

Market snapshot



Equities - India	Close	Chg .%	CYTD.%
Sensex	75,997	0.1	-2.7
Nifty-50	22,960	0.1	-2.9
Nifty-M 100	49,850	0.4	-12.8
Equities-Global	Close	Chg .%	CYTD.%
S&P 500	6,115	0.0	4.0
Nasdaq	20,027	0.0	3.7
FTSE 100	8,768	0.4	7.3
DAX	22,798	1.3	14.5
Hang Seng	8,324	-0.1	14.2
Nikkei 225	39,174	0.1	-1.8
Commodities	Close	Chg .%	CYTD.%
Brent (US\$/Bbl)	75	0.4	1.6
Gold (\$/OZ)	2,897	0.5	10.4
Cu (US\$/MT)	9,321	-1.8	7.7
Almn (US\$/MT)	2,683	0.8	6.2
Currency	Close	Chg .%	CYTD.%
USD/INR	86.9	0.1	1.5
USD/EUR	1.0	-0.1	1.3
USD/JPY	151.5	-0.5	-3.6
YIELD (%)	Close	1MChg	CYTD chg
10 Yrs G-Sec	6.7	-0.01	-0.1
10 Yrs AAA Corp	7.3	-0.03	0.0
Flows (USD b)	17-Feb	MTD	CYTD
FII	-0.5	-3.47	-11.4
DII	0.55	4.56	13.0
Volumes (INRb)	17-Feb	MTD*	YTD*
Cash	874	972	1003
F&O	1,26,650	1,84,631	1,89,469

Note: Flows, MTD includes provisional numbers.

*Average



Today's top research idea

UltraTech Cement: Strategic growth fuels market leadership

- ❖ UltraTech Cement (UTCEM) is anticipated to benefit from its increasing scale of operations, cost-saving strategies, low capex cost/t, and strong cash flow generation. In this note, we highlight the company's strategy of 'build, leverage, and build again'.
- ❖ UTCEM has successfully built capacity (capacity CAGR stood at ~10% over FY15-24 vs. the industry CAGR of ~5%), leveraged this capacity through higher utilization (average of ~76% over FY15-24 vs. industry average at ~67%), and generated strong cash flows.
- ❖ Currently, UTCEM is in the process of rebuilding its capacity and balancing its market presence to maintain its position as the industry's largest player, while also capitalizing on India's next growth cycle.



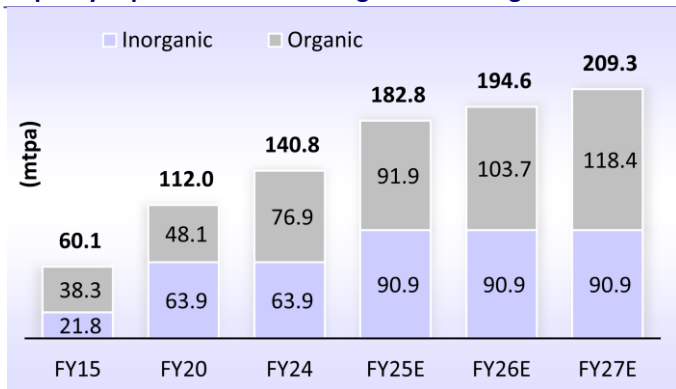
Research covered

Cos/Sector	Key Highlights
UltraTech Cement	Strategic growth fuels market leadership
Glenmark Pharma	3Q largely in line; DF/US/EU drive earnings
Aditya Birla Fashion and Retail	GM expansion drives beat; near-term focus on demerger
Deepak Nitrite	Subdued quarter; new projects delayed again!
Zen Technologies	Sharp miss
Equitas Small Finance Bank	Navigating through uncertainty
ABB India	Results above expectations



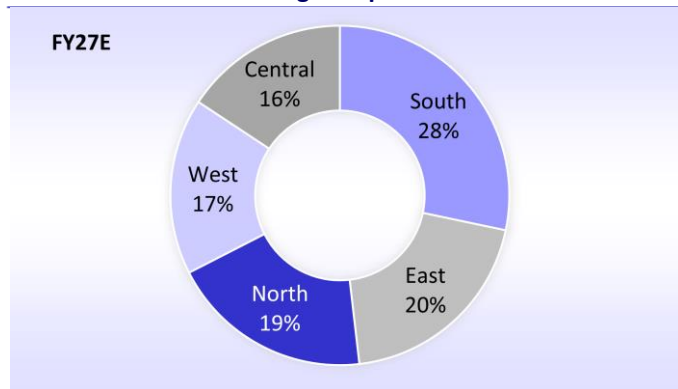
Chart of the Day: UltraTech Cement (Strategic growth fuels market leadership)

Capacity expansion – a mix of organic and inorganic modes



Source: MOFSL, Company

UTCEM balanced out its regional presence



Source: MOFSL, Company

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

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



Kindly click on textbox for the detailed news link

1

Govt plans to develop 36 more tourist sites under a new scheme

The Centre plans to announce a new tourism scheme in April to develop 36 destinations over four years in various states, aligning with the budget aim of developing 50 destinations.

2

Govt moves to streamline insurance sector compliance ahead of 100% FDI

The government plans to streamline compliance in the insurance sector by identifying redundant regulations, aiming for improved ease of business.

3

Indian infra cos build abroad for faster growth, higher margins

Indian infrastructure companies like L&T, KEC International, Afcons, and Tata Projects are expanding their international portfolios to mitigate domestic risks and capitalize on higher-margin global projects. The Middle East, Africa, and the Americas are key regions, with improved project execution

4

Titan sets its sights on Damas Jewellery; a sparkling second attempt

Titan Co is in discussions with Qatar's Mannai Corp to acquire a stake in Damas Jewellery, estimated at ₹4,500 crore. The acquisition would boost Titan's presence in the GCC region. Previous talks failed due to valuation disputes, but renewed negotiations indicate strong interest from Titan.

5

10-min delivery to 10-min supply, India Inc's ready for the game

Consumer goods companies like Nestle and Tata Consumer Products are adapting to quicker supply chain requirements due to the rise in quick-commerce platforms such as Blinkit and Swiggy's Instamart. Geopolitical volatility and erratic weather are also prompting these companies to shorten their strategic planning cycles for greater agility.

6

Airtel lands SMW6 undersea cable system on Indian shores

Bharti Airtel has advanced its undersea cable infrastructure by landing the SEA-ME-WE 6 system in India, connecting Mumbai and Chennai to Singapore and France. This addition, alongside partnerships and subsequent integration with Nxtra for enhanced connectivity, highlights India's growing importance in global undersea...

7

Indraprastha Gas Ltd embraces end of city gas monopolies, eyes new opportunities

Indraprastha Gas Ltd (IGL) supports ending city gas monopolies, confident in sustaining its business amid new competition. IGL's MD Kamal Kishore Chatiwal believes the company can protect its market in Delhi and sees potential opportunities in neighboring...



UltraTech Cement

BSE SENSEX
75,997

S&P CNX
22,960

CMP: INR11,490

TP: INR13,800 (+20%)

Buy



Bloomberg	UTCEM IN
Equity Shares (m)	289
M.Cap.(INRb)/(USD\$b)	3317.2 / 38.2
52-Week Range (INR)	12145 / 9250
1, 6, 12 Rel. Per (%)	10/8/12
12M Avg Val (INR M)	3924

Financials & Valuations (INR b)

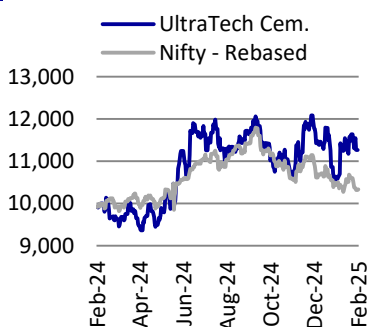
Y/E March	FY25E	FY26E	FY27E
Sales	737	910	1,014
EBITDA	124	170	205
Adj. PAT	64	88	112
EBITDA Margin (%)	17	19	20
Adj. EPS (INR)	222	299	380
EPS Gr. (%)	(9)	35	27
BV/Sh. (INR)	2,259	2,655	2,945
Ratios			
Net D:E	0.2	0.2	0.2
RoE (%)	10.2	12.3	13.6
RoCE (%)	9.6	10.9	12.1
Payout (%)	22.5	23.4	23.7
Valuations			
P/E (x)	51.7	38.5	30.2
P/BV (x)	5.1	4.3	3.9
EV/EBITDA(x)	27.1	20.3	16.6
EV/ton (USD)	217	198	181
Div. Yield (%)	0.4	0.6	0.8
FCF Yield (%)	0.8	0.9	2.3

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	60.0	60.0	60.0
DII	15.2	14.3	13.8
FII	17.7	18.6	18.9
Others	7.1	7.1	7.3

FII includes depository receipts

Stock's performance (one-year)



Strategic growth fuels market leadership

Building, leveraging, and building again

UltraTech Cement (UTCEM) is anticipated to benefit from its increasing scale of operations, cost-saving strategies, low capex cost/t, and strong cash flow generation. In this note, we highlight the company's strategy of 'build, leverage, and build again'. UTCEM has successfully built capacity (capacity CAGR stood at ~10% over FY15-24 vs. the industry CAGR of ~5%), leveraged this capacity through higher utilization (average of ~76% over FY15-24 vs. industry average at ~67%), and generated strong cash flows. Currently, UTCEM is in the process of rebuilding its capacity and balancing its market presence to maintain its position as the industry's largest player, while also capitalizing on India's next growth cycle.

