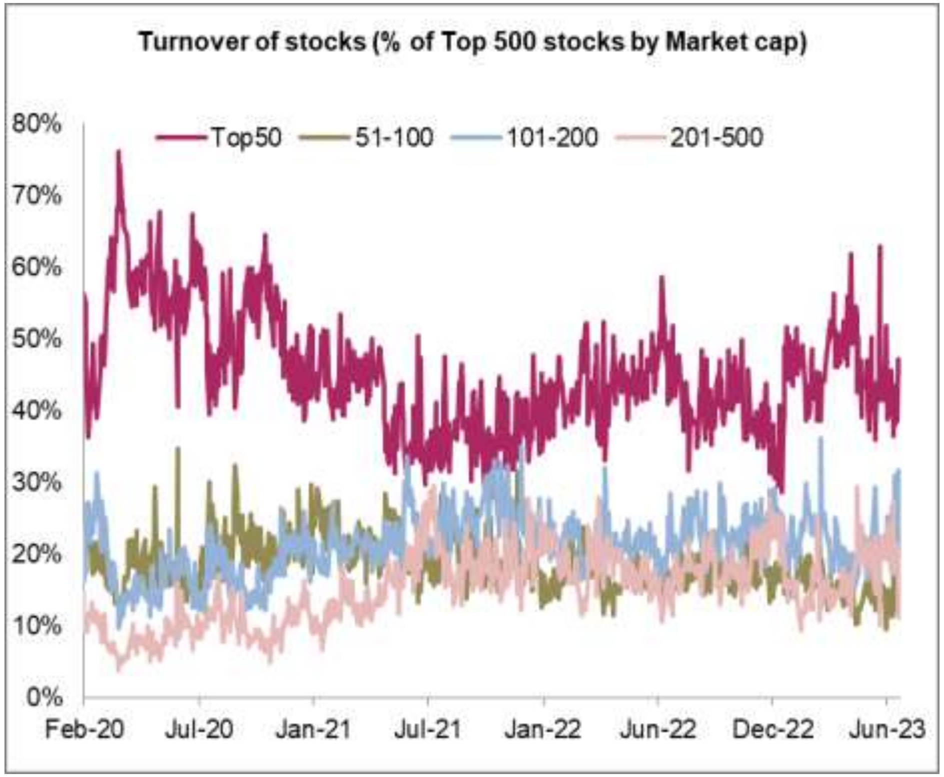
Retail participation is likely to improve further in the upcoming months as equity is the only asset class which can beat the current inflationary scenario.

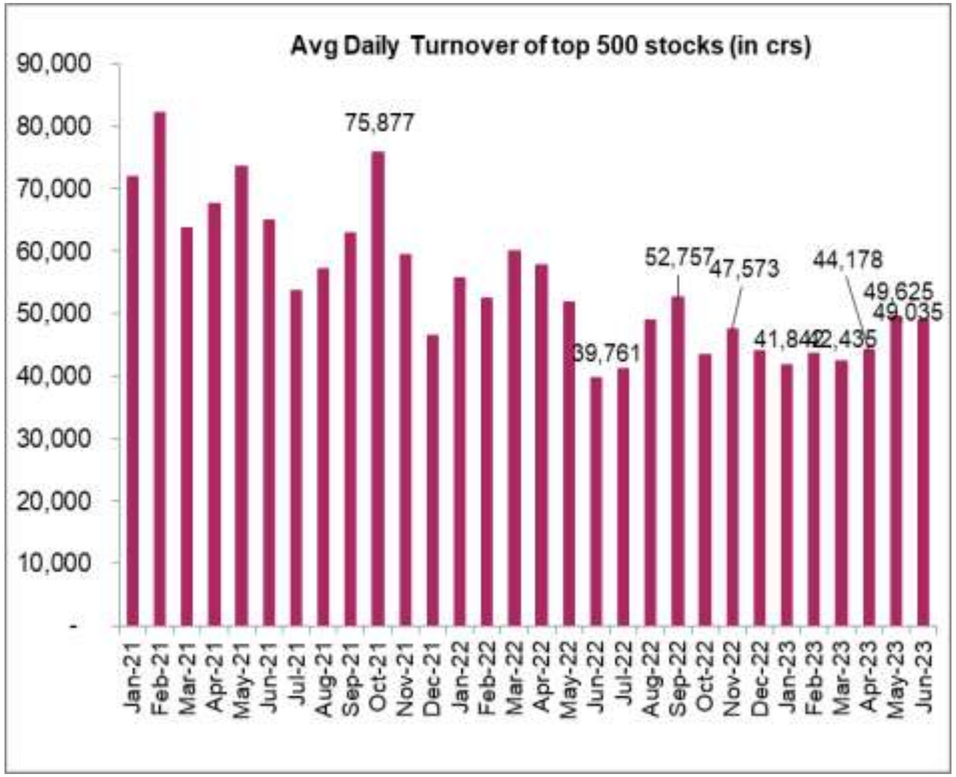


Source: Bloomberg, Axis Securities

Market Turnover (% of the Top 500 Names)

- Market turnover went up to 49,000 Cr in Jun’23, led by improved sentiments and positive FII flows.
- Market Turnover has slightly shifted towards a broader market over the last two months.





Source: Bloomberg, Axis Securities

Style Indicators

Quality & Momentum Theme Has Revived Sharply In the Last Three Months

- While all four major styles have given double-digit returns in the last one year, the Momentum style has given the highest return after the recent rally in the equity market.
- For a longer duration (1 Yr and 2 Yr), the Quality and Growth themes have been the most dominating themes in the market.
- The theme 'Growth at a Reasonable Price' looks attractive on account of the domestic play of good Rabi realization, the cool-off in commodity prices and inflation, rural recovery, and the expectation of margin recovery in the upcoming quarters
- The selected Value stocks from the PSU, Metals, Commodities, Utility, and Cement sectors are well-placed to deliver superior performance. Value stocks in the BFSI space have outperformed other themes for the last couple of months and their outperformance is likely to continue moving forward. Furthermore, a structural growth play offering long-term earnings visibility will continue to do well even amidst the prevailing challenging environment.

Performance (%)				
Perf	Value	Growth	Quality	Momentum
2020	24.9%	10.2%	22.6%	6.6%
2021	34.1%	8.8%	22.2%	32.6%
2022	-0.9%	12.4%	-0.9%	7.1%
1m	2.6%	2.9%	3.4%	4.8%
3m	7.2%	11.7%	13.6%	18.8%
6m	8.4%	11.2%	12.3%	4.6%
1YR	22.07%	23.9%	25.3%	27.5%
2YR	22.3%	26.1%	23.0%	24.9%

Source: Bloomberg, Axis Securities

India's Performance vis-à-vis Peers

Indian Market Bounced Back Sharply From the Mar'23 Low

NIFTY made an all-time closing high of 19189 on 30thJun'23 vs. the earlier high (18758) seen on 30th Nov'22. Since 30th Nov'23, Mid and Small Cap indices are up by 12%/11% respectively.

In Jan'23, except for FMCG, Auto, and IT, all sector indices closed in red. **In Feb'23, recovery was seen only in the FMCG index. In Mar'23, only Energy, Commodity, Metals, and Pharma index were in green. In the last three months, all sectoral indices are in green. During Jun'23, all sectoral indices, except Media, closed on a positive note.**

On a YTD basis, FMCG, Realty, and Auto were the biggest outperformers while Media and Metals were the biggest losers.

Positive Near-term Outlook: Domestic-oriented stocks, Telecom, Auto, Domestic cyclical
Improving Outlook: BFSI, Industrials, PSUs, Rural theme
Mixed bag: Export-oriented themes, Pharma, Discretionary, and IT
Near-term challenging but well-placed for longer time horizons: Metals, Commodity-linked stocks, and Selective Cyclicals (Cement).

National Index						
Index Performance (%)	1m	3m	6m	30th Nov'22	YTD	1 YR
Nifty 50	3.5%	10.5%	6.0%	2.3%	6.0%	21.8%
Nifty Next 50	4.0%	15.7%	3.7%	0.1%	3.7%	18.6%
Nifty 500	4.2%	12.9%	6.4%	3.0%	6.4%	22.7%
Nifty Midcap 100	5.9%	19.0%	13.5%	11.6%	13.5%	34.5%
Nifty SmallCap 250	6.4%	20.0%	11.2%	9.3%	11.2%	30.1%
Sector Index (%)	1m	3m	6m	30th Nov'22	YTD	1 YR
NIFTY AUTO	6.7%	23.7%	20.1%	14.5%	20.1%	29.3%
NIFTY BANK	1.4%	10.2%	4.1%	3.5%	4.1%	33.4%
NIFTY COMMODITIES	3.2%	8.6%	1.5%	-0.8%	1.5%	21.1%
Nifty Financial Services	3.1%	11.1%	5.7%	3.6%	5.7%	28.4%
NIFTY ENERGY	3.4%	8.2%	-4.5%	-9.7%	-4.5%	2.4%
NIFTY FMCG	2.3%	13.7%	18.2%	14.6%	18.2%	34.8%
NIFTY IT	0.8%	3.0%	3.3%	-2.7%	3.3%	5.3%
NIFTY INFRA	5.1%	12.7%	9.3%	5.3%	9.3%	26.4%
NIFTY MEDIA	-0.7%	2.6%	-12.5%	-17.6%	-12.5%	-8.7%
NIFTY METAL	5.4%	12.9%	-7.6%	-5.4%	-7.6%	32.2%
NIFTY PHARMA	8.6%	14.6%	9.3%	4.7%	9.3%	12.3%
NIFTY PSU BANK	2.0%	10.6%	-4.8%	2.7%	-4.8%	67.9%
Nifty Private Banks	2.0%	11.2%	4.9%	4.1%	4.9%	36.2%
NIFTY REALTY	8.6%	34.2%	20.4%	15.5%	20.4%	32.9%
NIFTY SERV SECTOR	2.8%	8.0%	0.1%	-3.2%	0.1%	16.3%

International Index						
Index Performance (%)	1m	3m	6m	30th Nov'22	YTD	1 YR
Shanghai Comp	-0.1%	-2.2%	3.7%	1.6%	3.7%	-5.5%
Bovespa	9.3%	16.2%	7.9%	5.2%	7.9%	19.6%
Russia	-7.0%	-1.6%	1.1%	-12.8%	1.1%	-23.1%
south africa	0.8%	0.1%	5.4%	2.9%	5.4%	18.3%
Korea	-0.5%	3.5%	14.7%	3.7%	14.7%	11.2%
Mexico	1.5%	-0.9%	11.7%	4.6%	11.7%	13.1%
Indonesia	0.4%	-2.1%	-2.8%	-5.9%	-2.8%	-1.9%
Argentina	21.7%	69.5%	106.1%	147.1%	106.1%	362.5%
Japan	7.5%	18.4%	27.2%	18.7%	27.2%	28.0%
Hongkong	3.7%	-7.3%	-4.4%	1.7%	-4.4%	-13.5%
Philipines	-0.1%	-0.5%	-1.5%	-4.6%	-1.5%	4.9%
Taiwan	2.0%	6.6%	19.6%	13.7%	19.6%	17.9%
Singapore	1.5%	-1.6%	-1.4%	-2.6%	-1.4%	3.6%
Thailand	-2.0%	-6.6%	-9.9%	-8.1%	-9.9%	-4.4%
Veitnam	4.2%	5.2%	11.2%	6.8%	11.2%	-6.6%
Dow	3.7%	2.5%	2.9%	-1.4%	2.9%	9.7%
Nasdaq	5.1%	11.2%	29.9%	18.5%	29.9%	22.1%
FTSE 100 INDEX	1.2%	-1.2%	1.1%	-0.5%	1.1%	5.1%
DAX INDEX	3.0%	3.3%	15.9%	12.1%	15.9%	26.0%
CAC 40 INDEX	4.3%	1.1%	14.4%	9.9%	14.4%	24.8%
S&P 500 Index	5.2%	7.0%	14.5%	7.8%	14.5%	14.9%

Source: Bloomberg, Axis Securities, Performance as of 30th Jun'23

Cool-Off Seen in All Major Commodities

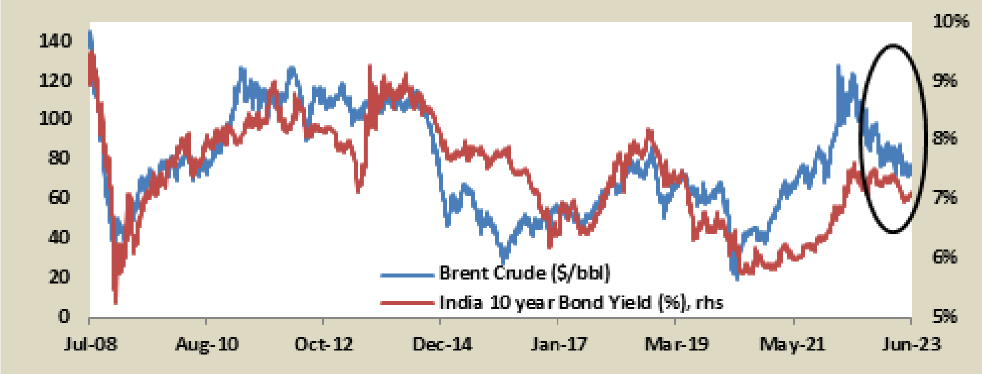
Precious Metals: Gold prices went up 5% in the last 6 months. However, some correction was seen in the last three months.

Commodities: Steel prices have corrected by 16% over the last 3 months. Copper prices, too, have corrected by 9% over the same period on account of expectations of a slowdown in global growth.

Crude: Brent crude is now trading around $75bbl and stood highly volatile in recent times due to the rising geopolitical risk. It's been over 1-year since the Russia-Ukraine conflict ensued and it has kept oil prices at an elevated level with concurrent upward inflation pressure.

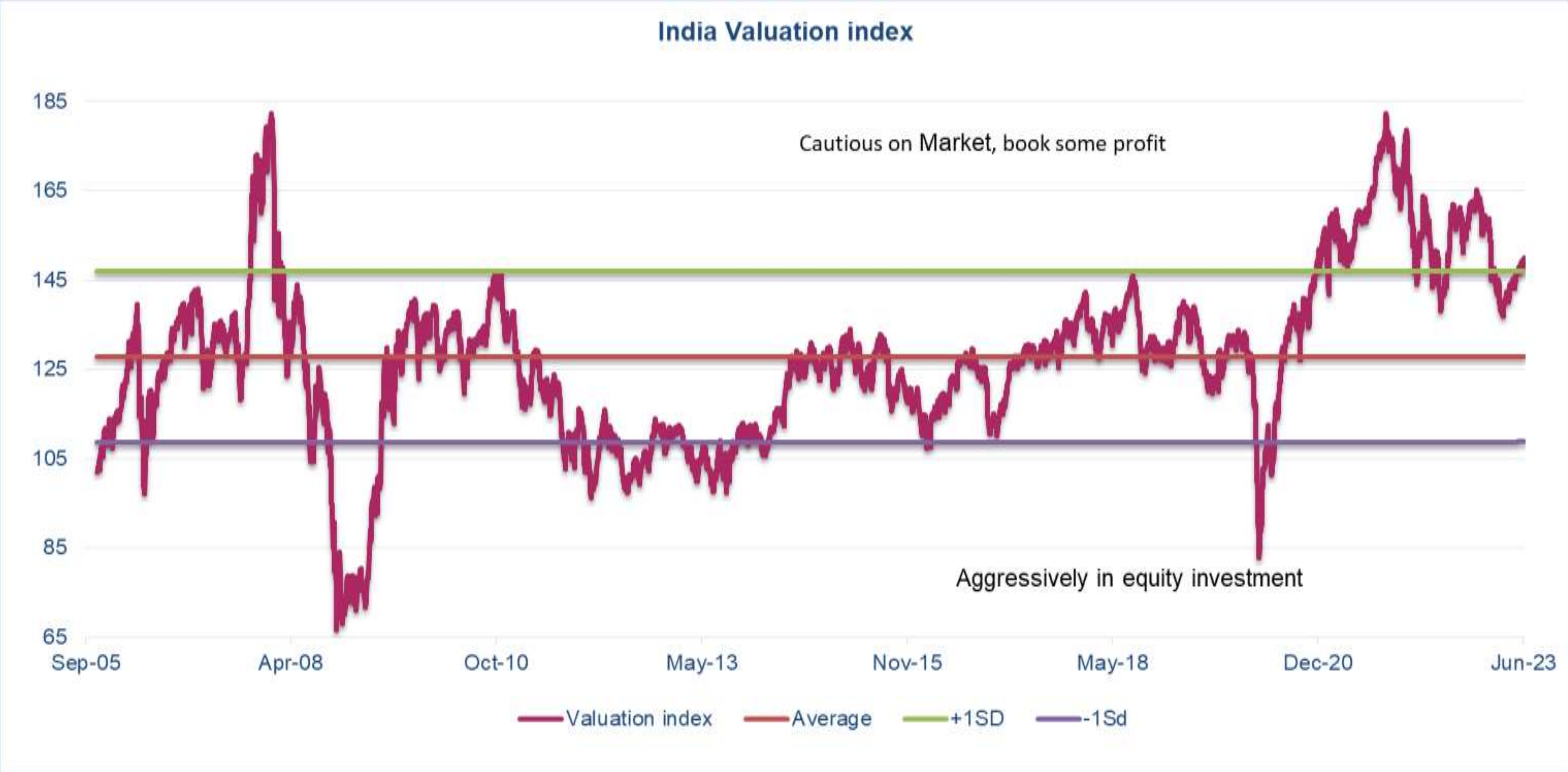
Market Indicator	30-06-2023	1M ago	3M ago	Nov-22	YTD	1 YR
Brent Crude ($/bbl)	74.5	72.7	79.8	85.4	85.9	111.6
Bond Yield (GOi 10Yr)	7.1	7.0	7.3	7.3	7.3	7.4
USD/INR	82.0	82.7	82.2	81.4	82.7	79.0
India Vix	10.8	12.0	12.9	13.8	14.9	21.3

Commodity Index	1M	3M	6M	Since 01 Aug	YTD	1 YR
Gold ($/OZ)	-2.6%	-3.0%	4.8%	8.1%	4.8%	5.5%
Steel ($/ton)	0.9%	-16.0%	-6.0%	2.8%	-6.0%	-16.0%
Aluminium ($/ton)	-6.6%	-9.9%	-10.8%	-11.8%	-10.8%	-11.7%
Copper ($/ton)	1.3%	-9.2%	-2.2%	-0.6%	-2.2%	1.7%
Zinc ($/ton)	4.4%	-20.0%	-23.1%	-21.8%	-23.1%	-25.6%



India Valuation Index: Trading below 1std; Earnings Upgrades/Downgrades Remain Critical

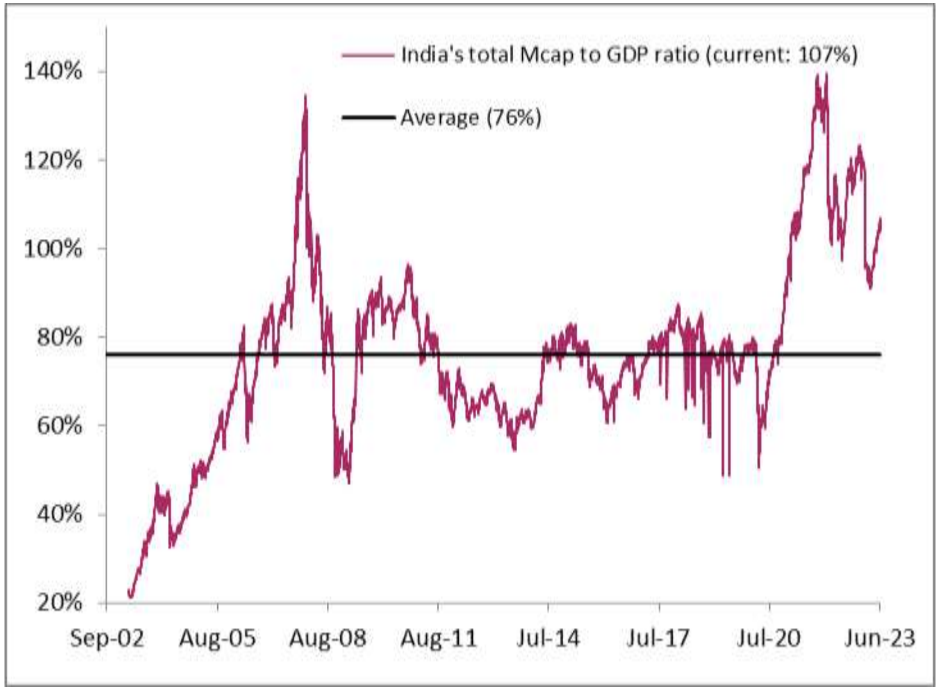
Our Market Valuation Index has retraced back to 1stdev after the recent rally. Current valuations provide a good entry point for long-term investors. At current levels, stock picking and sector rotation would be keys to achieving outperformance. The calculation of the India Valuation Index is based on four fundamental market parameters (12m fwd PE, 12m fwd PB, Bond Equity Earnings Yield Ratio, and Mcap to GDP Ratio).

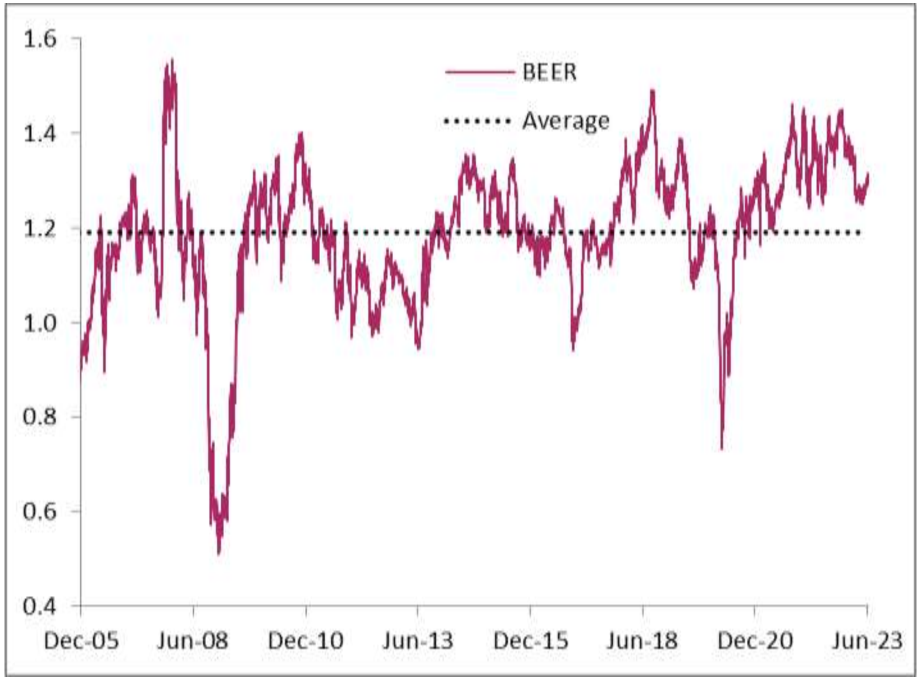


Source: Bloomberg, Axis Securities

In terms of Mcap to GDP, India is less expensive than the US market

- **BEER:** After a status quo by the RBI, long-term bond yields have corrected by 20bps in the last three months. BEER ratio is now trading above its LTA indicating a slightly expensive Equity market at current levels as against the Bond market.
- **India's Total Market Cap to GDP** is trading at 107% above its long-term average (rebased after FY23 GDP of Rs 273 Tn released by the government on 1st Feb'23). However, at FY24 projected nominal GDP levels, Mcap/GDP ratio translates into 96% (fairly valued). As per the Union Budget 2023-24, the FY24 GDP assumption is pegged at Rs 301 Tn.
- **Historical perspective:** Historically, similar upward earnings momentum was witnessed in FY10 earnings immediately after the GFC crisis, leading to the Market Cap to GDP ratio of 95-98%. With a positive earnings momentum in the current cycle, we are likely to see higher levels of the Mcap to GDP ratio in the upcoming quarters.



