Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	82,756	0.9	5.9
Nifty-50	25,245	0.8	6.8
Nifty-M 100	58,882	0.4	2.9
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	6,092	0.0	3.6
Nasdaq	19,974	0.3	3.4
FTSE 100	8,719	-0.5	6.7
DAX	23,498	-0.6	18.0
Hang Seng	8,859	1.1	21.5
Nikkei 225	38,942	0.4	-2.4
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	69	0.1	-6.6
Gold ($/OZ)	3,332	0.3	27.0
Cu (US$/MT)	9,813	-0.1	13.4
Almn (US$/MT)	2,556	-0.9	1.2
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	86.1	0.1	0.6
USD/EUR	1.2	0.4	12.6
USD/JPY	145.2	0.2	-7.6
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.3	0.04	-0.5
10 Yrs AAA Corp	7.1	0.03	-0.2
Flows (USD b)	**25-Jun**	**MTD**	**CYTD**
FIIs	-0.3	0.19	-10.1
DIIs	0.28	8.42	41.2
Volumes (INRb)	**25-Jun**	**MTD***	**YTD***
Cash	1,081	1194	1076
F&O	2,20,060	2,03,866	2,08,568

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research theme

India Strategy - The PSU saga: Resilient earnings; valuations retreat from highs

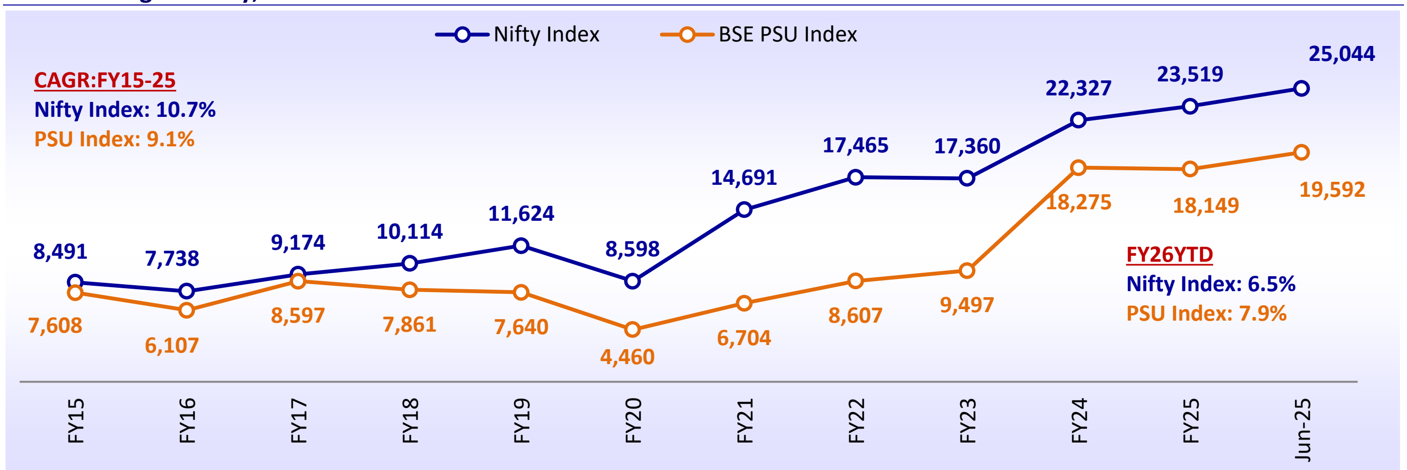
- Indian PSUs have been one of the most remarkable stories of Indian capital markets after Covid-19, with several PSU sectors posting a sharp turnaround in profit and creating unexpected shareholder value.
- As a cohort, the PSUs posted an unprecedented 36% PAT CAGR during FY20-25, feeding into the 32% CAGR for the BSE PSU Index and a consistent expansion in PSUs' share in overall profits to an impressive 38%. While some cyclical moderation did set in in FY25, key building blocks and an enabling environment for sustained profitable performance for several PSUs look intact.
- Consequently, PSU names in sectors with policy/demand tailwinds or structural growth potential should find a meaningful place in long-term investor portfolios, in our view. Our top PSU ideas are SBI, HAL, BEL, POWERGRID and COAL.

Research covered

Cos/Sector	Key Highlights
India Strategy	The PSU saga: Resilient earnings; valuations retreat from highs
Power Finance Corporation	Structural growth intact despite near-term recalibration
Real Estate	Robust launches, strong CF and consolidation drive growth
Cement	Pricing and demand soften as monsoon sets in
Aviation	Air traffic declines MoM in May25; IndiGo sees minor drop

Chart of the Day: India Strategy (The PSU saga: Resilient earnings; valuations retreat from highs)

After a strong recovery, the PSU Index takes a breather in FY25



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In the news today

Kindly click on textbox for the detailed news link

1

Shell in early talks to acquire rival BP

Deal for BP, worth roughly $80 billion, would be a landmark combination of two supermajor oil companies – WSJ

2

Raymond Realty to list on exchanges next month, targets ₹4,000 cr revenue in 3 years

Raymond expects EBITDA to double to ₹800 crore in the next three years on the back of good demand for affordable luxury housing projects

3

Ambani, Adani tie up for fuel retail

India's top business tycoons, Mukesh Ambani and Gautam Adani, have announced a strategic partnership in fuel retailing, marking their second collaboration.

4

Foxconn gets Taiwan govt nod for $2.2 billion investment in India, the US

Taiwanese electronics giant Foxconn has received regulatory approval for two significant investment plans totaling over $2.2 billion in India and the US.

5

Adani, Dalmia, Vedanta among JAL suitors

Adani Group, Dalmia Bharat, and Vedanta are reportedly among six companies that have submitted financial bids for Jaiprakash Associates (JAL), which is undergoing corporate insolvency proceedings with a total debt of Rs 57,185 crore.

6

Tata Steel gets show cause notice for Rs 890 crore Input Tax Credit irregularities; Co says no merit in notice

Tata Steel is required to appear before the Additional/Joint Commissioner, CGST & Central Excise, Jamshedpur, within a period of 30 days from the date of receiving the notice and show cause for the alleged irregularities

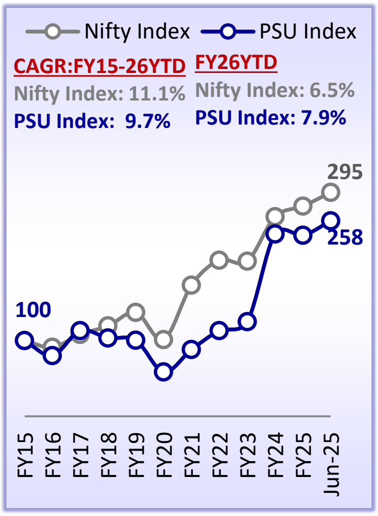
7

Adani Power eyes 12,520 MW organic capacity expansion by FY30

Adani Power is embarking on a massive organic expansion, aiming to add 12,520 MW of capacity by March 2030 with a substantial investment of Rs 120,000 crore.

Refer to our strategy note on corporate profit to GDP – Standing tall at a 17-year high!

Nifty outperformed PSU index over the past decade



The PSU saga: Resilient earnings; valuations retreat from highs

Indian PSUs have been one of the most remarkable stories of Indian capital markets after Covid-19, with several PSU sectors posting a sharp turnaround in profit and creating unexpected shareholder value. As a cohort, the PSUs posted an unprecedented 36% PAT CAGR during FY20-25, feeding into the 32% CAGR for the BSE PSU Index and a consistent expansion in PSUs' share in overall profits to an impressive 38%. While some cyclical moderation did set in in FY25, key building blocks and an enabling environment for sustained profitable performance for several PSUs look intact. Consequently, PSU names in sectors with policy/demand tailwinds or structural growth potential should find a meaningful place in long-term investor portfolios, in our view. Our top PSU ideas are SBI, HAL, BEL, POWERGRID and COAL.

