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India Strategy

2024: Bull run to continue

Our 2024 year-end Nifty target of 24,000 imputes an 11% return for the benchmark, while we expect SMIDs to outperform. Our model portfolio focuses on large-/mid-caps and we are UW on Financials and OW on Consumer Discretionary. Key themes for 2024 are rate cuts, the budget and reform, and probable revival in mass segment spending. Earnings growth should continue in the mid-teens with rising ROEs. SMID earnings growth should exceed the Nifty and drive further outperformance.

Key themes for 2024

Rate cuts dominate conversations for CY24 – We believe the Fed would cut in 3QCY24 and RBI would follow suit almost immediately. This would drive a re-rating in the markets which would be visible more in SMIDs than the Nifty. A BJP win in the Apr-May national elections is almost a done deal and focus is on the FY25 budget, with manufacturing and infrastructure the key themes. We also see possibility of a recovery in mass spending. This is not certain, but we think it is worth taking some exposure to play this.

A muted year for Nifty; action in SMIDs

We expect an 11% return for the Nifty in 2024, with the index settling at long-term mean valuations. Returns should be dad-bod shaped – bulging in the middle of the year through Apr-Sep, with relatively subdued quarters at both ends. SMIDs should continue to outperform, with better earnings growth and momentum in return ratios. The upside is that the valuation overshoots on continued optimism, while the key risk is a hard landing in the West which would trigger earnings downgrades. India would be relatively better off than most other countries, but absolute returns could still be marginally negative.

We prefer Discretionary and Materials; are UW on Financials

We are underweight (UW) on financials (our big contrarian call), consumers, and technology, as we see this being a year for high-growth sectors. Our key overweight (from our coverage universe) is consumer discretionary, primarily autos. Some of our key picks are Hero Motocorp, Tata Motors, Zomato, UltraTech Cement, and Ambuja Cement. Our separate list of key SMID ideas includes JK Tyre, Aditya Vision, and Saregama. Our top sells are Chola Finance, Jubilant FoodWorks, LTIMindtree, Britannia, and Colgate.

Market Internals

We see little risk to the 14.5% FY25 Nifty EPS growth. Banks are vulnerable because of margin pressures after the RBI rate-cuts, but this could be offset by manufacturing margins if commodity prices stay soft. FY26 forecasts are at 13.7%, which we think is a little vulnerable – some sectors may see cyclical downturns by then and commodities are unpredictable that far out. A notable feature is that ROEs are expected to stay robust through this cycle. Market valuations are reasonable at more than 0.5x the historic mean, and we see risk once it touches +1SD; SMID valuations are ruling above the Nifty, a trend we believe will persist, though SMID index valuations are unreliable due to granularity and lack of reliable forecasts.

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Emkay Model Portfolio (EMP) Weights

Bloomberg code	Weight in EMP
BHARTI IN Equity	5%
HMCL IN Equity	6%
TTMT IN Equity	4%
MSUMI IN Equity	3%
ZOMATO IN Equity	5%
DABUR IN Equity	3%
ITC IN Equity	7%
RELIANCE IN Equity	10%
ICICIBC IN Equity	9%
HDFCB IN Equity	7%
IIB IN Equity	6%
SHFL IN Equity	5%
MAXF IN Equity	3%
CYL IN Equity	4%
INFO IN Equity	7%
ACEM IN Equity	5%
UTCEM IN Equity	8%
DELHIVER IN Equity	3%

Small Cap Picks

Stock	Reco
Aditya Vision	Buy
Fusion Microfinance	Buy
Saregama India	Buy
Senco Gold	Buy
Emami	Buy
JK Tyre	Buy

Top Sells

Stock	Reco
Britannia Industries	Reduce
Cholamandalam Investment	Reduce
Colgate-Palmolive	Sell
Jubilant FoodWorks	Sell
LTIMindtree	Reduce

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Refer to Important Disclosures at the end of this report

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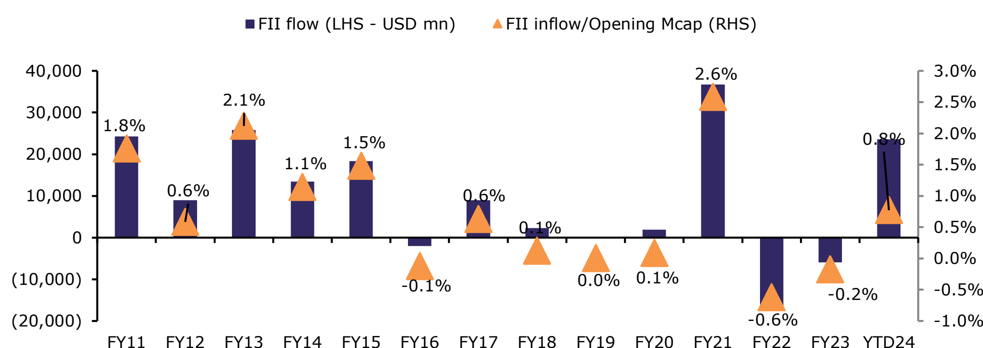
Key themes for 2024

Rate Cycle and Growth

Rate cuts will dominate the agenda for CY24. We believe that the US Fed will start easing in 3QCY24 with measured cuts. That would be the cue for the RBI to also start cutting interest rates in the domestic markets. This will be an atypical easing cycle – the growth stimulus would be limited. The most visible impact would be to spur FPI flows. We believe this would give fillip to valuations in growth stocks, especially in the sectors (like manufacturing and some premium consumer categories) that are seeing macro tailwinds.

The biggest positive of a rate cut would be the impact on foreign portfolio flows. FPI flows are anyway expected to be strong in 2024, with the debt market set to see passive inflows of USD25-30bn from inclusion in the JP Morgan bond index. Rate cuts would spur flows into equities too. India is also helped by investors' China-aversion – the market entails an enhanced share of emerging market allocations. We believe that FY25 equity inflows would exceed the USD36.7bn inflows of FY21, given that: i) the larger market-cap base has improved India's absorptive capabilities; and ii) India is set to garner a larger share of risk-off emerging market flows, triggered by Fed rate-cuts, given China's inability to attract flows.

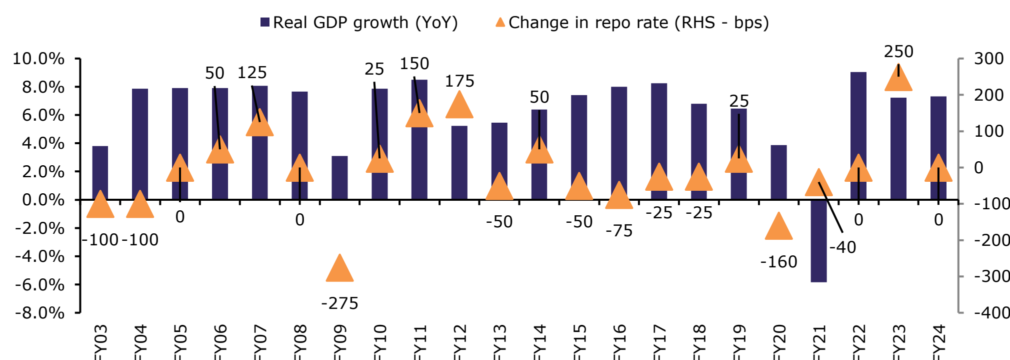
Exhibit 1: FII equity inflows on an upward trajectory since FY22



Source: Bloomberg, Emkay Research

- **India – No growth stimulus**. For the Indian economy, we do not see the rate cuts being a major growth stimulus for three reasons. i) The quantum of cuts is unlikely to be deep (50bps in CY24) at the initial stage ii) The economy is "going in hot" into this easing cycle – there is no slump to revive. iii) There would be simultaneous fiscal tightening that would offset any additional positive impulses from monetary easing. In any case, the Indian economy is not as sensitive to interest rates as the western economies (Exhibit 2).

Exhibit 2: Impact of monetary stimulus weak, in both directions



Source: Bloomberg, Emkay Research

- **Muted outcome for global growth**. Bloomberg Consensus has global growth dipping slightly in CY24 before bouncing back in CY25. There is a sharper dip for the USA, but still dodging a recession. Given that a rate cut is ~2 quarters away and we are yet to see a significant slowdown in growth, economic recovery trade may not fructify.

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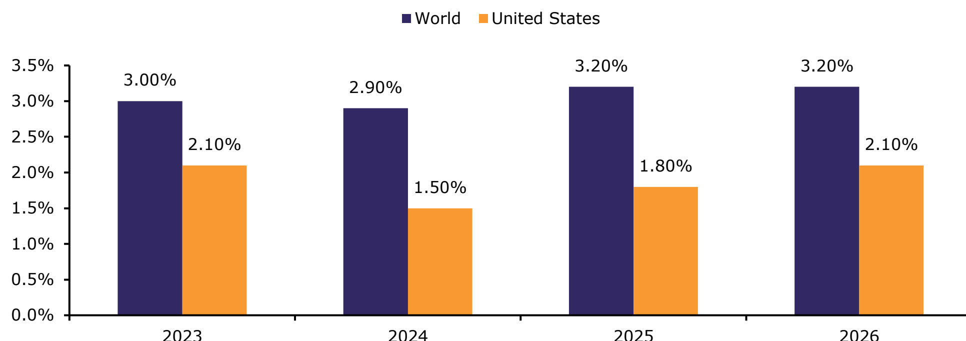
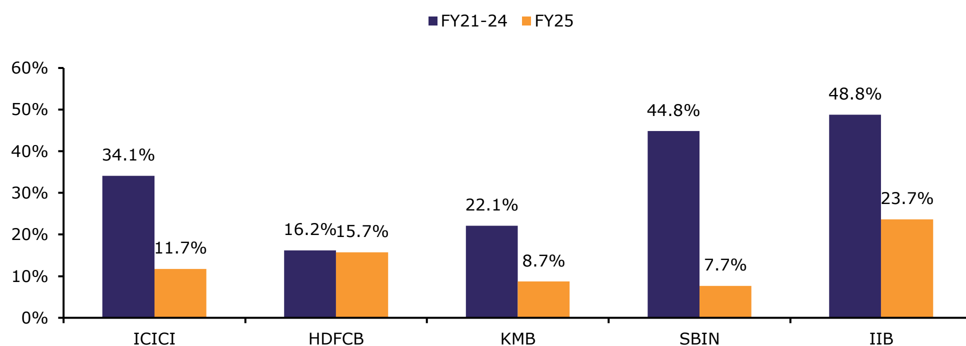
Exhibit 3: Global and US Real GDP growth expected to dip in CY24, before recovering in CY25



Source: International Monetary Fund, October 2023, Emkay Research; Note: Estimates start from 2023

- **Bad for banks**. Banks would face immediate short-term pressure in the early part of the easing cycle. External-benchmarked mortgages would reprice downwards almost immediately, followed by short-term corporate loans. For most large-cap banks, we (and consensus) expect FY25 to show slower earnings growth than the preceding years which would be a drag on the stocks. The reverse of the 2-3Q FY23 story would play out, with bank margins falling sharply and stocks underperforming.