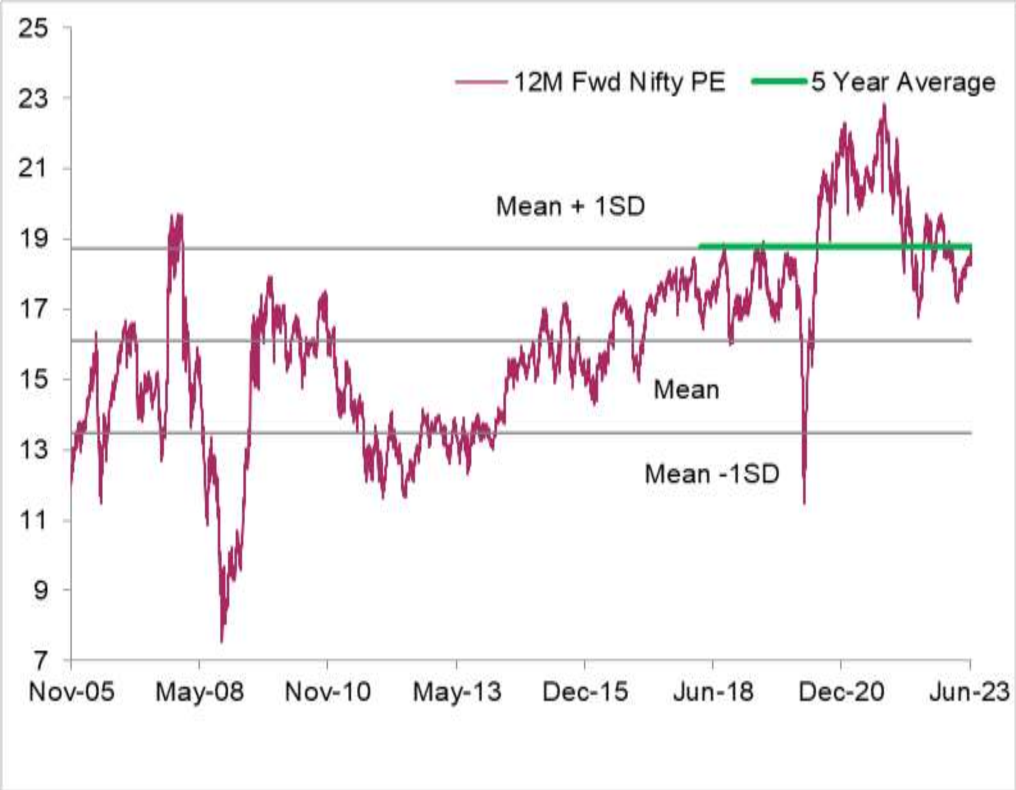


Source: Bloomberg, Axis Securities

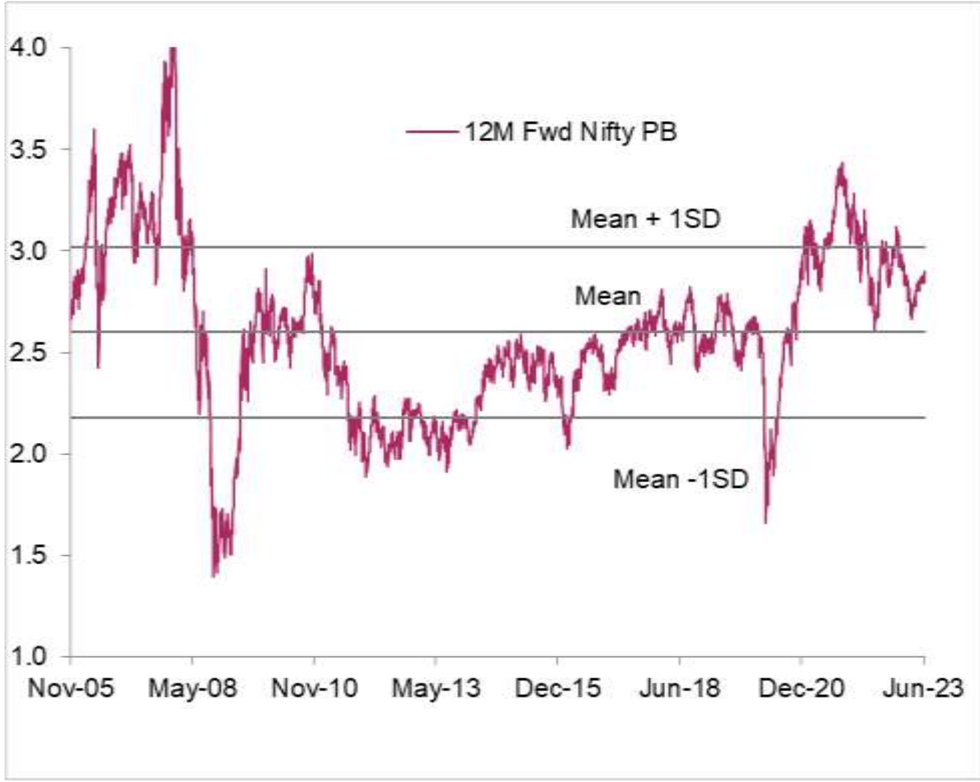
Market Valuations: 12M Fwd PE Now Trading at 18.8x

- NIFTY is currently trading at 18.8x on a 12M Fwd PE at 1std to its long-term average (16x) while it is trading slightly above the long-term average on a 12M Fwd PB.
- Current valuations are equivalent to a 5-year average (18.8x), providing a good entry point for long-term investors.
- Style rotation and sector selection is the key to generating alpha as the earning expectations of the broader market remain intact.

Nifty 12M Fwd PE



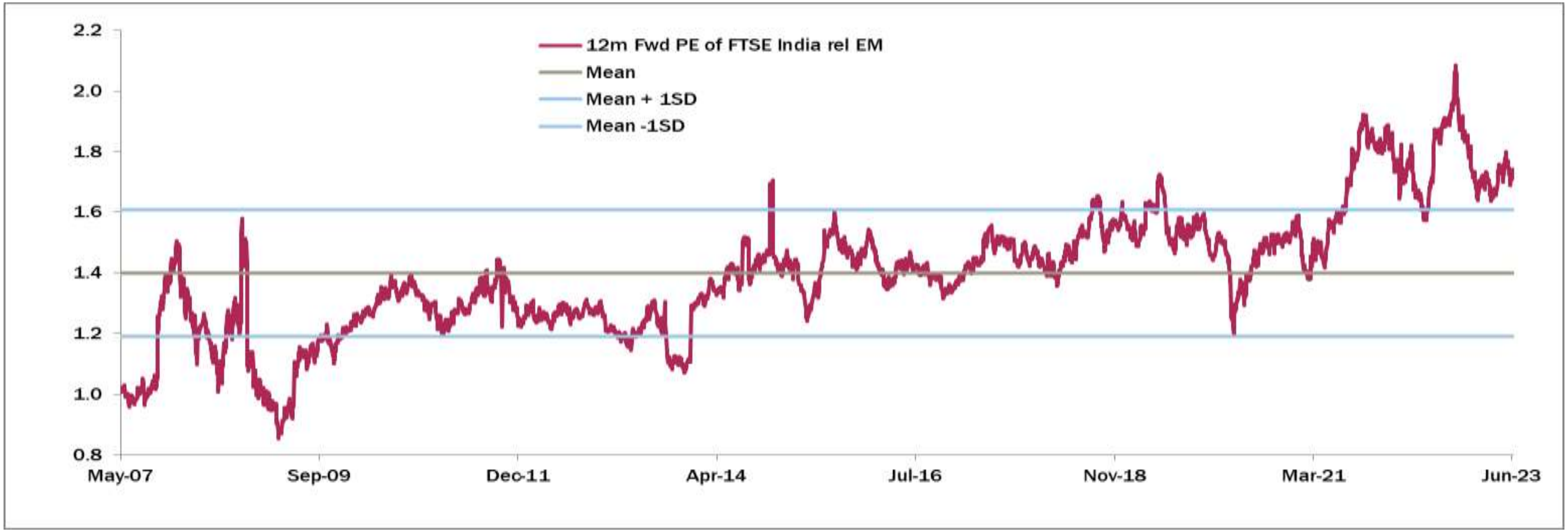
Nifty 12M Fwd PB



Source: Bloomberg, Axis Securities

Market Valuations: FTSE India rel. FTSE EM

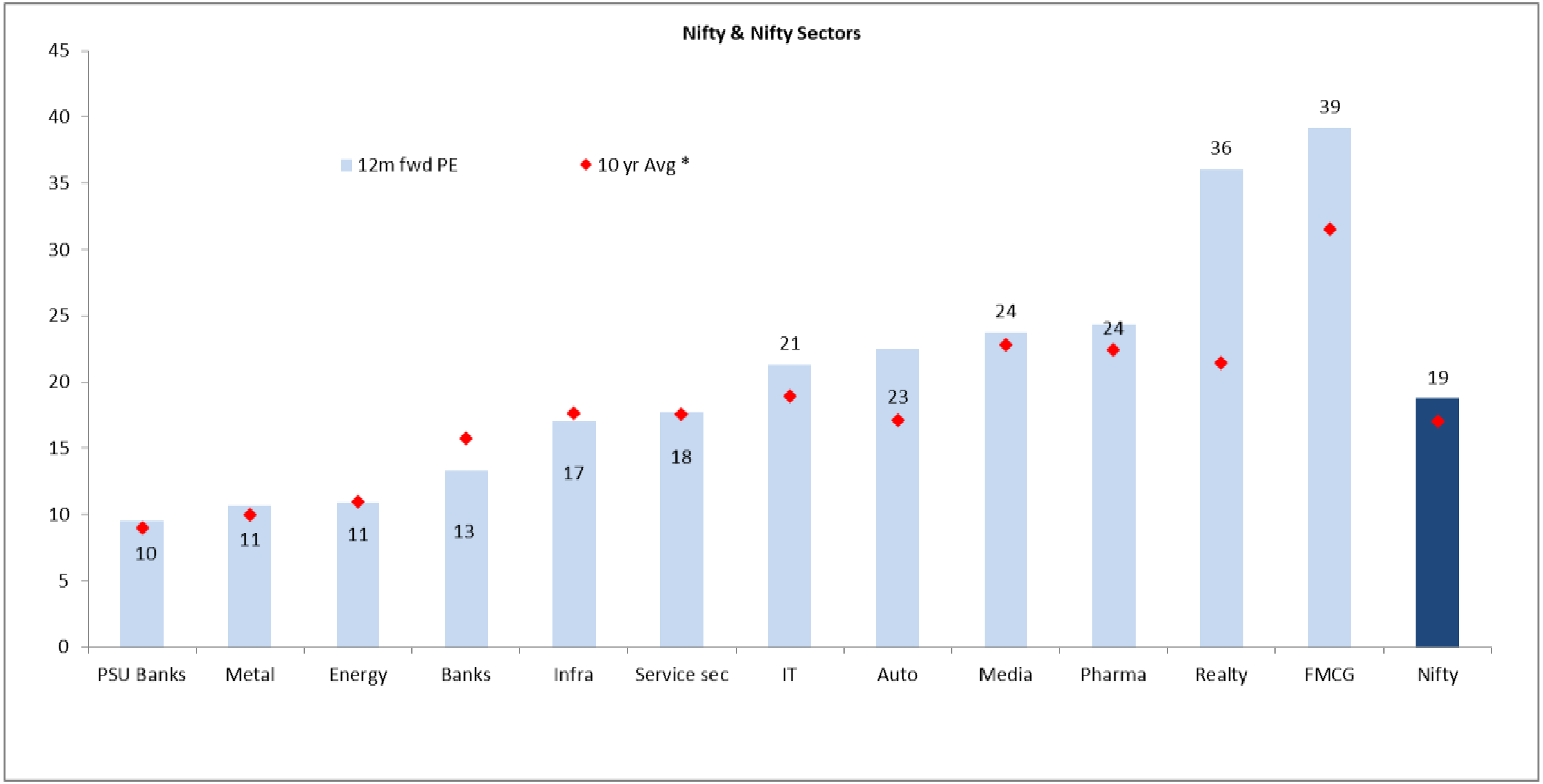
- Benchmark indices have made all-time high levels and currently, FTSE India is trading at a PE premium of 74% to the EM index against the average premium of 40%. Last year during Oct/Nov'23, the Indian market saw a previous all-time high level, led by the underperformance of the Chinese equity market due to the zero-Covid policy. During that time, India's PE premium had increased to 110%. However, this huge divergence has reduced over the last six months.
- Now, the Indian market is again at all-time high levels but this time around the PE premium is only 74%, indicating that on a relative basis, the market is not as expensive as the last year. Going forward, we believe these favourable valuations will continue to attract the flows.
- Going forward in 2023, we believe the Indian equity market will continue to trade at a higher premium to EM peers on account of a) Robust economic growth vs. other EM countries, b) Strong earnings outlook, c) Robust demand across the sector, d) Banking sector in better shape, and e) Private Capex cycle expectations.



Source: Bloomberg, Axis Securities

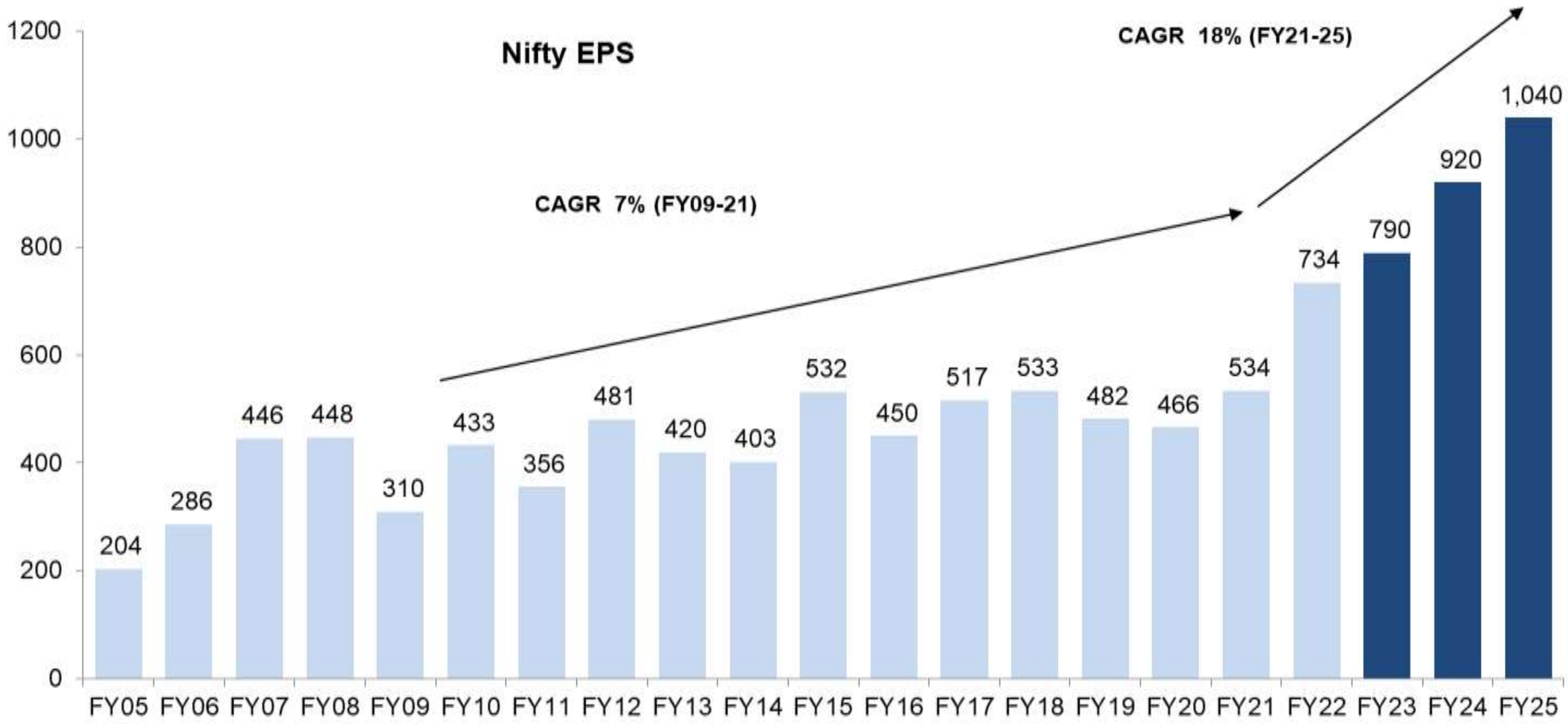
Nifty and Sectors

At current levels, PSU Banks, Energy, and Metal Indices are exhibiting valuation comfort. On the other hand, valuations for the IT, Pharma, and Auto sectors appear expensive. After a correction, the Banking sector looks attractive.



Source: Bloomberg, Axis Securities, Note: 10 yr average means historical 10 yr average of 12m fwd PE

NIFTY EPS Growth Expectation Remains Robust: Nifty EPS is expected to grow at 18% CAGR over FY21-FY25 vs. 7% CAGR over FY09-FY21



Source: Bloomberg, Axis Securities

NIFTY EPS Remained Largely Unchanged

- We foresee FY24/25 NIFTY Earnings at 920/1040 after Q4FY23. FY24/25 expectations are marginally lower by 1.7%/1.8% respectively. For FY24, upgrades in Financials, Auto, and FMCG are compensated by downgrades in IT, Oil & Gas, Pharma, and Metals
- Our estimates of FY24/25 stand conservative at 4%/6% below street expectations. Financials remain the biggest contributors for FY24/25 earnings.

Nifty EPS	Post Q3FY23		Post Q4FY23		Chg post Q4FY23	
Sector	FY24	FY25	FY24	FY25	FY24	FY25
Financial	373	431	382	434	2.6%	0.9%
IT	113	128	107	121	-5.1%	-5.0%
Oil & Gas	132	143	125	136	-5.1%	-5.0%
FMCG	58	63	58	63	0.2%	0.4%
Power	42	41	39	39	-7.7%	-3.2%
Industrial	43	53	39	49	-8.6%	-8.1%
Pharma	35	39	32	37	-9.2%	-7.0%
Metals	64	72	60	70	-5.3%	-2.6%
Automobile	56	62	56	62	1.6%	0.0%
Cement	7	8	7	8	-2.8%	-0.3%
Telecom	15	20	15	21	-1.6%	2.1%
Total	**936**	**1059**	**920**	**1040**	**-1.7%**	**-1.8%**

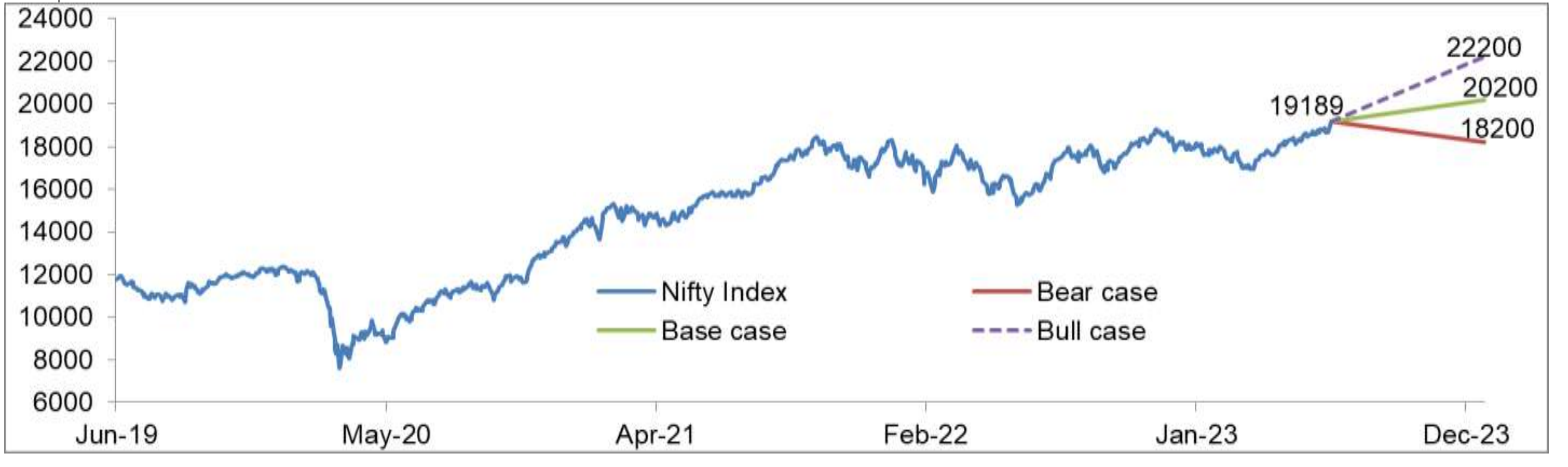
Nifty EPS			FY24 EPS contribution	FY25 EPS contribution
Sector	FY24	FY25		
Financial	382	434	41.6%	41.8%
IT	107	121	11.6%	11.6%
Oil & Gas	125	136	13.6%	13.1%
FMCG	58	63	6.3%	6.1%
Power	39	39	4.2%	3.8%
Industrial	39	49	4.2%	4.7%
Pharma	32	37	3.5%	3.5%
Metals	60	70	6.5%	6.7%
Automobile	56	62	6.1%	6.0%
Cement	7	8	0.7%	0.7%
Telecom	15	21	1.6%	2.0%
Total	**920**	**1040**		
Growth	**16%**	**13%**		

Nifty target: We maintained the Dec'23 Nifty target at 20,200

Base Case: The Indian economy stands in a sweet spot of growth and remains the land of stability against the backdrop of a volatile global economy. We continue to believe in the long-term growth story of the Indian equity market supported by the favourable structure emerging with increasing Capex, enabling banks to improve credit growth. Strong earnings trajectory continues in the Nifty 50 universe. We foresee NIFTY EPS growth of 16%/13% in 24/25. After Q4FY23, we have seen a marginal drop of 1% in our Dec'25 Nifty EPS. Thus, we revise our Dec'23 Nifty target at 20,200 by valuing it at 20x on Dec'24 earnings.

Bull Case: In a bull case, we value Nifty at 22x, which would translate into a Dec'23 target of 22,200, implying an upside of 20% from the current levels. Our bull case assumption is based on the overall reduction in the volatility and the success of a soft landing in the US market. Currently, we are near the peak of the rate hike cycle and we may expect one rate hike in the US market before US FED take a pause. If the market sails through the next 1 or 2 quarters smoothly, we would likely see the next level of triggers along with money flowing to EMs. This, in turn, would lead to an increase in the market multiple.

Bear Case: In a bear case, we value Nifty at 18x which translates into a Dec'23 target of 18,200. We assume the Russia-Ukraine war to prolong which would continue to pose inflationary challenges to the developed world. Currently, we are near the peak of the rate hike cycle and we may expect one rate hike in the US market before the US FED takes a pause. The market has not seen such levels of hike in the interest rates in the recent past and hence chances to go wrong have increased significantly. This would translate into a slowdown or heightened recession in the developed market which will impact the export-oriented growth in the domestic market and concurrently pose challenges to earnings and market multiple.



Source: Bloomberg, Axis Securities

The last 4 quarters' rolling profits for NSE 500 (Sum of the last 4 quarters' earnings)

A few interesting findings from our study: Sector-wise

- The last 4 quarters' cumulative net profit reached an all-time high in Q4FY23, once again crossing Rs 10 Lc Cr mark. It witnessed a marginal dip in Q2FY23 (due to a profitability dip in the Metals and Oil & Gas sectors). However, cumulative profitability improved in Q3/Q4FY23 on a sequential basis on account of improvement in the earnings of the Financial, Industrial, Healthcare, and Automobile sectors.
- The Financials are now significantly contributing to the Net Profit as against their contribution in 2019.
- Financials, Oil & Gas, Metals, and IT are now contributing 67% of the NSE 500 profitability.
- Loss-making sectors have turned positive post witnessing significant disruption by the pandemic.