Earnings momentum remains intact over high base, except for O&G

- **Earnings growth story continues, albeit with some moderation:** Indian listed companies posted an impressive earnings CAGR of ~30% during FY20-25, with PSUs standing out with a stronger 36% CAGR. However, after a remarkable post-pandemic rebound, PSU earnings growth moderated in FY25, weighed down by the high base of a robust 43% YoY increase in FY24 and a decline in O&G sector earnings. Overall, PSU profits inched lower by 2% YoY in FY25, though excluding the O&G sector, PSU earnings growth remained resilient at 16% YoY, following a robust 23% jump in FY24.
- **Valuations ease from highs:** Over the past year, the market capitalization of the BSE PSU Index hit an all-time high of INR74t in Jul'24, driven by consistent re-rating trends. It then declined by 31% to INR51t in Feb'25 amid the broad market correction before recovering 25% to INR64t in Jun'25. The index's current market capitalization stands 14% below its all-time high (up 5% in CY25YTD). Owing to the market correction (between Oct'24 and Mar'25), the P/E ratio of the BSE PSU Index has come down to 11.7x as of Jun'25 from 13.8x in Jul'24, though it is up from 9.8x in Feb'25.
- *As FY25 concludes, we are revisiting our views on Indian PSUs.*

FY25: A year of post-rally normalization

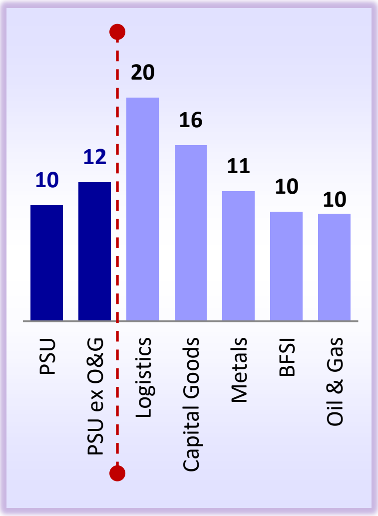
- After a period of strong recovery from FY18 to FY24, PSUs reported a moderation in earnings in FY25. This was attributed to lower government capex due to elections in 1HFY25, weak consumption trends, volatility caused by geopolitical tensions, and reduced earnings in the O&G sector.
- During FY20-25, **PSU earnings** reported a stellar 36% CAGR, outperforming the Private Sector, which reported a 26% CAGR. However, due to a slowdown in the O&G sector, PSU earnings moderated 2% YoY in FY25, following a strong 43% YoY growth in FY24. Earnings growth in FY25 was led by BFSI (+22% YoY), especially PSU banks (+26%), whereas O&G (-44%) weighed on the overall performance. Additionally, the share of PSUs in the overall profit pool expanded by 850bp YoY to the highs of 37.5% in FY25. The share has been on an upward trend since FY20.

- Following a strong earnings recovery, the **BSE PSU Index** delivered an impressive 32% CAGR during FY20-25, significantly outperforming the Nifty-50's 19% CAGR. However, the PSU Index remained flat YoY in FY25 and rose 4% in CY25YTD, compared to a ~5% gain for the Nifty-50 in both periods.
- Notably, the **loss pool of PSUs** has consistently declined over the past five years and was largely flat YoY in FY25. The contribution of loss-making companies to the overall profit pool has significantly diminished to just 1% in FY25 from 45% in FY18.
- **RoE of PSU companies also moderated to 16% in FY25 from a high of 17.8% in FY24, though up from a low of 5.2% in FY18.**

From weakness to recovery: Strong Rebound in the Second Half

- **A decade in review (2015-2025):** The **PSU Index** posted a CAGR of 10% during Jun'15 to Jun'25, underperforming the Nifty-50, which delivered a 12% CAGR in the same period. Notably, most of the gains for PSUs came in the latter half of the decade. The PSU Index declined 9% between Jun'15 and Jun'20, but rebounded with an impressive 32% CAGR over the subsequent four years (Jun'20 to Jun'25).
- **A year of twists and turns (2024-25):** Following stellar 92% YoY gains in FY24, the index was flat in FY25. However, FY25 was marked by high volatility, as the index surged 25% between Mar'24 and Jul'24, then declined 30% by Feb'25, before recovering 23% from those lows. While the recovery remains strong, the PSU Index marginally underperformed the benchmark in FY25 (-1% vs. +5%) and CY25YTD (+4% vs. +6%).
- **A sharp dip followed by a strong resurgence:** The **BSE PSU index** recorded a CAGR of 32% between Jun'20 and Jun'25, outperforming the Nifty-50 (CAGR 19%). Notably, the market cap share of Indian PSUs, which had plunged to 10.1% in FY22 from 18.8% in FY15, has since rebounded and currently stands at 15.3%. Over the same period, India's overall market cap surged from INR94t in FY15 to INR417t in FY25 and currently stands at INR454t. During FY15-25, PSUs' market cap increased significantly to INR69t (INR63t as of Mar'25) from INR18t in Mar'15, while the private sector's market cap surged to INR384t (INR353t as of Mar'25) from INR76t in Mar'15.

PAT growth expected over FY25-27 (%)



Growth optimism anchored to a soft base

- Amid geopolitical tensions and slowing global growth, India's macroeconomic outlook presents a contrasting picture. India's nominal GDP grew by 9.8% in FY25, surpassing market expectations, and is projected to accelerate further to 10.8% in FY26.
- Although corporate profit growth moderated in FY25 due to a high base set in FY24, a slowdown in government spending during 1HFY25 amid elections, weak consumption, and volatile exports amid global uncertainties, we expect a gradual recovery ahead. This rebound is likely to be supported by increased government spending and continued focus on infrastructure and capex, stronger order books, and a favorable monsoon season. Additionally, the government's focus on localization, increased capex, and the 'Make-in-India' initiative in the defense sector will continue to drive growth for industrial PSUs. Consequently, we expect PSU contributions to earnings and market capitalization to remain stable or improve going forward.

- For our MOFSL PSU Coverage Universe (~72% of India's PSU market cap), we estimate a 10% PAT CAGR over FY25-27, primarily driven by the BFSI and O&G sectors, based on conservative assumptions relative to the FY25 base. Logistics, Capital Goods, and Metals are also expected to contribute positively. Incremental profit growth is likely to be led by BFSI (53%), followed by O&G (20%) and Metals (12%).