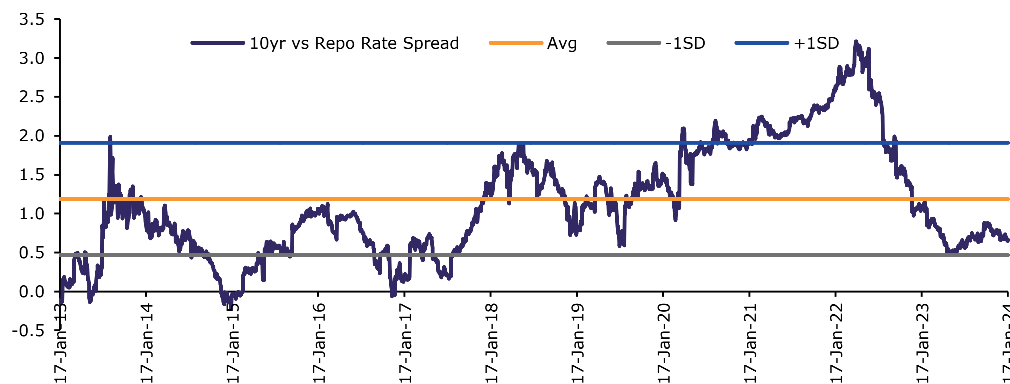
Exhibit 4: Large banks: margin hits drive weak FY25 EPS growth



Source: Company, Emkay Research

- **Bond rally only at the short end**. The fall in rates is likely to be restricted to the short end of the curve. The 10-year yield is at one of its lowest points relative to the repo rate (Exhibit 1), having rallied sharply in CY23. This leaves little room for further upside in the 10-year yield, in our view. Tailwinds from the narrower fiscal deficit and the JP Morgan bond inclusion are largely in the price – yields will bottom out in 1HCY24, ahead of the actual inclusion. We see short-end yields, however, falling by 50-75bps, depending on how accommodative the RBI turns.

Exhibit 5: Flat yield curve signals little impact at long end



Source: Bloomberg, Emkay Research

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Risks to our view

There are some risks to our base case. A hard landing with an accelerated rate cut looks very unlikely – a more probable outcome is that inflation stays sticky for longer and the Fed postpones rate cuts to late-2024 or early-2025. We think the cushion of large inflows from the JP Morgan bond index inclusion could give room to the RBI to cut ahead of the Fed.

Exhibit 6: Alternate rate cycle scenarios

US Economy and Inflation	Fed rates	RBI rates	Equity markets	Nifty performance in CY24	Probability
Soft landing	Small cuts in mid-2024	Will follow suit	Moderately up	Nifty +10%, SMID outperforms	Base case
Hard landing (growth collapses)	Deep cuts earlier in CY24	Will follow suit	Sharp correction followed by recovery; defensives over cyclicals	Down 5-10%; SMID underperforms	Low
Resilient growth; sticky inflation	No cuts; cuts in late-CY24	Could cut ahead of the Fed; currency pressure alleviated by FPI flows in bonds and equities	Muted performance	0-5%; SMID outperforms	More likely but not base case

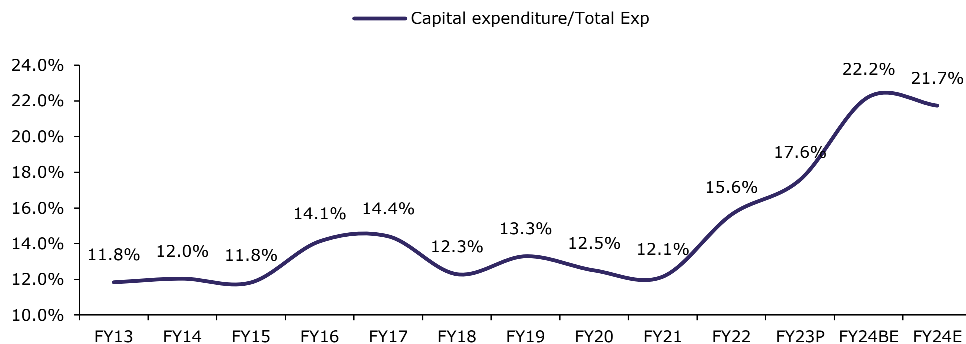
Source: Emkay Research

FY24 Budget and reforms

The FY24 Budget, to be presented in Jul-24, will be a major marker for the markets. We expect the elections to be a relative non-event, with the BJP likely to return with a comfortable majority. All eyes will then focus on the new government's first full Budget (the January one is a non-event, with no new taxes or spending). The key issues to focus on:

Infra and manufacturing. We believe that the two key areas would be manufacturing and infrastructure. The third-time victor Modi government would continue to focus on the infrastructure push, given the evidence of multiplier effects. Much of this would be a continuation of existing projects like power reform, piped water rollout and transport (roads and rail). On manufacturing, the policy push towards further encouragement of manufacturing would continue, with new categories probably being explored.

Exhibit 7: Infra push by the Govt leading to rise in capex



Source: CMIE, Emkay Research

Fiscal deficit. The government is likely to shrink the fiscal deficit to 5.2% in FY25, down ~70bps YoY. This is a headwind to growth (whether it is done through taxes or spending cuts). We believe that this will be mitigated by the monetary easing expected in 2HCY24 – even if the Fed pivots to a "higher for longer" mode, we think the RBI can cut rates given the expected strong FPI flows in debt through the JP Morgan index inclusion.

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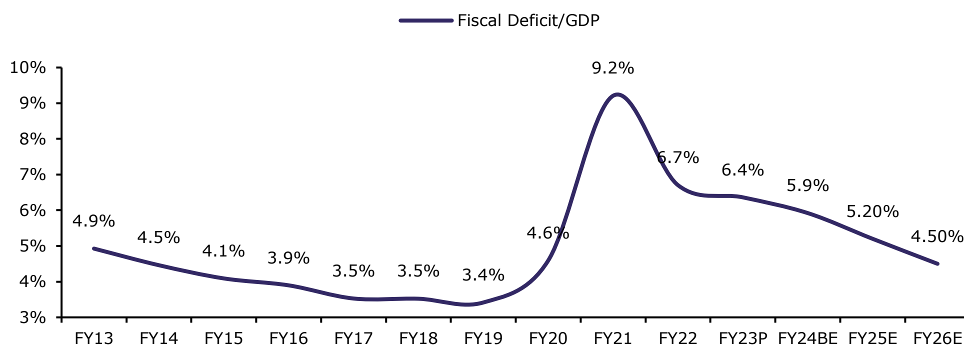
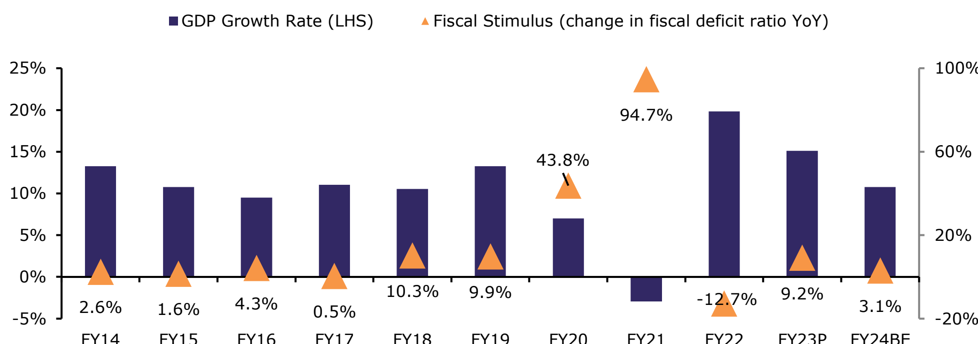
Exhibit 8: Fiscal consolidation glide path a headwind to growth



Source: CEIC, Emkay Research

Exhibit 9: Fiscal stimulus impacts with a lag



Source: Bloomberg, Emkay Research

Tax reforms. We think the government will push further towards a simplified tax regime with the probable abolition of tax exemptions. This would create volatility in life insurance stocks, as there are still a large number of tax exemptions that support this industry. The longer-term thesis may not change, as the larger players have shown resilient sales even after previous instances of tax tightening.

Recovery in mass spending

The mass/rural segment has underperformed on growth, post-Covid. This reflects in the performance of consumer stocks, with companies catering to premium segments having relatively outperformed. The sluggishness in mass segments has gone largely unexplained. It was understandable in the aftermath of Covid-19, due to the economic distress of workers dependent on high-contact industries. Subsequent weakness in these markets, through FY23/FY24, have confounded most analyses. Various theories have been put forward, with inflation, indebtedness, and joblessness as the key arguments, but there has been very little data to support (or refute) any of these.