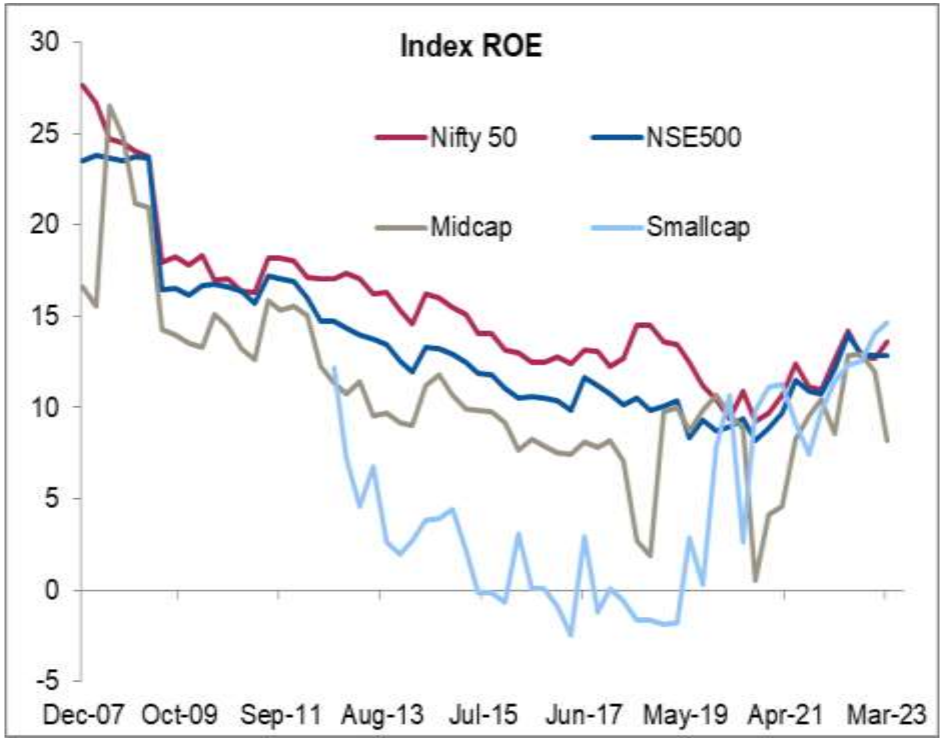
Sector-wise Net profit for NSE 500 – Trailing 4 Quarters (In Cr)

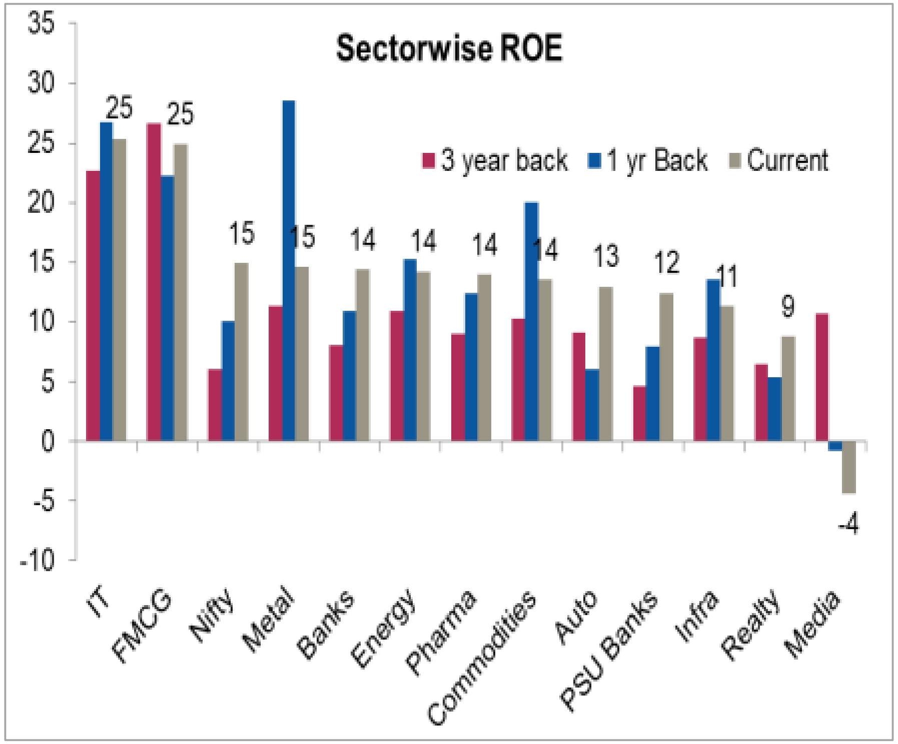
	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Auto & Anc.	36,212	34,648	28,975	18,892	16,774	19,102	23,326	31,448	33,505	32,432	39,165	40,369	42,119	44,968	43,643
Staples	34,044	35,614	34,705	34,745	34,686	35,077	37,033	37,947	38,906	39,898	40,786	42,661	43,928	45,928	47,951
Discretionary	18,408	18,644	17,154	10,635	7,816	7,532	9,492	11,307	13,066	13,737	12,778	21,469	24,378	25,580	27,445
Financials	83,185	87,751	83,569	89,429	1,11,037	1,20,216	1,44,827	1,53,050	1,68,689	2,01,467	2,49,250	2,69,689	2,94,999	3,23,368	3,44,861
IT	81,462	82,965	82,387	82,322	82,967	86,267	89,398	94,947	99,377	1,01,155	1,04,604	1,04,725	1,06,796	1,08,782	1,11,959
Oil & gas	1,00,204	1,00,066	69,799	66,982	69,888	74,752	1,24,719	1,32,943	1,54,065	1,70,082	1,66,402	1,62,971	1,42,273	1,31,095	1,31,892
Metals & Mining	58,266	51,279	31,557	18,990	13,853	27,476	67,094	1,01,698	1,33,055	1,45,281	1,49,009	1,47,110	1,18,953	99,288	84,167
Industrials	31,188	27,506	21,567	16,733	19,543	21,798	26,535	30,604	27,913	26,718	29,022	32,934	34,368	36,750	38,735
Build Mate	22,387	21,725	21,114	17,339	18,214	20,914	25,089	29,967	31,286	30,927	31,649	32,388	29,389	28,960	23,694
Healthcare	28,133	25,734	24,580	23,333	24,786	32,230	34,998	38,964	39,791	38,245	34,575	34,130	31,624	33,804	37,644
Utilities	27,165	29,287	26,518	25,196	26,743	27,905	38,791	44,783	42,734	43,788	48,542	52,467	54,447	55,105	57,546
Transport	2,462	2,713	32	-4,815	-3,837	-5,147	-4,871	-5,289	-5,650	-4,357	-4,003	-1,604	-1,476	9	3,548
Agri&Chem	12,424	13,976	14,142	14,060	15,001	15,127	16,737	18,898	19,085	20,570	22,468	24,883	26,022	26,725	25,130
Tele & Media	-19,015	-20,239	-27,164	-41,669	-20,379	-18,345	-10,089	7,343	10,474	11,091	11,773	13,207	13,347	11,188	11,152
Others	12,486	12,017	9,266	7,004	6,395	7,355	9,466	12,286	21,966	22,569	24,611	25,236	17,533	17,011	15,968
Total	**5,29,010**	**5,23,684**	**4,38,202**	**3,79,177**	**4,23,487**	**4,72,259**	**6,32,544**	**7,40,895**	**8,28,264**	**8,93,602**	**9,60,630**	**10,02,635**	**9,78,699**	**9,88,561**	**10,05,336**
Growth (%)	**-2%**	**-1%**	**-16%**	**-13%**	**12%**	**12%**	**34%**	**17%**	**12%**	**8%**	**7%**	**4%**	**-2%**	**1%**	**2%**

Source: Bloomberg, Axis Securities, Note: Tata Motors and Vodafone are not included in the study

Return Ratios are improving

- ROE is improving across the market caps. Smaller stocks, too, have been showcasing a significant improvement.
- Some moderation was seen in the ROE of the cyclical sector. However, current ratios are higher than the pre-pandemic levels.
- Significant improvement has been seen in the PSU banks in the last 3 years.
- The Auto and Infra sectors' profitability has improved in the past couple of years based on the positive outlook.

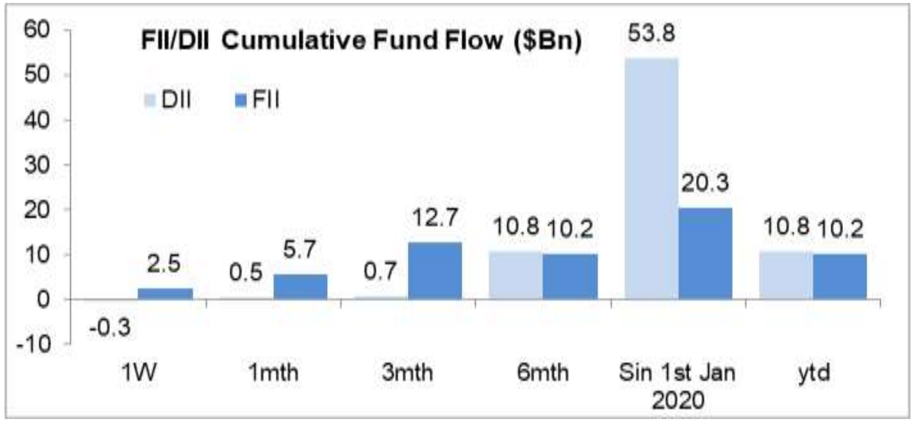


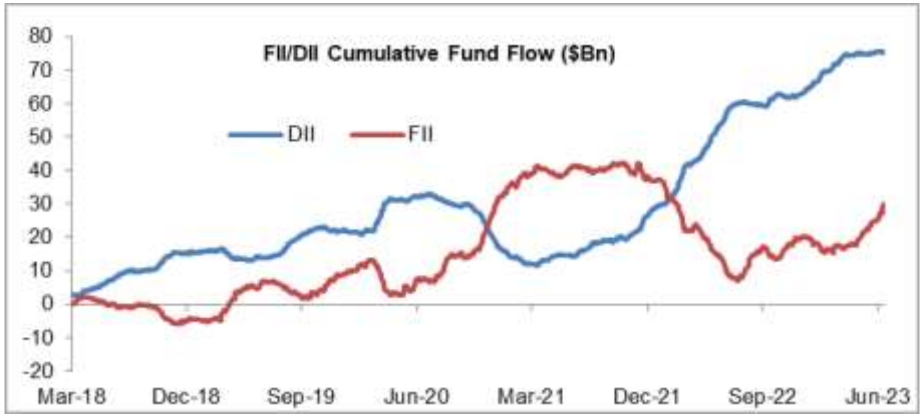


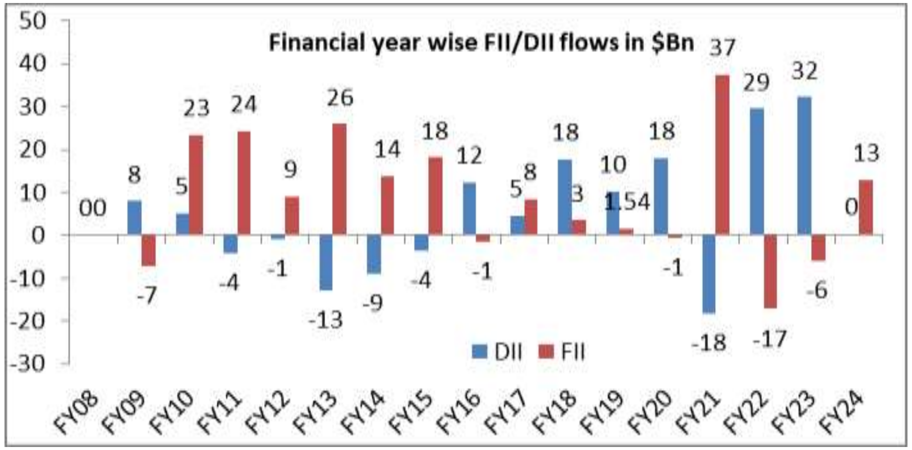
Source: Bloomberg, Axis Securities

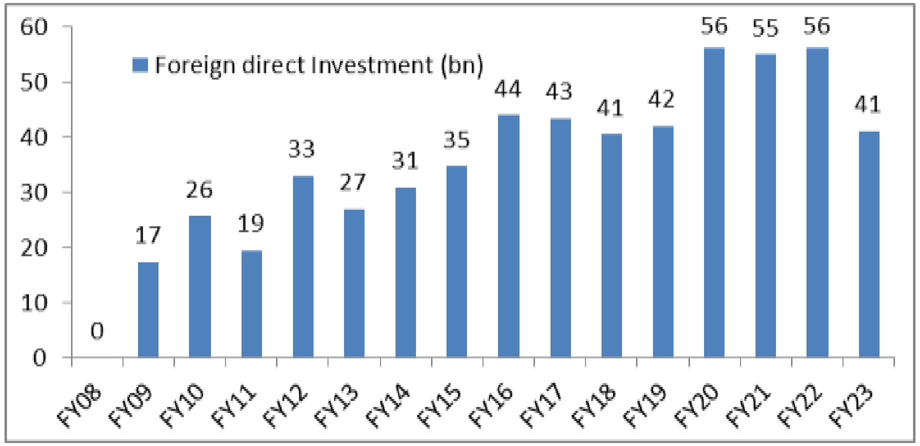
FIIs added $12.7Bn in the last three months

On a YTD basis, both FIIs and DIIs have been net buyers in the Indian equity market. FIIs have pulled out the majority of the easy money from the Indian market which they had pumped in after the Covid-19 crisis in Mar’20. They have pulled out $23Bn in FY22/23 out of $37 Bn pumped in FY21. Nonetheless, the pace of selling has reduced in the last 3 months and for the first three months of FY24, FIIs added $12.7Bn in the Indian equity market. During Jun’23, FIIs added $5.7 Bn to the Indian equity market









Source: Bloomberg, Axis Securities

Flows in Emerging market

The pace of FII selling across emerging markets has reduced since Jul'22. Earlier, FIIs were pulling money from the emerging market on account of aggressive rate hike expectations. On a YTD basis, FIIs had parked some capital in India, South Korea, Taiwan, and Chinese equity markets given their attractive valuations. However, some FII flows returned to India in Mar/Apr/May/Jun'23, driven by the attractive valuations of the Indian equity market.

Nonetheless, FII flows are likely to remain volatile in the near term on account of macroeconomic uncertainty. However, once the dust settles, India would be an attractive destination for FIIs due to its stable political outlook, robust GDP growth, strong earnings growth expectation, and moderate fiscal deficit.

Monthly FII equity flows in Emerging market $Bn										
Month	India	Indonesia	Malaysia	Brazil	Philippines	S. Korea	Taiwan	Thailand	Vietnam	China
Jan-22	-4.8	0.4	0.1	4.3	-0.1	-3.3	-2.0	0.4	-0.1	-54.3
Feb-22	-5.0	1.2	0.7	4.0	0.1	0.4	-5.9	1.9	0.0	1.5
Mar-22	-3.7	0.6	0.8	4.3	-0.2	-3.6	-9.4	1.0	-0.2	-64.0
Apr-22	-3.8	2.8	0.2	-1.6	-0.1	-5.0	-9.1	0.3	0.2	-35.4
May-22	-4.9	-0.2	0.0	-1.1	-0.3	0.2	0.1	0.6	0.1	-0.6
Jun-22	-6.3	-0.5	-0.3	0.1	-0.2	-4.8	-7.7	-0.8	0.1	67.5
Jul-22	0.8	-0.1	0.0	0.3	-0.1	1.4	-0.6	0.1	0.0	-37.1
Aug-22	6.8	0.5	0.5	3.2	-0.2	3.0	-4.1	1.6	0.0	-16.8
Sep-22	-1.6	0.2	-0.4	0.0	-0.2	-1.8	-5.7	-0.7	-0.1	-48.3
Oct-22	1.0	0.7	-0.1	2.7	0.0	2.1	-3.0	0.2	-0.1	-47.4
Nov-22	4.7	0.0	-0.1	0.6	0.1	3.0	6.5	0.8	0.6	51.2
Dec-22	-0.2	-1.3	-0.3	2.6	-0.1	-1.3	-2.9	0.4	0.5	23.0
Jan-23	-3.7	-0.2	-0.1	2.4	0.1	5.2	6.9	0.5	0.2	77.4
Feb-23	-0.6	0.4	0.0	-0.3	-0.1	0.9	1.1	-1.3	0.0	-20.8
Mar-23	**1.8**	**0.3**	**-0.3**	**-0.4**	**-0.5**	**-0.7**	**0.0**	**-0.9**	**0.1**	**-8.4**
Apr-23	**1.9**	**0.8**	**-0.1**	**0.5**	**0.0**	**0.6**	**-2.6**	**-0.2**	**-0.1**	**NA**
May-23	**5.0**	**0.1**	**-0.2**	**-0.8**	**-0.1**	**3.1**	**5.2**	**-1.0**	**-0.1**	**NA**
Jun-23	**5.7**	**-0.3**	**-0.2**	**1.6**	**0.1**	**-1.3**	**0.6**	**-0.3**	**0.0**	**NA**
Since Jan-21	**-3.1**	**8.0**	**-0.6**	**21.2**	**-1.7**	**-24.7**	**-48.1**	**1.2**	**-1.5**	**-14.5**
Since Jan-22	**-6.8**	**5.4**	**0.2**	**22.4**	**-1.7**	**-1.7**	**-32.7**	**2.9**	**1.1**	**-112.5**

Source: Bloomberg, Axis Securities

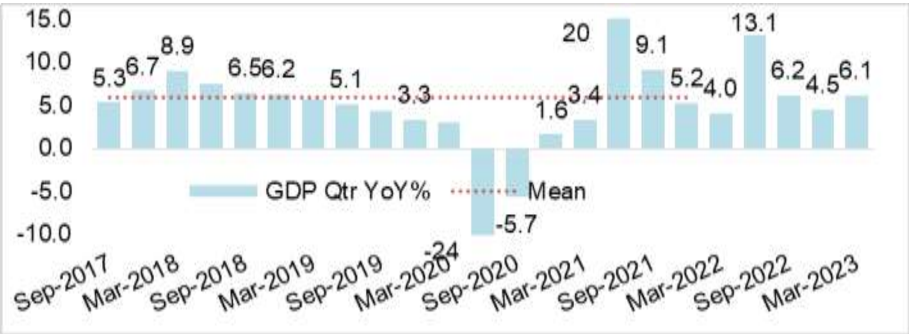
Macro Indicators

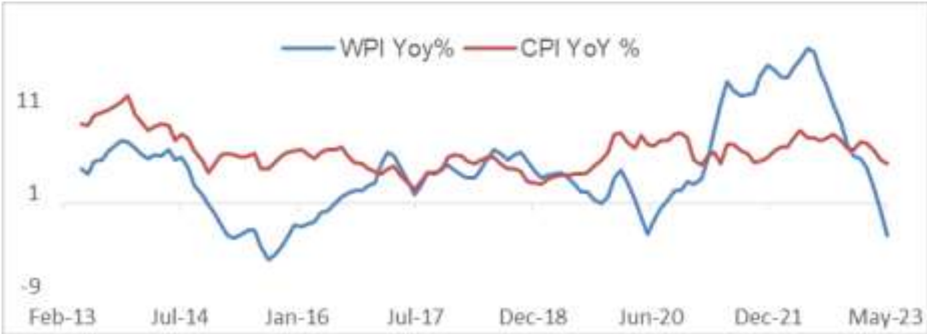
Healthy Pick Up In the Economic Activities Continued in the Last Quarter

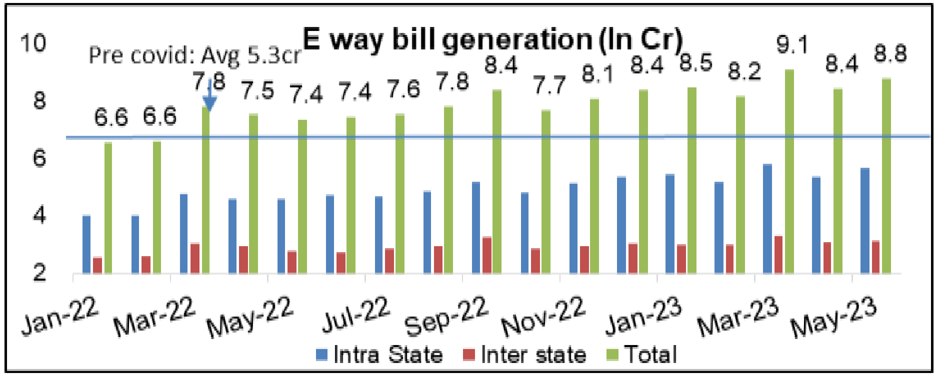
GDP: GDP for Mar'23 was at 6.1%, higher than our expectations. The moderation in raw material prices along with overall improvement in the export and domestic demand have contributed to value-added demand, especially in manufacturing and construction. Nonetheless, investments and net exports played a pivotal role on the demand side for GDP.

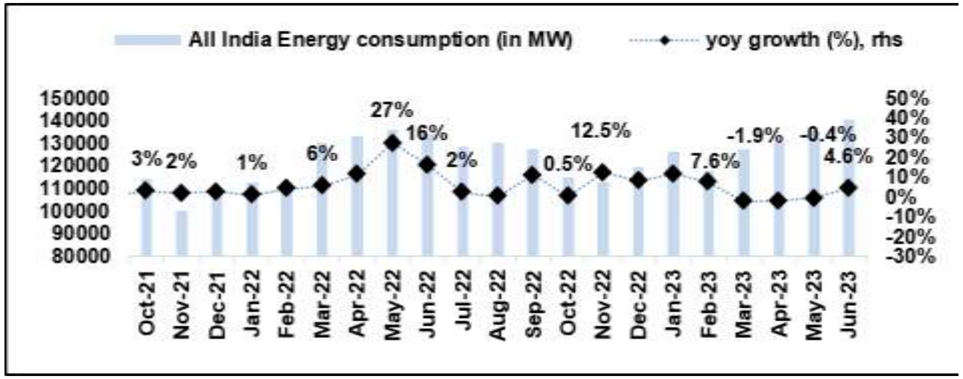
Electricity generation & E-way bills: Healthy pick-up in the economic activities continued in May/Jun'23 and 8.8 Cr of E-way bills were reported in May'23. Electricity generation in Jun'23 posted a healthy growth of 4.6%.

CPI: In line with the expectations, May'23 CPI further dropped to 4.3%. This decline was driven by YOY moderation in food prices, especially edible oils, cereals, and vegetables. We believe the RBI will likely remain in the pause mode and continue to focus on curtailing inflation and bringing it down within the threshold band.









Source: Bloomberg, Axis Securities

ICICI BANK – OUTPERFORMANCE CONTINUES

ICICI Bank (ICICIBC) is one of the largest private sector banks in India with business operations spread across Retail, Corporate, and Insurance. It is supported by a strong liability franchise and a healthy retail corporate mix. The bank's subsidiaries such as ICICI Venture Funds, ICICI Pru AMC, ICICI Securities, ICICI Prudential, and ICICI Lombard are among the leading companies in their respective domains.