Leading and unstoppable

- UTCEM's domestic grey cement capacity is likely to increase to 209.3mtpa (including Kesoram's cement assets and ICEM) by FY27 from 165.7mtpa as of Dec'24 (including ICEM). The company plans to add 43.6mtpa between Jan'25 and FY27-end, with 32.8mtpa (~75%) coming organically and the remaining 10.8mtpa (~25%) inorganically.
- The company has achieved a balanced pan-India presence through consolidation and diversification. In FY15, UTCEM had a higher concentration in the West and South regions. However, through steady organic expansions, strategic acquisitions, and geographic diversification, the company has balanced its overall market presence across India.
- UTCEM's capacity CAGR stood at ~10% over FY15-24, outperforming most of its peers, except SRCM. Despite significant capacity expansion, the company maintained higher capacity utilization compared to its peers. Over the same period, UTCEM's market share increased 10pp to ~26%, the highest in the industry. We estimate UTCEM's capacity/volume CAGR at ~14% (each) over FY24-27. Additionally, we project the company's market share to increase to ~32% by FY27 from ~26% in FY24, led by its aggressive expansion strategy and focus on high-growth markets.

Cost-saving initiatives improving profitability

- Over FY17-19, UTCEM's consolidated EBITDA/t was lower than that of SRCM/DALBHARA/TRCL, primarily due to the integration of newly acquired cement assets (which accounted for ~38% of the company's total grey cement capacity during that period). However, over the years, the EBITDA/t gap narrowed, led by the leveraging of synergies, improvements in the manufacturing processes at the acquired assets, and the launch of the UTCEM brand at the plants of the acquired companies.
- At this time, the recently acquired cement assets will account for ~13% of the company's total domestic grey cement capacity as of FY26E. We estimate the company's blended EBITDA/t to be largely at par/higher than its peers over FY25-27. Further, we estimate its cost reduction initiatives (targeting cost savings of INR300/t by FY27E) to help offset the impact of lower profitability from newly acquired assets during the initial years.

- We estimate UTCCEM's consol. revenue/EBITDA/PAT CAGR at ~17%/28%/32% over FY25-27. We estimate a consolidated volume CAGR of ~16%, aided by inorganic growth. We estimate its EBITDA/t at INR1,060/INR1,150 in FY26/FY27 vs. INR960 in FY25E (average of INR1,160 over FY20-24). We have included ICEM in the company's consolidated earnings estimates starting from 4QFY25.

Strong cash flow generation and disciplined capital allocation

- UTCCEM's consolidated net debt increased to INR217b (net debt-to-EBITDA ratio was at 3.0x) following a series of acquisitions in FY19-20. However, through successful integrations and a rapid scale-up in capacity utilization, UTCCEM not only reduced its net debt to INR27.8b as of Mar'24 (with net debt-to-EBITDA ratio at 0.2x), but also expanded its domestic grey cement capacity to 140.8mtpa in FY24 from 109.0mtpa in FY19, while maintaining its leadership position in the industry.
- Over the past three years, UTCCEM's expansion has been self-reliant, supported by strong cash flow generation (aggregate OCF stood at INR292b over FY22-24) and a disciplined capital allocation strategy (aggregate capex stood at INR206b over FY22-24). The company is also consistently paying dividends (~19-29% of PAT during FY22-24).
- Recently, the company's net debt has increased to INR161.6b (after taking into consideration the cost of the open offer of INR31.42b, which will be paid on the 4th/5th Feb'25, and ICEM's net debt of INR8.8b). This increase is primarily driven by aggressive capacity expansion plans, investments in sustainable cost-reduction initiatives (WHRS, other RE capacities, and infrastructure development at plants to increase the AFR share), strategic investments, and lower profitability (as cement prices reached multi-year lows in 1HFY25).
- We believe the company's leverage will remain low, considering the scale of operations, expected improvement in profitability, and a higher cash flow generation (estimate aggregate OCF of INR398b over FY25-27). We estimate net debt to decline to INR131b by FY27, with a net debt-to-EBITDA ratio at 0.6x.

View and valuation

- There are signs of recovery in cement demand after the festive season, and we anticipate industry volume to grow ~4% YoY in FY25, implying ~7-8% YoY growth in 4QFY25. This growth is expected to be driven by pent-up demand, a rebound in government spending, and robust demand in the real estate and housing sectors. Strong volume growth and improvements in clinker utilization (estimated to peak in 4QFY25) are expected to support price hikes across the industry. Being the largest player in the industry with a pan-India presence, we expect UTCCEM to benefit from the cement demand recovery and price hikes.
- While we have factored in EBITDA margins of ~19/20% over FY26/27, lower than its average EBITDA margin at ~21% over FY20-24, there could be an upside risk to our EBITDA/t forecast, led by the higher-than-estimated price increase and an early integration of the recently acquired cement assets at par with UTCCEM. The company's large scale of operation, ability to outperform the industry's growth rate, and self-reliance on organic expansions warrant higher multiples. We reiterate our BUY rating with a TP of INR13,800, valuing at 20x FY27E EV/EBITDA.



Glenmark Pharma

Estimate change	↔
TP change	↓
Rating change	↑

CMP: INR1,372 TP: INR1,725 (+26%) Buy

3Q largely in line; DF/US/EU drive earnings

Better prospects in US from FY26 onward

Bloomberg	GNP IN
Equity Shares (m)	282
M.Cap.(INRb)/(USD\$b)	387.7 / 4.5
52-Week Range (INR)	1831 / 853
1, 6, 12 Rel. Per (%)	-5/-6/53
12M Avg Val (INR M)	1247

Financials & Valuations (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	134.9	148.0	165.7
EBITDA	24.2	28.9	33.2
Adj. PAT	14.1	17.2	20.2
EBIT Margin (%)	14.3	16.1	16.8
Adj EPS (INR)	49.9	60.8	71.7
EPS Gr. (%)	1908.4	21.9	17.9
BV/Sh. (INR)	324.4	385.2	456.9

Ratios

Net D-E	0.0	-0.1	-0.2
RoE (%)	16.6	17.1	17.0
RoCE (%)	18.4	17.5	17.3
Payout (%)	7.3	0.0	0.0

Valuations

P/E (x)	27.5	22.6	19.1
EV/EBITDA (x)	16.3	13.2	11.1
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	-1.5	3.3	3.4
EV/Sales (x)	2.9	2.6	2.2

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	46.7	46.7	46.7
DII	13.9	13.3	11.0
FII	23.5	23.1	23.7
Others	16.0	17.1	18.7

FII Includes depository receipts

- Glenmark Pharma (GNP) delivered a largely in-line operational performance in 3QFY25. New launches and market share gains led to better-than-industry growth in the domestic formulation (DF) segment. US business remained largely stable due to the lack of meaningful launches in 3QFY25.
- We maintain our estimates for FY25/FY26/FY27. We value GNP at 25x 12M forward earnings to arrive at a TP of INR1,725.
- GNP is building a niche product pipeline for the US market in the areas of respiratory and ophthalmology. The products are in the form of oral solids and injectables dosages. GNP is also enhancing its offerings in DF segment through the GLP-1 portfolio and partnered products. Accordingly, we estimate a 24% earnings CAGR over FY25-27. Maintain BUY.

Product mix, operating leverage drive margins YoY

- Revenue grew 35.1% YoY to INR33.9b (in line) in 3QFY25. DF jumped 305.7% YoY to INR10.6b (31% of sales) on a low base. Europe generics revenue grew 14.8% YoY to INR7.3b (22% of sales).
- RoW (RoW+LatAm) sales rose 3.3% YoY to INR7.5b (23% of sales).
- NA revenue increased 2.4% YoY to INR7.8b (USD93m; 22% of sales).
- Gross margins (GM) expanded 920bp YoY to 68% due to lower RM costs, a change in the product mix, and a low base of past year.
- EBITDA stood at INR6b (in line) vs. EBITDA loss of INR1.4b in 3QFY24.
- Accordingly, EBITDA margin stood at 17.7%.
- Adj. PAT came in at INR3.5b (est. INR3.7b) vs. adj. loss of INR3.5b in 3QFY24.
- In 9MFY25, revenue/EBITDA grew 15%/127% to INR100.7b/INR18.1b, whereas PAT stood at INR10.5b (vs. a loss of INR979m in 9MFY24).