Looking ahead, we see some scope for optimism

- The national elections, due in Apr-May 2024, are usually a stimulus for the mass economy. The BJP's victory in the November state elections obviates the need for a dramatic increase in social spending, but we expect a small jump nevertheless. Also, many state governments have upped their budgets on social spending (Madhya Pradesh being a case in point). Finally, the campaigns themselves involve an extensive transfer of resources to the bottom of the pyramid.
- Some sources of the rural/mass distress are slowly losing steam. Inflation is gradually receding, with CPI off its highs. Also, as we move further away from Covid-19, the indebtedness levels should come down (hard to measure).
- There are some green shoots. There has been a recovery in entry-level two-wheeler sales in the last few months. There is a base effect there, but this is the first sign of an uptick after 6-7 years. Given that this is a high-ticket (and, in many cases, income-generating) asset, we see it as an indicator of purchasing power recovering in low-income households.

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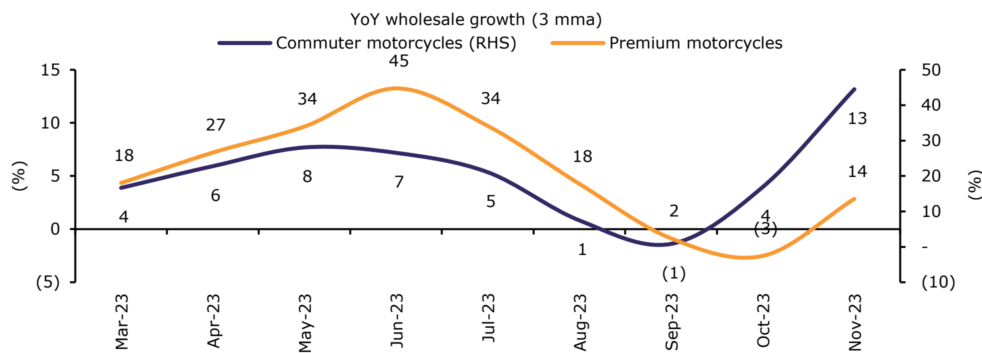
Exhibit 10: Sharp recovery in commuter motorcycle demand



Source: SIAM, Emkay Research

The lack of data and multiple false dawns make this a risky call from us. Channel checks by our FMCG analyst indicate that there are no visible signs of green shoots yet. But stocks in this segment have underperformed and we see a decent risk-reward tradeoff in getting some exposure in these segments. We have picked **Dabur** and **ITC** (where valuations are also supportive) to play this.

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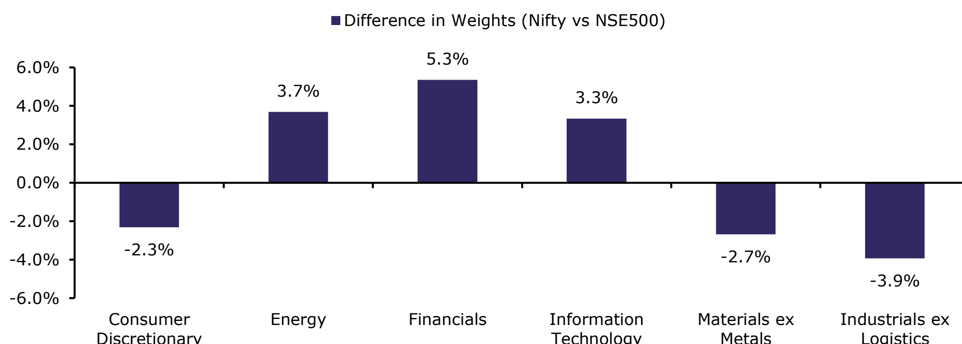
Recommendations

Index target

The year-end rally in 2023 has front-ended some equity returns and we see a relatively muted year. Our Dec-24 Nifty target is 24,000, implying an 11% return. The target is derived using the CY26 Nifty EPS of Rs1,218 and target Nifty PER of 19.7x (5-yr mean). The target is below the current Nifty PER of 20.0x, as we factor in the defensive nature of the Nifty, downside risks to EPS, and pressure on the BFSI sector.

- The current composition of the Nifty is predominantly defensive. The India story is largely a capex-driven, industrials-led earnings bounce-back. The Nifty, on the other hand, is largely driven by consumption and, to some extent, tech. This is also visible in the growing divergence between Nifty and NSE500 weights. So, while the economy and broader markets would still rule at high valuations in Dec-24, such optimism may not reflect in the broader Nifty. This is also illustrated by the widely differing beta distribution of the two components of the two indices.

Exhibit 11: Nifty has larger weight of low-risk segments like Financials, Energy and IT



Source: Bloomberg, Emkay Research

- We are building in some risk to FY26 consensus estimates, given the lack of visibility on commodity prices, topline growth, and bank asset quality. Also, early consensus forecasts are anyway prone to downgrades, especially for cyclical sectors like consumer durables.
- Financials (29.9% of the NSE500) should be sluggish stock performers over this year. Falling interest rates would help margins for large banks, which form a larger part of the sub-index. This would be a drag on the index performance and will, we believe, drive a de-facto de-rating in the index.

We expect the market returns to be dad-bod shaped: bunched in the middle. As the infographic below explains, most of the macro positives would be huddled in Apr-Sep 2023: the election results, a strong budget, Fed and RBI rate cuts, and a possible margin windfall from weaker commodity prices.

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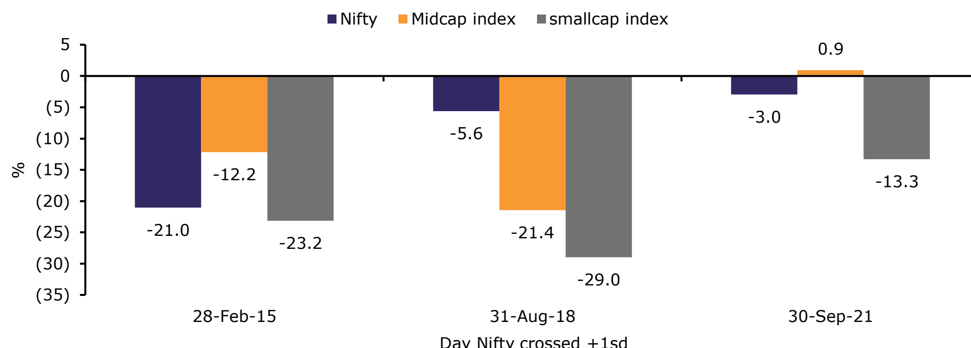
Sources of upside potential

- There could be a valuation overshoot towards the +1SD range in 3QCY24, given the confluence of positives—positive momentum from the election results, a reform-oriented budget, and rate cuts. However, history shows that markets have rarely performed from the point that valuations cross 21+, >1SD above the mean.

Exhibit 12: Hitting +1sd has triggered market underperformance



Source: Bloomberg, Emkay Research, Refers to 1-yr performance from day of +1sd

- Our base case is that the RBI cuts after the Fed. The strong outlook for capital flows gives the RBI some leverage. In case domestic inflation peaks ahead of US inflation, the RBI does have the headroom to cut ahead of the Fed. We think this is unlikely, but not impossible.
- A strong recovery in consumption, especially in rural segments, could make this a more broad-based rally. We think the momentum spreads to FMCG and value retail, which gives the market another source of momentum.

Downside risk

- Sticky inflation in both, the USA and India, would have an impact on valuations (refer to our scenario analysis in Exhibit 6).
- If the BJP falls well short of a simple majority on its own, the markets would de-rate. The fear is that the BJP may not have a fully free hand to implement its agenda. BJP's win in the state elections makes this a very remote probability.

Model Portfolio

We launch our model portfolio with 18 stocks.

- This is primarily a large and mid-cap portfolio benchmarked to the NSE500.
- We have adjusted weights to exclude sectors we do not cover – Healthcare, Industrials (ex-Logistics), Utilities, Real Estate, and Metals. Materials, ex-metals, is in the benchmark.
- Sectoral deviation from the benchmark weight is capped at 5%.
- Individual stock selection within the sectors is bottom-up, i.e. we have no caps on stock deviation from the benchmark.

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Exhibit 13: Emkay model portfolio Weights

Stock/Sector	EMP Weights	Nifty Weight	Adj. NSE500 Weight	Stance
Consumer Discretionary	**18.0%**	**8.0%**	**13.5%**	**OWT**
Hero MotoCorp	6.0%			
Tata Motors	4.0%			
Motherson Sumi Wiring India	3.0%			
Zomato	5.0%			
Materials ex Metals	**13.0%**	**3.9%**	**8.7%**	**OWT**
Ambuja Cements	5.0%			
UltraTech Cement	8.0%			
Communication Services	**5.0%**	**2.8%**	**3.7%**	**Neutral**
Bharti Airtel	5.0%			
Energy	**10.0%**	**11.6%**	**10.3%**	**Neutral**
Reliance Industries	10.0%			
Information Technology	**11.0%**	**13.4%**	**13.3%**	**UWT**
Infosys	7.0%			
Cyient	4.0%			
Logistics	**3.0%**	**0.0%**	**0.2%**	**OWT**
Delhivery	3.0%			
Consumer Staples	**10.0%**	**9.3%**	**11.0%**	**UWT**
Dabur India	3.0%			
ITC	7.0%			
Financials	**30.0%**	**35.2%**	**39.3%**	**UWT**
ICICI Bank	9.0%			
HDFC Bank	7.0%			
IndusInd Bank	6.0%			
Shriram Finance	5.0%			
Max Financial	3.0%			
Uncovered Sectors		**15.8%**		
Utilities		2.7%		UWT
Health Care		4.1%		Neutral
Metals		2.9%		UWT
Real Estate		0.0%		OWT
Industrials ex Logistics		6.1%		OWT
Total Weights	**100.0%**	**100.0%**	**100.0%**	