Preferred PSU's valuations

Company	Mcap (USDb)	CMP	EPS (INR)			EPS CAGR (%)	PE (x)			PB (x)			ROE (%)		
			FY25	FY26E	FY27E	FY25-27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
Preferred PSU picks															
St Bk of India	80.9	800	86.9	90.1	103.8	9.3	9.2	8.8	7.7	1.5	1.3	1.1	18.6	16.1	15.9
Hind. Aeronautics	37.8	4,791	125.0	141.2	161.2	13.6	39.8	35.2	30.8	9.5	8.0	6.7	23.9	22.6	21.8
Bharat Electronics	33.6	408	7.2	8.4	10.2	18.6	56.4	48.8	40.1	15.1	11.9	9.4	26.8	24.3	23.5
Power Grid Corpn.	30.8	293	16.7	19.0	20.0	9.3	17.6	15.4	14.7	2.9	2.7	2.5	17.3	18.4	17.9
Coal India	27.4	389	57.4	60.4	69.1	9.8	6.8	6.4	5.6	2.4	2.0	1.7	35.7	31.8	30.9

25 June 2025

Sector: Financials - NBFC

Power Finance Corporation

BSE SENSEX	S&P CNX
82,756	25,245

Stock info

Bloomberg	POWF IN
Equity Shares (m)	3300
M.Cap.(INRb)/(USDb)	1362.6 / 15.8
52-Week Range (INR)	580 / 357
1, 6, 12 Rel. Per (%)	0/-15/-21
12M Avg Val (INR M)	4708
Free float (%)	44.0

Financials snapshot (INR b)

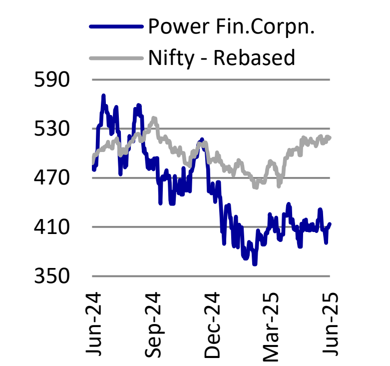
Y/E March	FY25	FY26E	FY27E
NII	193	206	232
PPP	216	233	262
PAT	174	181	201
EPS (INR)	52.6	54.7	60.9
EPS Gr. (%)	21	4	11
BV/Sh. (INR)	276	314	356
ABV/Sh. (INR)	232	270	313
RoAA (%)	3.2	3.0	3.0
RoAE (%)	20.4	18.6	18.2
Div Payout (%)	30.0	30.1	30.0
Valuations			
P/E (x)	7.9	7.6	6.8
P/BV (x)	1.5	1.3	1.2
Core P/E (x)	5.5	5.3	4.7
Core P/BV (x)	1.2	1.0	0.9
Div. Yld (%)	3.8	4.0	4.4

Shareholding pattern (%)

As On	Mar-25	Dec-24	Mar-24
Promoter	56.0	56.0	56.0
DII	16.2	17.2	18.3
FII	18.8	18.0	17.2
Others	9.0	8.8	8.6

FII Includes depository receipts

Stock performance (one-year)



CMP: INR413 TP: INR485 (+17%) Buy

Structural growth intact despite near-term recalibration

We interacted with Power Finance Corporation (PFC) to understand the company's revised growth outlook, evolving sector dynamics and asset quality trends. Here are the key takeaways:

- PFC has recalibrated its growth guidance to ~10-11% for FY26, reflecting a more cautious yet sensible approach to financing in India's evolving power sector. This calibration in loan growth guidance from the previous higher growth expectations is primarily driven by significant technological transitions in energy generation and changes in the landscape of government support schemes. This strategic moderation in loan growth aims to ensure growth without incurring excessive balance sheet risks.
- The company highlighted that energy transition from coal to renewables is fundamentally altering the nature of power-sector lending, with solar PV now gaining wide acceptance. Further, battery storage is emerging as a key enabler for integrating renewables into the grid, with government mandates now requiring two-hour storage across all new tenders.
- PFC highlighted that government schemes, like LPS, LIS, and RDSS, have been major growth drivers in recent years. However, the landscape is shifting as LPS and LIS have concluded, and the RDSS scheme is also set to end by the end of FY26, impacting the momentum of scheme-led growth going forward.
- PFC has significantly reduced its stressed asset portfolio, with Stage 3 assets declining from ~INR300-310b (at the peak) to ~INR110b over the last seven years. This improvement has been driven by the resolution of legacy thermal power projects and growing interest from strategic acquirers. Management shared that three key accounts, TRN Energy, Shiga Energy, and Sinnar Thermal, are in the advanced stages of resolution, either through one-time settlements or the NCLT process.
- We expect a CAGR of ~12%/8% in AUM/PAT over FY25-27E, with RoA/RoE of 3%/18% in FY27E. Our BUY rating on the stock is predicated primarily on undemanding valuations of 0.9x FY27E standalone P/BV, with favorable risk-reward. Our SoTP (Mar'27E)-based TP stands at INR485 (based on 1.1x target multiple for the PFC standalone business and INR193/share for PFC's stake in REC after hold-co discount of 20%).

Evolving energy technologies from coal to renewables

The power sector's investment landscape is being fundamentally reshaped by technological advancements, particularly the shift from traditional coal-based generation to renewables.

- **From coal to solar PV:** For a century, India's power sector relied predominantly on coal technology, with only minor efficiency improvements. However, solar PV, introduced in India around 2016, has rapidly gained acceptance. India has already achieved >200GW of non-fossil fuel capacity, with solar PV forming the largest component.

- **Challenges of intermittency and the rise of battery storage:** Solar PV is an intermittent power source, dependent on sunlight and not controllable like conventional power plants. This intermittency poses a challenge for maintaining base load and grid stability, a problem observed globally. To address this, there is a global shift toward integrating renewables with energy storage solutions.
- **Battery storage as the new frontier:** Battery storage is increasingly preferred over pumped storage projects (PSP) due to its greater flexibility, as PSPs require specific geographical locations and water reservoirs. ***Government guidelines now mandate the inclusion of around two hours of battery storage*** *in every new renewable tender, signifying a new phase for renewables where every new capacity addition is expected to incorporate storage.*
- **Maturity curve of battery storage:** Despite reduction in tariffs and support from schemes like viability gap funding (VGF), the overall ecosystem for battery storage requires time to mature, and large volumes of battery storage projects are still in the evaluation stage, which limits immediate financing opportunities.

Government schemes in the distribution sector nearing completion

- Government schemes have been key growth drivers in the distribution sector in recent years. However, major initiatives like the late payment surcharge (LPS) and liquidity infusion scheme (LIS), which previously supported momentum, have largely concluded.
- **Revamped distribution sector scheme (RDSS):** The ongoing RDSS focuses on milestones such as smart metering and substation upgrades. However, the tendering process for RDSS projects is time consuming, and the release of government grants is contingent upon awarded tenders, leading to a slower momentum. The scheme has a sunset date of 31st Mar'26, and its future beyond this date is uncertain without an explicit extension from the government.
- **No new formalized support packages:** While there is an ongoing focus on supporting DISCOMs, no new formalized financial packages have been announced beyond existing initiatives like RDSS and RBPF.

Broader power sector dynamics and future outlook intact

- **Mixed investment drivers:** Unlike periods driven by a single dominant segment, the current power financing landscape is a mixed bag of opportunities. Renewables, especially with integrated storage, are expected to be a major contributor, alongside conventional generation and distribution.
- **Conventional generation plans:** The government has announced an 80GW plan for an additional conventional (coal) capacity to ensure reliable power during the integration of renewables with storage. While a significant portion is being undertaken by NTPC (25-30GW), the remaining part is in the planning stage and open for financing by other lenders offering a medium-term opportunity.
- **Transmission sector:** The transmission sector is not a major growth driver for PFC, primarily because Power Grid Corporation of India (PGCIL) has a strong balance sheet and can raise funds independently at competitive rates.
- **Temporary demand weakness:** The current weakness in electricity demand is considered temporary, driven by unusual weather patterns, unseasonal rainfall in some regions, and an imbalance where projected peak demand did not

materialize, leading to excess supply. However, long-term electricity demand growth remains strong at 6-7%, supported by structural growth drivers.

- **Future growth potential:** PFC's FY26 loan growth guidance of ~10-11% reflects a transitory phase. If battery storage matures or fresh DISCOM schemes are launched, loan growth could accelerate. The long-term power sector outlook remains structurally robust.

Declining policy rate environment to weigh on margins

- With a ~100bp repo rate cut, PFC may face a minor compression in spread and NIM, as assets could reprice faster than liabilities. However, the company aims to keep the spreads/margins largely steady. About 70% of borrowings are linked to a fixed rate, while only ~30% are linked to a floating rate, which will benefit from rate cuts.
- The company shared that a one-third of the loan book resets annually on both the asset and liability sides. The company has guided for spreads of 2.5% (vs. ~2.6% currently) and expects a minor compression.

