Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	80,234	0.3	11.1
Nifty-50	24,275	0.3	11.7
Nifty-M 100	56,272	0.6	21.9
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,999	-0.4	25.8
Nasdaq	19,060	-0.6	27.0
FTSE 100	8,275	0.2	7.0
DAX	19,262	-0.2	15.0
Hang Seng	7,027	2.6	21.8
Nikkei 225	38,135	-0.8	14.0
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	75	0.0	-3.9
Gold ($/OZ)	2,649	0.6	28.4
Cu (US$/MT)	9,020	1.5	6.6
Almn (US$/MT)	2,595	0.4	10.6
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	84.5	0.1	1.5
USD/EUR	1.1	0.4	-4.6
USD/JPY	151.4	-1.1	7.4
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.8	-0.01	-0.3
10 Yrs AAA Corp	7.3	0.00	-0.4
Flows (USD b)	**27-Nov**	**MTD**	**CYTD**
FIIs	0.0	-0.91	-0.8
DIIs	0.15	3.71	57.2
Volumes (INRb)	**27-Nov**	**MTD***	**YTD***
Cash	1,148	1057	1268
F&O	5,00,560	3,44,256	3,79,502

Note: Flows, MTD includes provisional numbers. *Average

Today's top research theme

India Strategy: The Winners and Laggards!

- After a healthy 21% CAGR over FY20-24, corporate earnings have moderated in 1HFY25. Earnings growth for MOFSL Universe (-1% YoY) and Nifty-50 (+4% YoY) in 2QFY25 was the lowest in 8 and 17 quarters, respectively.
- Since Aug'24, we have reduced our FY25 estimates for Nifty EPS by 5%, and we now expect a modest 5% growth for Nifty earnings in FY25, the first year of single-digit growth in five years.
- However, compared to the muted 1H, we expect corporate earnings to recover in 2HFY25, aided by a rise in rural spending, a buoyant wedding season in 2HFY25 (30% higher weddings YoY), and a pick-up in government spending.
- The recent correction and the consequent moderation in valuations provide an opportunity to add select bottom-up ideas. We notice that even in a muted quarter, several companies delivered resilient performance.
- In this report, we present 10 WINNERS and 5 LAGGARDS based on the 2Q earnings print. Apart from strong earnings performance, the shortlisted winning ideas are the ones for which MOFSL Research Team has high conviction and/or are part of MOFSL Model Portfolio.

Research covered

Cos/Sector	Key Highlights
India Strategy	The Winners and Laggards!
Polycab India	Robust demand and strong strategies driving growth
Colgate	Focusing on balanced growth
Angel One	Breaking boundaries through strategic diversification

Chart of the Day: India Strategy (The Winners and Laggards!)

Valuation snapshot: The WINNERS and LAGGARDS of 2QFY25

	MCap (USDb)	CMP (INR)	EPS (INR) FY24	EPS (INR) FY25E	EPS (INR) FY26E	EPS CAGR (%) FY24-26E	PE (x) FY24	PE (x) FY25E	PE (x) FY26E	PB (x) FY24	PB (x) FY25E	PB (x) FY26E	ROE (%) FY24	ROE (%) FY25E	ROE (%) FY26E
Winners															
St Bk of India	88.7	834	89.3	98.8	115.4	13.7	9.3	8.4	7.2	1.6	1.4	1.1	18.8	17.4	17.2
Larsen & Toubro	60.3	3,698	111.1	137.2	160.3	20.1	33.3	27.0	23.1	5.2	4.5	3.9	16.5	17.9	18.2
Sun Pharma.Inds.	50.0	1,750	49.3	59.3	67.4	16.9	35.5	29.5	26.0	5.7	4.9	4.1	17.2	17.8	17.1
M & M	42.4	3,004	99.7	116.2	136.7	17.1	30.1	25.9	22.0	5.9	5.0	4.2	21.0	20.8	20.8
indian Hotels	13.4	789	11.8	14.8	17.6	22.1	66.9	53.3	44.9	10.0	8.5	7.2	16.2	17.2	17.3
Page Industries	6.0	44,957	603.4	724.6	872.8	20.3	74.5	62.0	51.5	28.6	24.6	21.0	38.4	39.6	40.7
Ipca Labs.	4.7	1,527	34.4	44.8	55.5	27.0	44.4	34.1	27.5	5.5	4.8	4.2	13.0	15.0	16.3
Angel One	3.1	2,910	169.0	189.7	264.1	25.0	17.2	15.3	11.0	4.1	3.5	2.9	31.2	24.5	29.0
Amber Enterp.	2.6	6,473	78.0	113.0	172.3	48.6	83.0	57.3	37.6	9.4	8.1	6.6	12.0	15.1	19.4
Atul	2.6	7,357	177.3	231.0	282.0	26.1	41.5	31.8	26.1	3.9	3.6	3.2	9.8	11.7	12.9
Laggards															
TATA Motors	35.5	784	63.7	63.0	68.3	3.5	12.3	12.5	11.5	2.7	2.2	1.9	24.4	19.7	17.9
Asian Paints	28.4	2,490	47.5	55.2	62.7	14.9	52.4	45.1	39.7	12.4	11.6	10.6	24.0	26.6	27.9
Avenue Supermarts	28.2	3,664	44.3	55.2	67.1	23.0	82.6	66.4	54.6	11.0	9.5	8.1	14.3	15.4	16.0
ABB India	18.4	7,498	88.7	102.5	119.3	16.0	84.6	73.1	62.9	20.7	16.4	13.3	27.6	25.1	23.4
IndusInd Bank	9.3	1,002	94.9	128.2	163.1	31.1	10.6	7.8	6.1	1.1	1.0	0.9	11.2	13.6	15.2