Highlights from the management commentary

- GNP expects an uptick in US business from 1HFY26 onward on the back of potential launches in the respiratory space.
- It has filed two ANDAs for generic nasal sprays. GNP filed g-Flovent ANDA for 44mcg pMDI in May'24. It is working on filing ANDA for other two strengths of g-Flovent and other respiratory products.
- One ANDA was filed during the quarter in the ophthalmology category; and GNP plans to file one additional ANDA in the upcoming quarter.
- The company maintained its FY25 revenue guidance of INR135b-140b with EBITDA margin of 19%.
- GNP expects its partner to receive Ryaltris approval in FY26 for China market.
- It plans to launch Envafohimab in more than 20 markets in FY25, with the first market launch expected in FY26.

Quarterly performance

(INRm)

Y/E March	FY24				FY25E				FY24	FY25E	Estimate	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	% Var
Net Revenues (Core)	30,361	32,074	25,067	30,630	32,442	34,338	33,876	34,261	1,18,131	1,34,916	34,504	-1.8
YoY Change (%)	9.3	6.3	-19.1	2.1	6.9	7.1	35.1	11.9	2.0	14.2	37.6	
EBITDA	4,374	5,053	-1,444	5,043	6,102	6,019	6,002	6,093	13,025	24,217	6,211	-3.4
YoY Change (%)	-7.5	-3.2	-130.5	26.7	39.5	19.1	-515.5	20.8	-20.3	85.9	-530.0	
Margins (%)	14.4	15.8	-5.8	16.5	18.8	17.5	17.7	17.8	11.0	17.9	18.0	
Depreciation	1,420	1,415	1,471	1,513	1,178	1,203	1,227	1,251	5,819	4,859	1,250	
EBIT	2,953	3,638	-2,915	3,530	4,924	4,816	4,775	4,843	7,206	19,358	4,961	
YoY Change (%)	-9.4	-3.3	-190.4	34.3	66.7	32.4	-263.8	37.2	-32.4	168.6	-270.2	
Margins (%)	9.7	11.3	-11.6	11.5	15.2	14.0	14.1	14.1	6.1	14.3	14.4	
Interest	1,116	1,215	1,343	1,486	396	485	523	479	5,160	1,882	350	
Other Income	197	17	454	7,732	315	324	311	299	8,400	1,249	410	
PBT before EO Expense	2,034	2,441	-3,805	9,776	4,843	4,656	4,563	4,663	10,447	18,725	5,021	-9.1
One-off loss/(gain)	520	3,684	1,409	4,468	220	-70	0	0	10,082	150	0	
PBT after EO Expense	1,514	-1,244	-5,214	5,308	4,623	4,726	4,563	4,663	364	18,575	5,021	-9.1
Tax	1,137	559	-718	17,695	1,221	1,181	1,083	1,076	18,673	4,560	1,305	
Rate (%)	75.1	-45.0	13.8	333.3	26.4	25.0	23.7	23.1	5,123.0	24.6	26.0	
Reported PAT	377	-1,803	-4,496	-12,386	3,402	3,545	3,480	3,587	-18,309	14,015	3,715	-6.3
Minority Interest	232	204	206	40	0	3	1	42	681	45	5	
Reported PAT after Minority Interest	145	-2,007	-4,701	-12,427	3,403	3,542	3,480	3,545	-18,990	13,970	3,710	
Adj PAT	1,111	1,397	-3,486	1,680	3,565	3,490	3,480	3,545	701	14,079	3,710	-6.2
YoY Change (%)	-34.0	-39.9	-368.6	247.6	220.9	149.8	-199.8	111.1	-81.2	NA	-206.4	
Margins (%)	3.7	4.4	-13.9	5.5	11.0	10.2	10.3	10.3	0.6	10.4	10.8	
Adj. PAT from discontinued operations	1,355	1,187	1,188	244	0	0	0	-	3,973	-	0	NA
YoY Change (%)												
Overall Adj. PAT	2,465	2,584	(2,299)	1923	3,565	3,490	3,480	3545	4674	14,079	3710	-6.2

Key performance Indicators

Y/E March	FY24				FY25E				FY24	FY25E	FY25E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE
India formulations	10,643	11,217	2,622	8,847	11,962	12,817	10,637	10,136	33,994	45,552	11,799
YoY Change (%)	2.8	2.8	-75.6	7.4	12.4	14.3	305.7	14.6	-15.6	34.0	350.0
US	8,085	7,392	7,629	7,378	7,808	7,405	7,813	8,387	30,943	31,413	7,927
YoY Change (%)	22.0	-1.9	-8.9	-7.9	-3.4	0.2	2.4	13.7	-0.3	1.5	3.9
ROW+LatAm	5,512	7,324	7,250	5,479	5,708	7,041	7,491	8,164	27,666	28,404	7,419
YoY Change (%)	30.4	19.0	10.8	18.1	3.6	-3.9	3.3	49.0	16.4	2.7	2.3
Europe	5,732	5,997	6,357	4,968	6,957	6,874	7,297	7,434	24,205	28,562	7,120
YoY Change (%)	73.7	58.4	28.9	17.6	21.4	14.6	14.8	49.6	33.8	18.0	12.0
Cost Break-up											
RM Cost (% of Sales)	39.1	37.3	41.2	32.5	34.2	31.2	32.0	31.8	37.4	32.3	31.3
Staff Cost (% of Sales)	22.4	22.8	30.0	22.9	21.9	22.9	23.3	22.7	24.3	22.7	23.0
R&D Expenses(% of Sales)	9.3	10.1	12.3	10.0	7.4	7.2	6.6	7.2	10.3	7.1	8.0
Other Cost (% of Sales)	14.7	13.9	22.2	18.2	17.6	21.2	20.4	20.6	17.0	20.0	19.7
Gross Margins (%)	60.9	62.7	58.8	67.5	65.8	68.8	68.0	68.2	62.6	67.7	68.7
EBITDA Margins (%)	14.4	15.8	-5.8	16.5	18.8	17.5	17.7	17.8	11.0	17.9	18.0
EBIT Margins (%)	9.7	11.3	-11.6	11.5	15.2	14.0	14.1	14.1	6.1	14.3	14.4



Aditya Birla Fashion and Retail

Estimate changes

TP change

Rating change



Bloomberg	ABFRL IN
Equity Shares (m)	1140
M.Cap.(INRb)/(USD\$)	291.3 / 3.4
52-Week Range (INR)	365 / 198
1, 6, 12 Rel. Per (%)	-6/-14/7
12M Avg Val (INR M)	1620

Financials & Valuations (INR b)

INRb	FY25E	FY26E	FY27E
Sales	148.9	158.4	171.0
EBITDA	17.6	19.7	22.7
Adj. PAT	-5.8	-0.7	-0.7
EBITDA Margin (%)	11.8	12.4	13.2
Adj. EPS (INR)	-4.8	-0.6	-0.6
BV/Sh. (INR)	83.1	82.3	81.7

Ratios

Net D:E	0.3	0.2	0.2
RoE (%)	-8.9	-0.9	-0.8
RoCE (%)	1.0	2.1	2.9
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	-53.3	-420.3	-456.2
EV/EBITDA (x)	19.6	17.3	14.8
EV/Sales (x)	2.3	2.2	2.0
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	49.2	49.3	55.5
DII	14.6	14.8	17.0
FII	18.8	20.1	14.7
Others	17.4	15.9	12.9

FII Includes depository receipts

CMP: INR256

TP: INR285 (+12%)