Industry view

Equal Weight

CMP
935

Target Price
1,150

Upside
23%

Key Rationale

- **Strong credit growth:** The bank continued its growth momentum in Q4FY23, clocking a healthy advances growth of 19/5% YoY/QoQ with growth across segments. The Retail, Business Banking, and SME segments grew by 23/35/19% YoY respectively. Retail growth was mainly driven by Mortgages/Personal Loans/Credit Cards which grew by 18/40/51% YoY. The growth in the unsecured portfolio of the bank (~22% mix in the retail portfolio) has been impressive. The management has indicated that the demand in the retail, SME and Business Banking portfolio continues to remain healthy and thus it remains optimistic about the sustenance of the growth momentum going forward. Moreover, growth visibility in certain segments such as NBFCs, Real estate, and PSUs remains healthy and should lend some support to the corporate book growth. We expect ICICIB to sustain its growth momentum and deliver a healthy advances growth of ~18% CAGR over FY24-25E.
- **Comfort on asset quality:** In FY23, ICICIB has seen a meaningful improvement in asset quality, aided by strong recoveries. With fresh stress formation visibility being low, we expect a similar improvement trend in the asset quality to continue, aided by better recoveries and moderate slippages. The bank continues to build provision buffers to strengthen the balance sheet. Stable asset quality should keep credit costs benign over FY24-25E, supporting earnings growth.
- **Operational performance strengthening:** In Q4FY23, ICICIB's NIMs surprised positively expanding by 90/25bps YoY/QoQ reflecting faster re-pricing of loans and a lag in transmission of higher interest rates on deposits. In FY23, the benefit of faster loan re-pricing along with improving the mix of high-yielding unsecured products in the portfolio was visible on NIMs. However, with CoF catching up, NIM contraction is imminent. We expect margins to remain stable at ~4.5% over the medium term. With the bank's Opex ratios remaining largely stable (despite aggressive branch expansion exercise in FY24) and benign credit costs should enable RoA delivery of ~2%+ over FY24-25E.
- **Outlook & Valuation:** The bank has been outperforming its peers and has been firing on all cylinders. ICICIB has ticked most boxes on growth, margins, and asset quality. We continue to like ICICIB for its (1) Strong retail-focused liability franchise, (2) Buoyant growth prospects, (3) Stable asset quality along with healthy provision cover, (4) Adequate capitalization, and (5) Potential to deliver robust return ratios. On the valuation front, we believe the bank continues to be on a comfortable footing. We maintain a BUY rating on the stock with a target price of Rs 1,150/share (SOTP basis core book at 3x Sep'24E and Rs 187 Subsidiary value).
- **Key risks:** a) Deterioration in the retail asset quality, b) Slowdown in credit growth momentum.

Key Financials (Standalone)

Y/E Mar (Rs Bn)	NII (Rs Bn)	PPOP (Rs Bn)	PAT (Rs Bn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY22	475	393	233	33.6	225.7	4.1	1.7	0.8
FY23P	621	491	319	45.7	270.0	3.5	2.0	0.6
FY24E	710	557	357	51.2	310.4	3.0	2.1	0.5
FY25E	817	653	416	59.5	356.7	2.6	2.1	0.5

Source: Company, Axis Securities

Income Statement (Rs Bn)

Y/E March	FY22	FY23P	FY24E	FY25E
Net Interest Income	475	621	710	817
Other Income	185	198	223	265
Total Income	**660**	**820**	**934**	**1,082**
Total Operating Exp	267	329	377	429
PPOP	**393**	**491**	**557**	**653**
Provisions & Contingencies	86	67	79	97
PBT	**306**	**424**	**478**	**556**
Provision for Tax	73	105	120	140
PAT	**233**	**319**	**357**	**416**

Source: Company, Axis Research

Balance Sheet (Rs Bn)

Y/E March	FY22	FY23P	FY24E	FY25E
SOURCES OF FUNDS				
Share Capital	14	14	14	14
Reserves	1,691	1,993	2,280	2,614
Shareholder's Funds	**1,705**	**2,007**	**2,294**	**2,628**
Total Deposits	10,646	11,808	13,614	15,797
Borrowings	11,718	13,002	15,153	17,801
Other Liabilities & Provisions	690	833	959	1,123
Total Liabilities	**14,113**	**15,842**	**18,406**	**21,552**
APPLICATION OF FUNDS				
Cash & Bank Balance	1,678	1,194	1,377	1,598
Investments	3,102	3,623	4,082	4,737
Advances	8,590	10,196	12,022	14,134
Fixed &Other Assets	742	828	925	1,083
Total Assets	**14,113**	**15,842**	**18,406**	**21,552**

Source: Company, Axis Research

Valuation ratios (%)

Y/E March	FY22	FY23P	FY24E	FY25E
EPS	33.6	45.7	51.2	59.5
Earnings growth (%)	43.7	36.0	12.1	16.3
Adj. BVPS	225.7	270.0	310.4	356.7
ROAA (%)	1.7	2.1	2.1	2.1
ROAE (%)	14.7	17.2	16.6	16.9
P/ABV (x)	4.1	3.5	3.0	2.6
Dividend Yield (%)	0.5	0.9	1.1	1.3
PROFITABILITY				
Yield on Advances (%)	8.3	8.9	9.5	9.4
Cost of Funds (%)	3.7	3.9	4.7	4.8
Cost of Deposits (%)	3.5	3.7	4.4	4.4
NIM (%)	4.0	4.5	4.5	4.4
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	2.0	2.1	2.1	2.1
Cost-Income Ratio (%)	40.5	40.1	40.4	39.6

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E March	FY22	FY23P	FY24E	FY25E
Loan Growth (%)	17.1	18.7	17.9	17.6
Deposit Growth (%)	14.2	10.9	15.3	16.0
C/D Ratio (%)	80.7	86.3	88.3	89.5
Equity/Assets (%)	12.1	12.7	12.5	12.2
Equity/Advances (%)	19.8	19.7	19.1	18.6
CASA (%)	48.7	45.8	42.2	39.5
Total Capital Adequacy Ratio	19.2	18.3	17.3	16.2
Tier I CAR	*18.4*	*17.6*	*16.7*	*15.7*
ASSET QUALITY				
Gross NPLs	339	312	329	374
Net NPLs	70	52	57	67
Gross NPLs (%)	3.9	3.1	2.7	2.6
Net NPLs (%)	0.8	0.5	0.5	0.5
Coverage Ratio (%)	79.5	83.5	82.8	82.1
Provision/Avg. Loans (%)	1.1	0.7	0.7	0.7
ROAA TREE				
Net Interest Income	3.6	4.1	4.1	4.1
Non-Interest Income	1.4	1.3	1.3	1.3
Operating Cost	2.0	2.2	2.2	2.1
Provisions	0.7	0.4	0.5	0.5
Tax	0.6	0.7	0.7	0.7
ROAA	1.7	2.1	2.1	2.1
Leverage (x)	8.3	8.1	8.0	8.1
ROAE	14.7	17.2	16.6	16.9

Source: Company, Axis Research

Maruti Suzuki India Ltd – Gaining SUV market Share in FY24

Maruti Suzuki India Ltd (MSIL) is the market leader in the domestic passenger car industry commanding a market share of about 43%. Suzuki Motor Corporation (SMC) currently holds 56.37% of its equity stake.The Company has two state-of-the-art manufacturing facilities located in Gurugram and Manesar in Haryana, capable of producing ~1.5 Mn units per annum. Suzuki Motor Gujarat Private Limited (SMG), a subsidiary of SMC, was set up in Hansalpur, Gujarat to cater to the increasing market demand for the Company's products and has been operational since 2017. Through this new facility, an additional annual production capacity of 0.75 Mn units has been made available, thereby taking the combined production capability to~2.25Mn units.

Industry view

Over Weight

CMP
9,789

Target Price
10,790

Upside
10%

Key Rationale

- **ASPs to remain higher:** Higher share of SUVs in the sales mix with demand for the newer models and the bigger car sales could keep the ASPs stronger in FY24/25.
- **Prevailing demand scenario healthy:** At the end of Q4FY23, customer orders stood at ~4.12 Lc (~3.63Lc in Q3FY23) vehicles out of which ~1/3rd are CNG models, also the recently launched SUV's constitute good share of the order book. For FY24, SIAM estimates the PV industry to grow between 5-7% (post the robust 26% YoY growth in FY23). Management said the company's volumes will grow better than these industry growth estimates.
- **Capacity expansion:** To meet the market demand, the board has, in principle, approved 1mn units capacity in addition to the existing capacity. Company has earmarked a capex of Rs 8,000 Cr for FY24, majority of which will be spent towards the capacity expansion at Kharkhoda plant (250k units), new models and projects and annual maintenance. The company is also looking to add 1Lc units capacity at Manesar by FY25.
- **Recovery in CNG sales:** In FY23 the company sold ~3,30,000 CNG cars (~20% penetration) and in FY24/25 the company expects this to grow as the government rationalised CNG prices.
- **Valuation:** The company expects to outpace the industry growth rate led by good order book and new launches (Jimy and Fronx). Strong order book, higher share of premium SUVs, CNG vehicles in the sales mix to improve ASP in FY24/25; further improved chip supplies and stable commodity prices to drive EBITDA CAGR of 28% from FY23-26E. We maintain our BUY rating on the stock and value it at 28xP/E of its Jun'25E EPS (roll forward from FY25 EPS).
- **Key Risks:** (1) Multiple launches from competitors will make the UV space more cluttered and competitive in future. (2) Chip shortage and inability to convert the order book into sales. Lower demand scenario which may hamper the off-take of vehicles, impacting our sales volumes growth forecasts, which would impact the company's gross margins negatively.

Key Financials (Standalone)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	ROE (%)	P/E Ratio (x)	P/BV (x)	EV/ EBITDA (%)
FY23P	1,17,523	10,864	8,049	266	13.7%	26	4.9	22.1
FY24E	1,39,474	13,751	9,951	329	15.2%	30	4.4	17.4
FY25E	1,58,203	15,691	11,330	375	15.5%	26	3.9	15.2
FY26E	1,78,977	17,731	12,628	418	15.4%	23	3.5	13.3

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar (Rs Cr)	FY22A	FY23P	FY24E	FY25E
Net revenues	88,296	1,17,523	1,39,474	1,58,203
Operating expenses	82,549	1,06,659	1,25,723	1,42,512
EBIDTA	5,747	10,864	13,751	15,691
EBIDTA margin (%)	6.51%	9.24%	9.86%	9.92%
Other income	1,794	2,305	2,498	2,857
Interest	126	187	324	309
Depreciation	2,787	2,823	3,329	3,896
Profit Before Tax	4,582	10,159	12,596	14,342
Tax	1,430	2,110	2,645	3,012
Reported Net Profit	3,152	8,049	9,951	11,330
Net Margin (%)	3.57%	6.85%	7.13%	7.16%
Adjusted Net Profit	3,804	8,049	9,951	11,330

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar (Rs Cr)	FY22A	FY23P	FY24E	FY25E
Equity capital	151	151	151	151
Reserves & surplus	53,935	60,231	67,274	75,697
Shareholders' funds	54,086	60,382	67,425	75,848
Total Loans	419	1,247	1,247	1,247
Deferred tax liability	-	-	-	-
Total Liabilities and Equity	**54,505**	**61,629**	**68,673**	**77,095**
Gross block	31,585	38,496	47,964	53,243
Depreciation	17,868	20,691	24,020	27,916
Net block	13,717	17,805	23,944	25,327
Capital WIP	29,294	2,897	1,429	3,150
Investments	40,763	47,756	47,856	47,906
Inventory	3,533	4,284	5,167	7,028
Debtors	2,030	3,296	3,439	5,201
Cash & Bank Bal	3,036	38	466	1,591
Loans & Advances	7,385	7,103	10,132	11,068
Current Assets	**15,984**	**14,720**	**19,203**	**24,889**
Sundry Creditors	9,761	11,780	12,537	12,954
Other Current Liability	9,128	9,769	11,223	11,223
Current Liability& Provisions	18,889	21,549	23,760	24,177
Net current assets	(2,905)	(6,829)	(4,557)	712
Total Assets	**54,505**	**61,629**	**68,673**	**77,095**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar (Rs Cr)	FY22A	FY23P	FY24E	FY25E
EBIT	2,961	8,041	10,422	11,795
Other Income	1,794	2,305	2,498	2,857
Depreciation & Amortization	2,787	2,823	3,329	3,896
Interest Paid (-)	(126)	(187)	(324)	(309)
Tax paid (-)	(816)	(2,110)	(2,645)	(3,012)
Extra Ord Income	(46)	-	-	-
Operating Cash Flow	**6,553**	**10,873**	**13,280**	**15,227**
Change in Working Capital	(3,047)	925	(1,844)	(4,143)
Cash Flow from Operations	**3,506**	**11,798**	**11,436**	**11,084**
Capex	(2,986)	(6,879)	(8,000)	(7,000)
Strategic investments	(3,292)	-	-	-
Non-Strategic Investments	4,316	(6,993)	(100)	(50)
Cash Flow from Investing	**(1,963)**	**(13,872)**	**(8,100)**	**(7,050)**
Change in borrowing	(112)	828	-	-
Others	872	1,457	-	-
Dividends paid (-)	(2,304)	(3,210)	(2,908)	(2,908)
Cash Flow from Financial Activities	**(1,544)**	**(925)**	**(2,908)**	**(2,908)**
Change in Cash	(0)	(2,999)	428	1,126
Opening Cash	3,036	3,036	38	466
Closing Cash	**3,036**	**38**	**466**	**1,591**

Source: Company, Axis Research

Ratio Analysis (%)

Y/E Mar (Rs Cr)	FY22A	FY23P	FY24E	FY25E
Revenue Growth	25.5	33.1	18.7	13.4
EBITDA Margin	6.5	9.2	9.9	9.9
Net Profit Margin	4.3	6.8	7.1	7.2
ROCE (%)	7.2	13.7	15.3	15.6
ROE (%)	7.1	13.7	15.2	15.5
EPS (Rs)	125.9	266.5	329.4	375.1
P/E (x)	62.7	36.7	29.7	26.1
P / BV (x)	4.4	4.9	4.4	3.9
EV / EBITDA (x)	41.1	27.3	21.6	18.8
Fixed Asset TR (x)	5.3	5.7	5.5	5.6
Debt Equity (x)	0.0	0.0	0.0	0.0
EV / Sales	2.7	2.5	2.1	1.9

Source: Company, Axis Research

STATE BANK OF INDIA – RoA DELIVERY OF 1% TO CONTINUE

State Bank of India (SBIN) is the largest public sector bank in terms of assets, deposits, branches, number of customers, and employees and has a pan-India presence. The RBI has designated SBI as a Domestic Systemically Important Bank (D-SIB), underscoring its continued functioning as critical for the Indian economy.

Industry view

Equalweight

CMP
573

Target Price
715

Upside
25%

Key Rationale

- **Business growth to remain healthy**: On the business front, the bank's loan growth in Q4FY23 remained healthy at 16%/4% YoY/QoQ, driven by strong growth in the retail portfolio (+18/5% YoY/QoQ), SME book (+18/2% YoY/QoQ) and corporate book (+13/6% YoY/QoQ). The growth in the retail book was primarily driven by – Home Loans (+14/4% YoY/QoQ) and Xpress Credit (+23/6% YoY). The management highlighted that in FY24, the bank's credit growth would continue to remain healthy. However, it is likely to moderate over FY23. SBI's credit growth is expected to range between 12-14% in FY24. The bank continues to carry excess liquidity (SLR compliant) to the tune of Rs 4 Tn, thereby not requiring the bank to chase deposit growth aggressively.
- **Continued Asset quality improvement**: A significant moderation in slippages and healthy recoveries resulted in asset quality improvement during Q4FY23. With visibility on fresh stress formation being low, we do not expect any major challenges on the asset quality, which in turn, would keep credit costs benign. The management expects the impact of ECL norms, if and when implemented, to be minimal.
- **Non-banking subsidiaries to boost overall performance:** Apart from the core banking, SBI's subsidiaries are expected to continue adding further value. The bank has a strong presence in various financial services operations such as credit cards, insurance (life and general), asset management, pension funds, investment banking, and institutional and retail broking, among others. Most of these financial services are generating stable returns and support the overall performance of the bank.
- **Outlook:** The management is confident in maintaining margins at current levels. The bank's asset quality performance has been consistently better than expectations, which resulted in a sharp reduction in credit costs. The bank is also witnessing improved traction on income from cross-selling and Forex income. The management expects loan processing fees, cross-sell and Forex income growth to sustain and will remain key drivers for healthy non-interest income growth. Healthy advances growth supported by demand sustenance, steady margins, improving fee income profile, improving asset quality (which is keeping credit costs muted), strong deposit franchise with healthy CASA Ratio, and adequate capital is key positives for the bank. We expect SBIN to report healthy advances/NII/PAT growth of 13/13/12% CAGR over FY23-25E.
- **Valuation:** Among PSU banks, SBI remains the best play on the gradual recovery of the Indian economy on account of its healthy PCR, robust capitalization, strong liability franchise, and improved asset quality outlook. We believe normalization in the credit costs and the ability to deliver healthy growth should enable the bank to deliver RoA/RoE of 1%/15-17% over FY24-25E. We maintain our BUY rating on the stock with a target price of Rs 715/share (core book at 1.3x Sep'24E and subsidiaries at Rs 164/share)
- **Key risks:** a) Significant slowdown in credit growth

Key Financials (Standalone)

Y/E Mar	NII (Rs Bn)	PPOP (Rs Bn)	Net Profit (Rs Bn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY22	1,207	679	317	35.5	282.7	2.0	0.7	1.0
FY23E	1,448	837	502	56.3	343.0	1.7	1.0	0.7
FY24E	1,663	1,006	591	66.2	396.9	1.4	1.0	0.6
FY25E	1,843	1,109	632	70.8	452.4	1.3	1.0	0.5

Source: Company, Axis Securities.

Profit & Loss (Rs Bn)

Y/E MAR	FY22	FY23P	FY24E	FY25E
Net Interest Income	1,207	1,448	1,663	1,843
Other Income	406	366	467	532
Total Income	1,613	1,815	2,130	2,374
Total Operating Exp.	934	977	1,124	1,266
Staff expenses	576	573	659	745
Other operating expenses	358	405	465	521
PPOP	679	837	1,006	1,109
Provisions & Contingencies	245	165	216	264
PBT	434	672	790	845
Provision for Tax	117	170	200	213
PAT	**317**	**502**	**591**	**632**

Source: Company, Axis Research

Balance Sheet (Rs Bn)

Y/E MAR	FY22	FY23P	FY24E	FY25E
SOURCES OF FUNDS				
Share capital	9	9	9	9
Reserves and surplus	2,792	3,267	3,740	4,245
Shareholders' funds	**2,801**	**3,276**	**3,749**	**4,254**
Total Deposits	40,515	44,238	49,006	54,510
Total Borrowings	44,776	49,169	54,979	61,689
Other Liabilities, provisions	2,299	2,725	2,954	3,317
Total	**49,876**	**55,170**	**61,681**	**69,260**
APPLICATION OF FUNDS				
Cash & Bank Balance	3,946	3,079	3,411	3,794
Investments	14,814	15,704	17,151	19,078
Advances	27,340	31,993	36,329	41,010
Fixed Assets & Other Assets	3,776	4,394	4,790	5,378
Total assets	**49,876**	**55,170**	**61,681**	**69,260**

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY22	FY23P	FY24E	FY25E
VALUATION RATIOS				
EPS	35.5	56.3	66.2	70.8
Earnings Growth (%)	*55.2%*	*58.6%*	*17.6%*	*7.0%*
BVPS	313.8	367.1	420.0	476.7
Adj. BVPS	282.5	343.0	396.9	452.4
ROAA (%)	0.7	1.0	1.0	1.0
ROAE (%)	11.9	16.5	16.8	15.8
P/E (x)	16.1	10.2	8.7	8.1
P/ABV (x)	2.0	1.7	1.4	1.3
DPS	7.1	11.3	13.2	14.1
Dividend Yield (%)	1.2	1.9	2.3	2.4
PROFITABILITY				
NIM (%)	3.1	3.4	3.5	3.4
Cost-Income Ratio	57.9	53.9	52.8	53.3

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY22	FY23P	FY24E	FY25E
Loan Growth (%)	11.6	17.0	13.6	12.9
Deposit Growth (%)	10.1	9.2	10.8	11.2
C/D Ratio (%)	67.5	72.3	74.1	75.2
CASA	44.5	42.1	41.5	41.1
Tier 1	12.0	11.7	11.4	11.2
CAR	14.3	14.0	13.7	13.5
ASSET QUALITY				
Gross NPLs (%)	4.0	2.8	2.3	2.1
Net NPLs (%)	1.0	0.7	0.6	0.5
PCR	75.0	76.4	76.3	75.6
Credit cost	0.9	0.6	0.6	0.7

Source: Company, Axis Research

VARUN BEVERAGES – GEARED FOR GROWTH

VBL – the second largest franchisee of PepsiCo in the world (outside the USA), manufactures Carbonated Soft Drinks including Pepsi, Mountain Dew, Seven Up, and Mirinda; Non-Carbonated Beverages – Tropicana Slice, and Tropicana Frutz; and Bottled water – Aquafina. The company accounts for ~90% of PepsiCo's beverage sales volume in India and is present in 27 States and seven UT. It is also the exclusive bottler for PepsiCo in Nepal, Sri Lanka, Morocco, Zambia, and Zimbabwe.

Industry view

Equal Weight

CMP
803

Target Price
930

Upside
16%

Key Rationale

- **Strong summer season to boost sales:** Several agencies, including the Ministry of Earth Science – Skymet, expect summer temperatures to be very high this year. Early Data suggests a strong probability of El Nino, leading to a potentially warmer summer this year. This, in turn, will result in higher demand for beverages. Moreover, VBL's strong presence in the North and East, coupled with strong traction from newly acquired territories (South and West) through distribution expansion and market share gains place VBL on a stronger footing.
- **Distribution-led market share gains:** VBL acquired South and West territories in CY19. However, due to COVID-19 disruption, it lost significant market share as it faced integration challenges. On the brighter side, the operations are now normalized and a new GTM strategy is in place (through this strategy, the company intends to increase the number of reach per route by ~40%). Keeping this in view, VBL seems to be well-placed to increase its lost market share. In CY23, it plans to increase the overall reach to 3.5 Mn outlets from ~3 Mn in CY22 and plans to add 40,000-50,000 visi-coolers annually going forward.
- **Energizing on Sting Energy Drink:** Sting contributed ~10% of CY22 sales, while its distribution reach stands at ~2 Mn outlets vs. the company's overall ~3 Mn outlets. The management highlighted that Sting's overall realization is higher by 65% vs. average realization which we believe will give further fillip to the overall margins going forward as it expands Sting's portfolio.
- **Other businesses: Dairy business –** VBL has now turned its focus on expanding its Value-Added Dairy, Sports Drinks (Gatorade) and Juice segments. Currently, it is present in certain markets but plans to expand pan-India post commencement of two new facilities in Maharashtra and Uttar Pradesh in CY24. **Morocco -** The company begins distribution of Lays, Doritos, and Cheetos on 1st Jan'23 in Morocco. VBL currently is importing the products, however, as the business stabilizes, VBL plans to manufacture these products locally in Morocco.
- **Favourable macro indicators:** India's per-capita soft drink consumption of 24 bottles stands much lower than 271 bottles in China, 1,496 bottles in the USA, and 1,489 bottles in Mexico, offering massive growth headroom. The soft drinks industry in India is expected to report healthy growth across categories on the back of better demographics, improving retail penetration across markets, better macroeconomics, and a rising trend of in-home consumption.
- **Outlook:** We believe VBL is well-placed under the current market situation as a strong summer season is expected to drive overall beverage sales across regions. Furthermore, the initial report on possible El-Nino (deficit rainfall) could delay the rural recovery which would lead the entire FMCG pack (ex-ITC) under wait-and-watch mode. Hence, in this current volatile market situation, we believe VBL provides better earning visibility than other FMCG peers in the near term.