Source: Company, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

We Founder Circle eyes investment in EVs, sustainability

Launched in 2020, WFC focuses on backing entrepreneurs from places beyond metro cities. The firm claims that 35% of its portfolio startups are from tier II and III cities.

2

RMZ plans major expansion across multiple sectors

RMZ, one of the largest family-owned alternative asset owners, aims to build a diverse portfolio across sectors such as hospitality, healthcare, data centres, warehousing, and residential real estate, while also exploring opportunities in the renewable energy sector

3

Sonata Software bags multi-million dollar modernisation deal in APAC

Sonata Software on Wednesday said it has secured a multi-million dollar modernisation deal with a global leader in access solutions.

4

Healthy ambitions: LIC eyeing ManipalCigna

LIC plans to buy half of ManipalCigna Health Insurance. The deal could be worth ₹4,000 crore. This move will let LIC enter the health insurance market.

5

NHB probe into Aviom's books finds 'inflated' investments

Aviom India Housing Finance is under investigation for potential fraud after the National Housing Bank discovered inflated mutual fund investments.

6

ONGC in talks with domestic shipyards for two offshore rigs

India's Oil and Natural Gas Corp (ONGC) is initiating discussions with domestic shipyards to construct two offshore jack-up drilling rigs, costing approximately $500-550 million.

7

Sazerac to introduce bourbon lineup in India, a priority market for American liquor maker

Sazerac, a US-based spirits company, will expand its bourbon whiskey offerings in India. The company sees India as a key growth market.

India Strategy

BSE Sensex: 80,234 | **Nifty-50: 24,275**

OUR RECENT STRATEGY REPORTS


India Strategy


India Strategy

The Winners and Laggards!

Presenting our top preferred ideas after a muted earnings season

Corporate earnings moderate YoY after a solid 21% CAGR over FY20-24

After a healthy 21% CAGR over FY20-24, corporate earnings have moderated in 1HFY25. Earnings growth for MOFSL Universe (-1% YoY) and Nifty-50 (+4% YoY) in 2QFY25 was the lowest in 8 and 17 quarters, respectively. However, excluding global commodities, it remained strong at 12%/11% YoY for MOFSL/Nifty-50 Universe. Since Aug'24, we have reduced our FY25 estimates for Nifty EPS by 5%, and we now expect a modest 5% growth for Nifty earnings in FY25, the first year of single-digit growth in five years. However, compared to the muted 1H, we expect corporate earnings to recover in 2HFY25 (9% YoY growth for MOFSL Universe in 2HFY25 vs. flat YoY performance in 1H), aided by a rise in rural spending, a buoyant wedding season in 2HFY25 (30% higher weddings YoY), and a pick-up in government spending.

A welcome correction in equity markets

Indian stock markets corrected 11-12% from the top over Sep-Nov'24, due to a variety of factors, viz. earnings moderation and elevated valuations in mid-caps and small caps, along with global factors, such as a fragile geopolitical backdrop in the Middle East and a strengthening dollar index after the Trump victory. FIIs sold equities worth ~USD14b in Oct-Nov'24. The correction has cooled off the valuations in large-caps, even as mid/small-caps trade at expensive multiples – Nifty-50 is now trading at 19.6x FY26E EPS, while mid-cap/small-cap indices are trading at 30x/23x one-year forward P/E multiples, off from the Sep'24 highs but still rich vs. their own history as well as relative to Nifty-50.

NDA's sweep in Maharashtra to boost sentiment and policy momentum

The BJP's decisive victory in the recent Maharashtra and Haryana assembly elections will boost overall sentiment, strengthen policy momentum, expedite the key infra projects, and increase focus on overall govt. spending going ahead (govt. spending remained flat YoY, while capex was down 17% YoY in 1HFY25), in our view. This poll result will also bolster the perception around the political capital of PM Narendra Modi, especially given the minor setback NDA suffered in 2024 Loksabha polls.