Neutral

GM expansion drives beat; near-term focus on demerger

- Aditya Birla Fashion and Retail (ABFRL)'s revenue growth remained muted at ~3% YoY (in line) in 3QFY25. The growth was driven mainly by Ethnic and TMRW (to be part of demerged ABFRL), whereas growth remained muted in Lifestyle Brands (robust LTL offset by weak wholesale) and Pantaloons (shift in Pujo dates).
- EBITDA was up 15% YoY (11% beat), driven by broad-based improvement in profitability, with ~150bp YoY expansion in consolidated EBITDA margin.
- Recently, ABFRL successfully raised USD490m (INR42.4b) through QIP and preferential issuance to the promoter and Fidelity group, resulting in the complete deleveraging of the company.
- Management expects to complete the demerger in the next 2-3 months. After the demerger, ABLBL will start with a net debt of INR7b, while demerged ABFRL will have a net cash of INR13b.
- We raise our FY25-26E EBITDA by 6-7%, primarily led by better profitability in demerged ABFRL, while Earnings improve sharply on account of lower interest costs after the recent fundraise.
- We build in a CAGR of 7%/16% in revenue/EBITDA over FY24-27E for ABFRL, with demerged ABFRL to record better ~11%/26% revenue/EBITDA CAGRs.
- We value ABFRL on the SOTP basis. We assign EV/EBITDA multiple of 14x to both ABLBL and Pantaloons business and EV/sales of 1x to other businesses of ABFRL (demerged) on FY27E. **We reiterate our Neutral rating with a TP of INR285.**

Muted revenue growth; GM expansion drives beat

- Consol. revenue grew 3% YoY (in line)** to INR43.1b, driven by growth in the ethnic and TMRW portfolios.
 - Lifestyle revenue remained flat YoY (2% miss) as 12% LTL growth in the retail channel was offset by weaker primary sales in wholesale and other channels.
 - Pantaloons revenue declined ~2% YoY due to the shift in festive dates (Pujo in 2Q) and continued store closures.
 - Ethnic revenue grew 7% YoY, driven by robust growth in designer-led brands amid strong festive and wedding seasons.
 - TMRW revenue surged 26% YoY.
- Gross profit grew 6% YoY to INR25.1b (2% beat) as margins expanded ~170bp YoY to 58.2% (120bp beat).
- EBITDA rose 15% YoY (11% beat)** to INR6.3b, led by higher gross margin.
 - EBITDA margin expanded ~150bp YoY to 14.8% (~150bp beat).
 - Margin expansion was broad-based across Lifestyle, Pantaloons, and Ethnic segments.**
- However, ABFRL continued to report a net loss, with a loss of INR0.4b (though better than INR1.1b loss YoY and our estimate of ~INR1b loss).

Key highlights from the management interaction

- **Demand:** The overall consumption environment remained subdued in 3Q with inconsistent footfalls. Demand was robust in the festive and wedding season, though it tapered through rest of the period.
- **Debt:** The overall net debt at the end of Jan'25 (post QIP) stood at INR18b, which should come down further after the INR23.8b preferential issuances. Management indicated that ABLBL (Lifestyle Brands) is likely to start FY26 with a net debt of INR7b, while the demerged entity (ABFRL) will likely start with a cash balance of INR13b.
- **Demerger:** The demerger process is progressing well and is expected to be completed in the next 2-3 months. The final NCLT hearing is scheduled in the third week of Mar'25.
- **Lifestyle Brands:** Management indicated that lifestyle brands performed well during the festive and wedding period, which led to robust LTL retail growth. The growth was impacted by weaker primary sales in the wholesale channel (also impacted by a strategic shift by one of the top large-format retail partners for ABLBL). Its focus on reducing markdowns and consolidation of unprofitable stores led to margin improvements. The company plans to add 300 stores in the next 12 months, primarily in top cities, with a focus on opening larger stores.
- **Priorities for demerged ABFRL:** Management is likely to focus on scaling up value fashion (through Style Up) and Ethnics (through Tasva). It believes that INR13b is enough cash cover to support the growth plans for demerged ABFRL as the Pantaloons and ethnic segments (excl. Tasva) can self-fund the growth and there will be a separate fundraising for the digital segment (TMRW). Management expects demerged ABFRL to be a cash-generating company in the next three years.

Valuation and view

- The company is currently undergoing a demerger process, with the scaled-up cash-generating businesses (Lifestyle brands) to be transferred to a new entity, ABLBL. The demerged ABFRL will house the Pantaloons, value fashion (Style Up), Ethnic, digital-first brands (TMRW) and Luxury Retail.
- In the last few years, ABFRL has invested in multiple new businesses, with a long tail of businesses that are presently loss-making or yet to stabilize. While the debt concerns have been addressed with the recent fundraising. We believe that profitably scaling up the value fashion and ethnic wear and turning around the newly set up digital-first brands could be a bumpy ride. The inclusion of TCNS in the Ethnic portfolio may further accentuate near-term profitability risks.
- We raise our FY25-26E EBITDA by 6-7%, primarily led by better profitability in demerged ABFRL, while earnings improve sharply on account of lower interest costs after the recent fundraising.
- We build in a CAGR of 7%/16% in revenue/EBITDA over FY24-27E for ABFRL, with demerged ABFRL to record better ~11%/26% revenue/EBITDA CAGRs.
- We value ABFRL on the SOTP basis. We assign EV/EBITDA multiple of 14x to both ABLBL and Pantaloons business and EV/sales of 1x to other businesses of ABFRL (demerged) on FY27E. **We reiterate our Neutral rating with a TP of INR285.**
- Our SoTP implies an enterprise value of INR203b (or ~INR166/share) for ABLBL and INR165b (or ~INR135/share) for the demerged ABFRL business.

Consolidated - Quarterly earnings summary

(INR m)

Y/E March	FY24				FY25E				FY24	FY25E	FY25	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Revenue	31,961	32,264	41,667	34,067	34,278	36,439	43,047	35,210	1,39,959	1,48,943	43,081	-0.1
YoY Change (%)	11.2	4.9	16.1	18.3	7.3	12.9	3.3	3.4	12.7	6.4	3.4	
Total Expenditure	29,037	29,031	36,134	31,230	30,694	32,825	36,698	31,214	1,25,433	1,31,362	37,369	-1.8
EBITDA	2,923	3,233	5,533	2,837	3,584	3,613	6,349	3,995	14,526	17,581	5,711	11.2
Change, YoY (%)	-37.6	-18.5	27.0	47.1	22.6	11.8	14.8	40.8	-2.7	21.0	3.2	
Depreciation	3,670	3,888	4,441	4,554	4,359	4,610	4,723	4,944	16,552	18,636	4,841	
Interest	1,873	2,084	2,454	2,355	2,195	2,500	2,470	1,296	8,766	8,469	2,700	
Other Income	603	457	441	875	478	516	571	895	2,376	2,459	567	
PBT before EO expense	-2,017	-2,281	-922	-3,197	-2,493	-2,982	-273	-1,351	-8,417	-7,065	-1,262	-78.3
Extra-Ord expense	0	0	0	0	0	-231	0	0	0	-231	0	
Share in JV	4	-5	73	56	-3	-32	-89	-5	128	-130	30	
PBT	-2,017	-2,281	-922	-3,197	-2,493	-2,750	-273	-1,351	-8,417	-6,834	-1,262	-78.3
Tax	-397	-282	227	-478	-346	-636	61	-296	-930	-1,219	-269	
Rate (%)	19.7	12.4	-24.6	14.9	13.9	23.1	-22.2	21.9	11.0	17.8	21.3	
Reported PAT	-1,616	-2,003	-1,076	-2,664	-2,149	-2,147	-424	-1,060	-7,359	-5,745	-963	-56.0
Adj PAT	-1,616	-2,003	-1,076	-2,664	-2,149	-1,957	-424	-1,060	-7,359	-5,555	-963	-56.0
YoY Change (%)	-272.3	-765.4	-1,713.2	35.3	33.0	-2.3	-60.6	-60.2	1,009.8	-24.5	-10.5	

E: MOFSL Estimates

SOTP-based valuation on Mar'27E basis

INR m	ABLBI	Demerged ABFRL			ABFRL
		Pantaloons	Others	Total	
EBITDA	14,644	8,968			
Revenue		40,777			
EV/EBITDA	14.0x	14x			
EV/Sales		1x			
EV	2,02,813	1,24,201	40,777	1,64,977	367,790
less: debt					20,547
Equity					347,244
NOS (m)					1,220
TP (INR/share)					285
CMP (INR/share)					256
Upside (%)					12%

Source: MOFSL, Company



Deepak Nitrite

Estimate change



TP change



Rating change

CMP: INR1,899

TP: INR1,835 (-3%)

Neutral

Subdued quarter; new projects delayed again!