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBITDA (x)	ROE (%)	ROCE (%)
CY22	12,921	2,788	1,497	23.1	33.5	19.9	30.4	24.4
CY23E	16,044	3,586	2,012	15.5	51.7	29.8	29.6	26.2
CY24E	18,707	4,215	2,430	18.7	42.8	25.0	27.3	25.5
CY25E	21,813	4,975	2,948	22.7	35.3	20.7	25.6	25.0

Source: Company, Axis Securities; * OOH – Out-of-Home

Profit & Loss (Rs Cr)

Y/E DEC	CY22	CY23E	CY24E	CY25E
Net sales	12,921	16,044	18,707	21,813
Growth, %	49.5	24.2	16.6	16.6
Other operating income	252	277	305	336
Total income	13,173	16,321	19,013	22,148
Raw material expenses	-6,261	-7,639	-8,861	-10,279
Employee expenses	-1,217	-1,521	-1,749	-2,046
Other Operating expenses	-2,907	-3,576	-4,188	-4,849
EBITDA (Core)	2,788	3,586	4,215	4,975
Growth, %	68.5	28.6	17.5	18.0
Margin, %	21.6	22.4	22.5	22.8
Depreciation	-617	-788	-865	-942
EBIT	2,171	2,798	3,350	4,032
Growth, %	93.2	28.9	19.7	20.4
Margin, %	16.8	17.4	17.9	18.5
Other Income	39	43	47	52
Non-recurring Items	0	0	0	0
Pre-tax profit	2,024	2,627	3,172	3,848
Tax provided	-474	-615	-742	-900
Net Profit	1,550	2,012	2,430	2,948
Unadj. shares (Cr)	65	130	130	130

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E DEC	CY22	CY23E	CY24E	CY25E
Cash & bank	285	1,000	2,719	4,980
Debtors	299	440	513	598
Inventory	1,994	2,476	2,887	3,366
Loans & advances	436	436	436	436
Other current assets	389	389	389	389
Total current assets	3,404	4,741	6,944	9,769
Investments	0	0	0	0
Gross fixed assets	10,337	11,837	12,937	14,037
Less: Depreciation	-3,405	-4,193	-5,059	-6,001
Add: Capital WIP	607	607	607	607
Net fixed assets	7,539	8,251	8,485	8,643
Non-current assets	627	627	627	627
Total assets	**11,618**	**13,667**	**16,104**	**19,088**
Current liabilities	3,969	4,168	4,338	4,536
Provisions	204	204	204	204
Total current liabilities	4,173	4,372	4,542	4,740
Non-current liabilities	2,230	2,230	2,230	2,230
Total liabilities	6,403	6,602	6,772	6,970
Paid-up capital	650	650	650	650
Reserves & surplus	4,453	6,302	8,570	11,355
Shareholders' equity	5,215	7,065	9,332	12,118
Total equity & liabilities	**11,618**	**13,667**	**16,104**	**19,088**

Source: Company, Axis Research

Cash Flow

(Rs Cr)

Cash Flow	CY22	CY23E	CY24E	CY25E
Pre-tax profit	2,024	2,627	3,172	3,848
Depreciation	617	788	865	942
Chg in working capital	-280	-423	-314	-366
Total tax paid	-445	-615	-742	-900
Cash flow from operating activities	**1,915**	**2,377**	**2,981**	**3,524**
Capital expenditure	-1,349	-1,500	-1,100	-1,100
Chg in marketable securities	221	0	0	0
Cash flow from investing activities	**-1,127**	**-1,500**	**-1,100**	**-1,100**
Free cash flow	788	877	1,881	2,424
Equity raised/(repaid)	217	0	0	0
Dividend (incl. tax)	-162	-162	-162	-162
Cash flow from financing activities	**-36**	**-162**	**-162**	**-162**
Net chg in cash	752	715	1,719	2,261
Opening cash balance	337	285	1,000	2,719
Closing cash balance	285	1,000	2,719	4,980

Source: Company, Axis Research

Ratio Analysis

Key Ratios	CY22	CY23E	CY24E	CY25E
Per Share data				
EPS (INR)	23.1	15.5	18.7	22.7
Growth, %	38.5	(35.1)	20.8	21.3
Book NAV/share (INR)	78.6	52.3	68.5	88.7
FDEPS (INR)	23.9	15.5	18.7	22.7
CEPS (INR)	33.4	21.6	25.4	29.9
CFPS (INR)	14.7	18.0	22.6	26.7
DPS (INR)	2.5	2.5	2.5	2.5
Return ratios				
Return on assets (%)	16.4	17.7	18.1	18.5
Return on equity (%)	30.4	29.6	27.3	25.6
Return on capital employed (%)	24.4	26.2	25.5	25.0
Turnover ratios				
Asset turnover (x)	1.7	1.8	1.9	2.1
Receivable days	8.5	10.0	10.0	10.0
Inventory days	56.3	56.3	56.3	56.3
Payable days	29.0	29.3	29.4	29.6
Working capital days	(24.0)	(9.7)	(2.2)	4.2
Liquidity ratios				
Current ratio (x)	0.9	1.1	1.5	2.0
Quick ratio (x)	0.4	0.5	0.9	1.3
Interest cover (x)	11.7	13.1	14.9	17.1
Total debt/Equity (%)	0.7	0.5	0.4	0.3
Net debt/Equity (%)	0.3	0.1	(0.2)	(0.4)
Valuation				
PER (x)	33.5	51.7	42.8	35.3
PEG (x) - y-o-y growth	0.9	(1.5)	2.1	1.7
Price/Book (x)	10.2	15.3	11.7	9.0
EV/Net sales (x)	4.3	6.7	5.6	4.7
EV/EBITDA (x)	19.9	29.8	25.0	20.7

Source: Company, Axis Research

ITC – FIRING ON ALL CYLINDERS

ITC Limited – an Indian conglomerate company headquartered in Kolkata, has a diversified presence across industries such as Cigarettes, FMCG, Hotels, Packaging & Paperboards, Agribusiness, and Software. The company is the market leader in the domestic cigarette and PPP segments. It is also the second-largest hotel chain by revenue and has a strong distribution reach of over ~7 Mn outlets in the FMCG space.

Industry view

Over Weight

CMP
452

Target Price
495

Upside
10%

Key Rationale

- **No cigarette taxation overhang for the time being:** In Union Budget 2023, Finance Minister announced an increase of National Calamity Contingent Duty (NCCD) by 16% after a gap of two years. The increase in tax on cigarettes is below ours and street expectations. We believe cigarette companies will need to take 1-3% price hikes depending upon the length of the cigarette, which we believe is manageable given the nominal increase in the NCCD rate. Moreover, NNCD accounts for only 10% of the total cigarette tax. We expect cigarette companies are likely to see stable volume growth and increase market share from illegal cigarettes going ahead as rate hikes will be minuscule to counter the increase in the NCCD rate.
- **Expect stable cigarette volume growth:** We expect overall cigarette volume growth to remain stable. At the industry level, the cigarette volumes have surpassed the pre-Covid levels and ITC is gaining lost market share from its peers. Moreover, the government's stance on stable taxation and crackdown on the illicit cigarette players has been icing on the cake, especially for the ITC which has been grappling with this issue for the last few years. Over the years, ITC has strengthened its distribution reach in rural and semi-urban regions and expanded its portfolio by launching new products and adopting regional customization. These attributes are likely to bolster ITC's footing among its peers.
- **FMCG has reached its inflexion point:** ITC delivered 10% FMCG EBIT margins in Q4FY23 which is likely to inch up further due to the initiatives such as 1) Launching new products and driving premiumisation, 2) Effectively implementing localisation strategy, 3) Leveraging technology to identity demand trend and rapidly scaling up "Unnati" and "VIRU" platform across retailers (3 Lc outlets) for direct ordering, and 4) Limited impact of RM inflation compared to its peers which will strengthen the company's margin story.
- **Other business:**Strong and stable growth in hotels as travel, wedding, and corporate activities pick up; 4) Steady and decent performance in paperboard and agribusiness witnessed in FY23.
- **Valuation & Outlook**:We believe the narrative around the ITC is getting stronger as all its businesses are on the right track – 1) Stable cigarette volume growth led by market share gains and new product launches; 2) FMCG business reaching the inflexion point as its EBIT margins expected to inch up further and would be driven by – the ramp up in the outlet coverage, effective implementation of localisation strategy, driving premiumisation, leveraging technology on demand and supply side; and moderation of raw material input cost; 3) Strong and stable growth in hotels as travel, wedding, and corporate activities pick up; 4) Stedy and decent performance in paperboard and agribusiness witnessed in the last few quarters. Moreover, reasonable valuation among the entire FMCG pack provides a huge margin of safety.
- **Key risks**: a) increase in cigaratte taxation, b) increase competition and c) economy slowdown.

Key Financials (Standalone)

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (X)	ROE (%)	ROCE (%)	EV/EBITDA (X)
FY22	55,697	18,934	15,058	12.3	36.6	24.5	24.2	28.3
FY23E	65,273	23,944	18,680	15.2	29.5	30.5	29.6	22.6
FY24E	71,938	27,396	21,473	17.5	25.7	32.5	32.7	19.6
FY25E	80,435	31,036	24,342	19.9	22.7	33.2	33.9	17.2

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar, Rs Cr	FY22	FY23E	FY24E	FY25E
Net sales	**55,697**	**65,273**	**71,938**	**80,435**
Growth, %	23	17	10	12
Other operating income	645	770	847	932
Total income	56,341	66,043	72,786	81,367
Raw material expenses	-26,233	-28,880	-31,046	-34,151
Employee expenses	-3,062	-3,569	-3,926	-4,398
Other Operating expenses	-8,113	-9,649	-10,417	-11,782
EBITDA (Core)	**18,934**	**23,944**	**27,396**	**31,036**
Growth, %	22.0	26.5	14.4	13.3
Margin, %	34.0	36.7	38.1	38.6
Depreciation	-1,652	-1,663	-1,790	-1,921
EBIT	**17,282**	**22,282**	**25,605**	**29,116**
Growth, %	23.8	28.9	14.9	13.7
Margin, %	31.0	34.1	35.6	36.2
Interest paid	-42	-42	-42	-43
Other Income	2,590	2,438	2,803	3,084
Non-recurring Items	0	73	0	0
Pre-tax profit	**19,830**	**24,750**	**28,366**	**32,157**
Tax provided	-4,772	-5,997	-6,894	-7,815
Profit after tax	**15,058**	**18,753**	**21,473**	**24,342**
Others (Minorities, Associates)	0	0	0	0
Net Profit (adjusted)	**1,506**	**1,868**	**2,147**	**2,434**
Unadj. shares (Cr)	1,226	1,226	1,226	1,226

Source: Company, Axis Research

Balance Sheet (Rs Cr)

As at 31st Mar, Rs Cr	FY22	FY23E	FY24E	FY25E
Cash & bank	3,878	-749	2,346	7,421
Marketable securities at cost	11,625	11,625	11,625	11,625
Debtors	1,953	4,471	4,927	5,509
Inventory	9,998	11,717	12,913	14,438
Loans & advances	6	6	6	6
Other current assets	3,483	3,483	3,483	3,483
Total current assets	30,942	30,552	35,301	42,483
Investments	15,657	15,657	15,657	15,657
Gross fixed assets	31,872	34,372	36,872	39,472
Less: Depreciation	-8,651	-10,314	-12,104	-14,025
Add: Capital WIP	2,466	2,466	2,466	2,466
Net fixed assets	25,687	26,524	27,234	27,913
Non-current assets	2,806	2,806	2,806	2,806
Total assets	**75,093**	**75,540**	**80,998**	**88,859**
Current liabilities	10,927	11,662	12,174	12,827
Provisions	738	770	793	821
Total current liabilities	11,665	12,433	12,967	13,649
Non-current liabilities	2,028	1,955	1,955	1,955
Total liabilities	13,693	14,388	14,922	15,604
Paid-up capital	1,232	1,232	1,232	1,232
Reserves & surplus	60,167	59,920	64,843	72,023
Shareholders' equity	61,400	61,152	66,076	73,256
Total equity & liabilities	**75,093**	**75,540**	**80,998**	**88,859**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar (Rs Cr)	FY22	FY23E	FY24E	FY25E
Pre-tax profit	19,830	24,750	28,366	32,157
Depreciation	1,652	1,663	1,790	1,921
Chg in working capital	-2,328	-3,542	-1,119	-1,426
Total tax paid	-4,498	-5,997	-6,894	-7,815
Other operating activities	0	0	0	0
Cash flow from operating activities	**14,656**	**16,874**	**22,145**	**24,837**
Capital expenditure	-1,831	-2,500	-2,500	-2,600
Chg in investments	-2,707	0	0	0
Chg in marketable securities	2,422	0	0	0
Other investing activities	0	0	0	0
Cash flow from investing activities	**-2,116**	**-2,500**	**-2,500**	**-2,600**
Free cash flow	12,540	14,374	19,645	22,237
Equity raised/(repaid)	545	0	0	0
Debt raised/(repaid)	-1	0	0	0
Dividend (incl. tax)	-13,547	-19,001	-16,549	-17,162
Cash flow from financing activities	**-13,003**	**-19,001**	**-16,549**	**-17,162**
Net chg in cash	-463	-4,627	3,096	5,075
Opening cash balance	4,002	3,878	-749	2,346
Closing cash balance	3,878	-749	2,346	7,421

Source: Company, Axis Research

Ratio Analysis (%)

Y/E Mar	FY22	FY23E	FY24E	FY25E
EPS (INR)	12.3	15.2	17.5	19.9
Growth, %	15.5	24.1	14.9	13.4
Book NAV/share (INR)	50.1	49.9	53.9	59.8
FDEPS (INR)	12.3	15.2	17.5	19.9
CEPS (INR)	13.6	16.5	19.0	21.4
CFPS (INR)	10.1	11.8	15.8	17.7
DPS (INR)	11.1	15.5	13.5	14.0
Return ratios				
Return on assets (%)	20.6	25.0	27.5	28.7
Return on equity (%)	24.5	30.5	32.5	33.2
Return on capital employed (%)	24.2	29.6	32.7	33.9
Turnover ratios				
Asset turnover (x)	1.9	2.0	2.0	2.2
Sales/Total assets (x)	0.8	0.9	0.9	0.9
Sales/Net FA (x)	2.2	2.5	2.7	2.9
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Receivable days	12.8	25.0	25.0	25.0
Inventory days	65.5	65.5	65.5	65.5
Payable days	41.2	42.9	43.9	44.2
Working capital days	26.0	41.7	43.7	45.6
Liquidity ratios				
Current ratio (x)	2.7	2.5	2.8	3.2
Quick ratio (x)	1.8	1.5	1.8	2.1
Interest cover (x)	412.0	532.9	606.4	682.7
Net debt/Equity (%)	(6.3)	1.2	(3.5)	(10.1)
Valuation				
PER (x)	36.6	29.5	25.7	22.7
PEG (x) - y-o-y growth	2.4	1.2	1.7	1.7
Price/Book (x)	9.0	9.0	8.3	7.5
EV/Net sales (x)	9.6	8.3	7.5	6.6
EV/EBITDA (x)	28.3	22.6	19.6	17.2
EV/EBIT (x)	31.0	24.3	21.0	18.3

Source: Company, Axis Research

POLYCAB INDIA – STRONG GROWTH OUTLOOK

Polycab India is a leading manufacturer of Cables & Wires with a market share of 22-24% in the organised market. It boasts a large distribution reach spanning over 4,200 dealers and distributors covering over 2 Lc retail outlets. In 2009, the company diversified into the EPC business to strategically cater to the Cables & Wires requirement of large infrastructure EPC projects. Furthermore, in 2014, the company also entered into the high-growth FMEG segment and started manufacturing fans, switches & switchgear, LED lighting, solar products, and accessories. Currently, Polycab has 25 manufacturing units across Maharashtra, Gujarat, Uttarakhand, and Daman & Diu.

Industry view

Equal Weight

CMP
3,551

Target Price
3,905

Upside
10%

Key Rationale

- **Healthy demand outlook:** The management continues to maintain its revenue target of Rs 20,000 Cr by FY26 and overall EBITDA margins at ~13% going forward. It remained optimistic about improving the demand scenario on account of a) Higher infrastructure spending by the government, b) Pick up in the private Capex, c) Increasing launches of real estate projects and d) Higher contribution from exports going forward.
- **Strong growth in the C&W segment:** In Q4FY23, Polycab India reported revenues of Rs 4,324 Cr, up 8.9% YoY, which was better than our expectations of Rs 4,184 Cr. Growth in revenues during the quarter was driven by healthy volume growth in the Cables & Wires segment and was supported by strong traction in the international business. Cables & Wires segment's revenue for the quarter grew by 12% YoY to Rs 4,078 Cr. The FMEG segment de-grew by 11% QoQ during the quarter. While Heavy channel stocking ahead of the new BEE norms impacted the Fans business, the Switches business saw healthy sales momentum during the quarter.
- **Improved outlook for FMEG:** The FMEG segment witnessed a decline of 11% QoQ due to higher channel inventory of Fans and distribution channel re-alignment undertaken during the year. The channel inventory of Fans has almost cleared and with the expected benefit from the distributor re-alignment strategy, the management expects profitable growth in the FMEG segment moving forward.
- **Margins to be maintained in the range of 11-13%:** Gross Margins at 25.2% were almost in line with our estimates of 25.4%. It showed an improvement of 298bps YoY but a decline of 54 bps QoQ. The EBITDA margins at 14.1% were better than our estimates of 13.6%. The margin improvement was led by operating leverage and judicious price hikes undertaken by the company during the quarter. The management is confident of maintaining the margins at ~13% in the medium term.
- **Outlook &Valuation:** Polycab has maintained the leadership position in the organized C&W segment with a market share of 24%+. With a strong distribution network and a strong brand recall, the company continues to gain market share in Wires & Cables and FMEG segments. The management remains confident of sustained growth in Cables & Wires aided by increasing contributions from the international business. Moreover, the company expects its re-aligned distribution strategy to achieve profitable growth in the FMEG segment going forward.

Key Financials (Consolidated)

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)
FY22	12,204	1,265	848	62.4	10.6	52.6	17.6	21.6
FY23E	14,108	1,920	1336	98.3	57.6	36.1	21.5	29.0
FY24E	16,184	1,995	1373	101.1	2.8	35.1	18.6	25.1
FY25E	18,979	2,408	1,661	122.2	20.9	29.1	19.0	26.3

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY22	FY23E	FY24E	FY25E
Net sales	12,204	14,108	16,184	18,979
Other operating income	0.0	0.0	0.0	0.0
Total income	12,204	14,108	16,184	18,979
Cost of goods sold	10,939	12,187	14,189	16,571
Contribution (%)	10.4%	13.6%	12.3%	12.7%
Advt/Sales/Distrn O/H	0.0	0.0	0.0	0.0
Operating Profit	1,265	1,920	1,995	2,408
Other income	90	124	128	133
PBIDT	1,355	2,045	2,123	2,541
Depreciation	202	232	260	289
Interest & Fin Chg.	35	27	28	31
E/o income / (Expense)	0	0	0	0
Pre-tax profit	1,118	1,786	1,835	2,221
Tax provision	271	449	462	560
PAT before Comprehensive Income	848	1,336	1,373	1,661
Profit from Discontinued Ops	72	0	0	0
(-) Minority Interests	0	0	0	0
Associates	-3	0	0	0
Other Comprehensive Income	0.0	0.0	0.0	0.0
Adjusted PAT	845	1,336	1,373	1,661

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY22	FY23E	FY24E	FY25E
Total assets	5,687	7,211	8,431	11,774
Net Block	1,675	1,998	2,278	2,389
CWIP	375.5	420.0	280.0	280.0
Investments	9.3	9.3	9.3	9.3
Wkg. cap. (excl cash)	3,089	3,965	4,371	6,805
Cash / Bank balance	407.1	652	1,324	2,104
Misc. Assets	131.0	166.0	169.2	186.8
Capital employed	5,687	7,211	8,431	11,774
Equity capital	149.4	149.4	149.4	149.4
Reserves	5,394	6,560	7,764	8,802
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	25.1	25.1	25.1	25.1
Long Term Borrowings	3.0	10.0	17.0	24.0
Def Tax Liabilities	27.2	27.8	27.0	20.0
Other Provisions	88	438	449	2,754

Source: Company, Axis Research

Cash Flow **(Rs Cr)**

Y/E March	FY22	FY23E	FY24E	FY25E
Sources	780	1,378	1,468	1,327
Cash profit	1,084	1,595	1,661	1,981
(-) Dividends	149	170	170	623
Retained earnings	935	1,425	1,491	1,358
Issue of equity	0	0	0	0
Change in Oth. Reserves	35	0	0	0
Borrowings	-101	7	7	7
Others	-90	-54	-30	-38
Applications	780	1,378	1,468	1,327
Capital expenditure	262	633	402	418
Investments	141	0	0	0
Net current assets	319	500	395	129
Change in cash	59	245	672	780

Source: Company, Axis Research

Ratios **(%**

Y/E March	FY22	FY23E	FY24E	FY25E
Sales growth	38.8	15.6	14.7	17.3
OPM	10.4	13.6	12.3	12.7
Oper. profit growth	13.9	51.8	3.9	20.7
COGS / Net sales	89.6	86.4	87.7	87.3
Overheads/Net sales	0.0	0.0	0.0	0.0
Depreciation / G. block	7.6	7.2	6.9	7.0
Effective interest rate	25.5	31.6	32.8	34.9
Net wkg.cap / Net sales	0.26	0.27	0.30	0.30
Net sales / Gr block (x)	4.6	4.4	4.3	4.6
Core RoCE	23.0	31.6	26.9	27.7
Debt / equity (x)	0.01	0.01	0.01	0.01
Effective tax rate	24.2	25.2	25.2	25.2
RoE	17.6	21.5	18.6	19.0
Payout ratio (Div/NP)	16.3	12.7	12.4	37.5
EPS (Rs)	62.4	98.3	101.1	122.2
EPS Growth	10.6	57.6	2.8	20.9
CEPS (Rs)	82.4	115.5	120.2	143.5
DPS (Rs)	11.0	10.4	10.4	20.8

Source: Company, Axis Research

FEDERAL BANK – GROWTH LEVERS INTACT!

Federal Bank (FB) is a Kerala-based private sector bank with a pan-India presence. It has exposure to Insurance and NBFC business through its joint venture with IDBI and wholly-owned subsidiary FedFina. The bank continues to proactively execute its strategy of a branch-light and distribution-heavy franchise.