Presenting the WINNERS and LAGGARDS

The recent correction and the consequent moderation in valuations provide an opportunity to add select bottom-up ideas. We notice that even in a muted quarter, several companies delivered resilient performance. In this report, we present (page 3 onwards) 10 WINNERS and 5 LAGGARDS based on the 2Q earnings print. Apart from strong earnings performance, the shortlisted winning ideas are the ones for which MOFSL Research Team has high conviction and/or are part of MOFSL Model Portfolio.

Winners: SBI, L&T, M&M, Sun Pharma, Indian Hotels, Page Industries, Ipca Labs, Angel One, Amber Enterprises, Atul

Laggards: TATA Motors, Asian Paints, Avenue Supermarts, ABB India, IndusInd Bank

Valuation snapshot: The WINNERS and LAGGARDS of 2QFY25

	MCap (USDb)	CMP (INR)	EPS (INR)			EPS CAGR (%) FY24-26E	PE (x)			PB (x)			ROE (%)		
			FY24	FY25E	FY26E		FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Winners															
St Bk of India	88.7	834	89.3	98.8	115.4	13.7	9.3	8.4	7.2	1.6	1.4	1.1	18.8	17.4	17.2
Larsen & Toubro	60.3	3,698	111.1	137.2	160.3	20.1	33.3	27.0	23.1	5.2	4.5	3.9	16.5	17.9	18.2
Sun Pharma.Inds.	50.0	1,750	49.3	59.3	67.4	16.9	35.5	29.5	26.0	5.7	4.9	4.1	17.2	17.8	17.1
M & M	42.4	3,004	99.7	116.2	136.7	17.1	30.1	25.9	22.0	5.9	5.0	4.2	21.0	20.8	20.8
indian Hotels	13.4	789	11.8	14.8	17.6	22.1	66.9	53.3	44.9	10.0	8.5	7.2	16.2	17.2	17.3
Page Industries	6.0	44,957	603.4	724.6	872.8	20.3	74.5	62.0	51.5	28.6	24.6	21.0	38.4	39.6	40.7
Ipca Labs.	4.7	1,527	34.4	44.8	55.5	27.0	44.4	34.1	27.5	5.5	4.8	4.2	13.0	15.0	16.3
Angel One	3.1	2,910	169.0	189.7	264.1	25.0	17.2	15.3	11.0	4.1	3.5	2.9	31.2	24.5	29.0
Amber Enterp.	2.6	6,473	78.0	113.0	172.3	48.6	83.0	57.3	37.6	9.4	8.1	6.6	12.0	15.1	19.4
Atul	2.6	7,357	177.3	231.0	282.0	26.1	41.5	31.8	26.1	3.9	3.6	3.2	9.8	11.7	12.9
Laggards															
TATA Motors	35.5	784	63.7	63.0	68.3	3.5	12.3	12.5	11.5	2.7	2.2	1.9	24.4	19.7	17.9
Asian Paints	28.4	2,490	47.5	55.2	62.7	14.9	52.4	45.1	39.7	12.4	11.6	10.6	24.0	26.6	27.9
Avenue Supermarts	28.2	3,664	44.3	55.2	67.1	23.0	82.6	66.4	54.6	11.0	9.5	8.1	14.3	15.4	16.0
ABB India	18.4	7,498	88.7	102.5	119.3	16.0	84.6	73.1	62.9	20.7	16.4	13.3	27.6	25.1	23.4
IndusInd Bank	9.3	1,002	94.9	128.2	163.1	31.1	10.6	7.8	6.1	1.1	1.0	0.9	11.2	13.6	15.2

Source: Company, MOFSL

27 November 2024

Company Update | Sector: Cables and Wires

Polycab India

BSE SENSEX	S&P CNX
80,234	24,275

POLYCAB

Bloomberg	POLYCAB IN
Equity Shares (m)	150
M.Cap.(INRb)/(USDb)	1059.4 / 12.5
52-Week Range (INR)	7607 / 3801
1, 6, 12 Rel. Per (%)	9/-3/11
12M Avg Val (INR M)	4169
Free float (%)	36.9

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	217.2	249.9	287.6
EBITDA	26.8	32.3	39.4
Adj. PAT	18.8	22.7	27.4
EBITDA Margin (%)	12.3	12.9	13.7
Cons. Adj. EPS (INR)	125.0	151.4	182.2
EPS Gr. (%)	5.3	21.1	20.4
BV/Sh. (INR)	640.0	756.3	903.5
Ratios			
Net D:E	(0.0)	(0.1)	(0.1)
RoE (%)	19.5	20.0	20.2
RoCE (%)	20.7	21.3	21.4
Payout (%)	24.0	23.1	19.2
Valuations			
P/E (x)	56.4	46.5	38.7
P/BV (x)	11.0	9.3	7.8
EV/EBITDA (x)	39.3	32.4	26.4
Div Yield (%)	0.5	0.6	0.6
FCF Yield (%)	0.4	0.9	1.3