Source: Bloomberg, Emkay Research; Note: Adjusted weights are the recalculated weights ignoring the sectors outside Emkay coverage

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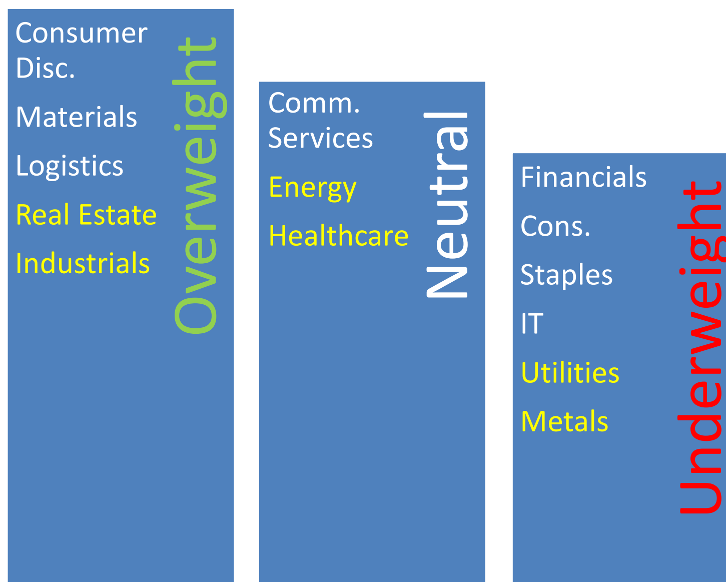
Sector positioning

Exhibit 14: Key sector calls



Source: Emkay Research; Note: Sectors not covered by Emkay are in yellow text

Financials (30% vs 39%; UWT)

Our contrarian call is that the underperformance of financials will continue through 2024. Both cyclical and structural factors will be at play. The argument is counter-intuitive because the Indian banking system is at its healthiest in decades, but we believe valuations also capture that.

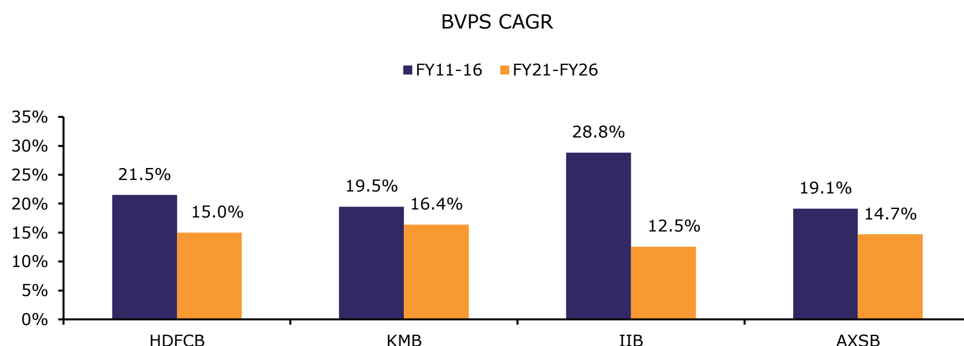
Valuations for quality private banks have peaked at ~2-2.2x. The days when banks would trade at +3x P/BV are over, in our view. Growth and ROEs are both in a lower zone and, hence, BVPS compounding is now struggling to grow above the high teens. Even if we capture a lower COE, the fair value P/B tends to come sharply down.

The good news is that a large part of the derating process is over, and banks have possibly settled at the current valuations. Stocks will perform in line with BVPS growth, though that would not be enough to drive outperformance.

Loan growth is significantly down for large private banks.

- System loan growth is peaking in the mid-teens, partly because the banking system is being disintermediated by the capital markets on the corporate segment.
- Market share gains for private banks are also sluggish, because of a high base effect. The over 20% loan growth has come down to the teens.
- Once loan growth falls below the ROE, the case for periodic capital issuances dries up. This, in turn, hurts BVPS growth, as the compounding impact of issues at premium valuations is not in play anymore.

Exhibit 15: Fall in BVPS CAGR for selective banks owing to slow loan-book growth and high base effect



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ROEs are structurally hurt. Banks are struggling to maintain high ROEs. Core profitability is hurt by pricing pressure across most segments. There are very few pockets of high-ROA lending left, especially for banks trying to control exposure to unsecured retail. Risk aversion in wholesale has reduced ROEs in that segment to subsistence levels.

Moreover, capital levels are now much higher. Banks feel compelled to hold CET1 at >15%, under pressure from regulators, rating agencies, and even equity investors. That is an additional drag on ROE, especially as low loan growth is consuming capital at a low rate.

Consumer discretionary (18% vs 13.5%; OWT)

Auto OEMs are the brightest part of the consumption cycle, and we like two-wheelers the most. We picked **Hero MotoCorp** for its undemanding valuations and the opportunity to ride up the "skepticism curve". We picked **Tata Motors** as an enduring turnaround story – looks fully priced from a bottom-up SOTP perspective, but we see the possibility of an overshoot.

The auto ancillary space gives us exposure to the manufacturing and industrial segment by proxy. Valuations are a challenge, but we see opportunity in a few stocks with growth visibility. **Motherson Sumi Wiring** is our pick for undemanding valuations and a strong FY25.

Organized retail seems to be struggling across categories, with valuations yet to fully reflect the pain. It still, however, remains a great opportunity and we see **Zomato** as the perfect proxy. Some small players are making a mark, hence the addition of **Aditya Vision** and **Senco Gold**.

Information Technology (11% vs 13.3%; UWT)

We have a contrarian, anti-momentum view here. The core argument is that outperformance in this sector is usually driven by valuation rating, as the earnings compounding is anemic and below the broader market. Given the recent run-up, there is little scope for further re-rating.

A growth revival looks likely before end-CY24, but it could get worse before it gets better. Stretched valuations indicate that this is likely to be a volatile and sideways year for the sector.

We prefer large caps in this space, as midcaps are vulnerable to earnings downgrades. Infosys is the top pick on valuations and earnings growth.

We are selectively constructive on ER&D, with **Cyient** as the top pick.

Industrials ex Logistics (OWT)

- We are in a long, multi-year cycle propelled by the government, with private capex also kicking in. Moreover, the policy focus on manufacturing should open up opportunities for this sector. We see a 3-5-year growth cycle for the sector.
- Valuations are a challenge but the long growth visibility supports the premium PER multiples. There are pockets of overvaluation, but we believe that these stocks will start to perform after a short (2-3 quarters) time-correction.
- We are overweight (OW) on this sector, as: i) it embodies the India story; and ii) the weight in the index is too low and a mismatch with the macro story. This will get corrected over time. The opportunities are largely in the SMID space, and many related stocks will make progress in their market-cap categories over the next 3-5 years.

Consumer staples (10% vs 11%; UWT)

The FMCG sector has struggled to grow in the post-Covid economy, probably reflecting the divergence of demand in premium and mass segments. On the other hand, the sector is trading near +1SD valuations (ex-ITC at 56x one-year forward P/E), with further derating risk going forward. However, if rural/mass demand does pick up in CY24, select stocks in the sector give us some optionality in this segment. We therefore keep a small underweight and pick **Dabur** and **ITC** for their mass segment recovery and relatively benign valuations.

Energy (10% vs 10.3%; Neutral)

- The trading opportunity in oil PSUs is largely gone. There may still be some upside, but the risk-reward position is not in the investors' favor at this point.
- Falling oil prices may create opportunities in some refiners, but would be counterbalanced by the risks of effective price-cuts in the run up to the budget.

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- The sector is entirely represented by **Reliance Industries**. We see many positive moving parts, such as telecom/retail and the long-term opportunity in green energy, which may start to see some discounting through 2024.

Materials (ex-metals) (13% vs 8.7%; OWT)

We see cement and building materials as a strong proxy for the real estate and construction cycle. Valuations are not cheap but these are great compounding stories over the next year, as demand is expected to remain robust. We have picked **UltraTech Cement** for its pan-Indian presence and being the gold standard in the sector. On **Ambuja Cement**, we believe that cost optimization story still has legs and is not yet fully priced in.

Healthcare (Neutral)

We think the sector is too defensive for this stage of the market cycle. There are select opportunities in API players, which may come out of the multi-year underperformance. But we maintain Underweight (UW) and would rather be invested in sectors showing more growth momentum.

Utilities (UWT)

- Power reform is a strong driver for this sector, with opportunities in the smaller private-sector players. Industrials, however, gives better and cleaner exposure to this theme.
- Green energy is a great long-term opportunity, but it is tough to find stocks in the large-cap or the top end of the midcap space.
- We see this as a bottom-up stock pickers' sector.

Metals (UWT)

We are underweight on metals. The sector has typically underperformed in the early part of the rate-easing regime, and we see no reason for this cycle to be different. Falling rates are predicated by weak inflation and slowing global growth: metals do not fit into a macro scenario like that. The counter-argument is that the domestic sector is relatively immune to global stresses and companies are transforming themselves into more sustainable-growth models. On balance, however, we believe the risk-reward is not in this sector's favor.

Communication Services (5% vs 3.7%; Neutral)

- The longer-term story of ARPU improvement and operating leverage is playing out for this sector. In the short term, however, we see price hikes being put off, at least till after the elections.
- The capex intensity of the business is slowing. The 5G rollouts are not creating as big a hit to cash flows as was perceived. This will drive a steady rerating over time.
- **Bharti Airtel** is the default choice, and our model portfolio gets some exposure through **Reliance** too (~25% of SOTP). **Saregama** is included in our small-cap ideas from the media space.
- We see no immediate triggers for going OW on this sector.