Asset quality continues to improve driven by stressed asset resolution

- PFC has made strong strides in improving asset quality, particularly through the resolution of legacy stressed thermal assets. Stage 3 assets have significantly declined from INR300b-310b (at its peak) to ~INR110b, driven by a supportive demand cycle and renewed interest in thermal assets from strategic buyers.
- **TRN Energy and Shiga Energy:** These two projects are in the advanced stages of resolution. An in-principle approval for their restructuring plan has been obtained, and documentation is currently underway. While negotiations are ongoing, the focus is on achieving a one-time settlement with the promoter rather than merely extending the tenor. Barring unforeseen delays, there is a strong likelihood of resolution of TRN Energy within the next 3-6 months.
- **Sinnar Thermal:** This project is currently in the NCLT, where the bidding process is ongoing. One part of the bidding has concluded, and evaluation is in progress.
- **Liquidation and provisioning:** About 20% of the NPA portfolio is under liquidation. For these assets, PFC has already made 100% provisioning, meaning there is nothing further to be provided for, and any future recovery from the liquidation process would be an upside.
- There are specific cases, like BlueSmart (e-mobility), which are 'isolated events' and not indicative of a broader industry-wide risk or problem with the underlying technology or model. In Gensol, PFC had encashed FDs held as security in Apr'25, leading to some recoveries. For the remaining exposure, 100% provisioning has been done on Gensol.

Valuation and view

- For PFC, we expect a CAGR of ~12%/8% in AUM/PAT over FY25-FY27E, with RoA/RoE of 3%/18% in FY27E. There are some upside risks to our estimates based on the quantum of write-backs from the resolution of stressed assets. Trading at a FY27E P/BV (standalone) of just 0.9x, PFC is significantly cheaper than its power sector peers, despite having ROE potential of ~18-19% over FY26-27E. The company's strategic focus on high-yielding loans to DISCOMs and other state-backed initiatives ensures stable profitability, even as it continues to scale up its RE financing.

- Our BUY rating on the stock is predicated primarily on undemanding valuations of 0.9x FY27E standalone P/BV, with favorable risk-reward. Our SoTP (Mar’27E)-based TP stands at INR485 (based on 1.1x target multiple for the PFC standalone business and INR193/share for PFC’s stake in REC after hold-co discount of 20%).

PFC: SOTP - Mar’27

	Stake	Target Multiple	Value (INR B)	INR per share	% To Total	Rationale
PFC Standalone	100	1.1	1,093	330	68	❖ 1.1x Mar'27 PBV
REC Stake (Pre-holdCo)	53	1.2	637	**193**		❖ 1.2x Mar'27 PBV
Hold Co Discount (20%)			127			
REC Stake (Post Hold-CO)			**510**	**155**	**32**	
Target Value			**1,603**	**485**	**100**	

Valuation matrix of PFC and its peer

Val summary	Rating	CMP (INR)	TP (INR)	MCap (INRb)	Upside (%)	EPS (INR)		BV (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
						FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
PFC	**Buy**	**413**	**485**	**1,365**	**17**	**54.7**	**60.9**	**314**	**356**	**3.0**	**3.0**	**18.6**	**18.2**	**7.6**	**6.8**	**1.3**	**1.2**
REC	Buy	399	460	1,050	15	66.4	73.6	343	397	2.7	2.6	20.8	19.9	6.0	5.4	1.2	1.0
IREDA**	Not rated	172	NA	482	NA	7.3	8.8	45	54	2.0	1.9	16.9	17.1	23.3	19.2	3.8	3.1

Note: **Bloomberg Consensus

Real Estate

Robust launches, strong CF and consolidation drive growth

Our coverage companies estimated to clock 21% CAGR in presales even after market deceleration

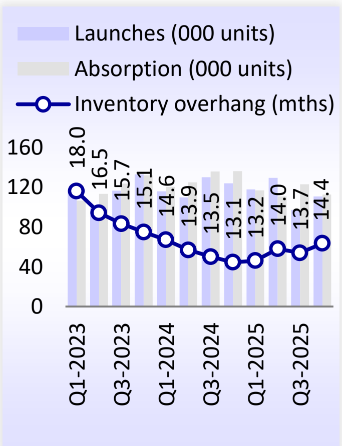
Valuation comparison

Company	Rating	TP
BRGD	Buy	1,580
DLFU	Buy	1,005
GPL	Buy	2,843
KPDL	Buy	560
LODHA	Buy	1,870
MLIFE	Neutral	382
OBER	Neutral	1,782
PHNX	Neutral	1,673
PEPL	Buy	2,000
SIGNATUR	Buy	1,760
SOBHA	Buy	1,778
SRIN	Buy	540

Source: Company, MOFSL

- FY25 started on a strong note for the sector, though by year end, the momentum decelerated in launches and absorption in the top seven cities. Launches declined 5% YoY and absorption fell 10% YoY in FY25. In 4QFY25, launches/absorption declined by 11%/17%.
- Launches in FY25 were affected by state and center elections, the absence of regulatory committees, delays in approval, and changes in some rules, among others. As there were limited launches, absorption also decelerated in the top seven cities.
- Inventory months started to mount for the first time after five years in FY25. Inventory stood at 14.4 months in FY25, as launches and absorption declined by 5% YoY and 10% YoY, respectively. In 4QFY25 too, inventory stood at 14.4 months, up QoQ for the first time after 19 quarters. However, absolute absorption was higher than launches.
- In the top seven cities, the top 10 developers have seen a notable consolidation in each market, with their cumulative contribution rising from 22.7% to 31.9% in launches and absorption is catching up from 19.0% to 23.1% over FY15-FY25. We believe consolidation will allow our coverage companies to gain market share and keep growing at a better pace compared to the broader market.
- We estimate a 12% CAGR in launches over FY25-27 for our coverage universe, as the launches planned for FY25 have spilled over to FY26 due to approval delays. We believe that even though presales for the broader market might grow at a lower pace of 7-10%, cumulative presales of our coverage would record a 21% CAGR over FY25-27E.

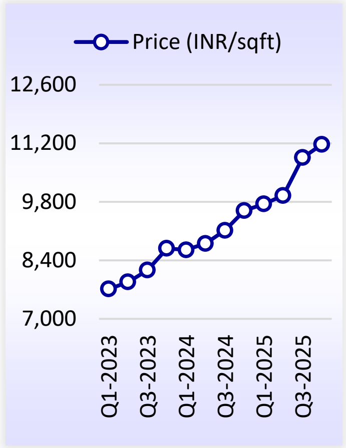
Tier 1 cities' absorption constantly higher than launches in last 12 quarters…



Tailwinds: Improving affordability, better rental and diversification

- The affordability index (EMI-to-income ratio) for all the top eight markets tracked by Knight Frank is in the range of 20-30%, which indicates better affordability in those markets and consequently consistent growth in housing sales. MMR is the only market where the affordability index is 50%; however, it is important to note that MMR is getting more affordable year after year.
- After Covid-19, the rental started increasing due to the supply constraint, and currently most of the cities have a rental yield of 3-6% because of negligible inventory of 14.4 months in FY25. Better rental yields are attracting investors to invest in residential real estate (RRE), which can give them better yields and strong capital appreciation.
- Demand is also in an uptrend in Indian markets. The Trump Tower in Gurgaon worth INR32.5b was launched in mid-May'25 and fully sold out within two days. DLF has concluded the booking of Privana North worth over INR110b, which was recently launched. The Birla Silas tower in MMR booked INR25b in sales within few days of its launch. Prestige Ocean Towers at Marine Lines saw majority of sales in the INR200m+ apartment. Godrej Madison Avenue in Hyderabad achieved INR10b in bookings within few weeks of launch.