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	63.1	65.0	65.9
DII	9.4	6.9	8.1
FII	13.5	13.6	12.4
Others	14.1	14.4	13.6

FII includes depository receipts

CMP: INR7,044 TP: INR8,340 (+18%) Buy

Robust demand and strong strategies driving growth

Set to achieve Project Leap goals a year ahead; awaiting the next five-year guidance

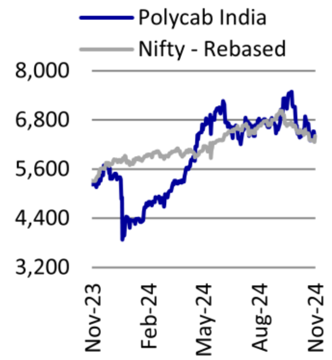
We met with the management of Polycab India (POLYCAB) to get an update on the demand for Cables and Wires (C&W), key demand drivers, RM price trends, and competitive intensity in the industry.

- **The management reiterated strong demand momentum in the domestic C&W segment, complemented by growth in the international business. Going forward, major demand drivers are expected to be power Transmission and Distribution (T&D), growth in private capex, and continuous demand from the real estate sector. Meanwhile, the demand growth from railway and road projects is estimated to be moderate due to a higher base impact.**
- **In the first week of Oct'24, the industry implemented a 4-8% price hike for cables to pass on the impact of higher copper and aluminum prices. Competitive intensity is higher in the wires segment due to excess capacity. In the cables segment, despite ongoing capacity additions, the demand momentum is expected to remain strong, potentially outpacing the industry's available capacity. In the FMEG segment, the company experienced healthy growth during the festive season, aided by a low base and various initiatives, such as the introduction of products across various price points, brand-building activities, and a rejig in its FMEG business leadership team.**
- **The company is currently working on its next five-year guidance, which will be communicated soon. We maintain our earnings estimates and reiterate our BUY rating on the stock.**

Domestic C&W demand remains strong; outlook optimistic

- The management expressed its positive outlook on the domestic demand for C&W. Despite general elections, it has not seen any demand slowdown in the domestic markets. However, exports were muted in 1HFY25 due to a shift to the distribution-led business model in the US and global headwinds (disruptions in trade routes, higher freight, etc.) due to war situations.
- Earlier, key drivers of the C&W industry included railway, road, airport, and port projects, along with strong demand from the real estate segment. Currently, the industry's demand is driven by power T&D, growth in private capex, and continuous demand from the real estate segment. Moreover, growth shares from railway and road projects are estimated to moderate.
- In India an investment of INR9.2t is projected in power transmission infrastructure by FY32, which will require high-voltage power cables. The company is also setting up a greenfield EHV manufacturing plant in Halol, Gujarat. The plant is expected to be operational by FY26-end and begin commercial production in FY27E. Hence, the company will benefit from EHV cable supplies from FY27 onwards.

Stock Performance (one-year)



- POLYCAB has a comprehensive and diversified product portfolio with 11,000+ SKUs (probably the largest in the industry). Its offering includes LV, MV power cables, EHV power cables, optical-fiber cables, solar cables, and various specialized cables catering to various sectors, such as power, construction, oil & gas, chemical, telecom, and transport. It has also started the production of Optical Ground Wire (OPGW) cables, which provide a two-in-one solution for dependable power transmission and high-speed data communication. Moreover, the company is expanding its presence in EV charging cables. In future, it aims to develop new products, such as HVDC cables and deep-sea cables.
- The company has secured large contracts under the BharatNet initiative (Phase III), which is worth INR56.5b so far. The contracts include the supply of cable for the initial period of three years (recognitions will be based on the milestone achievement) and maintenance work for the next 10 years (major part will be recognized in the EPC segment, except for the supply of cables during this period, if any). It expects the margin in this business to be within 12-14%.
- POLYCAB brings relevant expertise, having executed few projects under Phase I & II of BharatNet. The company will require to supply optical fiber cables. It has already secured long-term contracts for the supply of optical fiber at fixed prices. Currently, its EPC book has major orders from the RDSS scheme. We will review our assumptions and earnings once the company shares more details.
- The management believes that the incremental demand in the segment will surpass the incremental supply. Further, it expects export demand to improve. Though the company has experienced a slowdown in the US market, it is witnessing healthy demand from other geographies. Currently, it is supplying in 80 countries and will continue to expand its exports business.
- The wires segment continues to witness growth, supported by strong demand from real estate. POLYCAB is gaining market share from larger players as well as unorganized players. The contribution of Etira wires, launched to target unorganized markets, is steadily increasing. The other wires categories – Green wires, Suprema wires, Maxima+, Optima+, and Primma – are also performing well.
- In the wires segment, the west region is the largest revenue contributor for the company, followed by north, south, and east. In the cables segment, the west region remains the largest, followed by south, north, and east.