Bloomberg	DN IN
Equity Shares (m)	136
M.Cap.(INRb)/(USD\$)	258.9 / 3
52-Week Range (INR)	3169 / 1810
1, 6, 12 Rel. Per (%)	-18/-28/-22
12M Avg Val (INR M)	978

Financials & Valuations (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	80.6	87.2	95.7
EBITDA	9.7	14.5	16.5
PAT	6.1	9.0	10.0
EPS (INR)	44.8	66.2	73.4
EPS Gr. (%)	-18.8	47.8	10.8
BV/Sh.(INR)	390.8	448.7	512.8

Ratios

Net D:E	0.1	0.2	0.2
RoE (%)	12.1	15.8	15.3
RoCE (%)	11.1	13.2	12.0
Payout (%)	12.6	12.6	12.6

Valuations

P/E (x)	42.3	28.6	25.8
P/BV (x)	4.8	4.2	3.7
EV/EBITDA (x)	27.0	18.5	16.7
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	-2.1	-2.2	-1.7

Shareholding Pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	49.2	49.2	49.1
DII	23.2	22.3	18.9
FII	6.6	6.7	6.5
Others	20.9	21.8	25.5

FII includes depository receipts

- Deepak Nitrite (DN) reported a disappointing quarter with a miss in 3QFY25, mainly due to underperformance in both the Deepak Phenolics (DPL) and Advanced Intermediates (AI) segments. This lackluster performance was attributed to an idled plant resulting from deferred demand. EBITDA came in 28% below our estimate and stood at INR1.7b (-45% YoY). Adj. PAT was INR981m (estimate of INR1.5b, -51% YoY). EBIT margin contracted 10.8pp YoY for the AI segment, while the same contracted 440bp YoY for DPL.
- The AI segment experienced a decline due to year-end destocking, but demand picked up towards the end of 3QFY25, with margins likely to be better in 4QFY25. DPL faced production loss due to a plant shutdown, while global peers' Phenol utilization remains below DPL's threshold. The company has not finalized anything on BPA yet but has begun small-scale PC compound production and plans the next DPL shutdown in ~18 months.
- The Nitric Acid project is in pre-commissioning and will be operational by the end of 4QFY25. The MIBK/MIBC and Acetophenone projects are set for commissioning in 1HFY26, while Nitration and Hydrogenation will be ready in 2HFY25. The INR1.2b R&D center at Savli, Vadodara, is 85% complete and on track for completion in Mar'25. The Fluorination block was already commissioned in 4QFY24.
- Management indicated that international demand is showing early signs of recovery, with domestic demand expected to normalize from 4QFY25. The agrochemical intermediates are witnessing a lag-adjusted recovery, while easing raw material prices should drive margin expansion for certain intermediates. Growing polymer demand and upcoming project commissions will enhance value capture across the supply chain.
- Due to the underperformance, we cut our revenue/ EBITDA/ EPS estimates by 5%/24%/27% for FY25 by 8%/13%/15% for FY26, and by 9%/14%/16% for FY27. Our EBITDAM stands at 12.1%/16.7%/17.2% for FY25/26/27. There is a risk of further downgrades in our estimate going forward. The stock trades at ~29x FY26E EPS of INR66.2 and at ~19x FY26E EV/EBITDA. **We reiterate our Neutral rating**, valuing the stock at 25x FY26E EPS to arrive at our TP of INR1,835.

Miss across the board; worst performance since 1QFY21

- Revenue came in at INR19b (our est. INR18.6b, down 5% YoY).
- EBITDA was INR1.7b (our est. of INR2.4b, down 45% YoY). Gross margin was at 26.8% (down 490bp YoY), while EBITDAM stood at 8.9% (vs. 15.2% in 3QFY24).
- Reported PAT stood at INR981m (our est. of INR1.5b, down 51% YoY).
- In 9MFY25**, revenue was at INR61b (+10% YoY), EBITDA at INR7.8b (-5% YoY), PAT at INR4.9b (-11% YoY), and EBITDAM at 12.7% (-200bp YoY).

Segmental details

- Phenolics' EBIT margin stood at 8.9%, with EBIT at INR1.2b. AI's EBIT margin came in at 3.1%, with EBIT at INR169m.
- The revenue mix of Phenolics stood at 71% in 3QFY25, with AI's share at 29%. EBIT mix for AI was at 12% (vs. 34% in 3QFY24). Contribution from Phenolics was at 88% (vs. 66% in 3QFY24).
- **In 9MFY25**, AI revenue was at INR18.7b (-9% YoY) and DPL revenue was at INR42.3b (+21% YoY). AI EBIT was at INR1.3b (-58% YoY), and DPL EBIT was at INR5.4b (+24% YoY). AI's EBIT margin was 7% (-820bp YoY) and DPL' EBIT margin was at 12.7% (+30bp YoY).

Valuation and view

- DN aims to become the largest player in the solvents market by focusing on import substitution. It is foraying into PC (165ktpa), Methyl Isobutyl Ketone (MIBK, 40ktpa), Methyl Isobutyl Carbinol (MIBC, 8ktpa), and Sodium Nitrite/ Nitrate, among other products. These products are taking shape and are likely to be commissioned in FY26. Some other previously announced capex projects have already been commissioned (fluorination plant, specialty salts unit).
- DN is aggressively pursuing both backward and forward integration projects to de-risk its business model and expand its product portfolio. However, its entire product portfolio consists of commodities. The stock trades at ~29x FY26E EPS of INR66.2 and ~19x FY26E EV/EBITDA, which we believe is expensive for a commodity chemical company. We reiterate our Neutral rating with a TP of INR1,835 (premised on 25x FY27E EPS).

Consolidated - Quarterly Snapshot

Y/E March	FY24				FY25				FY24	FY25E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		3QE	(%)	
Gross Sales	17,683	17,781	20,092	21,262	21,668	20,320	19,034	19,533	76,818	80,556	18,577	2%
YoY Change (%)	-14.1	-9.4	0.9	8.4	22.5	14.3	-5.3	-8.1	-3.6	4.9	-7.5	
Gross Margin (%)	30.8%	34.4%	31.7%	30.7%	30.8%	32.0%	26.8%	27.8%	31.8%	29.4%	30.7%	-3.9%
EBITDA	2,098	3,023	3,047	3,011	3,092	2,975	1,685	1,975	11,178	9,727	2,350	-28%
Margin (%)	11.9	17.0	15.2	14.2	14.3	14.6	8.9	10.1	14.6	12.1	12.6	-3.8
Depreciation	381	394	417	465	475	485	482	505	1,657	1,947	492	
Interest	18	27	29	44	58	63	61	100	118	282	66	
Other Income	319	170	136	191	188	213	210	215	816	826	181	
PBT	2,017	2,772	2,736	3,492	2,748	2,640	1,352	1,584	11,017	8,324	1,972	-31%
Tax	518	721	715	953	723	698	371	423	2,908	2,214	521	
Rate (%)	25.7	26.0	26.1	27.3	26.3	26.4	27.4	26.7	26.4	26.6	26.4	
Reported PAT	1,499	2,051	2,020	2,538	2,025	1,942	981	1,161	8,108	6,110	1,451	-32%
Adj PAT	1,499	2,051	2,020	1,958	2,025	1,942	981	1,161	7,521	6,110	1,451	-32%
YoY Change (%)	-36.1	17.5	-3.4	-16.3	35.1	-5.3	-51.4	-40.7	-11.7	-18.8	-28.2	
Margin (%)	8.5	11.5	10.1	9.2	9.3	9.6	5.2	5.9	9.8	7.6	7.8	-2.7
Segmental Revenue (INR m)												
Advanced Intermediates	7,083	6,702	6,743	6,711	7,157	6,060	5,517	5,781	23,036	23,266	6,374	-13%
Phenolic	10,679	11,201	13,493	14,661	14,636	14,435	13,657	13,858	36,356	34,194	12,317	11%
Segmental EBIT (INR m)												
Advanced Intermediates	1,149	1,034	937	1,339	665	475	169	408	4,224	3,989	531	-68%
Phenolic	876	1,704	1,798	2,061	2,076	2,149	1,212	1,080	4,067	3,917	1,617	-25%
Segmental EBIT Margin (%)												
Advanced Intermediates	16.2%	15.4%	13.9%	20.0%	9.3%	7.8%	3.1%	7.1%	18.3%	17.1%	8.3%	-5.3%
Phenolic	8.2%	15.2%	13.3%	14.1%	14.2%	14.9%	8.9%	7.8%	11.2%	11.5%	13.1%	-4.3%



Zen Technologies

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	ZEN IN
Equity Shares (m)	90
M.Cap.(INRb)/(USDb)	97.5 / 1.1
52-Week Range (INR)	2628 / 800
1,6,12 Rel. Per (%)	-50/-30/29
12M Avg Val (INR M)	901

Financials Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	9.0	10.6	15.8
EBITDA	3.3	3.9	5.9
EBITDA Margin (%)	37.0	37.0	37.0
PAT	2.7	3.3	4.8
EPS (INR)	30.5	36.6	53.4
EPS Growth (%)	116.8	20.2	45.9
BV/Share (INR)	191.4	228.0	281.4