Real Estate (OWT)

- We see the beginning of a multi-year cycle in real estate, especially in residential demand.
- RERA and the relative tightening of funding avenues plays in favor of the organized sector and larger players, giving existing listed players an advantage.
- Corporate governance in the sector has improved and managements are more conservative on preserving balance sheet quality. Leverage ratios are down and cash flows are stronger.
- Sector valuations are stretched, but the long runway of growth does justify a premium.

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Logistics (3% vs 0.2%; OWT)

In order to ensure global competitiveness, the GoI’s objective is to reduce the cost of logistics to 10% of GDP, bringing into play the Gati Shakti Scheme that provides an integrated platform across ministries. In our view, this move will lead to a shift towards organized, fully-integrated logistics players, and help sustain & reinforce the long-term structural growth story in India’s logistics space. **Delhivery's** strategy towards frontloading investments in technology, to improve efficiency, has resulted in it being the lowest-cost operator in the express segment. Additionally, its scale, integrated operations, wider mesh network, and tech capabilities make it a multifaceted player, leading to **Delhivery** being our top pick within the logistics space.

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Emkay Model portfolio

Exhibit 16: Comprehensive Sheet – Emkay Model Portfolio

Stock	Weight in EMP	Reco	TP	Price (Rs/sh)	M Cap (Rs bn)	EPS growth (% YoY)			ROE (%)			P/E (x)			FCF/PAT (%)		
						FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
Bharti Airtel	5%	Add	1,125	1,081	6,351	252.7	57.6	25.2	8.7	11.7	12.9	71.6	45.4	36.3	-13.8	-74.8	105.9
Hero MotoCorp	6%	Buy	4,800	4,371	874	17.7	36.8	12.9	17.9	23.3	24.8	30.0	21.9	19.4	77.2	62.6	86.6
Tata Motors	4%	Add	900	806	2,950	N/A	2693.2	11.0	1.6	37.1	28.8	420.6	15.1	13.6	360.1	133.3	73.6
Motherson Sumi Wiring India	3%	Add	70	62	273	4.3	23.8	33.4	39.8	41.6	47.5	56.1	45.3	34.0	0.4	78.4	70.1
Zomato	5%	Buy	140	127	1,110	N/A	N/A	357.0	N/A	1.4	6.1	N/A	429.9	94.1	51.9	403.1	159.2
Dabur India	3%	Buy	660	549	974	-6.0	12.6	19.5	19.8	20.7	22.6	56.7	50.3	42.1	53.8	69.7	75.4
ITC	7%	Buy	550	467	5,822	23.0	6.3	13.2	29.0	29.4	32.0	31.0	29.2	25.8	95.5	94.5	91.8
Reliance Industries	10%	Add	2,730	2,723	18,425	17.1	0.0	14.2	8.4	9.0	9.5	27.5	27.5	24.1	-229.3	-26.7	33.1
ICICI Bank	9%	Buy	1,375	982	6,887	36.0	27.4	11.7	17.5	19.0	18.2	21.4	16.8	15.1			
HDFC Bank	7%	Buy	2,100	1,538	11,673	18.6	12.6	11.3	17.0	16.0	16.4	19.4	17.3	15.5			
IndusInd Bank	6%	Buy	2,000	1,644	1,279	60.0	26.9	23.7	14.5	16.1	17.3	17.3	13.6	11.0			
Shriram Finance	5%	Add	2,450	2,288	859	45.3	16.6	21.0	15.5	16.2	17.2	13.6	11.7	9.6			
Max Financial	3%	Add	1,100	929	321	49.4	28.8	20.1	9.2	10.7	11.5	84.7	65.8	54.8			
Cyient	4%	Buy	2,700	2,273	252	10.3	30.7	19.5	17.5	20.7	22.2	43.5	33.3	27.9	84.2	61.4	79.3
Infosys	7%	Buy	1,850	1,640	6,808	10.5	2.7	13.5	31.8	30.8	31.2	28.2	27.5	24.2	91.3	97.3	100.5
Ambuja Cements	5%	Buy	580	521	1,034	1.1	14.0	12.5	15.9	13.5	13.6	47.7	41.8	37.2	-3.7	-67.6	-55.2
UltraTech Cement	8%	Buy	11,400	9,855	2,845	-10.6	58.2	17.6	9.7	13.9	14.6	56.2	35.5	30.2	46.8	40.5	36.4
Delhivery	3%	Buy	470	404	297	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	75.7	-1.4	-272.9
Wtd average	**100%**					**18.9**	**30.7**	**16.6**	**15.4**	**18.1**	**18.8**	**48.6**	**47.6**	**27.0**	**31.3**	**61.4**	**53.8**

Source: Bloomberg, Emkay Research

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Top small-cap picks

Exhibit 17: Comprehensive Sheet – Small cap picks

Stock	Reco	TP	Price (Rs/sh)	M Cap (Rs bn)	EPS growth (% YoY)			ROE (%)			P/E (x)		
					FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
Aditya Vision	Buy	5,000	3,562	43	81.8	19.8	46.0	59.7	45.9	45.8	66.8	55.8	38.2
Fusion Microfinance	Buy	810	638	64	1477.6	25.0	22.6	21.2	20.5	20.5	15.1	12.1	9.8
Saregama India	Buy	465	352	68	21.5	6.1	33.1	13.6	13.9	16.5	36.6	34.5	25.9
Senco Gold	Buy	850	758	59	18.0	0.6	26.3	19.0	15.4	15.2	33.1	32.9	26.0
Emami	Buy	675	515	227	-11.7	16.0	11.9	29.2	28.9	27.8	35.5	30.6	27.4
JK Tyre	Buy	415	403	105	64.2	152.6	24.4	10.4	21.9	23.8	30.6	12.1	9.7

Source: Bloomberg, Emkay Research

Top Sells

Exhibit 18: Comprehensive Sheet – Top Sells

Stock	Reco	TP	Price (Rs/sh)	M Cap (Rs bn)	EPS growth (% YoY)			ROE (%)			P/E (x)		
					FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
Britannia Industries	Reduce	5,450	5,062	1,219	27.5	11.2	12.8	63.9	61.7	66.3	62.6	56.3	50.0
Cholamandalam Investment	Reduce	1,350	1,288	1,082	24.0	29.0	22.1	20.5	20.4	19.7	39.8	30.8	25.3
Colgate-Palmolive	Sell	1,825	2,500	680	-1.9	19.6	6.0	61.3	71.7	72.2	64.2	53.7	50.7
Jubilant FoodWorks	Sell	400	528	348	-9.4	-28.9	22.1	19.0	12.8	14.1	86.4	121.5	99.6
LTIMindtree	Reduce	5,900	6,276	1,859	11.6	8.0	22.1	26.6	26.4	27.5	42.1	39.0	31.9

Source: Bloomberg, Emkay Research

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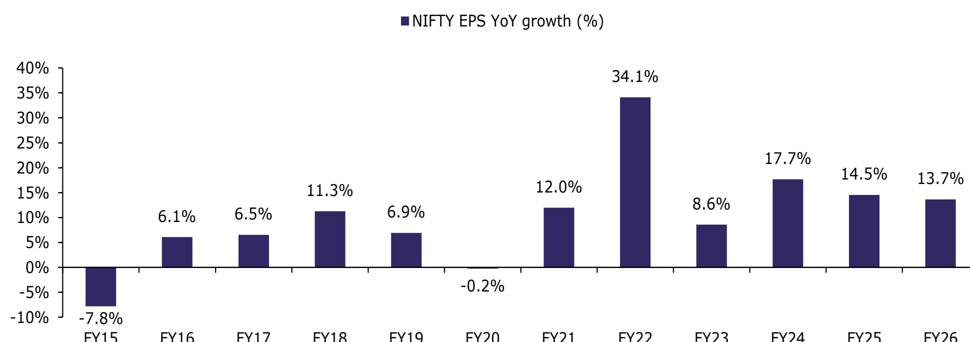
Market internals

Earnings outlook

A sharp bounce-back in FY24 earnings (17% YoY) follows the disappointment of FY23 on margins. EPS growth normalizes thereafter, with 14.5%/13.7% in FY25/FY26 (all based on Bloomberg consensus, calculated bottom up). This will be the first three-year run of double-digit growth time in more than a decade.

Exhibit 19: Nifty EPS estimated to grow in double digits for 3 consecutive years up to FY26



Source: Bloomberg, Emkay Research

Financials, because of the weight, remains the most important contributor to the EPS change. The rest of the sectors rotate: for FY24, Energy and Consumer Cyclical are the key drivers. For FY25, it is basic materials and FMCG, and for FY26 it is evenly distributed across all sectors.

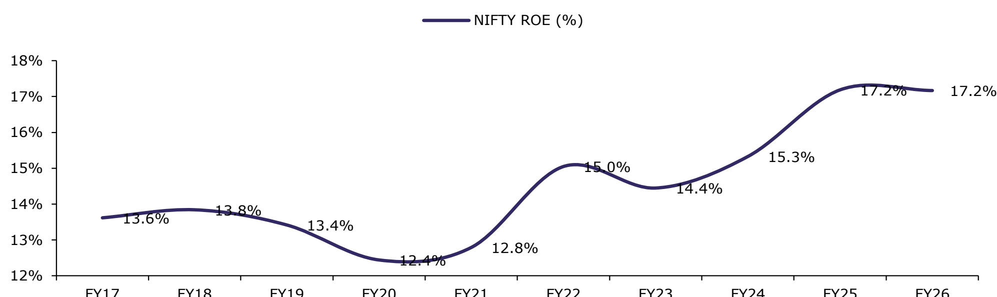
Exhibit 20: Sectoral EPS growth

Sectors	EPS Growth Rate		
	FY24E	FY25E	FY26E
Basic Materials	9.2%	42.9%	13.7%
Communications	41.7%	74.1%	30.9%
Consumer, Cyclical	84.0%	12.9%	11.9%
Consumer, Non-cyclical	13.7%	13.9%	11.9%
Energy	27.8%	1.8%	7.9%
Financial	27.5%	14.8%	16.2%
Industrial	29.9%	22.4%	18.0%
Technology	2.3%	14.5%	12.3%

Source: Bloomberg (based on bottom-up consensus); Emkay Research

ROEs are consistently moving up for the Nifty which is quite unprecedented in the post-Covid world. This is largely led by manufacturing companies – also, some of the turnaround cases are helping improve the ROE. We believe that this will continue for some time. Companies are becoming more disciplined about capital, and the composition of the Nifty is shifting in favor of higher-ROE companies over time.