Strategic changes in the FMEG segment to bolster growth

- In the first seven years, POLYCAB reported robust growth (revenue CAGR was at ~43%). Post FY21, it set a target to become among the top three FMEG companies. It has taken various initiatives to bolster growth and improve operational efficiencies, which are as follows:
- 1) The company has changed its distribution policy and partnered with large dealers and distributors (completed in Mar'24). This initiative helped the company enhance its scalability and achieve higher sales volume. It will also enable the company to improve utilization and gain positive operating leverage.
- 2) The company expanded its product portfolio through innovation and R&D. It is introducing products across various price points to fill the gaps in its product

portfolio. With this initiative, the company aims to increase its total addressable market.

- 3) The company is placing greater focus on branding activities and A&P spending. It is scaling up its structured influencer program through frequent engagements, organizing workshops to educate dealers and distributors, and incentivizing its marketing initiatives.
- 4) There was a rejig in its FMEG business leadership team, with the company appointing a unified business unit head for the B2C business vertical. This promotes decentralization of decision-making within that business. Further, the company appointed deputy business heads, each overseeing specific product categories. It has also established a separate sales team to enhance market penetration, build brand recognition, and leverage synergies.
- With these initiatives, the company has improved its product mix. The fans' contribution reduced from ~60% to 50-55%, while the switches' contribution increased to high teens from single digits. In the switchgear business, it is leveraging synergies within its existing wires business.

Valuation and view

- We are structurally positive on POLYCAB due to its leadership position in the cables and wires segment, strong growth trajectory, and healthy return ratios. We estimate a CAGR of 16%/15% in EBITDA/EPS over FY24-27. POLYCAB has benefitted from continuous capacity expansions and strategic initiatives toward margin expansion (the margin in the cables & wires segment expanded to 13.1%/14.7% in FY23/FY24 from 9.9% in FY22 and ~12% over FY18-21). We estimate the EBIT margin of this segment to slightly moderate to ~12%/13% in FY25/FY26, attributed to higher RM prices and a lower margin in the wires segment due to higher competitive intensity. The margin is estimated to stand at ~14% in FY27, aided by an increase in contribution from the newly added EHV capacity and growth in exports business.
- The company has consistently generated free cash flows over the years despite higher capex (due to continuous capacity expansions in the C&W segment and a focus on in-house manufacturing). Its cumulative OCF is expected to stand at INR57.5b over FY25-27, whereas cumulative is likely to stand at INR30.0b in the same period. Cumulative FCF generation over FY25-27 will be at INR27.5b, which will further improve its liquidity position.
- RoE and RoIC are expected to be at 20% and 27% in FY27 vs. an average of 16% and 17% over FY15-24. We expect the company to maintain its premium valuations. **We reiterate our BUY rating on POLYCAB with a TP of INR8,340 (based on 50x Sep'26E EPS).**

MOTILAL OSWAL | MORNING INDIA

27 November 2024

Company Update | Sector: Consumer

Colgate

BSE SENSEX	S&P CNX
80,234	24,275

Colgate®

Motilal Oswal values your support in the EXTEL POLL 2024 for India Research, Sales, Corporate Access and Trading team.
We request your ballot.

EXTEL POLL 2024 — Best Domestic Brokerage # Ranked Top 3 (CY21-CY23)

Bloomberg	CLGT IN
Equity Shares (m)	272
M.Cap.(INRb)/(USDb)	820.7 / 9.7
52-Week Range (INR)	3893 / 2139
1, 6, 12 Rel. Per (%)	-2/7/15
12M Avg Val (INR M)	1329
Free float (%)	49.0

Financials & Valuations (INR b)

Y/E March	2025E	2026E	2027E
Sales	62.7	68.3	74.0
Sales Gr. (%)	10.4	8.9	8.3
EBITDA	21.0	23.3	25.3
EBITDAM (%)	33.6	34.1	34.3
Adj. PAT	15.1	16.6	18.2
Adj. EPS (INR)	55.6	61.2	66.8
EPS Gr. (%)	13.0	10.1	9.2
BV/Sh.(INR)	79.5	90.7	102.5
Ratios			
RoE (%)	74.9	71.9	69.2
RoCE (%)	73.6	71.6	68.9
Payout (%)	81.0	81.7	82.3
Valuations			
P/E (x)	54.2	49.2	45.1
P/BV (x)	37.9	33.2	29.4
EV/EBITDA (x)	38.3	34.5	31.5
Div. Yield (%)	1.5	1.7	1.8