Ratios

Net D/E	-0.7	-0.7	-0.7
RoE (%)	25.2	17.5	21.0
RoCE (%)	25.8	17.8	21.3

Valuations

P/E (x)	35.4	29.5	20.2
P/BV (x)	5.6	4.7	3.8
EV/EBITDA (x)	25.6	21.3	13.8

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	49.1	51.3	55.1
DII	9.0	8.1	3.1
FII	8.8	6.2	5.4
Others	33.2	34.5	36.4

FII Includes depository receipts

CMP: INR1,080 TP: INR1,600 (+48%) Buy

Sharp miss

Zen Technologies' results were sharply below our estimates on revenue/EBITDA/PAT due to delays in booking certain contracts during 3QFY25. The company's revenue/PAT grew by 44%/22% YoY, while EBITDA declined by 17% YoY due to operating deleverage. Zen has underperformed broader indices on concerns related to growth visibility, order inflows, and acquisition plans. The company: 1) expects inflows worth INR8b to materialize during 4QFY25-FY26, which will provide revenue visibility beyond FY25, 2) maintains revenue guidance of INR9b for FY25, with an EBITDA margin of 35%, despite a miss on revenues for 3QFY25, and 3) is building its portfolio across other simulators with the recent acquisition announcement of ARIPL, which is engaged in naval simulators, and MoUs and tie ups with other firms for air-based simulation solutions. Due to lower-than-expected order inflows in 9MFY25, we cut our estimates by 4%/25%/22% for FY25/26/27. Along with this, our target multiple has also been revised downwards, as the company was earlier getting a higher valuation multiple for growth, which is looking weak till FY26. Beyond FY26, we expect overall ordering to improve from large-sized simulator orders, recent acquisitions, and MoUs, as the company's overall capabilities are being enhanced across simulators, anti-drone, and other new areas. However, due to delays in the finalization of tenders, execution may remain impacted in the near to medium term. We reiterate BUY with a revised TP of INR1,600 based on 30x Mar'27E earnings.

Weak set of results

Zen Tech's 3QFY25 revenue, EBITDA, and PAT came in below our estimates. Revenue was up 44.3% YoY at INR1.42b, a 39% miss on our estimate of INR2.31b. The revenue miss was due to delays in shipments and the shift of revenue booking to 4QFY25. Absolute EBITDA was down 17% YoY at INR367m vs. our estimate of INR859m (57% miss). EBITDA margin contracted 1910bp YoY/690bp QoQ to 26.0% vs. our estimate of 37.2% due to the revenue miss. PAT at INR386m came in 39% below our estimate of INR637m. PAT margin contracted 500bp YoY to 27.3%. Order book as of 30th Dec'24 stood at INR8.17b. This includes equipment order book of INR5.4b and AMC order book of INR2.8b. Despite a revenue miss in 3QFY25, the company has maintained its revenue guidance of INR9b for FY25.

Future order inflow visibility

The company's order book stands at INR8.17b (66% Equipment; 34% AMC). The share of training simulators/anti-drones in the total order book is ~48%/52%, with the training simulators' order book comprising majority of orders in the domestic market (76%), while the anti-drone systems order book is more inclined towards the export market (55%). The anti-drone market is becoming crowded with an increasing number of players; however Zen has the advantage of full backward integration across seeker, detector, radar, camera, as well as both hard kill and soft kill, which others don't have as of now. Management mentioned that a few new orders are in the final stage of discussions and will start getting finalized in the next 2-3 months. Further, the company expects a sharp ramp-up in orders beyond FY26 on an overall increase in ordering as well as a wider TAM from the newly acquired companies.

Recent tie-ups and acquisitions

Zen Technologies has been catering its products to the Indian Army and, in its 2QFY25 con-call, the company mentioned opportunities to expand its offerings to the Indian Air Force and Indian Navy. The company has announced the acquisition of a 100% stake in Applied Research International Private Limited and ARI Labs Private Limited, marking its strategic entry into the Indian Navy platform. Additionally, the company's recent MoUs signed with AVT Simulation and TXT Group are in line with its statement to address opportunities across the Indian Air Force.

- **Announced Acquisition:** The Board of Directors approved the following acquisitions:
 - 100% stake in **Applied Research International Private Limited (ARIPL)** in multiple tranches: ARIPL is engaged in the business of providing simulation and assessment tools for the marine, offshore, naval, ports & terminals, construction, and mining industries. Zen's management claimed that once it combines its weapon simulation technology with ARIPL's marine simulation technology, it will be able to create a product that caters to the Indian Navy with a margin profile of 35% vs ARIPL's current margin of 18-19%.
 - 100% stake in **ARI Labs Private Limited** in multiple tranches.
 - 45.33% stake in **Bhairav Robotics Private Limited** by way of subscription.
 - 51% stake in **Vector Technics Private Limited** by way of subscription: Through this acquisition, the company marked its entry into the drone segment by manufacturing support sub-units for drones, catering to the domestic as well as export markets.
- **MoU with TXT Group:** This MoU focuses on the development of advanced pilot training solutions, ranging from Part Task Trainers to Full Flight and Full Mission Simulators.
- **MoU with AVT Simulation:** Under this MoU, AVT Simulation will support Zen's entry into the US defense market, while Zen will help AVT expand internationally. Combining Zen's ground simulation expertise with AVT's air simulation strengths, the company aims to develop next-gen solutions for defense, emergency response, and commercial use.

Further, the company also approved an investment of USD10m in multiple tranches over a period of two years in Zen Technologies USA, Inc., a wholly-owned subsidiary of Zen Technologies, to leverage new growth opportunities in the US markets.

Patents granted during the quarter

Since the beginning of the quarter to date, Zen has received Patent Grants for:

- **T90 Containerized Crew Gunnery Simulator (T-90 CGS):** An advanced, innovative system that provides a highly immersive and interactive training experience to increase the gunnery proficiency of the T-90 tank commander and gunner. The system replicates the battlefield conditions and operational tasks of the T90 tank, providing realistic targets with AI reactions.
- **T-72 Containerized Crew Gunnery Simulator System (T-72 CGS):** An advanced training platform designed to enhance the gunnery skills of T-72 tank commanders and gunners. By simulating critical operations like target acquisition, ammunition selection, and firing, the T-72 CGS prepares personnel for real-world combat scenarios.

- **Basic Gunnery Training Simulator:** A state-of-the-art training platform developed to enhance the technical and operational skills of a tank gunner, replicating real-world battlefield conditions with features such as target acquisition, ammunition selection, and firing simulations.

Guidance

The company continued to maintain its FY25 revenue guidance of INR9b on account of expected strong execution in 4Q, revitalizing its topline growth. It expects orders to start coming in from 2QFY25/1HFY26 onwards, and EBITDA/PAT margin to be at 35%/25% for FY25.

Financial outlook

We cut our estimates to factor in lower-than-expected order inflow in 9MFY25. We expect a revenue/EBITDA/PAT CAGR of 54%/53%/56% during FY24-27. This will be led by: 1) order inflow CAGR growth of 37% over FY24-27, due to a strong pipeline across simulators and anti-drones, 2) EBITDA margin of 37% for FY25, FY26, and FY27, and 3) control over working capital due to improved collections.

Valuation and recommendation

The stock currently trades at 29.5x/20.2x P/E on FY26/27E earnings. We revise our estimates downwards to factor in the 3Q performance and lower-than-expected order inflows. Along with this, our target multiple is also revised downwards as the company was earlier getting a higher valuation multiple for growth, which is looking weak till FY26. Beyond FY26, we expect overall ordering to improve from large-sized simulator orders, recent acquisitions, and MoUs as the company's overall capabilities are getting enhanced across simulators, anti-drone, and other new areas. However, due to delays in the finalization of tenders, execution may remain impacted in the near to medium term. We reiterate BUY with a revised TP of INR1,600 based on 30x Mar'27E earnings.

Key risks and concerns

A slowdown in procurement from the defense industry, especially for simulators, can expose the company to the risk of further reduced order inflows and hinder its growth. The company is also exposed to foreign currency risks for its export revenue. High working capital can also pose risks to cash flows, as historically, the company's working capital has remained high due to issues related to high debtors and inventory. This is likely to come down due to improved collections and lower inventory, according to the management. However, any delays in the same can affect cash flows for FY25/26.