...leading to price appreciation throughout quarters



- In the last 2-3 years, many top developers have diversified to other geographies and started demanding a higher market share, thereby adding an incremental income stream apart from their home market. GPL, which has a strong presence in MMR, NCR, Bengaluru and Pune, entered Hyderabad and is now scaling up. Similarly, PEPL and SOBHA are entering Pune and aspire to scale up very fast. PEPL and OBER are also entering NCR and taking up their share of the pie. BRGD is scaling up in Hyderabad and Chennai. DLF and PEPL entered Mumbai to take a piece of the high-demand market.

Healthy collections drive strong OCF generation, BD and debt reduction

- With the timely execution of strong project pipeline, companies will achieve robust collections. Collections are expected to clock a 36% CAGR to INR1.5t over FY25-27E.
- Strong collections should result in healthy OCF generation of INR600b by FY27E, while cumulative OCF is expected to be INR1.4t over FY25-27E.
- With strong cash flow generation, developers are shifting their focus to business development to sustain the strong growth trajectory.
- Additionally, strong OCF generation allows developers to keep net D/E in check and at the comfortable level of below 0.5x.

Strong collections should result in healthy cumulative OCF generation of INR1.4t over FY25-27E.

Strong recognition, improved profitability helps to keep balance sheet lean

- For our coverage companies cumulatively, we estimate a 22% CAGR in revenue over FY25-27E to INR861b, aided by strong collections and delivery lined up for next 2-3 years.
- EBITDA is expected to post a 26% CAGR to INR252b and blended operating margin is estimated to improve by 168bp to 29% over FY25-27E. OBER, PHNX, LODHA and BRGD are expected to report strong margin of 54%, 67%, 29% and 37%, respectively in FY27E, while the remaining companies are likely to be in the range of 15-25%.
- Adjusted PAT for our coverage is estimated to deliver a 25% CAGR over FY25-27E, with adjusted profit margin of 24% for FY27E.
- Recently, most of the companies under our coverage have completed one round of fundraising and are generating strong cash flow, which will allow them to continue growing without stressing the balance sheet.
- For our coverage universe, net D/E remains below 0.5x for some companies, while many have net cash status. However, SIGNATUR has the highest net D/E of 1.2x as of FY25.
- Due to strong profit accretion, the return profile (ROE/ROCE) has also been improving year on year.

Coverage revenue to grow at 22% CAGR over FY25-27E to INR861b with 26% operating margin.

Valuation and view

- The companies under our coverage are expected to record a CAGR of 21%/36% in presales/collections over FY25-27E, aided by the strong launch pipeline owing to strong BD in recent years, strong execution capability, and timely delivery.
- Healthy collections should generate healthy operating cash flow of INR1.4t cumulatively over FY25-27E for our coverage companies, which will allow most of them to keep their net D/E below 0.4x. Most of them are expected to have a net cash status.

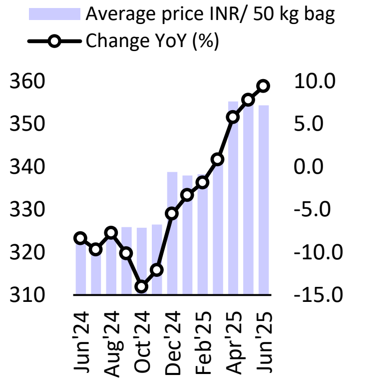
- At this juncture, we will take the summation of the discounted cash flow from all the projects and bring it back to the present value, including the business development done by companies.
- To accommodate growth, we will apply premium/discount to 1x NAV and value office assets by applying capitalization rate to discounted NOI.
- Retail and hospitality assets are valued based on the multiple of EV/EBITDA depending the quality of cash flow generated by the assets.
- Currently, most companies are either trading at 1x NAV or at premium, as supply issues are waning and there are strong responses to recent launches. However, continuous business development demands higher valuation and provides leeway to increase the premium or assign a higher valuation.
- After an uncertain phase in RRE, the focus has shifted back to companies with strong geographical diversification and a fine balance of residential and commercial assets (office/retail/hospitality) to reap the benefit of strong growth visibility of both asset classes under. Consolidation in supply and strong absorption will act as additional catalysts for growth for our coverage companies in the residential space.
- Within our coverage universe, we have a BUY rating on BRGD, DLFU, GPL, KPDL, LODHA, PEPL, SIGNATUR, SOBHA, and SUNTECK and Neutral stance on MAHLIFE, OBER, and PHNX. We prefer LODHA , PEPL, and SIGNATUR for their strong growth visibility, geographical diversification and ability to generate income from multi-assets.

Valuation breakup including contribution from each segment and premium

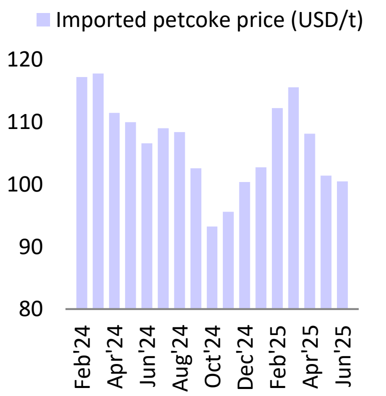
Company	Rating	Residential	Other assets	Land bank	GAV	Debt	1x NAV FY26	TV/ Premium	NAV including premium	TP
BRGD	Buy	122	117	77	316	2	314	72	386	1,580
DLFU	Buy	316	637	1,481	2,434	-54	2,488	0	2,488	1,005
GPL	Buy	451	23	0	474	-26	501	356	856	2,843
KPDL	Buy	42	0	6	49	6	43	0	43	560
LODHA	Buy	549	184	637	1,371	38	1,333	533	1,866	1,870
MLIFE	Neutral	44	18	4	66	7	59	0	59	382
OBER	Neutral	290	205	0	495	-4	499	148	648	1,782
PHNX	Neutral	17	608	0	625	27	598	0	598	1,673
PEPL	Buy	312	240	162	714	67	647	215	862	2,000
SIGNATUR	Buy	197	0	0	197	9	188	59	247	1,760
SOBHA	Buy	74	24	86	184	-6	190	0	190	1,778
SRIN	Buy	74	5	0	79	0	79	0	79	540

Source: Company, MOFSL

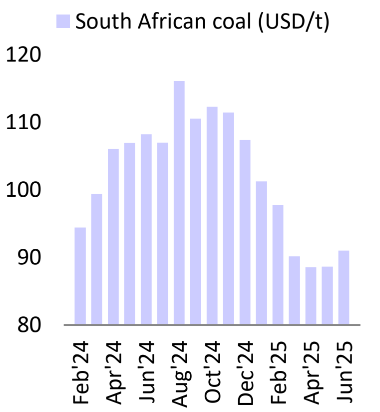
All-India average cement price up ~9% YoY and down ~1% MoM in Jun'25



Avg. imported petcoke price down 6% YoY to USD101/t in Jun'25 (MTD)



Average imported coal price down 16% YoY to USD91/t in Jun'25 (MTD)



Pricing and demand soften as monsoon sets in

All-India average cement price inched down ~1% MoM in Jun'25

Cement pricing momentum moderated in Jun'25, with the all-India average price declining by ~1% MoM. Notably, the average cement price declined INR7/bag (~2%) in South and INR5/bag (~1%) in East due to weak demand amid the early onset of the monsoon, labor shortage, and oversupply pressures. In the North, Central and West regions, prices remained stable MoM. However, we believe the all-India average cement price was up ~5% QoQ in 1QFY26, aided by price hikes in Apr-May'25. Further, due to sluggish demand trends since the beginning of 1QFY26, followed by regional challenges (heat wave, unseasonal rains, labor unavailability), we estimate industry demand growth in low to mid-single digits YoY in 1QFY26, despite having a low base. We estimate that higher prices and cost-saving measures are likely to improve profitability in 1QFY26.