Exhibit 21: NIFTY ROE expected to improve from current levels in coming years



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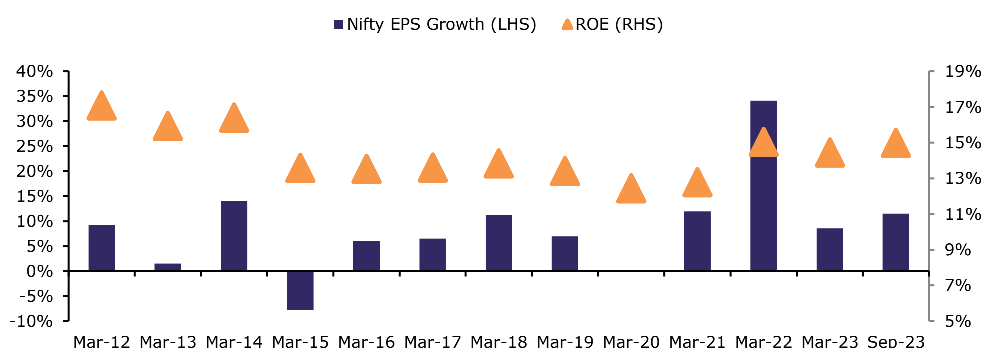
Market valuations

The Nifty trades at 19.7x PER, slightly above the long-term mean (avg. PER: 16.2x). There are enough reasons for the slight premium:

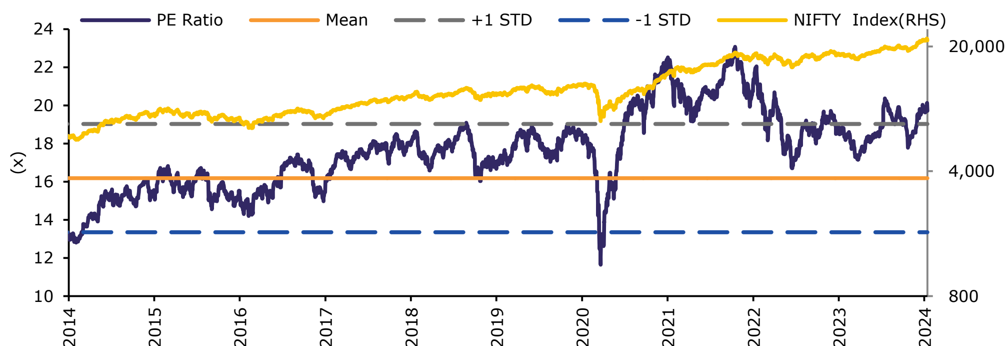
- We are in the middle of a golden EPS growth run for the Nifty. Barring FY23, the Nifty has delivered consistent EPS growth of >10% in the post-Covid era, and it does not look like it will abate any time soon.
- As aforementioned (for the last segment), ROEs are also rising and now approaching 10-year highs.
- Bond yields are ranging around the mid-point of the historic ranges, despite aggressive tightening by the RBI. This is because of a stable external account and better fiscal management.

Exhibit 22: Nifty EPS growth and ROE to continue strong delivery



Source: Bloomberg, Emkay Research

Exhibit 23: Nifty Index 1-year forward P/E trading marginally above the +1SD



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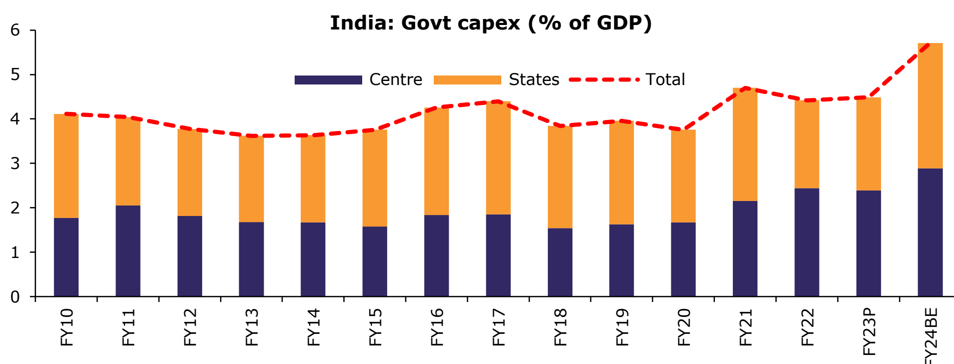
India story intact

[This is an extract from our note *Speedbumps imminent; smooth highway beyond*, dated October 2023, on the long-term investment thesis for India **Capex**.]

A notable feature of the post-Covid revival in the economy has been capex revival. This came after a sharp decline during FY17-20, when public capex/GDP fell, from 4.4% to 3.8%. There is a confluence of positives for capex and we believe that this is a 7-8-year cycle. Key catalysts:

Government spending. The post-Covid pivot of public spending towards capital expenditure has kick-started a dormant cycle for the economy. Central Government capex has risen, from 1.7% in FY20 to 2.4% in FY23 – the highest since FY08. This progressive momentum has, we believe, had positive externalities across capital goods and the infrastructure ecosystem. The GoI faces challenges in sustaining this level of spending, in light of the need for fiscal consolidation, but we believe that raising taxes and cutting RevEx will be prioritized over reducing capex.

Exhibit 24: Public capex spending set to breakout

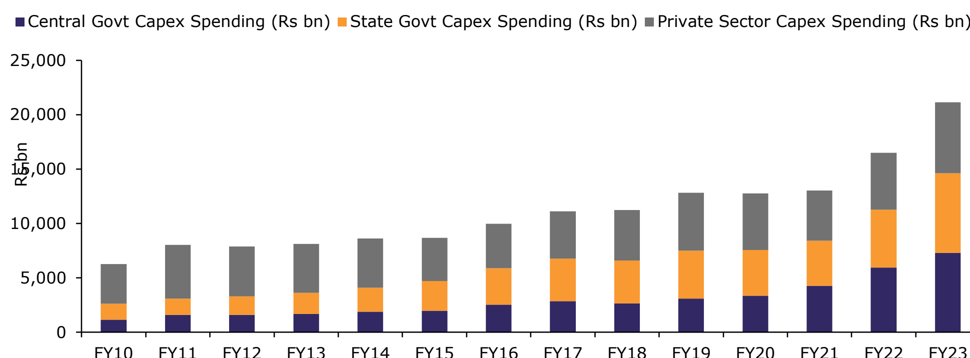


Source: RBI, Union Budget, State budget documents, Emkay Research

Corporate capex: Private sector capex is contributing ~31% in two years, during FY21-23, partly enabled by the pickup in government expenditure. We think this is the beginning of a multi-year capex cycle because of multiple reasons, listed below.

- **Policy enablers**: The GoI has created a positive policy environment for domestic manufacturing. The criticism that these are protectionist (and hence unsustainable) is theoretically valid: but there are external factors at play that should, in our view, help this strategy succeed. Focusing on domestic manufacturing, we believe, is appropriate for an era when globalization is getting diluted and supply-chain diversification is a strong global medium-term trend.
- **Sturdy balance sheets**: The aggressive deleveraging by Indian corporates in the run-up to Covid-19 created capacity for building up capital bases. This was accompanied by a sharp pick-up in operating cash flows, especially after the tax cuts in FY20. An important read-through is that this capex cycle will be healthier, not accompanied by the high leverage that it has seen in the past.

Exhibit 25: Post-Covid capex trajectory witnessing significant upside



Source: CEIC, Emkay Research

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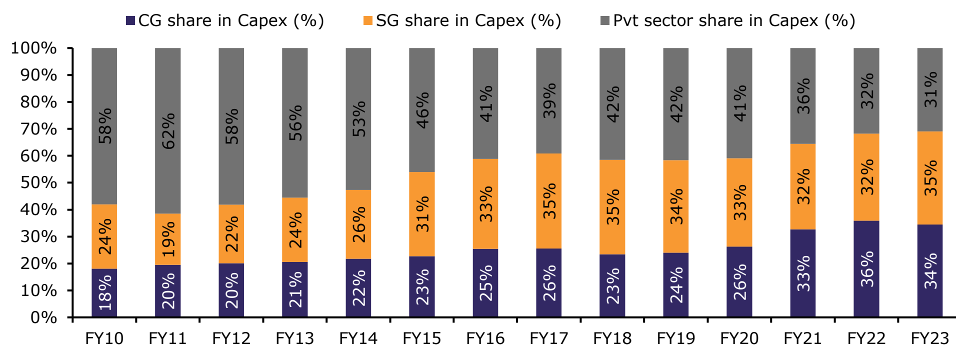
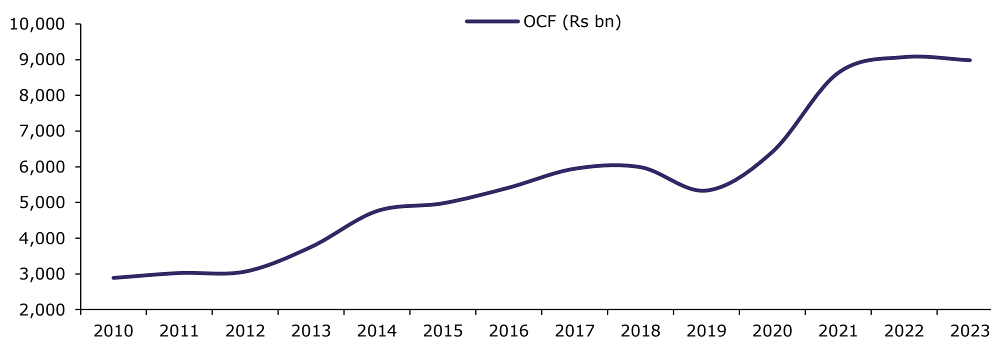
Exhibit 26: GoI capex entails the lion's share of the total capex