Zen Technologies

Standalone - Quarterly Earnings Model

(INR m)

Y/E March	FY24				FY25E				FY24	FY25E	FY25E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	1,324	640	981	1,357	2,540	2,417	1,415	2,639	4,303	9,011	2,310	(39)
YoY Change (%)	298.5	203.1	197.8	83.0	91.7	277.4	44.3	94.5	166.5	109.4	135.6	
Total Expenditure	663	423	539	906	1,508	1,623	1,048	1,499	2,530	5,677	1,451	(28)
EBITDA	662	218	442	451	1,032	794	367	1,141	1,772	3,334	859	(57)
Margins (%)	50.0	34.0	45.1	33.2	40.6	32.9	26.0	43.2	41.2	37.0	37.2	
Depreciation	15	18	19	22	22	23	26	19	73	90	22	17
Interest	4	4	4	6	10	21	27	25	18	83	17	62
Other Income	26	48	42	23	30	84	220	201	139	535	35	522
PBT	670	243	461	422	1,030	835	534	1,298	1,796	3,696	856	(38)
Tax	199	70	144	140	288	182	147	328	552	946	219	(33)
Rate (%)	29.6	28.7	31.2	33.2	28.0	21.8	27.6	25.3	30.7	25.6	25.6	
Reported PAT	471	173	317	282	742	652	386	969	1,244	2,750	637	(39)
Adj PAT	471	173	317	306	742	652	386	969	1,268	2,750	637	(39)
YoY Change (%)	474.2	279.1	467.2	77.3	57.4	276.1	21.9	216.6	237.0	116.8	101.1	
Margins (%)	35.6	27.1	32.3	22.6	29.2	27.0	27.3	36.7	29.5	30.5	27.6	



Equitas Small Finance Bank

BSE SENSEX 75,997 S&P CNX 22,960

CMP: INR61 TP: INR77 (+25%) Buy



Bloomberg	EQUITASB IN
Equity Shares (m)	1139
M.Cap.(INRb)/(USDb)	70 / 0.8
52-Week Range (INR)	110 / 60
1, 6, 12 Rel. Per (%)	-15/-19/-47
12M Avg Val (INR M)	367
Free float (%)	100.0

Financials & Valuation (INR b)

Y/E March	FY24	FY25E	FY26E
NII	30.8	32.4	38.1
OP	13.8	13.5	16.5
NP	8.0	2.0	6.6
NIM (%)	8.5	7.4	7.2
EPS (INR)	7.1	1.8	5.8
BV/Sh. (INR)	53	53	57
ABV/Sh. (INR)	50	51	55

Ratios

RoA (%)	2.0	0.4	1.2
RoE (%)	14.4	3.4	10.6

Valuations

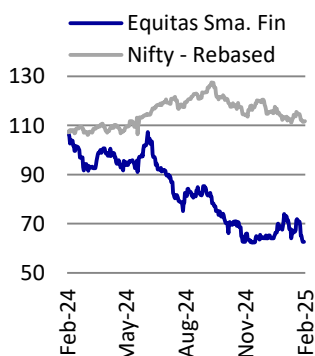
P/E(X)	8.6	34.5	10.4
P/BV (X)	1.2	1.2	1.1
P/ABV (X)	1.2	1.2	1.1

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	0.0	0.0	0.0
DII	42.6	43.7	45.7
FII	15.4	16.9	19.6
Others	42.0	39.4	34.8

FII Includes depository receipts

Stock performance (one-year)



Navigating through uncertainty

Near-term credit cost to stay high; RoA to recover to 1.5% by FY27E

- **EQUITASB has delivered a strong business growth trajectory, with a 26% CAGR in its loan book and 38% CAGR in deposits during FY22-24. This growth has improved the bank's CD ratio from 102% in FY22 to 87% currently, with the retail deposit mix standing at a healthy 67%.**
- **Margins have declined ~100bp YoY to 7.39% in 3QFY25 due to rising funding costs and high interest reversals along with a shift to secured products. Notwithstanding near term pressure on margins we expect medium term trajectory to remain steady benefitting from stabilization in funding costs, rationalization in SA rates while fixed rate nature of loan book (~80% of loans being fixed-rate) support yields in a declining rate environment.**
- **The ongoing stress in the MFI segment has impacted profitability and will keep credit costs elevated in near term. CE across states has been showing improvement (barring Karnataka which accounts for 10% of bank's MFI book) while Vehicle and SBL businesses are doing well. We thus expect overall credit cost to moderate to 1.5% by FY27E vs 3.1% in FY25.**
- **The stock has corrected 43% since Jan'24 and now trades at 1.0x Sep'26E ABV. Healthy growth momentum with an estimated loan CAGR of >20% and a gradual recovery in profitability with RoA recovering to ~1.5% by FY27E will support stock performance in the medium term. We retain our BUY rating on the stock with a revised TP of INR77 (1.3x Sep'26E ABV).**

Growth outlook steady; MFI mix to decline further

EQUITASB reported 21% YoY loan growth in 3QFY25, driven by strong growth in small business loans (SBL) at 26.7% YoY. The bank remained cautious in MFI segment amid elevated stress. The bank is shifting its focus toward secured products and has reduced its MFI concentration to ~14% of AUM, with a further decline expected in the coming quarters. The bank is ramping up disbursements in the micro-LAP segment, focusing on the top 15% of its MFI customers and driving growth in affordable housing, used CVs, and SBL. The affordable housing book is expected to turn profitable by FY26. EQUITASB has launched personal loans for deposit customers this quarter and plans to roll out credit cards by Mar'25. We estimate the bank to deliver a 22% CAGR in advances over FY25-27, primarily fueled by secured segments.

CASA mix has declined sharply; retail deposit mix steady at 67%

EQUITASB has significantly scaled up its liability franchise, achieving a 30% CAGR in total deposits over the past four years. However, the CASA ratio declined sharply from 46.2% in 3QFY23 to 28.6% in 3QFY24, due to a wide rate differential between savings account (SA) deposits and term deposits (TDs), as depositors opted for TDs amid uncertainty over interest rates. Despite this, the retail deposit mix remains strong at 67%. The bank has adjusted its SA rates, focusing on the mass affluent and HNI segments. With a healthy CD ratio of 87% in 3QFY25, the bank is well positioned to deliver steady growth while trying to prevent any further erosion in CASA mix. We estimate a 21% CAGR in deposits over FY25-27 and expect CASA mix to improve to 31% by FY27E.

NIMs to remain under pressure in near term; turn in rate cycle to offer some relief

EQUITASB has reported a ~100bp decline in margins over the past one year, standing at 7.39% in 3QFY25, due to rising funding costs and a shift from high-yield MFI loans to secured products. However, with stabilizing funding costs, a comfortable CD ratio of 86-87%, and its ability to moderate SA rates as the interest rate cycle turns, the bank is expected to maintain steady margins, especially as fixed-rate loans (~80% of the book) support margins in a favorable rate environment. The moderation in MFI mix may put pressure on portfolio yields; however, the bank is aiming to offset some impact by focusing on other high-yielding segments, viz. used CV, micro-LAP, etc. The bank's ongoing investments in branch expansion, digital infrastructure, and employees (strengthened its collection team) pushed the C/I ratio to 68.5% in 3QFY25. With continued investments, C/I ratio may remain elevated in the near term and gradually improve to ~64% by FY27E.

Asset quality stress (MFI) to linger in near term; credit cost to remain elevated

EQUITASB's GNPA ratio rose to 2.97% in 3QFY25, driven by increased slippages in the MFI segment, which rose from 8.3% to 14.2% due to customer overleveraging. In contrast, the non-MFI portfolio showed improvement, with slippages falling from 2.3% to 1.1%. While stress in the non-MFI segment remains contained, the MFI segment continues to pose challenges, with the next two quarters being critical for managing credit costs and improving asset quality. The bank has strengthened its collections efforts by adding 1,000 employees. MFI stress is particularly pronounced in regions like Karnataka, where collection efficiency (CE) has dropped to 90% and the government intervention has created significant uncertainty in collection outlook. Despite these challenges, the bank's continuous efforts to reduce MFI exposure (currently at 14% and expected to go down to single digits) and recovery in vehicle finance are expected to ease the slippage run rate in the medium term. We estimate a credit cost of 1.6% in FY27, which will reduce cyclicalities in overall business.

Valuation and view

EQUITASB has demonstrated healthy growth, achieving a 26% CAGR in its loan book and a 38% CAGR in deposits over FY22-24. CD ratio has thus eased from 102% in FY23 to 87% in 3QFY25. Although ongoing stress in the MFI segment has impacted profitability, the bank's MFI exposure has declined to ~14% (from 28% five years ago). In order to reduce cyclicalities in the business, the bank aims to further bring down the MFI mix over the coming years. EQUITASB has hired ~1,000 employees to boost CE, which has affected cost ratios, which we estimate will ease gradually over the coming years. The stock has corrected 43% since Jan'24 and now trades at 1.0x Sep'26E ABV. The bank's sustained growth momentum with an estimated loan CAGR of 22% and a gradual recovery in profitability with RoA of 1.5% by FY27E will support stock performance in the medium term, especially as MFI segment regains stability.