Industry view

Equal Weight

CMP
126

Target Price
155

Upside
23%

Key Rationale

- **Improved Loan-mix Balance:** FB's credit growth witnessed continued growth momentum and remained robust in Q4FY23 with advances growing at 20/4% YoY/QoQ. We expect the book to grow at an ~18% CAGR over FY23-25E, supported by a broad-based demand pick-up across segments, strong growth in newer segments such as credit cards and personal loans, and ample opportunities in the core segments. The bank is also keenly focused on neo-banking tie-ups to reach the country's under-banked population and expects these partnerships to contribute meaningfully to the overall business growth moving forward. We believe this will not only keep the bank's customer acquisition costs low but will also help FB to augment its business growth moving forward as well.
- **Improving Liability Franchise:** FB has been amongst the few mid-tier banks that have consistently improved their deposit base. Deposits growth picked up in Q4FY23 to 17/6% YoY, largely driven by TDs (+25/8% YoY/QoQ). We expect its Fintech partners to continue supporting its deposit growth moving ahead. We expect FB to deliver a healthy 16% CAGR over the medium term.
- **Manageable Asset Quality:** Similar to the frontline banks, FB has managed COVID-19 stress quite well. In Q4FY23, its asset quality improved by 44/7bps YoY/QoQ with GNPA at 2.4% aided by healthy recoveries, even as slippages inched up marginally QoQ. Asset quality trends continue to remain encouraging aided by lower slippages and strong recoveries. We expect further improvement in asset quality metrics, thereby keeping credit costs steady at ~50bps over the medium term.
- **Outlook:** FB is cautiously building a loan mix toward high-rated corporate and retail loans. The bank's liability franchise remains strong with CASA plus Retail TD of over 90% and one of the highest Liquidity Coverage Ratios (LCR) among banks. Restructuring levels are also under control. While a large part (~80%) of the interest rate hikes has already reflected in the CoF, some effect of deposit repricing will be visible in Q1FY24, thereby weighing on the margins. Against this backdrop, margins are expected to remain soft in H1FY24 and improve in H2FY24. The improving share of new high-yielding products along with loan repricing (room to improve yields on MCLR linked loans, ~15% book is eligible for repricing) will support lending yields as well as partially offset the impact of higher CoF. Thus, the management expects margins to remain stable at 330-335bps over FY24-25E. Thus, despite margin pressures, moderating Opex ratios (with the C-I ratio expected to improve by ~100bps) and benign credit costs should enable FB to deliver RoA of 1.3%.
- **Valuation:** FB's key strengths continue to be i) Sustained credit growth, ii) Strong liability franchise, iii) Improving fee income with the bank looking to deepen the relationship with corporates to improve client wallet share, iv) Improving Cost Ratios, and v) Benign credit costs backed by robust asset quality metrics. We maintain a BUY rating on the stock with a target price of Rs 155/share (1.3x Sep'24E ABV).
- **Key risks**: a) Loan growth moderation

Key Financials (Standalone)

Y/E Mar (Rs Cr)	NII (Rs Cr)	PPOP (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	ABV (x)	P/ABV (x)	ROAA (%)	NNPA (%)
FY22	5,962	3,758	1,890	9.0	82.8	1.5	0.9	1.0
FY23E	7,232	4,794	3,011	14.2	95.9	1.3	1.3	0.7
FY24E	8,254	5,634	3,512	16.6	110.0	1.1	1.3	0.7
FY25E	9,635	6,761	4,218	19.9	126.9	1.0	1.3	0.7

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E MAR	FY22	FY23E	FY24E	FY25E
Net Interest Income	5,962	7,232	8,254	9,635
Other Income	2,089	2,330	2,845	3,402
Total Income	8,051	9,562	11,099	13,036
Total Operating Exp	4,293	4,768	5,462	6,275
PPOP	3,758	4,794	5,637	6,761
Provisions & Contingencies	1,222	750	941	1,121
PBT	2,536	4,044	4,696	5,640
Provision for Tax	646	1,034	1,184	1,422
PAT	**1,890**	**3,011**	**3,512**	**4,218**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E MAR	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS				
Share Capital	421	423	423	423
Reserves	18,373	21,083	24,244	28,040
Shareholder's Funds	18,794	21,506	24,667	28,463
Total Deposits	1,81,701	2,13,386	2,46,635	2,85,787
Borrowings	15,393	19,319	22,518	30,384
Other Liabilities & Provisions	5,059	6,130	7,085	8,311
Total Liabilities	**2,20,946**	**2,60,342**	**3,00,906**	**3,52,945**
APPLICATION OF FUNDS				
Cash & Bank Balance	21,010	17,689	18,476	21,409
Investments	39,179	48,983	54,149	62,745
Advances	1,44,928	1,74,447	2,06,062	2,42,731
Fixed Assets & Other Assets	15,828	19,223	22,218	26,060
Total Assets	**2,20,946**	**2,60,342**	**3,00,906**	**3,52,945**

Source: Company, Axis Research

Key Ratios (%)

Y/E MAR	FY22	FY23E	FY24E	FY25E
VALUATION RATIOS				
EPS	9.0	14.2	16.6	19.9
Earnings Growth (%)	*12.8*	*58.3*	*16.7*	*20.1*
BVPS	89.4	101.6	116.6	134.5
Adj. BVPS	82.8	95.9	110.0	126.9
ROAA (%)	0.9	1.3	1.3	1.3
ROAE (%)	10.8	14.9	15.2	15.9
P/E (x)	14.0	8.9	7.6	6.3
P/ABV (x)	1.5	1.3	1.1	1.0
DPS	2.5	1.0	1.7	2.0
Dividend Yield (%)	2.0	0.8	1.3	1.6
PROFITABILITY				
NIM (%)	3.2	3.3	3.2	3.2
Cost-Income Ratio	53.3	49.9	49.2	48.1

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY22	FY23E	FY24E	FY25E
Loan Growth (%)	9.9	20.4	18.1	17.8
Deposit Growth (%)	5.2	17.4	15.6	15.9
C/D Ratio (%)	79.8	81.8	83.5	84.9
CAR	15.8	14.8	14.2	13.7
CAR Tier I	14.4	13.0	12.5	12.1
ASSET QUALITY				
Gross NPLs (%)	2.9	2.4	2.3	2.3
Net NPLs (%)	1.0	0.7	0.7	0.7
Coverage Ratio (%)	66.3	71.2	71.0	71.0
ROAA Tree				
Net Interest Income	2.8	3.0	2.9	2.9
Non-Interest Income	1.0	1.0	1.0	1.0
Operating Cost	2.0	2.0	1.9	1.9
Provisions	0.6	0.3	0.3	0.3
Tax	0.3	0.4	0.4	0.4
ROAA	0.9	1.3	1.3	1.3
Leverage (x)	12.1	11.9	12.2	12.3
ROAE	10.8	14.9	15.2	15.9

Source: Company, Axis Research

Ashok Leyland – Market Share Gain and Profitability To Sustain Growth

Ashok Leyland (AL) – a flagship company of Hinduja Group, is the third-largest commercial vehicle manufacturer in India. AL's key products comprise buses, trucks, engines, defence, and special vehicles. The company has 6 manufacturing plants across 4 locations in India — Ennore (Tamil Nadu), Hosur (Tamil Nadu), Alwar (Rajasthan), Bhandara (Maharashtra,) and Pantnagar (Uttaranchal) with a capacity of 164k units for Medium & Heavy Commercial Vehicles (M&HCV) and 72k units for Light Commercial Vehicles (LCVs). It focuses on the M&HCV segment and has a significant presence in the bus segment. A separate EV mobility business with headquarters in UK has been established under name "Switch Mobility".

Industry view

Over Weight

CMP
167

Target Price
190

Upside
14%

Key Rationale

- **Longish CV cycle:** AL expects industry to grow by 10% in the MHCV and mid single-digit growth in the LCV segment on a YoY basis in FY24. Also, passenger MHCV(buses) demand is expected to grow by ~30% YoY in FY24 led by replacement demand from institutions. The management expects similar growth momentum in FY25, thereby indicating CV upcycle to remain longish.
- **Strong EBITDA Margins:** AL reported 11% EBITDA margins in Q4FY23. The management expects double-digit EBITDA margin in FY24 and aspires for mid-teen margin over the medium term. We expect EBITDA margins to sustain going ahead on account of (1) Higher ASP and lower discounts leading to higher net realizations; (2) Higher GMs on softening commodity costs (3) Richer product mix skewed towards higher tonnage vehicles; (4) Operating leverage driven by absolute volume growth; (5) Growth in International business, Defence, Power Solutions, and Aftermarket which are higher margin contributing businesses.
- **EV Business to Accelerate:** The management has informed that Switch Mobility (EV subsidiary arm) currently has a confirmed order book of 2,500 EVs across multiple geographies like India, the UK, and Europe. AL plans to invest Rs 1,200 Cr over the next 12 months in SWITCH. The investment is predominantly towards meeting Capex requirements in developing new products – two new LCVs: Electric Dost and Bada Dost; low floor 12/9 meter buses for the EU/Indian market respectively.
- **Focus on Electrification:** Currently the EV business is at a nascent stage and business models like E-Mobility as a service is evolving in India. Further demand from institutions like schools/ private operators is expected to go up significantly as operating costs are negligible.The management has informed that Switch Mobility (EV subsidiary arm) currently has a confirmed order book of 2,500 EVs across multiple geographies like India, the UK, and Europe. The management remains very positive and optimistic about the future of the electric vehicle and believes AL to be well positioned compared to many of its global competitors.
- **Valuation & Outlook:** AL's broad strategy focuses on (1) Investing in future technologies – EV, Hydrogen, and Alternative fuels (2) Achieving strong EBITDA margins on the back of higher ASP, lower discounts, softening commodity costs, cost reduction strategies, and operating leverage, (3) Increasing domestic market share to mid 30% in the MHCV (32% in FY23) segment via new product launches (AVTR range); and network expansion in India (mainly northeast), (4) Increasing business from International markets- EU, Middle East, African countries and SAARC region. (5) Increasing revenue mix from Defence Equipment/Vehicles, Exports, Spares and Aftermarket (thereby hedging its dependence on the cyclical truck business). AL remains well-positioned to benefit from the CV upcycle. On the back of these growth drivers, we forecast Revenue/EBITDA/PAT CAGR of 11%/21%/34% over FY23-26E. We maintain our BUY rating on the stock, and revise our TP upwards to Rs 190/sh from Rs 175/share. We roll forward our valution at 19x Jun'25 EPS (previously on FY25E EPS), implying an upside of 14% from the CMP.
- **Key risks:** a) Higher Interest rate, b) Macro Economic risks, and c) Higher fuel prices.

Key Financials (Standalone)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	ROCE (%)	ROE (%)	EV/EBIDTA (x)
FY23A	36,144	2,931	1,325	4.5	33	12.6	16.5	15.9
FY24E	41,226	3,900	2,251	7.7	22	18.4	23.6	12.8
FY25E	47,183	4,701	2,801	9.5	18	19.5	23.8	10.1
FY26E	49,941	4,927	2,984	10.2	17	17.7	20.7	9.0

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY22A	FY23A	FY24E	FY25E
Net revenues	21,688	36,144	41,226	47,183
Operating expenses	20,694	33,213	37,326	42,482
EBIDTA	**995**	**2,931**	**3,900**	**4,701**
EBIDTA margin (%)	**4.6**	**8.1**	**9.5**	**10.0**
Other income	76	116	149	153
Interest	301	289	288	258
Depreciation	753	732	759	861
Profit Before Tax	528	2,110	3,001	3,735
Tax	(14)	730	750	934
Reported Net Profit	**542**	**1,380**	**2,251**	**2,801**
Net Margin (%)	2.5	3.8	5.5	5.9
Adjusted Net Profit	**17**	**1,325**	**2,251**	**2,801**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY22A	FY23A	FY24E	FY25E
Equity capital	294	294	294	294
Reserves & surplus	7,043	8,132	10,090	12,597
Shareholders' funds	7,337	8,426	10,383	12,891
Total Loans	3,507	3,180	2,880	2,580
Deferred tax liability	144	504	504	504
Total Liabilities and Equity	**10,988**	**12,109**	**13,767**	**15,974**
Gross block	10,612	10,919	11,401	12,126
Depreciation	3,452	3,984	4,743	5,604
Net block	7,160	6,935	6,658	6,522
Capital WIP	194	133	350	375
Investments	4,820	6,664	6,864	7,064
Inventory	2,075	2,774	3,163	3,619
Debtors	3,111	4,063	4,292	4,912
Cash & Bank Bal	1,047	501	2,291	4,369
Loans & Advances	1,927	1,522	2,392	2,767
Current Assets	8,160	8,861	12,138	15,668
Sundry Creditors	6,875	7,175	8,064	9,177
Other Current Liability	2,470	3,307	4,179	4,476
Current Liability& Provisions	9,345	10,482	12,242	13,654
Net current assets	(1,185)	(1,621)	(104)	2,014
Total Assets	**10,988**	**12,109**	**13,767**	**15,974**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY22A	FY23A	FY24E	FY25E
EBIT	242	2,199	3,141	3,840
Other Income	76	116	149	153
Depreciation & Amortisation	753	732	759	861
Interest paid(-)	(301)	(289)	(288)	(258)
Tax paid(-)	14	(730)	(750)	(934)
Extra Ord Income	511	85	-	-
Operating Cash Flow	1,295	2,112	3,010	3,662
Change in Working Capital	1,308	(110)	273	(41)
Cash flow from Operations	**2,603**	**2,002**	**3,283**	**3,621**
Capex	(198)	(445)	(700)	(750)
Investment	(1,751)	(1,844)	(200)	(200)
Cash flow from Investing	**(1,949)**	**(2,289)**	**(900)**	**(950)**
Change in borrowing	(222)	(327)	(300)	(300)
Others	(32)	361	(0)	-
Dividends paid (-)	(176)	(294)	(294)	(294)
Cash flow from Financial Activities	**(430)**	**(259)**	**(594)**	**(594)**
Change in Cash	224	(546)	1,790	2,078
Opening cash	823	1,047	501	2,291
Closing cash	1,047	501	2,291	4,369

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY22A	FY23A	FY24E	FY25E
Revenue Growth	41.7	66.7	14.1	14.4
EBITDA Margin	4.6	8.1	9.5	10.0
Net Profit Margin	0.1	3.7	5.5	5.9
ROCE (%)	2.9	12.6	18.4	19.5
ROE (%)	0.2	16.5	23.6	23.8
EPS	0.1	4.5	7.7	9.5
P/E (x)	1,997.3	33.3	21.9	17.6
P/ BV (x)	4.7	5.2	4.7	3.8
EV/ EBITDA (x)	37.1	15.9	12.8	10.1
Fixed Assets Turnover Ratio (x)	3.9	7.0	8.0	9.4
Debt / Equity (x)	0.5	0.4	0.3	0.2
EV/ Sales (x)	1.7	1.3	1.2	1.0

Source: Company, Axis Research

Relaxo Footwear Ltd - Recovery on the cards

Relaxo is the largest footwear manufacturer in India. It manufactures quality and affordable footwear comprising slippers, sandals, sports, and casual shoes. The company boasts several popular brands including Relaxo, Sparx, Flite, and the Bahamas which stand as leaders in their respective domains. Its product mix comprises Hawai and Bahamas which account for ~25% of total sales value (60% shoes and 40% sandals) while Flite and Sparks account for ~37% of total sales each.

Industry view

Over Weight

CMP
909

Target Price
990

Upside
10%

Key Rationale

- **Rural demand on a recovery track –** Post COVID-19, rural recovery has been slow on account of weak consumer demand due to high inflation eating in their wallet shares. We believe this has resulted in a huge pent-up demand for discretionary categories such as footwear and clothing which will benefit value players such as Relaxo and V-Mart going forward. In Q4FY23, most companies witnessed some signs of recovery in rural India which we believe is likely to continue in coming quarters as well. This will be led by factors such as – 1) Government spending on infrastructure to be on the higher side as major states' elections this year would set a base for the next year's general election, 2) Strong Apr'23 service PMI numbers of 62 were the highest in nearly 13 years. This showcases the continued growth momentum in the service economy activity and would also drive overall urban remittances in rural, 3) Rural wages are already on an upward trajectory which is further supported by the RBI intervention in controlling overall inflation.
- **Stable raw material prices to drive margins –** The inflation in raw material prices played a spoilsport for the company in FY23 in terms of profitability and market share loss as it had to undertake price hikes in the face of intense competition. However, we believe RM prices are likely to remain stable moving ahead and margins are likely to recover as well. The management in the Q4FY23 concall highlighted that the post-correction of the prices in Q3FY23, the high-cost inventory at the distributor and retail has been stabilised and the prices are now competitive. We believe this will lead to further market share gains.
- **Strong summer season –** In Q4FY23, demand for Relaxo was strong on account of price cuts. Furthermore, summer being the peak season for open footwear (~75% of sales) Relaxo is likely to benefit from the same.
- **Outlook**: The company'sQ4FY23 result was strong and the management's FY24 outlook gave us confidence that the worst is behind the company as – a) Demand environment is likely to recover in FY24, especially in rural areas, 2) Raw material prices remain stable which will aid further gross margins expansion, 3) The company is regaining its lost market share from unorganised players, 4) Focus on premiumisation through increasing the share of a fast-growing sports and athleisure category, and 5) Doubling the capacity of Sparx from the current 50,000 pairs/day to 100,000 pairs/day at Bhiwadi (Rajashtan). These are steps in the right direction which should help Relaxo prosper in the medium to long term.
- **Key risks:** a) Prolonged in rural recovery, 2) increase in raw material prices

Key Financials (Standalone)

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	EPS (Rs)	PER (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	D/E (x)
FY22	2,653	416	9.4	96.3	13.2	13.6	53.5	1.1
FY23E	2,783	336	6.2	145.0	8.3	8.8	66.1	1.1
FY24E	3,342	514	11.7	77.3	14.1	14.6	42.9	1.0
FY25E	3,988	676	16.5	54.6	17.2	18.1	32.3	0.8

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar, Rs Cr	FY22	FY23E	FY24E	FY25E
Net sales	**2,653**	**2,783**	**3,342**	**3,988**
Growth, %	12.5	4.9	20.1	19.3
Other operating income	0	0	0	0
Total income	2,653	2,783	3,342	3,988
Raw material expenses	-1,217	-1,334	-1,508	-1,764
Employee expenses	-335	-343	-412	-474
Other Operating expenses	-686	-769	-908	-1,074
EBITDA (Core)	**416**	**336**	**514**	**676**
Growth, %	(16.1)	(19.2)	53.1	31.4
Margin, %	15.7	12.1	15.4	16.9
Depreciation	-114	-125	-129	-133
EBIT	**302**	**211**	**386**	**543**
Growth, %	(21.6)	(30.3)	83.0	40.9
Margin, %	11.4	7.6	11.5	13.6
Other Income	24	19	21	25
Non-recurring Items	0	0	0	0
Pre-tax profit	**311**	**210**	**387**	**548**
Tax provided	-78	-56	-98	-138
Profit after tax	**233**	**154**	**290**	**410**
Growth, %	(20.2)	(33.6)	87.6	41.5
Net Profit (adjusted)	**233**	**154**	**290**	**410**
Unadj. shares (cr)	25	25	25	25

Source: Company, Axis Research

Balance Sheet (Rs Cr)

As at 31st Mar, Rs Cr	FY22	FY23E	FY24E	FY25E
Cash & bank	13	56	189	424
Debtors	251	263	316	377
Inventory	673	706	848	1,012
Loans & advances	0	0	0	0
Other current assets	81	81	81	81
Total current assets	1,187	1,275	1,604	2,063
Investments	25	25	25	25
Gross fixed assets	1,427	1,567	1,617	1,667
Less: Depreciation	-439	-564	-693	-826
Add: Capital WIP	149	149	149	149
Net fixed assets	1,136	1,151	1,072	990
Non-current assets	34	34	34	34
Total assets	**2,383**	**2,486**	**2,735**	**3,112**
Current liabilities	461	472	519	573
Provisions	19	19	19	19
Total current liabilities	480	491	537	591
Non-current liabilities	143	143	143	143
Total liabilities	622	633	680	734
Paid-up capital	25	25	25	25
Reserves & surplus	1,735	1,828	2,030	2,354
Shareholders' equity	1,760	1,852	2,055	2,378
Total equity & liabilities	**2,383**	**2,486**	**2,735**	**3,112**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar (Rs Cr)	FY22	FY23E	FY24E	FY25E
Pre-tax profit	311	210	387	548
Depreciation	114	125	129	133
Chg in working capital	-244	-34	-148	-171
Total tax paid	-81	-56	-98	-138
Cash flow from operating activities	**100**	**245**	**271**	**372**
Capital expenditure	-194	-140	-50	-50
Chg in marketable securities	12	0	0	0
Cash flow from investing activities	**-206**	**-140**	**-50**	**-50**
Free cash flow	-107	105	221	322
Equity raised/(repaid)	167	0	0	0
Dividend (incl. tax)	-62	-62	-87	-87
Cash flow from financing activities	**105**	**-62**	**-87**	**-87**
Net chg in cash	-2	43	134	235
Opening cash balance	8	13	56	189
Closing cash balance	13	56	189	424

Source: Company, Axis Research

Ratio Analysis (%)

Y/E Mar	FY22	FY23E	FY24E	FY25E
EPS (INR)	9.4	6.2	11.7	16.5
Growth, %	(20.2)	(33.6)	87.6	41.5
Book NAV/share (INR)	70.9	74.6	82.7	95.8
FDEPS (INR)	9.4	6.2	11.7	16.5
CEPS (INR)	13.9	11.3	16.8	21.8
CFPS (INR)	2.7	9.1	10.0	14.0
DPS (INR)	2.5	2.5	3.5	3.5
Return ratios				
Return on assets (%)	10.9	7.1	11.8	14.7
Return on equity (%)	13.2	8.3	14.1	17.2
Return on capital employed (%)	13.6	8.8	14.6	18.1
Turnover ratios				
Asset turnover (x)	1.9	1.7	2.0	2.3
Sales/Total assets (x)	1.2	1.1	1.3	1.4
Sales/Net FA (x)	2.4	2.4	3.0	3.9
Working capital/Sales (x)	0.2	0.2	0.2	0.2
Receivable days	34.5	34.5	34.5	34.5
Inventory days	92.6	92.6	92.6	92.6
Payable days	36.2	34.7	36.1	36.7
Working capital days	74.9	75.9	79.3	82.1
Liquidity ratios				
Current ratio (x)	2.6	2.7	3.1	3.6
Quick ratio (x)	1.1	1.2	1.5	1.8
Interest cover (x)	19.7	11.0	19.8	27.7
Dividend cover (x)				
Total debt/Equity (%)	1.1	1.1	1.0	0.8
Net debt/Equity (%)	0.4	(1.9)	(8.2)	(17.0)
Valuation				
PER (x)	96.3	145.0	77.3	54.6
PEG (x) - y-o-y growth	(4.8)	(4.3)	0.9	1.3
Price/Book (x)	12.7	12.1	10.9	9.4
EV/Net sales (x)	8.4	8.0	6.6	5.5
EV/EBITDA (x)	53.5	66.1	42.9	32.3
EV/EBIT (x)	73.6	105.4	57.2	40.2

Source: Company, Axis Research

RITES LIMITED – ROBUST ORDER BOOK & INDUSTRY TAILWIND TO DRIVE GROWTH

RITES- a Miniratna (Schedule A) CPSE under the Ministry of Railways, is an engineering consultancy company. It is a leading multi-disciplinary engineering and consultancy organization specialized in the field of transport infrastructure providing diversified and comprehensive services from concept to commissioning. The company is a preferred consultancy organization for Government of India (GoI) including Indian Railways.

Industry view

Equal weight

CMP
372

Target Price
450

Upside
21%

Key Rationale

- **Robust & Diversified Order Book:** With an order inflow of Rs 3,080 Cr in FY23, the order book stands healthy at Rs 5,870 Cr as of 31st Mar'23, giving revenue visibility for the next 2 years. With the addition of new export order of Rs 664 Cr, the total unadjusted order book now stands at Rs 6,600 Cr and the addition of more export orders will keep the order book healthy moving ahead. The consultancy segment comprises 41% of the order book, which is a high-margin business and we foresee sustainable growth in both the domestic and overseas consultancy business of the company moving forward. We expect the company to grow its Revenue/EBITDA at a CAGR of 12%/11% over FY23-FY25E.
- **Government support:** The increasing Railway and Road Capex in the Union Budget 2023-24 is throwing massive opportunities in various areas of consultancy for the company. Being a leading player in the transport consultancy, RITES is expected to be a significant beneficiary of the Indian Railways' infrastructure push. Opportunities within railways such as track doubling, electrification, 3rd line, and up-gradation of signaling systems along with railway station development offer significant headroom for future growth. In light of this, we expect the company to grow its profit at 12% CAGR over FY23-FY25E.
- **Healthy Dividend Payout:** In FY23, the board recommended a dividend of Rs 492 Cr (86% payout, Rs 20.5/share), implying a healthy dividend yield of 5.12% on the CMP. We expect the company to maintain its healthy dividend payout to shareholders. As of 31st Mar'23, the company's cash and bank balance stood healthy at Rs 1,136 Cr which is equivalent to 12% of the current market cap.
- **Outlook:** Higher Capex outlay in the Budget 2023-24 for Railways and Highways has provided the company with large opportunities to grow its business verticals. With a good order book position, efficient execution prowess, clean balance sheet, high return ratios, and healthy dividend payout, we expect the company to post healthy Revenues/EBITDA/APAT growth of 12%11%/12% CAGR respectively over FY23-25E
- **Valuation:** Stock is currently trading at 17x and 14 x FY24E/FY25E EPS which is reasonable considering its clean balance sheet,high return ratios and healthy dividend payout. We recommend a BUY rating on the company and value the stock at 16x FY25 EPS to arrive at a target price of Rs 450/share, implying an upside potential of 21% from CMP.
- **Key risks:** a) Slower order wins may impact revenue growth, and Higher competitive intensity may impact margins.