CMP: INR3,018 TP: INR3,250 (+8%) Neutral

Focusing on balanced growth

Colgate (CLGT) held an analyst meet on 27th Nov'24 to discuss its strategic growth initiatives and demand outlook. Here are the key takeaways:

- **CLGT's strategic pillars that drive volume and value growth in oral care are intact. The company continues to expand its personal care portfolio and sees significant potential in preimmunizing the toothpaste and toothbrush categories. Rapid advancements in digital initiatives have enhanced CLGT's distribution, improving the product assortment in its directly serviced outlets (1.7m outlets).**
- **Management highlighted that in urban areas, toothpaste volume growth has continued to decelerate (since Mar'24), while growth was stable for toothbrush. Rural growth has been picking up well for both categories, in line with the trends observed across the FMCG sector. Notably, 2QFY25 marked the first quarter when urban toothpaste volume growth trailed rural growth, and urban toothbrush volumes were on par with rural. While urban markets face persistent challenges, rural areas are showing growth momentum.**
- **In FY24 and 1HFY25, CLGT achieved revenue growth of 9% and 11%, outperforming FMCG peers (refer to Exhibits 1/2). Volume growth remained flat in FY24 but improved to 7% in 1HFY25. This performance reflects a strategic focus on premiumization and portfolio optimization, with growth driven more by product mix enhancements than significant price hikes. Management focuses on delivering balanced growth across volumes, pricing, and product mix. CLGT's gross profit margin recovered to 69.7% in FY24, supported by favorable raw material costs, and expanded by 100bp YoY to 69.6% in 1HFY25. Management projects stable margins in the 69-70% range. EBITDA margin remained steady YoY at 32.3% in 1HFY25, as the company continued to invest in brand-building initiatives, with advertising spends increasing by 15% YoY during the period to bolster consumer awareness. We expect CLGT to deliver a CAGR of 9%/10%/11% in sales/EBITDA/adj. PAT over FY24-27E. We reiterate our Neutral rating on the stock with a TP of INR3,250.**

Consistent commitment to boosting volume growth

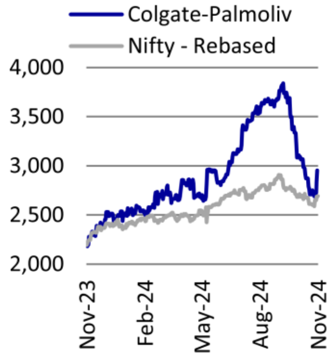
The company remains focused on driving balanced growth through various strategies for volume, pricing, and product mix. Despite near-universal penetration in India, significant headroom exists for consumption growth. Only 20% of urban households brush twice daily, while 55% of rural households do not brush every day. Furthermore, urban and rural households replace toothbrushes every six and 15 months, respectively, compared to the recommended three-month cycle. To address these gaps, the company is actively working to influence consumer behavior through oral health awareness programs and above-the-line (ATL) communication campaigns. However, changing consumer behavior is difficult and time-consuming, and, thus, acceleration in volume growth of the oral care category will only be gradual.

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	51.0	51.0	51.0
DII	5.8	6.0	5.9
FII	24.9	24.4	24.1
Others	18.2	18.6	19.0

FII Includes depository receipts

Stock's Performance (one-year)



Headroom for premiumization

The premium toothpaste segment continues to witness robust double-digit growth, reflecting the effectiveness of the company's premiumization strategy. Despite this success, the oral care category offers significant headroom for further premiumization, as penetration remains relatively low. For instance, only 22% of toothbrushes sold in India are priced above INR40, indicating substantial untapped potential. Management is confident that initiatives focused on product assortment, consumer awareness, and channel strategies can drive premiumization. This is evidenced by the outperformance of Colgate Total, which is growing at 3x the category rate, and Visible White, which is delivering strong double-digit growth. To encourage consumer trials while maintaining affordability, the company has adopted a calibrated premium pricing strategy, currently pricing at 0.77x of Dec'23 levels. Additionally, the company has significantly expanded the availability of premium products by ramping up distribution coverage from 30,000 stores to 300,000 stores, ensuring deeper market penetration and accessibility.

Impressive progress on digital initiatives

CLGT has been effectively leveraging AI-driven tools to deliver personalized consumer interactions on e-commerce platforms, resulting in 1.5x growth in engagement and content performance. Additionally, the company leverages AI and machine learning (ML) models to optimize product assortment across 1.7m stores, ensuring better availability of premium offerings while enhancing overall operational efficiency. The company has also refined its supply chain operations, focusing on inventory management to lower stock levels while driving higher distributor sales. Meanwhile, the quick commerce channel has become a significant growth engine, outperforming the broader business with 8x growth. This channel has proven to be growth-accretive and also helped to expand margin and gain market share.