We retain our BUY rating on the stock with a revised TP of INR77 (1.3x Sep'26E ABV).

BSE SENSEX
75,997S&P CNX
22,960

CMP: INR5,241

Buy

Conference Call Details

Date: 17th February 2025

Time: 10:30am IST

Dial-in details:

[Diamond pass](#)

Financials & Valuations (INR b)

Y/E March	2024	2025E	2026E
Sales	121.9	141.5	169.7
EBITDA	23.1	26.4	30.5
Adj. PAT	18.7	21.7	25.3
Adj. EPS (INR)	88.5	102.5	119.3
EPS Gr. (%)	50.2	15.6	16.3
BV/Sh.(INR)	333.9	456.2	565.2
Ratios			
RoE (%)	28.8	25.1	23.4
RoCE (%)	29.0	25.2	23.5
Payout (%)	44.3	8.3	8.5
Valuations			
P/E (x)	59.2	51.1	43.9
P/BV (x)	15.7	11.5	9.3
EV/EBITDA (x)	47.8	40.5	34.3
Div. Yield (%)	0.6	0.1	0.2

Results above expectations

- ABB India reported a good set of numbers in 4QCY24, with a beat across all parameters.
- Revenue at INR33.65b grew 22% YoY, beating our expectation of INR31.4b by 7%, led by Electrification (up 33% YoY) with seamless execution of data center orders, from EPC customers, and export markets from Distribution Solution division. Robotics vertical, on the other hand, was able to convert opportunities from electronics and automotive segments. Motion segment revenue growth was driven by traction drives and converters. Process Automation was stable for the quarter.
- Gross margin expanded ~190bp YoY to 40.5%, aided by robust demand, stable commodity prices, price hikes, and a better product mix.
- As a result, EBITDA jumped 58% YoY to INR6.6b vs. our estimate of INR5.8b (14% beat). Accordingly, EBITDA margin expanded 440bp YoY to 19.5% vs. our estimate of 18.3%.
- All business areas posted healthy double-digit growth, driven by better price realization, leverage of higher volumes, and operational efficiencies supported by a favorable mix of revenue and market segments.
- PAT grew 54% YoY to INR5.3b vs. our estimate of INR4.7b, aided by a lower tax rate of 24.6% vs. our estimate of 26.3%.
- Order inflows for 4QCY24 stood at INR27b, down 14% YoY, due to a high base of last year, which had one-time large orders from Motion and Process Automation.
- Overall order inflows for CY24 were up 6% YoY at INR131b; within this, large orders were up 20% YoY, which shows the changing order book mix of the company.
- Cash balance stood at INR53.9b at the end of 4QCY24.
- NWC increase was mainly witnessed in inventory, which is consciously built to cater to the delivery of the backlog as per the agreed schedule.
- For CY24, the company reported revenue/orders/EBITDA/PAT growth of 17%/6%/55%/50% YoY.

Standalone - Quarterly Earning Model

(INR m)

Y/E December	CY23				CY24				CY24	CY25E	CY24E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	24,112	25,086	27,692	27,575	30,804	28,309	29,122	33,649	121,883	141,523	31,440	7
YoY Change (%)	22.5	22.2	30.6	13.6	27.8	12.8	5.2	22.0	16.7	17.6	14.0	
Total Expenditure	21,259	21,599	23,307	23,403	25,152	22,884	23,719	27,076	98,831	115,154	25,689	
EBITDA	2,853	3,487	4,385	4,172	5,652	5,425	5,402	6,573	23,052	26,369	5,751	14
Margins (%)	11.8	13.9	15.8	15.1	18.3	19.2	18.6	19.5	18.9	18.6	18.3	
Depreciation	274	292	303	329	314	310	328	337	1,289	1,451	345	-2
Interest	22	14	9	82	38	45	30	51	165	145	31	67
Other Income	723	750	768	776	871	868	929	866	3,534	4,270	989	-12
PBT before EO expense	3,279	3,931	4,842	4,537	6,171	5,938	5,973	7,051	25,133	29,044	6,366	11
Extra-Ord expense												
PBT	3,279	3,931	4,842	4,537	6,171	5,938	5,973	7,051	25,133	29,044	6,366	11
Tax	827	972	1,222	1,085	1,575	1,511	1,568	1,732	6,387	7,319	1,676	
Rate (%)	25.2	24.7	25.2	23.9	25.5	25.5	26.3	24.6	25.4	25.2	26.3	
Reported PAT	2,452	2,959	3,620	3,452	4,596	4,426	4,405	5,319	18,746	21,725	4,690	13
Adj PAT	2,452	2,959	3,620	3,452	4,596	4,426	4,405	5,319	18,746	21,725	4,690	13
YoY Change (%)	-34.3	110.9	84.0	13.1	87.4	49.6	21.7	54.1	50.2	15.6	35.8	
Margins (%)	10.2	11.8	13.1	12.5	14.9	15.6	15.1	15.8	15.4	15.4	14.9	

INR m	CY23				CY24				CY24	CY25E	CY24E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Segmental revenue												
Robotics & Motion	10,398	10,398	10,993	10,223	11,219	11,601	11,908	12,590	47,318	57,239	12,259	3
YoY Change (%)	33.2	17.9	17.0	2.4	7.9	11.6	8.3	23.2	12.6	21.8	19.9	
Electrification Products	9,994	10,056	10,420	11,302	12,963	11,214	11,540	15,028	50,744	60,553	13,174	14
YoY Change (%)	16.1	20.0	18.3	19.0	29.7	11.5	10.7	33.0	21.5	23.9	16.6	
Process Automation	4,202	5,096	6,756	6,307	7,263	6,327	5,963	6,277	25,830	25,429	6,269	0
YoY Change (%)	22.8	37.6	93.1	23.5	72.9	24.2	-11.7	-0.5	15.5	-1.5	-0.6	
Unallocated and others (incl. excise duty)	19	53	24	29	26	44	47	60	176	207	49	22
Less: inter-segmental	-500	-517	-502	-286	-667	-877	-335	-306	-2,185	-1,905	-312	
Total revenues	24,112	25,086	27,692	27,575	30,804	28,309	29,122	33,649	121,883	141,523	31,440	7
Segmental EBIT												
Robotics & Motion	1,275	1,484	2,040	1,746	2,332	2,613	2,659	2,485	10,089	11,943	2,619	-5
Margin (%)	12.3	14.3	18.6	17.1	20.8	22.5	22.3	19.7	21.3	20.9	21.4	-162bp
Electrification Products	1,946	1,640	2,011	2,148	3,078	2,594	2,397	3,548	11,618	13,322	2,687	32
Margin (%)	19.5	16.3	19.3	19.0	23.7	23.1	20.8	23.6	22.9	22.0	20.4	322bp
Process Automation	389	568	983	810	1,181	1,023	1,145	1,221	4,570	4,323	1,299	-6
Margin (%)	9.2	11.1	14.5	12.8	16.3	16.2	19.2	19.4	17.7	17.0	20.7	-127bp
Total	3,609	3,692	5,034	4,704	6,590	6,230	6,202	7,254	26,276	29,587	6,604	10

**Dr Agarwal's Health Care: Contribution from Africa will decline as strong growth is seen in India; Adil Agarwal, CEO**

- H2 rev is usually stronger than H1
- Cataracts are more common in winters
- Eventual aim of the co is to become debt-free
- Currently have 209 hospitals vs 100 in Oct '21; will be able to maintain margin
- TAM is at ₹38,000cr

[→ Read More](#)**Samvardhana Motherson: It is not possible for US customers to shift supply chains overnight; Pankaj Mital, COO | Kunal Malani, CFO**

- Auto demand is coming back
- 18% revenue is from US and 4% from Mexico
- All revenues are structured in a way that tariffs will be a pass-through
- Apart from organic growth, looking at inorganic opportunities

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- Ramping up project execution after initial delays caused by regional factors and elections.
- Maintains its revenue target of ₹22,000 crore for FY25
- Focusing on metro projects in tier-one and tier-two cities
- Railway electrification is nearing completion, future work will primarily involve new lines or expansions.

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- 12% growth in the first half of the fiscal year, impacted by industry slowdowns and prolonged monsoon conditions
- Projects a return to a sustainable growth rate of 15-18% in the coming years
- Management anticipates a return to positive operating cash flow
- Aims for sustainable working capital days to be in the range of 40-45 days

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- Order wins continue to reinforce dominant market share in Oil & Gas transmission; Orderbook at \$1.2B
- Outlook continues positive for the next few years
- Insulated from tariff increases contractually
- Will exceed EBITDA guidance given at the start of the year; Q4 will be better than Q3

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

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