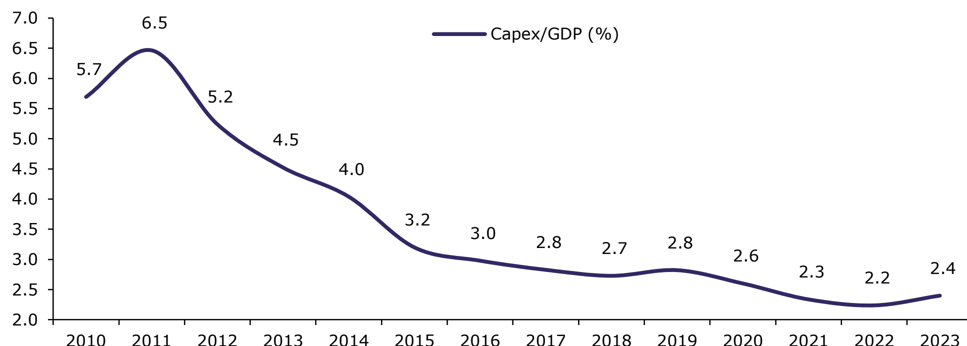
Source: CEIC, Emkay Research

Exhibit 27: Investible cash rising



Source: Bloomberg, Emkay Research; Note: Top-1,000 companies by market cap

Exhibit 28: Private capex bottoming out



Source: Bloomberg, Emkay Research; Note: Top-1,000 companies by market cap

Manufacturing

Indian manufacturing is in the middle of a multi-year revival after a 'lost decade' ending in 2020. This has been driven by a confluence of positives:

- **Supply-chain diversification**. Covid-related shocks to supply chains were the catalyst for the world to look beyond pure costs as the basis for raw material sourcing decisions. This brought India into the limelight and blunted the relative cost disadvantage vs China. Subsequent geopolitical stresses have exacerbated this trend.
- **Domestic policy**. Concerted efforts by the government to capitalize on the trend have also helped domestic manufacturing. Tactical tariff policies, production-linked incentives and localization of government sourcing have all added vigor to the tailwind for the manufacturing sector.
- **Survivor benefits**. The dark decade for Indian manufacturing had a silver lining – it created a class of strong survivors. Revamped cost structures, fortified balance sheets, and tactical consolidations created a group of companies that was well-positioned to capitalize on this trend.

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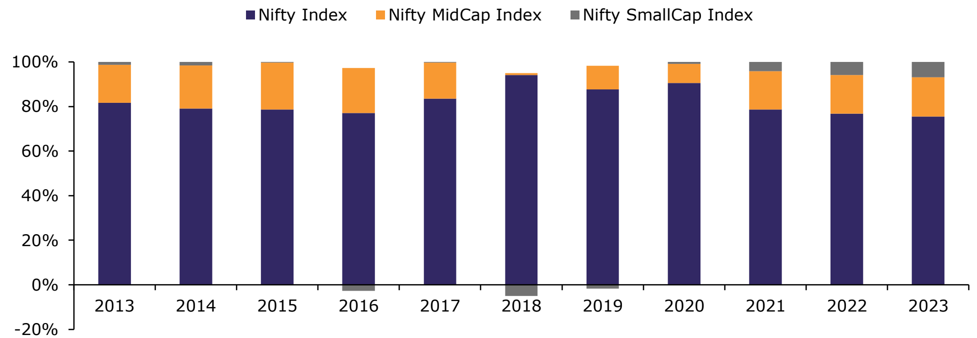
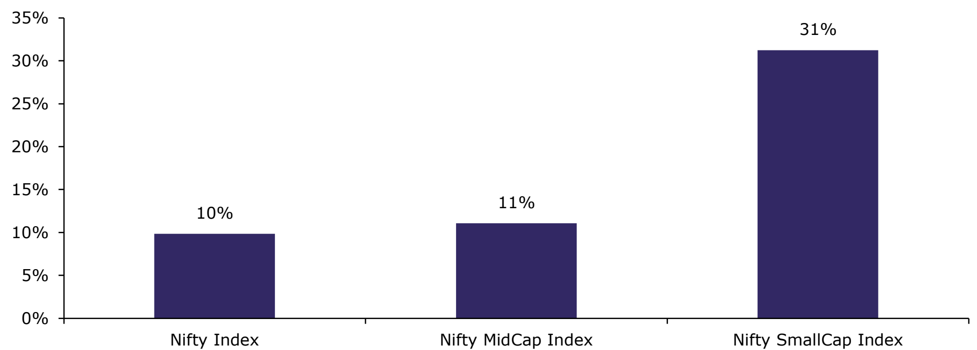
This is a wide class of companies that benefits from this trend—Capital goods, auto ancillaries, chemicals, metals, and pharmaceuticals are all beneficiaries. Most of these sectors are disaggregated with no clear leaders—which is why SMIDs are a better choice to play this theme.

Exhibit 29: APAT share of mid-cap and small-cap players improving over the years



Source: Bloomberg, Emkay Research

Exhibit 30: APAT CAGR over 10 years the strongest for small-cap companies



Source: Bloomberg, Emkay Research

Exhibit 31: ROE of small-cap players on a strong recovery trajectory

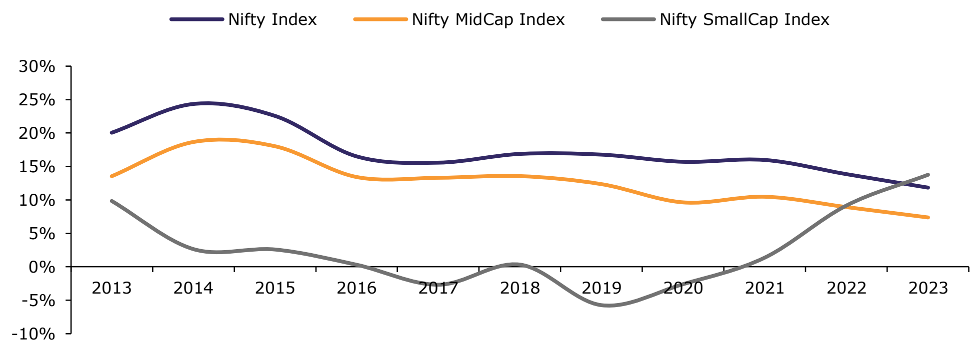


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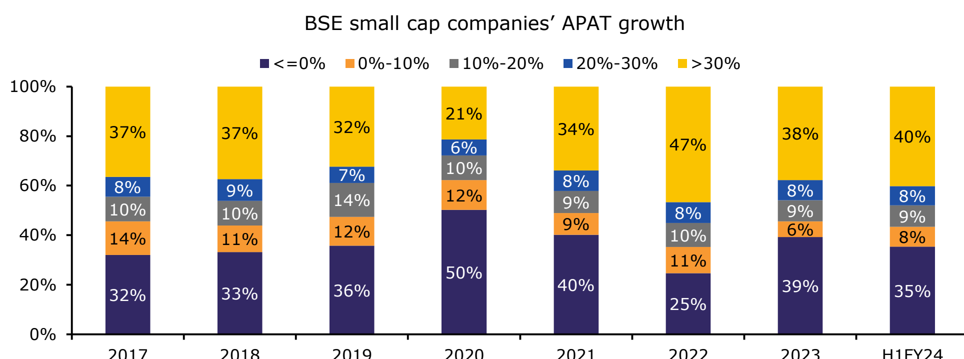
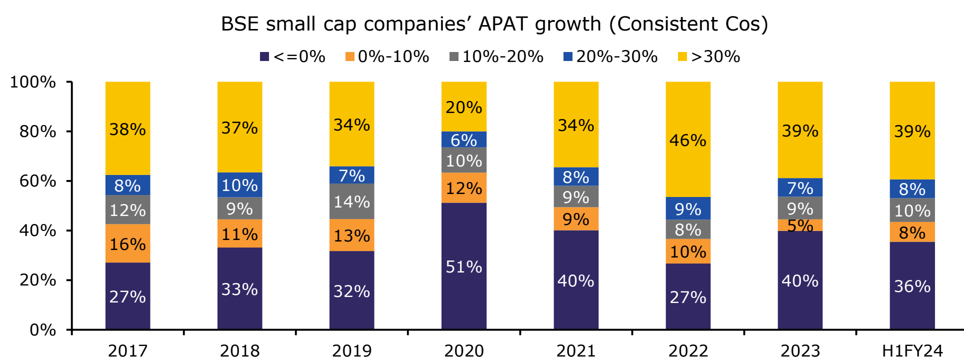
Exhibit 32: BSE small cap cos moving up the APAT growth ladder over the years



Source: Bloomberg, Emkay Research

Exhibit 33: BSE small cap (Consistent cos) following similar APAT growth pattern as above



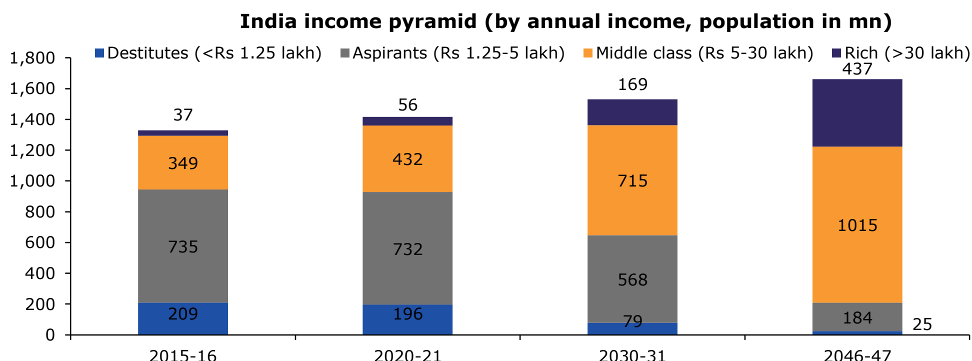
Source: Bloomberg, Emkay Research

Premiumization

The Indian consumption story lies in premiumization. The challenge for consumer stocks has been that valuations have discounted blue sky scenarios, and the lack of positive surprises has propelled a steady de-rating. The broad sector will continue to suffer from such tribulations; however, we see an opportunity in companies catering to the premium segment. India's demographics are set to enter a take-off stage which, we believe, will trigger a 4-5-year wave in premium spending.