South – prices down ~2% MoM in Jun'25 but up ~14% QoQ in 1QFY26

- **Cement prices declined by INR7/bag or 2% MoM in Jun'25**, with the **average trade price at INR364/bag**. The decline was mainly attributed to the price drop of INR10/bag (~3%) in **Tamil Nadu and Kerala (each), and INR7/bag in Karnataka**, while prices remained **stable in Andhra Pradesh and Telangana**.
- This correction came after a sharp price increase in Apr-May'25, when the average **price rose ~INR50/bag (~16%) from the Mar'25 level**. The **early onset of the monsoon led to a slowdown in construction activity**, resulting in the subsequent price correction.

East – price declines ~1% MoM in Jun'25 but rises ~6% QoQ in 1QFY26

- Cement prices in the East region declined by INR5/bag (~1%) MoM in Jun'25. A price decline of INR5-7/bag (~1%) MoM was seen across key markets (Bihar, Chhattisgarh, West Bengal, and Odisha). However, in 1QFY26, the average price was up ~6% QoQ due to the sustainability of a large part of earlier price hikes.
- Demand remained muted in Jun'25, continuing the weak trend observed in May'25. With the monsoon approaching, the market has already factored in a pause in further price increases in the near term. Dealers indicated a slowdown in construction activities, mainly in government projects.

West – price flat MoM in Jun'25 but up ~1% QoQ in 1QFY26

- **In the West region, cement prices remained largely stable MoM in Jun'25 across Gujarat and Maharashtra,** following the **price hikes implemented in May'25**. Prices rose ~1% QoQ and ~6% YoY in 1QFY26.
- Dealers indicated that given the seasonality impact, a price hike is unlikely in the near term. **Dealers also mentioned that cement demand has declined due to excessive rains in Saurashtra and southern parts of Gujarat.** Additionally, labor shortages linked to the wedding season have constrained site-level activity, thereby impacting execution pace.

North and Central – prices flat MoM in Jun’25 but up ~2% QoQ in 1QFY26

- **In the North and Central regions**, cement prices remained **unchanged MoM in Jun’25**, in line with the trend seen in May’25. However, **prices were up ~2% QoQ in 1QFY26**, owing to the withdrawal of year-end schemes and discounts from the beginning of Apr’25**.**
- Dealers had anticipated a pickup in demand in Jun’25, but heatwaves in the initial days of the month and rainfalls in the later part of the month affected construction work, preventing any meaningful demand growth. A slowdown in government spending further dampened sentiment. However, dealers expect some support from rural demand, aided by housing activity under the Pradhan Mantri Awas Yojana (PMAY).

Fuel prices range-bound, supporting profitability

- Fuel prices (both imported petcoke and coal) remained range-bound during May-Jun’25. The average imported petcoke (US) price declined ~1% MoM to USD101/t in Jun’25 (MTD). The average imported coal (South Africa) price increased ~3% MoM to USD91/t in Jun’25 (MTD).
- At spot prices, the imported petcoke consumption cost stood at INR1.24/Kcal, and the imported coal consumption cost stood at USD1.41/Kcal.
- We estimate the all-India average cement spread in 1QFY26 for trade sales (cement price net of GST after subtracting variable cost) to be up INR180-190/t as compared to the 4QFY25 average. However, this is estimated to be significantly higher for south-based players given the sharp increase in prices during the quarter. The increase is estimated to be relatively lower for the North and Central players due to modest price increases.

Outlook and recommendation

- We maintain our positive outlook on the cement sector due to: a) resilient pricing trends despite the early onset of the monsoon in major parts of the country, b) higher consolidation, and c) favorable fuel prices.
- We prefer UTCEM in the large-cap space and JKCE in the mid-cap space. DALBHARA is our tactical pick given improving regional dynamics.

Aviation

AIX Connect merged with Air India Express

Air India Data includes Air India Express

Vistara data only up to 11th Dec'24. Effective 12th Nov'24, Vistara merged with Air India

Air traffic declines MoM in May25; IndiGo sees minor drop

- **Domestic air passenger (PAX) traffic declined ~2% MoM in May'25 to 14.1m (up 2% YoY) — it was above the pre-Covid levels. Passenger growth decreased MoM for IndiGo, Air India, and SpiceJet but increased for Akasa.**
- **Average domestic passenger load factor (PLF) decreased 130bp MoM in May'25. PLF declined MoM for all the airlines. The on-time performance (OTP) decreased 120bp MoM for airlines; the domestic average was 69.2% in May'25. The cancellation rate increased 90bp to 2.1% in May'25.**
- **IndiGo's market share improved following the collapse of GoFirst, which ceased operations in May'23. IndiGo has maintained 60%+ share since then.**

India's domestic air PAX and market share

- India's domestic air PAX decreased 3% MoM (up 2% YoY) to 14.1m in May'25. Domestic PAX stood at 9.1m for IndiGo (up 7% YoY), 3.7m for Air India group (down 7% YoY), 0.8m for Akasa (up 13% YoY), and 0.3m for SpiceJet (down 39% YoY).
- Domestic market share stood at 64.6% for IndiGo (up 300bp YoY), 26.5% for Air India group (down 250bp YoY), 5.3% for Akasa (up 50bp YoY), and 2.4% for SpiceJet (down 160bp YoY).

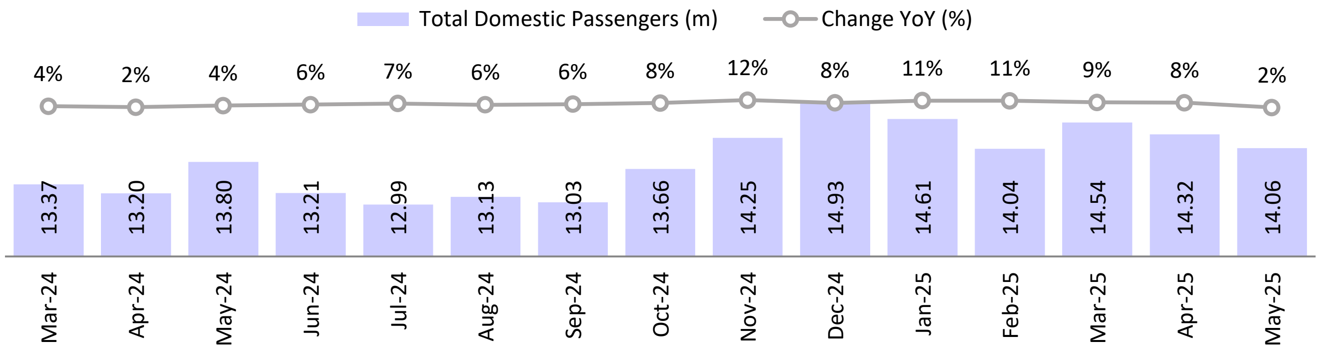
Domestic industry's PLF and OTP

- Domestic PLF stood at 76.3% in May'25 (77.6% in Apr'25 and 72.8% in May'24). PLF stood at 85.1% for IndiGo (down 330bp YoY), 80.2% for Air India group (down 670bp YoY), 91.4% for Akasa (up 110bp YoY), and 84% for SpiceJet (down 10pp YoY).
- The average OTP for domestic airlines at the top six airports was at 69.2%. OTP stood at 84% for IndiGo, 74.7% for Air India group, 78.7% for Akasa, and 50.1% for SpiceJet.