Key Financials (Standalone)

Y/E Mar (Rs crs)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	APAT (Rs Cr)	EPS (Rs)	PER (x)	EV/EBITDA (x)	P/BV (x)	RoE (%)
2022	2,662	724	516	21.5	15.4	10.9	3.2	21.2
2023	2,628	745	542	22.6	17.6	12.7	3.7	21.3
2024E	2,802	781	574	23.9	16.7	10.8	3.5	19.7
2025E	3,277	911	672	28.0	14.2	9.1	3.2	21.6

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY22E	FY23E	FY24E	FY25E
Net sales	**2,662**	**2,628**	**2,802**	**3,277**
Other operating income	0	0	0	0
Total income	**2,662**	**2,628**	**2,802**	**3,277**
Employee Expenses	517	509	552	645
Contribution (%)	81%	*81%*	*80%*	*80%*
Other Expenses	1,421	1,375	1,469	1,720
Operating Profit	**724**	**745**	**781**	**911**
Other income	83	102	123	144
PBIDT	**807**	**847**	**904**	**1,055**
Depreciation	66	67	76	85
Interest & Fin Chg.	7	7	8	9
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**734**	**773**	**821**	**962**
Tax provision	197	203	213	250
PAT	**538**	**570**	**608**	**712**
(-) Minority Interests	22	29	34	39
Associates	1	1	0	0
Other Comprehensive Income	0.0	0.0	0.0	0.0
Adjusted PAT	**516**	**542**	**574**	**672**
Reported PAT	**516**	**542**	**574**	**672**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY22E	FY23E	FY24E	FY25E
Total assets	**2,817**	**3,018**	**3,177**	**3,443**
Net Block	540	531	580	621
CWIP	58	101	25	25
Investments	149	126	126	126
Wkg. cap. (excl cash)	957	997	960	1,058
Cash / Bank balance	708	890	1,111	1,239
other Assets	405	374	374	374
Capital employed	**2,817**	**3,018**	**3,177**	**3,443**
Equity capital	240	240	240	240
Reserves	2,248	2,363	2,515	2,746
Pref. Share Capital	0	0	0	0
Minority Interests	106	115	115	115
Borrowings	25	0	0	0
LT Provisions and others	30	20	20	20
Def tax Liabilities	168	279	286	321

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY22E	FY23E	FY24E	FY25E
PBT	735	774	821	962
Depreciation	66	67	76	85
Interest Expense	7	7	8	9
Changes in Working Capital	-296	-65	37	-98
Others	-17	-40	0	0
Tax Paid	-185	-183	-213	-250
Net Cash from Operations	**310**	**560**	**720**	**698**
Capex	-142	-136	-49	-125
Investment	0	0	0	0
Others	170	71	0	0
Net Cash from Investing	**53**	**-15**	**-49**	**-125**
Borrowings	-7.7	-25	0.0	0.0
Interest Expense	-2	0	-8	-9
Dividend paid	-421	-433	-457	-481
Others	-10	-26	7	35
Net Cash from Financing	**-440**	**-483**	**-450**	**-446**
Net Change in Cash	**-69**	**64**	**221**	**128**
Opening cash	119	50	114	335
Closing cash	**50**	**114**	**335**	**463**

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY22E	FY23E	FY24E	FY25E
Sales growth	**43.1**	**(1.3)**	**6.6**	**17.0**
OPM	**27.2**	**28.3**	**27.9**	**27.8**
Oper. profit growth	43.6	2.9	4.9	16.6
Employee Expense / Net sales	19.4	19.3	19.7	19.7
Overheads/Net sales	53.4	52.3	52.4	52.5
Depreciation / G. block	7.8	7.4	7.4	7.4
Effective interest rate	29.4	57.3	-	-
Net wkg.cap / Net sales	0.60	0.64	0.48	0.31
Net sales / Gr block (x)	3.2	2.9	2.7	2.9
RoCE	**26.7**	**26.8**	**26.8**	**29.3**
Debt / equity (x)	0.0	0.0	0.0	0.0
Effective tax rate	26.8	26.3	26.0	26.0
RoE	**21.2**	**21.3**	**19.7**	**21.6**
Payout ratio (Div/NP)	0.0	0.0	79.5	71.5
EPS (Rs.)	**21.5**	**22.6**	**23.9**	**28.0**
EPS Growth	24.2	5.0	5.9	17.1
CEPS (Rs.)	24.2	25.3	27.0	31.5
DPS (Rs.)	17.0	17.0	19.0	20.0

Source: Company, Axis Research

AARTI DRUGS LIMITED – IMPROVED DEMAND AND STABLE REALISATIONS

The Company is engaged in the manufacturing of Active Pharmaceutical Ingredients (APIs), Pharma Intermediates, Speciality Chemicals and produces Formulations with its wholly-owned subsidiary- Pinnacle Life Science Private Limited. Aarti Drugs comprises robust R&D Division at Tarapur, Maharashtra Industrial Development Corporation (MIDC) in close vicinity to manufacturing locations.Products under APIs include Ciprofloxacin Hydrochloride, Metronidazole, Metformin HCL, Ketoconazole, Ofloxacin etc.

Industry view

Over Weight

CMP
465

Target Price
600

Upside
29%

Key Rationale

- **Strong Q4 indicates revival in demand across industry:** Aarti Drugs reported Q4FY23 results above expectations due to increase in volume uptick and improvement in operating profitability led by operating leverage. Reported Revenue Rs 742 Cr grew by 7.0% YoY led by API segment which grew by 10% YoY. There is good pickup in API volume offtake from January 2023 onwards across API industry which is expected to remain higher in upcoming quarters. Gross marins improved by 30 bps QoQ, as overall realizations have moderated for top 8 API products along with moderation in inputs cost. EBITDA margins improved by 200 bps YoY due to operatin leverage in the last quarter. Reported PAT Rs 56.2 Cr beat the estimates by 25%.
- **Capex to drive growth:** The Company has incurred a Capex of Rs 315 Cr in the last 2 years, mainly towards capacity expansion, backward integration and new product launches. FY24 revenue growth could be added by Tarapur Greenfield Capex for Dermatology and specialty chemicals are expected to commence operations in Q2FY24 and Q1FY24 respectively. The company has plans to incur additional Capex of Rs 250-300 Cr in FY24E.
- **Anti-diabetic in API and Specialty Chemicals added growth:** API witnessed the moderation in realizations for most of the API products along with moderation in input costs. The antibiotic therapeutic category contributed ~45%, antiprotozoal ~16%, anti-inflammatory ~13%, anti-diabetic ~15%, antifungal ~8%, and the rest contributed ~3.0% to total consolidated sales. The growth in this segment is mainly driven by the niche Chlorosulphonation products along with recently augmented capacity. The company will focus to further enhance the market share for this segment.
- **Outlook:** Most of API players reported increase in volume uptick backed by improved demand and stable realisations. We expect demand for API could continue in upcoming quarters with the ease of supply chain bottlenecks. Increase in volume and fall in solvent prices also led to improve in EBITDA margins led by operating leverage. Aarti Drugs, being leader in the domestic industry is well placed to grab this opportunity in future.
- **Valuation:** Stock is currently trading at PE multiple of 15.9x and 12.2x for FY24E &FY25E EPS which is attractive. We recommend a "BUY" rating on the stock with a target price Rs 600. (PE 18x for FY25 earnings)

Key Financials (Standalone)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (%)	ROE (%)	ROCE (%)
FY23	2,716	306	167	18	23.4	14.7	14.0	14.2
FY24E	3,128	419	244	26	15.9	10.8	17.1	17.0
FY25E	3,582	518	320	35	12.2	8.6	18.4	19.2

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	CY22A	CY23E	CY24E	CY25E
Net Sales	**2,489**	**2,716**	**3,128**	**3,582**
Growth (%)	**15.5%**	**9.1%**	**15.2%**	**14.5%**
Total Expenditure	2,159	2,410	2,709	3,064
Raw Material Consumed	1,689	1,888	2,127	2,400
Gross margins	**32.1%**	**30.5%**	**32.0%**	**33.0%**
Employee Expenses	83	92	106	125
% of sales	3.3%	3.4%	3.4%	3.5%
Other Expenses	388	430	475	539
% of sales	15.6%	15.8%	15.2%	15.0%
EBIDTA	**330**	**306**	**419**	**518**
EBITDAM (%)	**13.2%**	**11.3%**	**13.4%**	**14.5%**
Depreciation	50	50	63	69
EBIT	280	255	356	449
EBITM (%)	11.2%	9.4%	11.4%	12.5%
Interest	21	33	39	36
Other Income	11	2	5	8
PBT	**270**	**224**	**322**	**421**
Tax Rate (%)	24.0%	24.0%	24.0%	24.0%
Tax	65	58	77	101
Reported PAT	**205**	**167**	**244**	**320**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	CY22A	CY23E	CY24E	CY25E
Share Capital	92.6	92.6	92.6	92.6
Reserves & Surplus	944	1,100	1,335	1,645
Shareholders Fund	**1,036**	**1,193**	**1,428**	**1,738**
Total Debt	538	609	655	605
- Deferred Tax (Net)	72	71	71	71
- Trade Payables	469	480	557	638
Provisions	13	12	10	10
Others	79	57	106	120
Total Liabilities	**2208**	**2421**	**2827**	**3182**
Gross Block	**1,181**	**1,219**	**1,669**	**1,819**
Depriciation	496	546	609	679
% of GB	42.0%	44.8%	36.5%	37.3%
Net Block	686	673	1,060	1,141
CWIP	77	210	10	10
- Fixed Assets	**766**	**887**	**1,074**	**1,155**
Investment	19	19	19	19
- Deferred Tax (Net)	0	0	0	0
Loans & Advances	13	12	13	13
Others	111	114	101	114
- Inventories	526	516	600	687
- Trade Receivables	750	865	994	1,138
- Cash	**22**	**9**	**27**	**56**
Total Assets	**2,207**	**2,421**	**2,828**	**3,183**

Cash Flow (Rs Cr)

Y/E Mar	CY22A	CY23E	CY24E	CY25E
PBT	270	224	322	421
Add: depreciation	50	50	63	69
Add: Interest	21	33	39	36
Cash flow from operations	341	308	424	526
Change in working capital	255	119	76	151
Taxes	65	58	77	101
Miscellaneous expenses	0	0	0	0
Net cash from operations	21	131	271	275
Capital expenditure	(134)	(172)	(250)	(150)
Change in Investments	(2)	1	(1)	0
Net cash from investing	(136)	(171)	(250)	(150)
Increase/Decrease in debt	234	71	46	(50)
Dividends	(10)	(9)	(9)	(9)
Proceedings from equity	(1)	0	0	0
Interest	(21)	(33)	(39)	(36)
Others	(67)	(0)	(0)	0
Net cash from financing	135	27	(3)	(96)
Net Inc./(Dec.) in Cash	20	(13)	18	29
Opening cash balance	10	22	9	27
Closing cash balance	30	9	27	56

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY22A	CY23E	CY24E	CY25E
Sales growth	**15.5**	**9.1**	**15.2**	**14.5**
OPM	**13.2**	**11.3**	**13.4**	**14.5**
Oper. profit growth	(24.6)	(7.2)	37.1	23.6
COGS / Net sales	67.9	69.5	68.0	67.0
Overheads/Net sales	18.9	19.2	18.6	18.5
Depreciation / G. block	4.2	4.1	3.8	3.8
Effective interest rate	24.0	24.0	24.0	24.0
Net wkg.cap / Net sales	0.3	0.4	0.3	0.3
Net sales / Gr block (x)	2.1	2.2	1.9	2.0
RoCE	**17.8**	**14.2**	**17.1**	**19.2**
Debt / equity (x)	0.5	0.5	0.5	0.3
Effective tax rate	24.0	24.0	24.0	24.0

Source: Company, Axis Research

Mahindra CIE Automotive Ltd- Outperformance in India And EU Operations

Mahindra CIE Automotive(MCIE) – a multi-technology, multi-product automotive component supplier with a strong focus on innovation, quality, and sustainability. The company is headquartered in Mumbai (India) and has operations in over 20 countries, including Spain, Germany, Brazil, Mexico, China, and the USA. MCIE offers a wide range of products and services, including forging, casting, magnetic, aluminum, gears, composites, machining and assembly of components for engines, transmission, chassis, and other applications.

Industry view

Over Weight

CMP
516

Target Price
595

Upside
15%

Key Rationale

- **Sales and Margin Recovery in Europe:** The outperformance in EU was mainly driven by market share gains, improvement in overall industry volumes and a positive exchange rate impact of ~6%. Post the hive-off of the German trucking business, the EBITDA margins have been positively impacted led by lower energy prices, input cost pass-through, internal efficiencies and higher volumes. The company is confident to maintain current EBITDA margins (16.4% in Q1CY23 vs 11% in Q4CY22) on the back of lower energy prices, internal efficiencies and higher volumes. We expect 12% CAGR revenue growth over CY22-25E in EU operations.
- **Continued Growth and Profitability in India:** The Indian arm contributed 59% of Q1CY23 revenue from continued operations. The demand remained strong, particularly from PV (M&M, TTML) and the Tractor segment (John Deere). New order wins from 2W/3W EV and ICE products to aid future revenue growth. The management informed active EV orders received from TTML and M&M in the PV segment and from multiple OEMs in the 2W/3W segment. It has set a target to achieve 25% of total sales from new businesses annually. We expect 14% CAGR revenue growth over CY22-25E in Indian operations.
- **Healthy Balance Sheet:** The ability to generate strong FCF and negligible debt on the balance sheet gives inorganic growth opportunities to the company in future. We expect the company's ROIC to improve from 15.5% to 21.7% on the back of 22% CAGR in EBITDA over CY22-25E.
- **Valuation & Outlook:** We initiated our coverage report on the company on 12th April 2023. We continue to like the company's growth story driven by increasing order book value from new customers, focus on the EV portfolio, and its cash-rich position. Our recommendation rationale is still intact based on (a) Outperformance in European operations (b) Healthy order book and steady growth in Indian operations (c) Strong FCF generations and negligible debt on the balance sheet. Keeping these factors in view, we forecast Revenue/EBITDA/PAT CAGR of 14%/22%/24% over CY22-25E.
- **Based on strong fundamentals and ability to generate FCFs** we value the company at a 1-year Forward PE multiple of 22x on Indian operations and 11x on European operational earnings - Jun'25 EPS (earlier CY24 EPS), thereby arriving at our SOTP-based TP of Rs 595/share, implying an upside of 15% from the CMP.
- **Key risks:** a) Higher Interest rate, b) Slower-than-expected 2W Demand Recovery, and c) Business skewed towards ICE vehicles.

Key Financials (Standalone)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	ROCE (%)	ROE (%)	EV/EBIDTA (x)
CY22A	8,753	1,172	711	19	18	18.1%	14.0%	7.3
CY23E	9,966	1,495	910	24	21	20.0%	15.4%	9.8
CY24E	11,332	1,785	1,117	29	17	21.4%	16.1%	7.7
CY25E	12,840	2,119	1,356	36	14	22.0%	16.5%	6.1

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	CY22A	CY23E	CY24E	CY25E
Net sales	**8,753**	**9,966**	**11,332**	**12,840**
Raw materials	(4,776)	(5,282)	(5,864)	(6,548)
Staff costs	(902)	(1,046)	(1,246)	(1,412)
Other expenses	(1,903)	(2,143)	(2,436)	(2,761)
Total expenses	**(7,581)**	**(8,471)**	**(9,547)**	**(10,721)**
EBITDA	**1,172**	**1,495**	**1,785**	**2,119**
Depreciation	(296)	(308)	(332)	(356)
EBIT	**876**	**1,187**	**1,453**	**1,763**
Other income	58	59	59	59
Interest expense	(23)	(31)	(20)	(10)
Share of Profit/loss from associates	2	2	2	2
Exceptional (expenses)/income	38	-	-	-
Profit before tax	**951**	**1,217**	**1,494**	**1,814**
Tax expense	(240)	(307)	(377)	(458)
Adjusted PAT	683	910	1,117	1,356
Reported PAT	**711**	**910**	**1,117**	**1,356**
No. of shares	37.9	37.9	37.9	37.9
Reported EPS (Rs/share)	18.8	24.0	29.5	35.8

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	CY22A	CY23E	CY24E	CY25E
Equity Share Capital	379	379	379	379
Reserves and Surplus	4,719	5,534	6,556	7,817
Total Shareholders Funds	**5,098**	**5,914**	**6,936**	**8,197**
NON-CURRENT LIABILITIES				
Long Term Borrowings	119	69	(0)	(0)
Other LT liabilities	593	593	593	593
Total Non-Current Liabilities	712	662	593	593
Total Current Liabilities	4,118	4,198	4,093	4,034
Total Capital And Liabilities	**9,928**	**10,774**	**11,621**	**12,824**
NON-CURRENT ASSETS				
Net Tangible Assets	2,600	2,732	2,800	2,844
Capital Work-In-Progress	119	229	329	429
Intangible Assets	2,946	2,946	2,946	2,946
Other Non-Current Assets	340	340	340	340
Total Non-Current Assets	**6,006**	**6,248**	**6,416**	**6,560**
CURRENT ASSETS				
Inventories	1,211	1,502	1,552	1,759
Current Investments	544	544	544	544
Trade Receivables	861	1,010	1,087	1,231
Cash And Cash Equivalents	86	249	802	1,509
Other Current Assets	1,221	1,221	1,221	1,221
Total Current Assets	**3,922**	**4,526**	**5,205**	**6,264**
Total Assets	**9,928**	**10,774**	**11,621**	**12,824**

Cash Flow (Rs Cr)

Y/E Mar	CY22A	CY23E	CY24E	CY25E
Cash flows from operating activities				
Profit before tax for the year	**951**	**1,217**	**1,494**	**1,814**
Finance costs	45	31	20	10
Depreciation and amortization	354	308	332	356
Cash Flow From operation before changes in WC	1,326	1,556	1,846	2,180
(Increase)/decrease in trade receivables	(298)	(150)	(76)	(145)
(Increase)/decrease in inventories	(180)	(291)	(51)	(207)
(Decrease)/Increase in trade payables	468	180	94	192
Income taxes paid	(198)	(307)	(377)	(458)
Net income generated by OCF	**1,118**	**989**	**1,436**	**1,562**
Cash flows from investing activities				
Payments for PPE & IA	(501)	(550)	(500)	(500)
Net cash (used in)/generated by investing activities	(640)	(550)	(500)	(500)
Cash flows from financing activities				
Dividends Paid	(95)	(95)	(95)	(95)
Net Proceeds/(Repayment) of LT borrowings	(394)	(50)	(69)	-
Net Proceeds/(Repayment) of ST borrowings	88	(100)	(200)	(250)
Interest paid	(38)	(31)	(20)	(10)
Net cash used in financing activities	(488)	(276)	(384)	(355)
Net increase/(decrease) in CCE	(9)	163	553	707
Opening Cash and cash equivalents	165	71	234	787
Effects of exchange rate changes	3	-	-	-
Closing Cash and cash equivalents	158	234	787	1,494

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY22A	CY23E	CY24E	CY25E
Sales growth (% YoY)	29.4%	13.9%	13.7%	13.3%
EBITDA Margin %	13.4%	15.0%	15.8%	16.5%
Net profit Margin %	8.1%	9.1%	9.9%	10.6%
Sales/Net block(x)	3.3	3.7	4.1	4.5
PER (x)	18	21	17	14
P/BV (x)	3	3	3	2
EV/Ebitda (x)	7.3	9.8	7.7	6.1
ROE	14.0%	15.4%	16.1%	16.5%
ROCE	18.1%	20.2%	21.4%	22.0%
ROIC	15.46%	19.85%	21.05%	21.80%
Debt / equity (x)	0.24	0.18	0.11	0.07
Net debt/ Equity (x)	0.18	0.10	0.00	0.00
Net debt/Ebitda (x)	0.77	0.39	0.00	0.00
Interest Coverage ratio (x)	38.56	38.37	71.99	173.14

Source: Company, Axis Research

PRAJ INDUSTRIES LTD – WELL-PLACED TO GROW, LESS IMPACT OF GLOBAL GEO-POLITICAL VOLATILITY ON BUSINESS

Praj Industries Ltd, incorporated in 1985 and headquartered in Pune is a supplier/constructor of ethanol plants, a global company providing various engineering solutions with a focus on the environment, energy, and agri-process industry. Praj has a presence across the globe with more than 750 references in more than 75 countries. It is the Indian market leader in the Ethanol Plant market and among the top ZLD players in the country.

Industry view

Overweight

CMP
378

Target Price
500

Upside
32%

Key Rationale

- **Traction Continues for Domestic Ethanol Business:** During FY23, ethanol capacity creation continued momentum. Company has seen strong demand for grain based distilleries as Ethanol revolution spreads across country in non-sugarcane states. OMCs have indicated interest in signing 300 Cr Litres of more offtake agreements which would support acpacity creation in coming quarters.
- **Engineering segment - F**ocus on CPES business catering to Green Hydrogen Sector along with strong demand from traditional Oil & Gas industry supports demand outlook. To address demand from Energy Transition and Climate Action (ETCA) segment, Praj is setting up a modern manufacturing facility to be housed into a new subsidiary- Praj GenX Limited, with an investment of INR 100 crores.
- **Budget announced -** 500 new 'waste to wealth' plants under GOBARdhan (Galvanizing Organic Bio-Agro Resources Dhan) scheme will be established for promoting a circular economy. These will include 200 compressed biogas (CBG) plants, including 75 plants in urban areas, and 300 community or cluster-based plants with a total investment of Rs 10,000 Cr. In due course, a 5% CBG mandate will be introduced for all organizations for marketing natural and biogas. Praj also commenced First rice straw based commercial plant for HPCL has commenced biogas generation. The plant is now under stabilization and should start the regular dispatch of CBG by end of June 2023. This will attract future investments as Praj showcases its technological dominace with strong yields with its proprietary RenGas technology.
- **Strong Execution**: The company is witnessing more growth in Grain-based distilleries which has reduced the seasonality of the business which was predominantly based on the sugar cycle. This has led to year-round utilisation of assets resulting in an improved asset turnover ratio from 0.98 to 1.46 in FY23. This has also led to less strain on the supply chain and improved order execution rate.
- **Improving demand for CPS, ZLD and HPS business:** Praj CPS business is expected to do well with the increasing focus on Hydrogen based energy development we shall see good traction. Increasing Environmental focus shall abode well for ZLDS business. PHS saw iIncreasing traction for offerings in the High-Capacity fermenters space. Order for large-size fermenters from Oman. Booked our first order in the Semiconductor sector.
- **Development in Sustainable Aviation Fuel -** Praj, AirAsia India and IOCL join hands to fly the first commercial flight in India powered by a blend of 'indigenous' Sustainable Aviation Fuel (SAF) This along with strong demand in USA for SAF produced from low carbon intensive from ATJ process will ensure Ethanol capacity addition in USA in near future, along with tradiitonal demand for petrol blending.
- **Company Outlook** - Domestic business augurs well as Ethnaol Blending continues with strong traction in FY23 and mostly like pre poning its target, the overall demand-supply gap of Ethanol, increased interest in grain-based distilleries and decarbonization impetus is auguring well for Praj along with development in other key verticals such as CPS, ZLD & High Purity gaining traction. Praj is a key beneficiary of multiple tailwinds provided by the bio-economic revolution, giving strong growth & revenue visibility for the next 3-5 years. The company's is the pure equity play on global decarbonisation theme & therefore we maintain our BUY rating with a Target Price of Rs 500 valuing the company at 25x FY25E.
- **Key risks:** a) Raw material cost pressure in steel; b) Volatile RM weighing on operating profitability in the near term; c) Russia-Ukraine crisis to dampen business in the Euro region.