Valuation and View

- In 1HFY25, CLGT has achieved volume expansion while maintaining its margin trajectory. However, historically, CLGT's volume growth has lagged behind that of its peers. Hence, tracking its volume performance in the upcoming quarters is important, especially given the current softness in urban demand.
- Both gross and EBITDA margins have reached their peak levels, and it will be crucial to monitor the sustainability of these margins going forward. We model ~34% EBITDA margin for FY25 and FY26.
- We expect CLGT to clock a CAGR of 9%/10%/11% in sales/EBITDA/adj. PAT over FY24-27. We reiterate our Neutral rating on the stock with a TP of INR3,250 (based on 50x Sep'26E EPS).

Angel One

BSE SENSEX	S&P CNX
80,234	24,275

CMP: INR2,911 TP: INR3,600 (+24%) Buy

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Bloomberg	ANGELONE IN
Equity Shares (m)	90
M.Cap.(INRb)/(USDb)	262.5 / 3.1
52-Week Range (INR)	3900 / 2025
1, 6, 12 Rel. Per (%)	4/7/-27
12M Avg Val (INR M)	3131

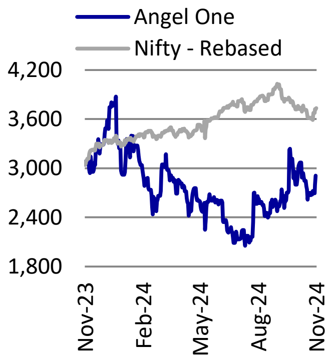
Y/E March	2025E	2026E	2027E
Revenues	45.4	52.2	63.4
Opex	25.4	29.4	33.6
PBT	18.9	21.2	27.8
PAT	14.0	15.7	21.9
EPS (INR)	169.0	189.7	264.1
EPS Gr. (%)	24.4	12.3	39.2
BV/Sh. (INR)	716.8	830.7	989.1
Ratios (%)			
C/I ratio	55.9	56.3	53.0
PAT margin	30.8	30.1	34.5
RoE	31.2	24.5	29.0
Div. Payout	0.0	40.0	40.0
Valuations			
P/E (x)	17.2	15.3	11.0
P/BV (x)	4.1	3.5	2.9
Div. Yield (%)	0.0	2.4	3.3

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	35.6	35.6	38.3
DII	12.7	14.0	10.8
FII	12.3	15.4	16.4
Others	39.4	35.0	34.5

FII includes depository receipts

Stock's Performance (one-year)



Breaking boundaries through strategic diversification

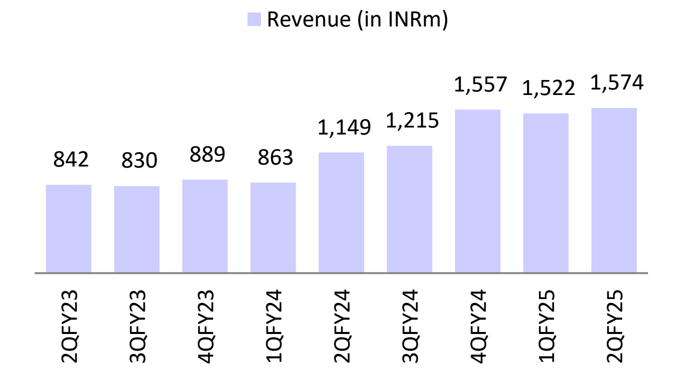
- **Given the regulatory environment, where SEBI has implemented tighter norms for F&O, the focus on knowing likely impact on Angel One Ltd (ANGELONE)'s broking business is advertently high. Meanwhile, the company has made significant investments over the past couple of years to build its Wealth Management, AMC, Assisted Partner Channel, and Loan Distribution businesses.**
- **The company's core business strategy is to focus on the Lifetime Value (LTV) of a customer. Currently, of the 27.5m customers, only 7.4m customers are active (as defined by NSE). With a significant amount of data available on the behavior and financial strength of these customers, ANGELONE is well-positioned to increase the LTV of customers through the distribution of other financial products.**
- **For instance, ANGELONE has built an SIP book in the past couple of years, which is the second largest incremental SIP generator. According to our understanding, the share of inactive broking clients in incremental SIPs is significantly higher for ANGELONE.**
- **The company has recently ventured into the distribution of loans by partnering with three NBFCs (three banks and NBFCs in the pipeline) - INR3.6b distributed until 2QFY25. This has been in the works for the past few quarters and the company is leveraging its expertise in data science and machine learning to target the right customer base. For instance, Paytm was able to scale up its personal loan business from INR5b in 3QFY22 to INR44b in 3QFY24 until it hit a regulatory roadblock. ANGELONE is adopting a conservative approach and aims to grow this business in a calibrated manner.**
- **ANGELONE has set up a separate subsidiary to start its wealth management operations and has recently infused INR2.5b capital in the same. The success mantra for a wealth management business is people and products. For the people part, ANGELONE has hired an experienced top management team that is building a strong RM force. A phygital approach, along with a strong brand presence in tier 2 cities, bodes well for ANGELONE's success in this business. For instance, Dezerv, with a digital approach, reached INR50b AUM within three years of operations.**
- **The Assisted business with >11k partners currently contributes ~22-23% to the overall revenue. This channel is crucial to the company's strategy of enhancing the LTV of its existing customer base. A complete revamp of this channel is currently underway, with the following initiatives: 1) rehashing the NXT platform to enhance partner-client interaction, 2) developing robust data analytics capabilities, and 3) providing extensive training for partners to strengthen their capability to sell multiple financial products, such as Mutual Funds (MFs), Portfolio Management Services (PMS), Insurance and Loans. For instance, Prudent has grown its partner base/customer base by 11x/9x over the past decade.**