Other highlights

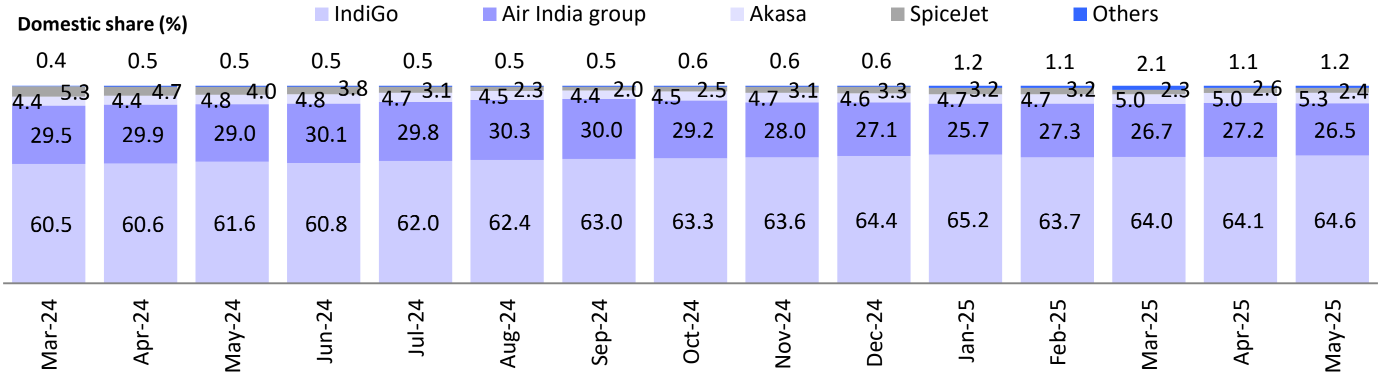
- Air turbine fuel (ATF) price for Jun'25 was at INR83,073/klit (down 13% YoY/down 3% MoM). For 1QFY26, ATF price stood at INR86,000, while it was INR93,767 for 4QFY25 (down 7% QoQ and 13% YoY).
- Brent crude average price for Jun'25 stood at USD72.1/bbl (USD64.4/bbl in May'25 and USD68.2/bbl in 1QFY26).

Domestic PAX grew 2% YoY but down ~2% MoM



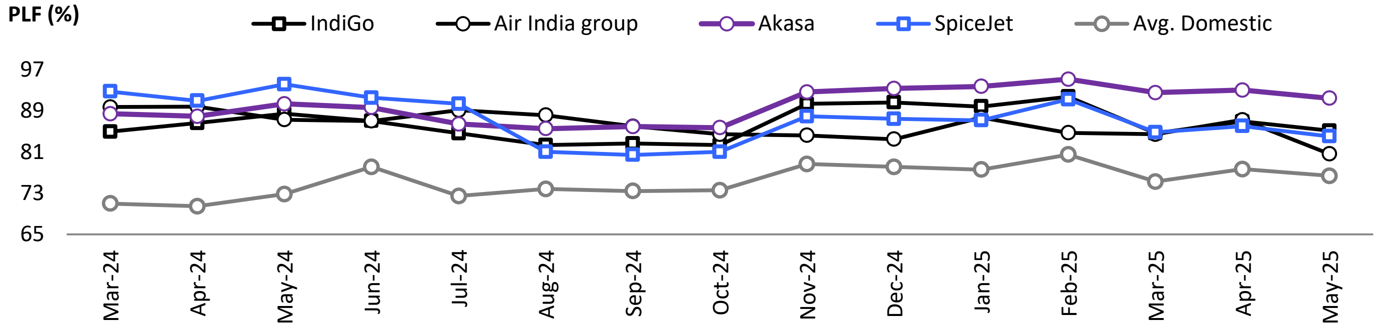
Source: DGCA, MOFSL

IndiGo's domestic market share was 64.6% in May'25, while it was ~26.5% for Air India group



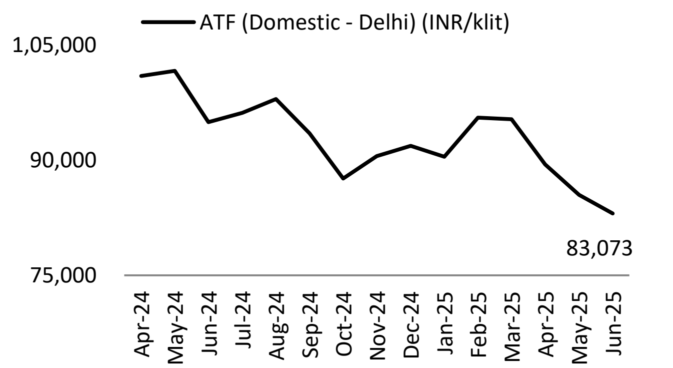
Source: DGCA, MOFSL

Average domestic PLF was 76.3%; highest for Akasa Air at 91.4%



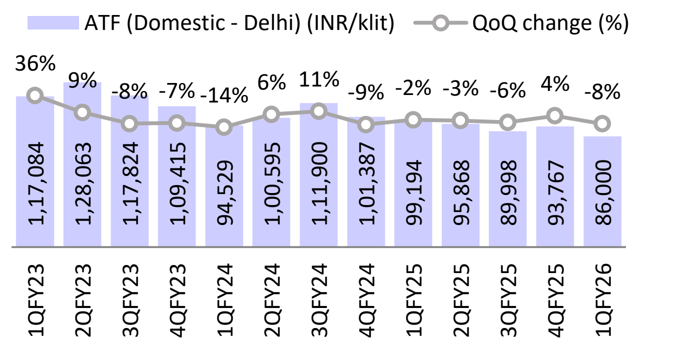
Source: DGCA, MOFSL

Decline in ATF prices MoM in June'25 to date



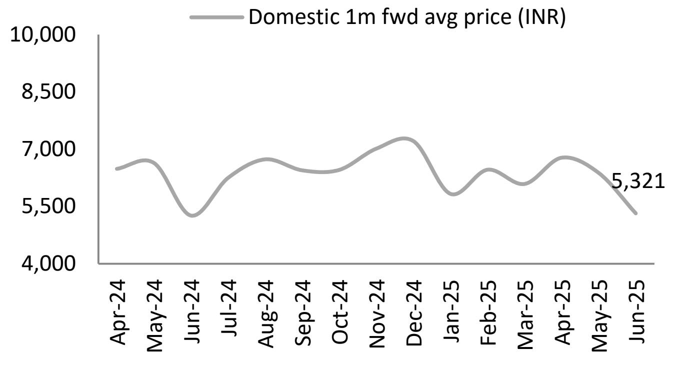
Source: HPCL, IOCL, MOFSL

ATF price down 8% QoQ in 1QFY26



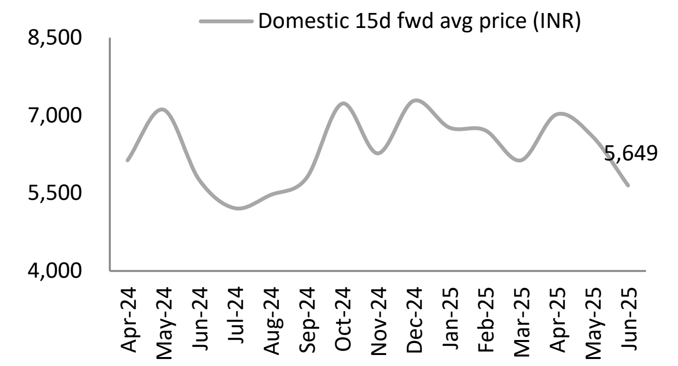
Source: HPCL, IOCL, MOFSL

Domestic fares on a one-month forward basis



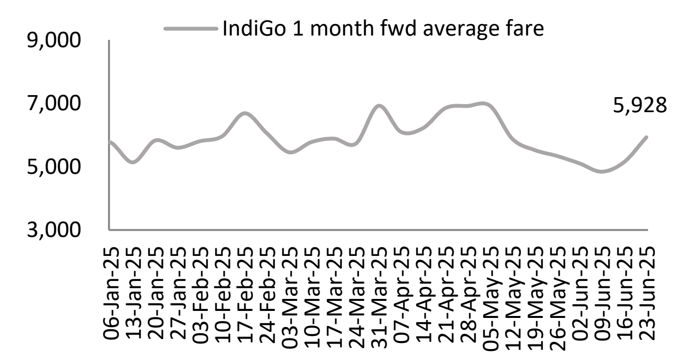
*Apr'25 to date Source: MakeMyTrip, MOFSL