Key Financials (Consolidated)

Y/E Mar	Net sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY21	1,305	112	81	4.42	44.0	24.9	10.7%	14.7%
FY22	2,333	194	150	8.18	43.9	33.5	17.5%	23.3%
FY23	3,667	355	282	15.35	23.4	18.3	26.7%	34.8%
FY24E	3,772	506	395	21.52	16.7	12.8	28.3%	37.1%

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Net sales	1,305	2,333	3,667	3,772
Raw Material	736	1,454	2,310	2,216
Employee benefit expenses	172	218	243	257
Other Expenses	284	468	759	792
EBITDA	112	194	355	506
Other income	26	36	45	45
PBIDT	138	230	400	552
Depreciation	22	23	22	22
Interest & Fin Chg.	3	3	3	3
E/o income / (Expense)	-	-	-	-
Pre-tax profit	113	205	376	527
Tax provision	32	55	94	132
RPAT	81	150	282	395

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Share Capital	37	37	37	37
Reserves & Surplus	765	879	1,161	1,556
Total Equity	803	916	1,198	1,594
Total Non-Current Liabilities	27	32	32	32
Trades Payable	342	425	829	795
Other Current Liabilities	376	776	776	776
Total Current Liabilities	764	1,265	1,669	1,635
Total Capital Employed	**1,594**	**2,213**	**2,899**	**3,260**
Net Block	206	209	208	204
Goodwill	63	63	63	63
Total Non-Current Assets	358	372	371	368
Cash	101	107	212	590
Inventory	129	345	361	334
Receivables	453	512	1,075	1,085
Investments	295	398	398	398
Total Current Assets	1,235	1,841	2,528	2,892
Total Assets	**1,594**	**2,213**	**2,899**	**3,260**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Net Profit before Tax	113	205	376	527
Depreciation	22	23	22	22
Working Capital Changes	116	9	-181	-24
Tax Paid	-15	-45	-94	-132
Cash From Operating Activities	225	175	80	351
Cash From Investing Act	-164	-127	24	27
Cash Flow from Financing	-6	-44	-2	-2
Change in Cash	54	4	102	375
Opening Cash	46	101	107	212
Closing Cash	101	107	212	590

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY21	FY22E	FY23E	FY24E
Operational Ratios				
Gross profit margin	38%	37%	41%	38%
EBITDA margin	8%	10%	13%	8%
PAT margin	6%	8%	10%	6%
Growth Indicators				
Sales growth	79%	57%	3%	79%
EBITDA growth	72%	83%	43%	72%
PAT growth	85%	88%	40%	85%
Efficiency Ratios				
Total Asset turnover (x)	1.2	1.4	1.2	1.2
Inventory turnover (x)	6.1	6.5	6.4	6.1
Sales/Working Capital	4.2	4.9	6.0	4.2
Sales/ Total Assets				
Liquidity Ratios				
Total Debt/Equity(x)	0.00	0.00	0.00	0.00
Total Asset/Equity(x)	2.42	2.21	1.94	2.42
Current Ratio(x)	1.46	1.51	1.77	1.46
Quick Ratio(x)	1.18	1.30	1.56	1.18
Interest Cover(x)	77.21	124.29	177.24	77.21

Source: Company, Axis Research

CCL PRODUCTS LTD – WELL-PLACED TO GROW

CCL Products (CCLP) was incorporated in 1994 as an Export Oriented company engaged in the manufacture of Instant Coffee globally. It can import green coffee into India from any part of the world, and export the same to any part of the world, free of all duties. CCL Products manufactures Soluble Instant Spray Dried Coffee Powder, Spray Dried Agglomerated / Granulated Coffee, Freeze Dried Coffee, as well as Freeze Concentrated Liquid Coffee. Today, the company is India's largest manufacturer and exporter (36% market share) of instant coffee and the largest player in the private label market (with a 10% market share).

Industry view

Overweight

CMP
664

Target Price
750

Upside
13%

Key Rationale

- **Strong guidance for FY24:** FY23 volume grew by 20%+ and the company has maintained a similar volume growth guidance for FY24. This will be led by a strong order book. The management further guided for 18-20% CAGR volume growth for the next three years and targets a 10% global market share in the next few years.
- **New capacity expansion:Vietnam:**The 13,500 MT capacity in Vietnam got commercialised in Q4FY23 and the capacity utilisation will be increased gradually to 50% in FY24. Currently, the total Vietnam capacity stands at 30,000 MT (ex-FDC). Moreover, the 5,500-6,000 MT FDC plant announced in Q3FY23 will commence operations in H2FY25.**India:** The new 16,500 MT SD facility in Tirupati (AP) is expected to be commercialised by the end of FY24. Post commercialisation of India and Vietnam facilities, CCL will have a total capacity of ~77,000 MT by FY25 across Vietnam and India.
- **Domestic business on a strong footing:** In FY23, CCL's domestic business revenue stood at Rs 280 Cr, up 40% YoY, out of which Rs 150-160 Cr was branded business (Continental Coffe, Non-coffee products) while the rest contributed private labels and bulk business. The management is targeting revenue growth of 30-40% in FY24 for India's branded business, which will be led by increasing the company's distribution reach from the current 70-80,000 outlets to 100,000 (adding ~20,000) outlets in FY24.
- **Outlook:** We remain positive on CCL Products given: 1) Strong footing in the International markets as it continues to gain market share and access new business, 2) Cost-efficient business model; 3) Doubling the capacity from 38,500 MT in FY22 to ~77,000 MT by FY25 across Vietnam and India; 4) Capacity addition in the value-added products (FDC and small packs) in Vietnam, and 5) Foray into high-margin branded retail business (Continental Coffee, Plant-based meat protein).

Key Financials (Consolidated)

Y/E Mar	Net sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY22	1,462	331	204	15.4	43.2	28.2	16.3	16.0
FY23E	2,071	400	269	20.2	32.9	24.2	18.6	19.7
FY24E	2,734	550	326	24.5	27.1	18.0	19.2	20.8
FY25E	3,459	712	429	32.2	20.6	14.2	20.9	22.9

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar, Rs Cr	FY22	FY23E	FY24E	FY25E
Net sales	**1,462**	**2,071**	**2,734**	**3,459**
Growth, %	18	42	32	27
Total income	1,462	2,071	2,734	3,459
Raw material expenses	-723	-1,130	-1,480	-1,850
Employee expenses	-98	-113	-150	-192
Other Operating expenses	-310	-428	-554	-705
EBITDA (Core)	**331**	**400**	**550**	**712**
Growth, %	11.2	20.8	37.6	29.4
Margin, %	22.6	19.3	20.1	20.6
Depreciation	-57	-64	-91	-114
EBIT	**274**	**336**	**460**	**598**
Growth, %	10.2	22.9	36.7	30.1
Margin, %	18.7	16.2	16.8	17.3
Interest paid	-16	-34	-40	-45
Other Income	4	3	4	4
Non-recurring Items	0	0	0	0
Pre-tax profit	**261**	**305**	**424**	**557**
Tax provided	-57	-36	-97	-128
Profit after tax	**204**	**269**	**326**	**429**
Growth, %	12.1	31.6	21.3	31.4
Net Profit (adjusted)	**204**	**269**	**326**	**429**
Unadj. shares (Crs)	13	13	13	13

Source: Company, Axis Research

Balance Sheet (Rs Cr)

As at 31st Mar, Rs Cr	FY22	FY23E	FY24E	FY25E
Cash & bank	56	-265	-531	-705
Marketable securities at cost	0	0	0	0
Debtors	320	453	598	756
Inventory	519	735	971	1,228
Other current assets	96	96	96	96
Total current assets	991	1,020	1,134	1,376
Investments	0	0	0	0
Gross fixed assets	1,146	1,396	1,646	1,896
Less: Depreciation	-264	-327	-418	-532
Add: Capital WIP	160	160	160	160
Net fixed assets	1,042	1,229	1,388	1,524
Non-current assets	36	36	36	36
Total assets	**2,070**	**2,285**	**2,558**	**2,936**
Current liabilities	630	649	670	692
Provisions	1	1	1	1
Total current liabilities	631	650	671	693
Non-current liabilities	188	188	188	188
Total liabilities	819	838	859	882
Paid-up capital	27	27	27	27
Reserves & surplus	1,224	1,420	1,673	2,028
Shareholders' equity	1,251	1,446	1,699	2,055
Total equity & liabilities	**2,070**	**2,285**	**2,558**	**2,936**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar (Rs Cr)	FY22	FY23E	FY24E	FY25E
Pre-tax profit	261	305	424	557
Depreciation	57	64	91	114
Chg in working capital	-91	-330	-360	-393
Total tax paid	-33	-36	-97	-128
Other operating activities	-40	-10	-10	-10
Cash flow from operating activities	**154**	**-8**	**47**	**139**
Capital expenditure	-152	-250	-250	-250
Other investing activities	0	0	0	0
Cash flow from investing activities	**-152**	**-250**	**-250**	**-250**
Free cash flow	2	-258	-203	-111
Other financing activities	3	-40	-59	-59
Cash flow from financing activities	**-62**	**-40**	**-59**	**-59**
Net chg in cash	-60	-298	-262	-169
Opening cash balance	120	56	-265	-531
Closing cash balance	56	-265	-531	-705

Source: Company, Axis Research

Ratio Analysis (%)

Y/E Mar	FY22	FY23E	FY24E	FY25E
EPS (INR)	15.4	20.2	24.5	32.2
Growth, %	12.1	31.6	21.3	31.4
Book NAV/share (INR)	94.0	108.7	127.8	154.5
FDEPS (INR)	15.4	20.2	24.5	32.2
CEPS (INR)	19.7	25.0	31.3	40.8
CFPS (INR)	1.9	(0.1)	4.0	10.9
Return ratios				
Return on assets (%)	11.4	13.9	15.1	17.3
Return on equity (%)	16.3	18.6	19.2	20.9
Return on capital employed (%)	16.0	19.7	20.8	22.9
Turnover ratios				
Asset turnover (x)	0.9	1.0	1.1	1.1
Sales/Total assets (x)	0.8	1.0	1.1	1.3
Sales/Net FA (x)	1.5	1.8	2.1	2.4
Working capital/Sales (x)	0.2	0.3	0.4	0.4
Receivable days	79.8	79.8	79.8	79.8
Inventory days	129.6	129.6	129.6	129.6
Payable days	14.7	14.1	14.3	14.4
Working capital days	76.1	112.0	132.8	146.5
Liquidity ratios				
Current ratio (x)	1.6	1.6	1.7	2.0
Quick ratio (x)	0.7	0.4	0.2	0.2
Interest cover (x)	16.7	9.8	11.6	13.1
Total debt/Equity (%)	0.4	0.4	0.3	0.3
Valuation				
PER (x)	43.2	32.9	27.1	20.6
PEG (x) - y-o-y growth	3.6	1.0	1.3	0.7
Price/Book (x)	7.1	6.1	5.2	4.3
EV/Net sales (x)	6.4	4.7	3.6	2.9
EV/EBITDA (x)	28.2	24.2	18.0	14.2
EV/EBIT (x)	34.1	28.7	21.6	16.9

Source: Company, Axis Research

CREDITACCESS GRAMEEN – STRONG GROWTH RUNWAY, PREMIUM VALUATIONS JUSTIFIED!

CreditAccess Grameen (CAGrameen) is a rural-focused Microfinancier that caters mainly to women borrowers who lack access to the formal banking sector. The company is predominantly present in Karnataka, Maharashtra, and Tamil Nadu which cumulatively contribute ~75% of the company's Gross Loan Portfolio (GLP) and ~68% of its total borrower base.

Industry view

Equal weight

CMP
1,248

Target Price
1,400

Upside
12%

Key Rationale

- **Under-penetration in rural markets to keep growth runway strong:** The credit penetration in rural markets remains low at ~10% of total credit extended. Similarly, MFI industry penetration is fairly low at 35-38%, with rural market penetration even lower at ~32% vs. 48% in urban markets, thereby offering rural-focused microfinanciers a large growth runway. Lower penetration in the core markets coupled with recent regulations creating a conducive regulatory environment and a level-playing field for NBFC-MFIs are key growth enablers for microfinanciers like CAGrameen.
- **GLP growth to be led by core MFI segment and scale-up of retail portfolio**: With a sustainable growth of 20-25% CAGR in the core microfinance portfolio, CAGrameen intends to become the preferred financier to borrowers that lack access to formal credit. This along with regulatory tailwinds that are enabling portfolio diversification, CAGrameen plans to build a retail finance book (Mortgage, Individual unsecured loans, 2-Wheeler and Gold Loans) that would contribute ~10-15% of the total portfolio over the next 4-5 years. Moreover, a foray into retail finance loans will enable higher customer retention. We expect CAGrameen to deliver a healthy 25% CAGR growth over FY23-25E.
- **Asset Quality remains best-in-class:** CAGrameen's asset quality improvement has been remarkable, though it has been mainly led by write-offs. GNPA/NNPA improved to 1.2/0.4% in FY23 vs. 3.6/0.9% in FY22. With the asset quality stress well-managed and incremental stress formation visibility being low, we believe the company's credit costs trend to taper to ~1.7% over FY24-25E vs. 2.4% in FY23.
- **Key Differentiators**: Key differentiators for CAGrameen are (1) Unique business model with high customer retention (88% in FY23, with a long-term avg. of ~85%), (2) Higher customer vintage (~53% customers have a vintage of >3 years), (3) employee loyalty as demonstrated in lower employee attrition vs. the industry across hierarchy, (4) One of the lowest loan pricing in the MFI industry (200-400bps lower than industry), (5) Consistent delivery of best-in-class cross cycle RoA/RoE of ~3.3%/13.5%, (6) Flexibility in repayment options (weekly, bi-weekly, monthly)
- **Outlook & Valuation**: The retail finance portfolio is expected to be non-margin dilutive despite being largely skewed towards the secured products, thereby enabling CAGrameen to maintain its NIMs at 12-12.2% over the medium term. Even as competitive intensity in the MFI segment continues to intensify with banks and NBFCs chasing growth aggressively, we believe CAGrameen remains well-placed to tap the large unmet demand which would be supported by its large branch network, deep rural penetration, customized product offerings, and competitive pricing. Thus, healthy margins, stable Opex structure, and muted credit costs should enable CAGrameen to deliver RoA/RoE of 4.7/20+% over FY24/25E. We recommend a BUY on CreditAccess Grameen with a target price of Rs 1,400/share (2.9x FY25E ABV)
- **Key risks:** a) Moderation in GLP growth momentum, b) Inability to scale up new products and business in new geographies

Key Financials (Consolidated)

Y/E Mar	NII (Rs Cr)	PPOP (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	BV (Rs)	P/BV (x)	ROAA (%)	NNPA (%)
FY22	1,583	1,078	353	22.7	255.2	4.9	2.2	0.9
FY23P	2,114	1,506	826	52.0	321.4	3.9	4.2	0.4
FY24E	2,719	1,901	1,142	71.9	393.2	3.2	4.7	0.4
FY25E	3,381	2,347	1,412	88.8	482.1	2.6	4.7	0.4

Source: Company, Axis Securities.

Profit & Loss (Rs Cr)

Y/E MAR	FY22	FY23P	FY24E	FY25E
Net Interest Income	1,583	2,114	2,719	3,381
Other Income	183	224	226	218
Total Income	1,766	2,338	2,945	3,600
Total Operating Exp.	688	831	1,044	1,253
PPOP	1,078	1,506	1,901	2,347
Provisions & Contingencies	597	401	374	460
PBT	481	1,105	1,527	1,887
Provision for Tax	128	279	385	476
PAT	**353**	**826**	**1,142**	**1,412**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E MAR	FY22	FY23P	FY24E	FY25E
SOURCES OF FUNDS				
Share capital	156	159	159	159
Reserves and Surplus	3,822	4,948	6,090	7,502
Shareholders' funds	**3,978**	**5,107**	**6,249**	**7,661**
Borrowings	12,921	16,312	20,155	25,076
Other Liabilities, provisions	496	439	541	671
Total liabilities	**17,395**	**21,858**	**26,945**	**33,408**
APPLICATION OF FUNDS				
Cash & Bank Balance	1,761	1,436	1,609	1,995
Investments	1	455	493	611
Goodwill	318	376	376	376
Advances	14,765	19,043	23,792	29,612
Fixed Assets & Other Assets	550	548	676	814
Total assets	**17,395**	**21,858**	**26,945**	**33,408**

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY22	FY23P	FY24E	FY25E
VALUATION RATIOS				
EPS	22.7	52.0	71.9	88.8
Earnings Growth (%)	*162.9*	*129.5*	*38.3*	*23.6*
BVPS	255.2	321.4	393.2	482.1
Adj. BVPS	237.3	315.8	386.4	473.7
ROAA (%)	2.2	4.2	4.7	4.7
ROAE (%)	9.2	18.2	20.1	20.3
P/E (x)	55.1	24.0	17.4	14.1
P/ABV (x)	4.9	3.9	3.2	2.6
PROFITABILITY				
NIM (%)	10.9	11.6	12.0	12.0
Cost-Assets Ratio	4.2	4.2	4.3	4.2
Cost-Income Ratio	39.0	35.6	35.4	34.8

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY22	FY23P	FY24E	FY25E
Loan Growth (%)	26.0	29.0	24.9	24.5
Borrowings Growth (%)	18.1	26.2	23.6	24.4
CRAR	26.5	23.6	21.7	20.6
Tier I	25.9	22.7	20.8	19.7
ASSET QUALITY				
Gross NPLs (%)	3.6	1.2	1.3	1.3
Net NPLs (%)	0.9	0.4	0.4	0.4
PCR	50.3	62.7	64.7	66.2
Credit costs	4.5	2.4	1.7	1.7

Source: Company, Axis Research

PNC Infratech Limited– Robust order book to drive growth

PNC Infratech Limited was incorporated on August 09, 1999, as PNC Construction Company Private Limited. It has played a crucial role in India's infrastructural growth, particularly in the Highway and Airport sectors. The company was converted into a limited company in 2001 and was renamed PNC Infratech limited in 2007. Over the past 20 years, PNC Infratech has emerged as one of the most efficient players across several infra-segments such as roads and highways, bridges, and airport runways. Today, it is one of the leading highway development, construction and management companies in the country.

Industry view

CMP
328

Target Price
425

Upside
30%

Key Rationale

- **Robust & Diversified Order Book:** As of March'23-end, PNCIL's order book plus L1 position stands robust at Rs.20,530 Cr (3.4x of FY23 revenue) and comprises of road projects both EPC and HAM and also Water projects. The company's order book is comprised of road projects commanding 52% share and the balance 48% is contributed by water and other projects The order book gives revenue visibility for the next 2-3 years. We expect the company to deliver healthy revenue growth of 12% CAGR over FY22-25E. Further HAM asset monetization will release capital for future growth.
- **Established track record:** PNCIL is one of the leading EPC contractors in India having a demonstrated project execution experience of more than three decades. Leveraging this, it has efficiently and timely delivered complex and prestigious projects including highways, bridges, flyovers, power transmission lines, airport runways, and development of industrial areas, amongst other. Factoring in better order inflows, we expect the company to maintain its margin profile between 13%-14% over FY22-25E.
- **Favourable Industry tailwind:** The road construction industry in India is undergoing a paradigm shift with notable investments in the segment and proactive policy support of the government. NHAI asset monetization plan, National Infrastructure Pipeline, and unveiling of the Gati Shakti Plan will provide further momentum to the execution and avoid unnecessary delays. In the Union Budget 2023-24,capex outlay has increased by 33% in the Road sector and by 27% in the JJM, thereby providing larger opportunities for companies like PNCIL.

Key Rationale

- **Outlook:** The Road sector is witnessing encouraging development owing to increased government thrust on infrastructure investment. Furthermore, diversification into Railways augurs well for the company implying lower dependence on road projects. NHAI tightening certain bidding norms on road projects will help an organised player like PNCIL. Considering strong and diversified order book position, healthy bidding pipeline, new order inflows, emerging opportunities in the construction space, the company's efficient and timely execution and strong financial credence, we expect PNCIL to report Revenue/EBITDA/APAT CAGR of 12%/15%/20% respectively over FY22-FY25E.
- **Valuation:** Stock is currently trading at 12x and 10.5 x FY24E/FY25E EPS which is attractive. We recommend a BUY rating on the company and value the stock at 11x FY25 EPS and HAM portfolio at 1x book value to arrive at a target price of Rs 425/share, implying an upside potential of 30% from CMP.
- **Key risks:** a) Delay in getting appointed date for new HAM projects; b) Lower Order inflow than expected c) Delay in HAM asset monetization.

Key Financials

Y/E Mar (Rs Cr)	NetSales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY22	6,306	787	448	18	16	10	14	18
FY23	7,061	954	611	24	13	8.5	17	20
FY24E	7,966	1074	693	27	12	7.5	16	20
FY25E	8,922	1187	771	30	10	6.8	15	19

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY23E	FY24E	FY25E
Net sales	**7,061**	**7,966**	**8,922**
Other operating inc.	0	0	0
Total income	7,061	7,966	8,922
Cost of goods sold	5,262	5,619	6,335
Contribution (%)	*25.5%*	*29.5%*	*29.0%*
Operating Profit	845	1,274	1,401
Depreciation	**954**	**1,074**	**1,187**
Interest & Fin Chg.	38	56	62
E/o income / (Expense)	**992**	**1,130**	**1,249**
Pre-tax profit	110	131	141
Tax provision	64	75	80
(-) Minority Interests	**818**	**924**	**1,028**
Associates	207	231	257
Adjusted PAT	611	693	771

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY23E	FY24E	FY25E
Total assets	**6,070**	**6,795**	**7,699**
Net Block	525	519	478
CWIP	9	9	9
Investments	0	0	0
Wkg. cap. (excl cash)	1035	1585	2035
Cash / Bank balance	1991	1840	2062
Misc. Assets	373	351	409
	2137	2490	2706
Capital employed			
Equity capital	**6,070**	**6,795**	**7,699**
Reserves	51	51	51
Pref. Share Capital	3890	4583	5355
Minority Interests	0	0	0
Borrowings	450	450	450
Def tax Liabilities	1679	1710	1843

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY23E	FY24E	FY25E
PBT	818	924	1028
Depreciation	110	131	141
Interest Expense	64	75	80
Changes in Working Capital	-935	160	-226
Others	6	-56	-62
Tax Paid	-217	-231	-257
Net Cash from Operations	**(153)**	**1003**	**703**
Capex	-62	-125	-100
Investment	-163	-750	-450
Others	112	56	62
Net Cash from Investing	**(114)**	**(819)**	**(488)**
Borrowings	-83	0	0
Interest Expense	-64	-75	-80
Dividend paid	-13	0	0
Others	312	-131	-79
Net Cash from Financing	**153**	**(206)**	**(159)**
Net Change in Cash	**(114)**	**(22)**	**57**
Opening cash	407	293	271
Closing cash	**293**	**271**	**328**

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY23E	FY24E	FY25E
Growth Indicator			
Sales Growth	12%	13%	12%
Ebitda Growth	21%	13%	10%
PAT Growth	37%	13%	11%
PROFITABILITY RATIOS			
EBITDA Margin	13.5%	13.5%	13.3%
Adjusted net margin	8.7%	8.7%	8.6%
EFFICIENCY RATIOS (x)			
Capital Turnover	1.79	1.72	1.65
Total Asset Turnover	1.52	1.49	1.45
Fixed Asset Turnover	13.4	15.3	18.7
Debtor days	99	80	80
Inventory days	46	40	40
Payable days	41	35	35
Cash Conversion Cycle (days)	104	85	85
Leverage ratios			
Debt to equity	0.06	0.05	0.04
Net debt to equity	0.03	0.03	0.02
Interest coverage	15	14	15
PER SHARE DATA			
Diluted EPS (Rs)	23.8	27.0	30.1
Book value per share (Rs)	154	181	211

Source: Company, Axis Research

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