- **ANGELONE has recently received regulatory approval for its Asset Management business. Under this segment, it will be focusing on selling only passives as the active space is more mature and competitive.**
- **Overall, in the medium term (~5-7 years), the share of the non-broking business is expected to increase materially as multiple business lines become accretive. While the costs have been built into our estimates, the revenue potential has not yet been factored in.**
- **In this note, we present the sizing analysis for the company's new segments – Loan Distribution, and Wealth Management, as well as the scale-up of distribution at the AP Channel. Cumulatively, these segments can add INR2.5-3.0b to the revenues in FY27. We maintain our BUY recommendation with a one-year TP of INR3,600 (16x Sep'26E EPS).**

Assisted business – adding fuel to further drive growth

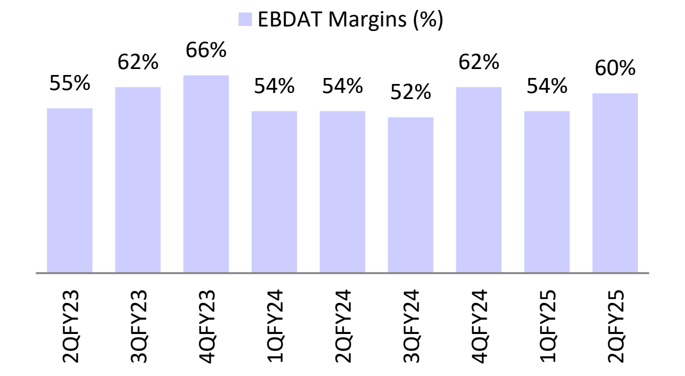
- The Assisted Business unit currently contributes ~22-23% of the net broking revenues. ANGELONE plans to materially scale up its Authorized Person (AP) network and demerge this segment into a separate subsidiary.
- Currently, most APs are solely focusing on broking products, and ANGELONE sees substantial potential for APs to diversify into other financial products, such as mutual funds, insurance, fixed income, and loans. The company plans to focus on on-boarding more APs with the ability to distribute a broader range of financial products.
- It has redefined its approach toward partner acquisition, engagement, and retention, focusing on quality through the NXT platform and integrating a signaling mechanism that enhances partner-client interaction.
- The company continues to leverage its strong data analytics capabilities to drive cohort personalization based on behavioral insights, contributing to robust growth within the business vertical by cross-selling multiple products through multiple channels.
- The management expects this segment to grow in alignment with the digital business expansion, driven by both broking and distribution products.
- In our analysis, we have built in a total size of 14,000 APs by FY27, of which 30% will sell MFs generating an AUM of INR126b and leading to gross/net revenue of INR1,260/378m (net revenues is post 70% sharing with APs).
- For instance, Prudent Corporate Advisory (PRUDENT) has grown its number of partners/number of customers/AUM by 11x/9x/22x over the past decade.

Revenues from the Assisted Business



Source: MOFSL, Company

EBDAT margin trend in the Assisted Business



Source: MOFSL, Company

Revenue sizing for the AP Channel Distribution business based on assumptions across key parameters

AP Distribution	FY26	FY27	FY28
No of APs	12,000	14,000	16,000
% of APs selling MFs	20	30	40
No of APs selling MFs	2,400	4,200	6,400
Ticket size (INR m)	20	30	40
AUM (INR b)	48	126	256
Yield (%)	1.0	1.0	1.0
Revenue (INR m)	480	1,260	2,560
Sharing with AP (%)	70.0	70.0	70.0
Net revenue	144	378	768

Source: MOFSL, Company

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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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