Domestic fares on a 15-day forward basis



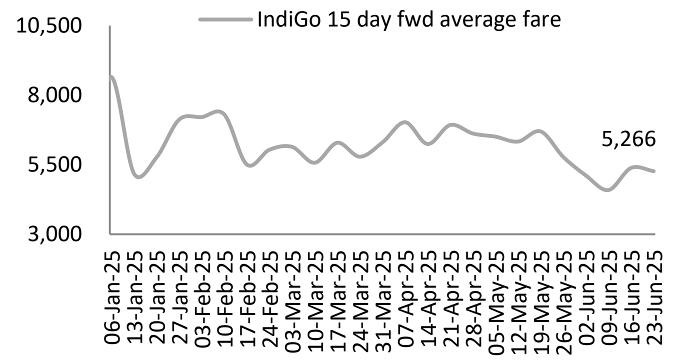
*Apr'25 to date Source: MakeMyTrip, MOFSL

IndiGo's fares on a one-month forward basis



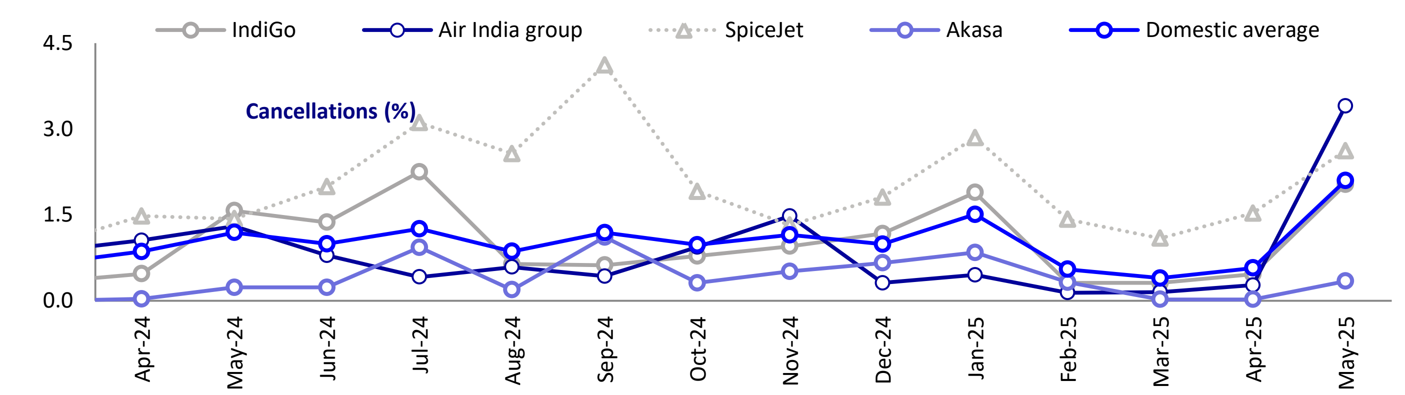
Source: MakeMyTrip, MOFSL

IndiGo's fares on a 15-day forward basis



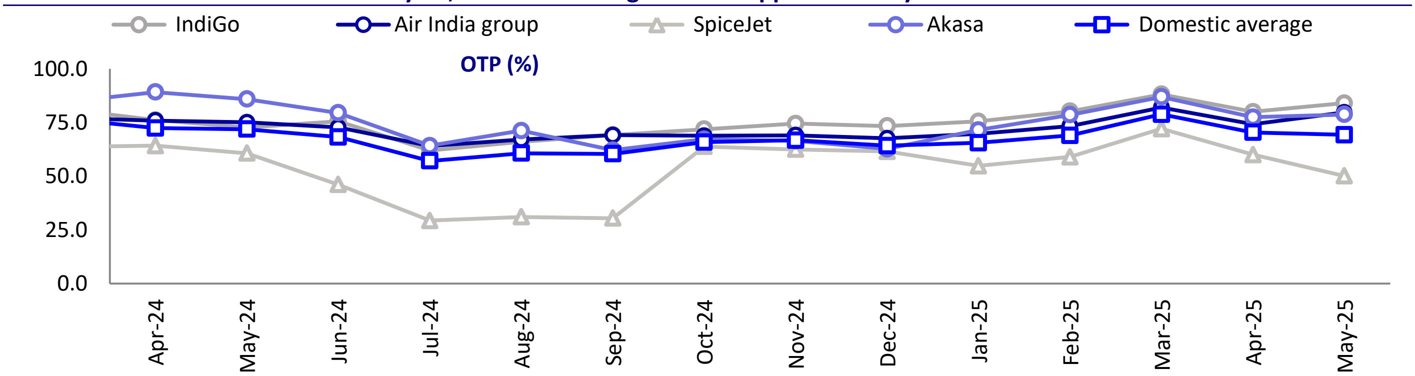
Source: MakeMyTrip, MOFSL

% cancellations increased by 90bp YoY on an average for airlines in May'25



Source: DGCA, MOFSL

OTP decreased for all airlines in May'25; domestic average down 3.2pp YoY in May'25



Source: DGCA, MOFSL

REC Limited: Focus Is On Improving The Quality Of Our Orderbooks; Harsh Baweja, Director Finance

- Targets ~12% loan growth with a stable NIM of 3.5–3.75%.
- Aims to become a zero-NPA company by FY26.
- New project finance norms to have negligible effect due to existing provisions.
- Confident in maintaining growth and spreads despite market volatility.

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Tata Motors: Expect Rare-Earth Magnet Stocks To Run Out After A Few Months; Shailesh Chandra, MD – Passenger Vehicles

- Rare Earth inventory to last a few months; alternatives being explored, no plans for in-house production.
- Current stock adequate; coordinating with govt. and industry to manage supply risks.
- Steel tariffs and forex volatility are being monitored; price hikes under review.
- Strong double-digit EV growth expected, with Harrier.ev and Sierra.ev launching this year.

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Raymond Realty: Eyeing 20-22% Rate Of Return On All Realty Projects; Amit Agarwal, Group CFO

- Aims for 20–22% returns across projects, with a GDV of ~₹40,000 crore.
- ₹9,000 crore launched; ₹5,000–6,000 crore planned for FY25.
- Out of 600+ evaluated, only 6 signed—ensuring 20%+ EBITDA margin.
- Relies on quick sales to fund both owned and JDA projects efficiently

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Quality Power: Capex Will Be Funded Via Cash On Books & Soft Loans From Promoters; Jitendra Kumar Agarwal, Joint Managing Director

- ₹125–150 cr capex for global coil plant in Maharashtra, ready by Q2 FY27.
- Targeting ₹1,500 cr peak revenue with ~20% pre-tax margins from new facility.
- FY26 revenue seen at ₹700–800 cr; strong order book with key HVDC orders in H2 FY25.
- Exploring acquisitions with promoter-backed funding, focusing on fit, tech, and valuation.

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BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
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NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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