We believe that this trend would be multi-faceted — First, we will see faster growth in premium segments of most categories versus the mass segment; this has already been seen in sectors like auto and will continue for the next 3-4 years. Second, it will deepen geographically and Tier 3/4 cities will see the fastest growth in premium spending; this gives numerous companies an opportunity to deepen distribution and provide a multi-year growth platform. Third, high-end luxury segments, typically seen as having considerably small target markets, will see exponential growth in their addressable markets.

Exhibit 34: Income pyramid thickening in the middle



Source: PRICE's ICE360 Survey 2021, Emkay Research; Note: 1 lakh = 0.1mn

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Emkay Model Portfolio

Bharti Airtel

(Analyst: Santosh Sinha; CMP: Rs1,081; TP: Rs1,125; Rating: Add)

Exhibit 35: Bharti Airtel – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	11,65,469	13,91,448	14,99,322	16,51,275	18,92,828
EBITDA	5,75,339	7,12,735	7,89,297	8,90,372	10,59,455
Adj. PAT	25,563	90,157	1,42,094	1,77,928	3,08,960
Adj. EPS (Rs)	7.1	14.0	15.5	29.8	51.8
EBITDA margin (%)	49.4	51.2	52.6	53.9	56.0
EBITDA growth (%)	26.8	23.9	10.7	12.8	19.0
Adj. EPS growth (%)	0.0	96.1	10.5	92.9	73.6
RoE (%)	2.7	8.7	11.7	12.9	19.8
RoIC (%)	5.1	10.0	10.2	12.4	18.6
P/E (x)	248.4	70.4	44.7	35.7	20.6
EV/EBITDA (x)	13.7	11.8	10.4	8.8	6.9
P/B (x)	6.7	5.7	4.8	4.4	3.8
FCFF yield (%)	(1.5)	2.1	1.4	4.6	7.1

Source: Company, Emkay Research

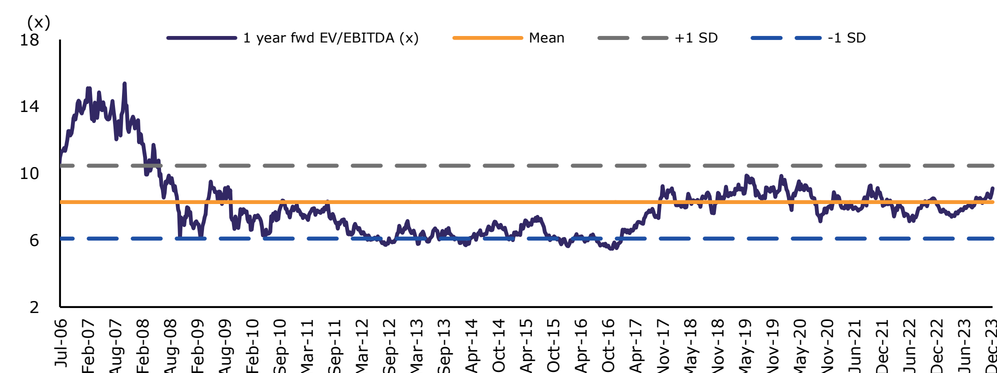
Key investment argument

- **We expect Airtel's India Mobile ARPU to clock 9%CAGR** and India mobile revenue to register 14% CAGR over FY23-26E, aided by: i) assumed tariff hike post elections in FY25; ii) prepaid feature phone to smartphone conversion, which now implies a ~35% jump in ARPU; iii) prepaid to postpaid conversion leading to increased ARPU; and iv) data monetization, with impulse buying of data allowance. Moreover, market-share gains from Vi may continue, as Vi is yet to launch 5G, making it difficult for the company to retain high ARPU subs.
- **Bharti to be the key beneficiary of any tariff hike:** In the event of any tariff hike or revenue improvement, Bharti Airtel will also be the key beneficiary of EBITDA improvement, as the earlier price hike resulted in a 77% pass-through of revenue to EBITDA for Airtel vs. 70% for RJio.
- **Cash flow to improve:** We expect consolidated operating FCF (EBITDA-Capex) to increase (from Rs3.8bn in FY23 to Rs7.8bn in FY26E), as consolidated EBITDA increases, while capex moderates from FY25E post the rollout of 5G. RoIC is likely to increase, from 5% in FY23 to 12% in FY26E.

Our SOTP-based TP stands at Rs1,125/share (9x Dec-25E EV/EBITDA for India Mobile).

Bharti Airtel – EV/EBITDA

Exhibit 36: Bharti Airtel – EV/EBITDA (1-year forward)



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Hero Motocorp

(Analyst: Chirag Jain; CMP: Rs4,371; TP: Rs4,800; Rating: Buy)

Exhibit 37: Hero MotoCorp – Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,92,455	3,38,057	3,83,960	4,35,824	4,73,935
EBITDA	33,688	39,862	54,176	61,419	67,201
Adj. PAT	24,730	29,106	39,817	44,967	49,026
Adj. EPS (Rs)	123.8	145.7	199.3	225.1	245.4
EBITDA margin (%)	11.5	11.8	14.1	14.1	14.2
EBITDA growth (%)	(16.2)	18.3	35.9	13.4	9.4
Adj. EPS growth (%)	(16.6)	17.7	31.3	17.7	9.0
RoE (%)	16.0	17.9	23.3	24.8	25.4
RoIC (%)	44.5	49.2	67.4	75.8	77.9
P/E (x)	35.1	29.8	21.8	19.3	17.7
EV/EBITDA (x)	23.2	19.5	14.5	12.9	11.6
P/B (x)	5.5	5.2	4.9	4.6	4.4
FCFF yield (%)	2.0	2.7	3.3	5.2	7.1

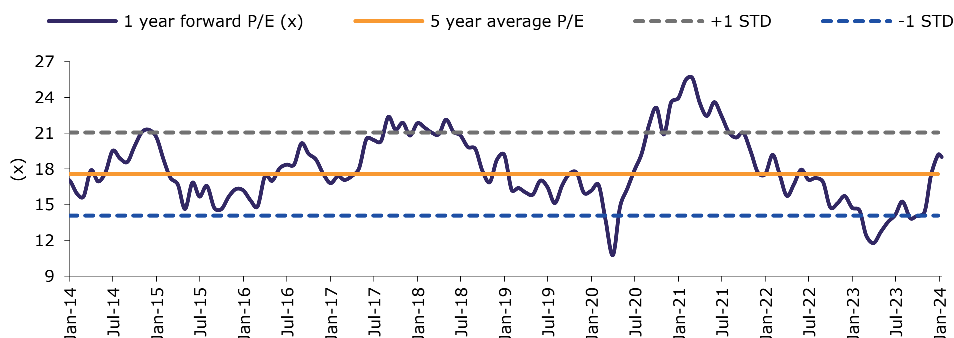
Source: Company, Emkay Research

Key investment argument

- The **2W volume recovery is sustaining post-festive** (~28% YoY retail industry growth in Dec-23; ~9% YTD) and, **more importantly, broadening** (HMCL retails up ~13% YoY during Sep-Dec vs. ~3% over Apr-Aug; indicative of revival in the entry-level segment as well).
- With **industry inventory levels as of Dec-23 at a 6-year low** (as per FADA) and domestic wholesales still ~9% below the FY19 peak (after ~16% growth in FY24E), we **believe 2Ws offer a clear 2-3-year growth runway led by pent-up demand (average fleet age still at multi-year highs**; significant 2W household-penetration headroom sustains; the upcoming general elections augur well for overall sentiment). We expect **~9% 2W production CAGR during FY24E-26E (~1.6% CAGR over FY19-26E).**
- Volume growth visibility combined with margin triggers (amid ongoing premiumization of product portfolio through new launches and upgradation of variants, e.g. rising contribution from *Xtec* series), should **drive ~19% EPS CAGR over FY23-26E for HMCL**, even as valuations remain at around average historical levels. **Upside risk:** Rub-off from the upcoming Ola IPO on Ather's valuation (HMCL has ~40% stake in Ather).

Hero MotoCorp – P/E

Exhibit 38: Hero MotoCorp – P/E (1-year forward)



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Tata Motors (TTMT)

(Analyst: Chirag Jain; CMP: Rs806; TP: Rs900; Rating: Add)

Exhibit 39: Tata Motors – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	27,84,536	34,59,670	42,94,255	46,75,193	50,11,934
EBITDA	2,48,132	3,18,296	5,91,187	6,15,156	6,73,488
Adj. PAT	(1,07,188)	7,336	2,04,915	2,18,392	2,56,979
Adj. EPS (Rs)	(28.0)	1.9	53.5	59.4	69.9
EBITDA margin (%)	8.9	9.2	13.8	13.2	13.4
EBITDA growth (%)	(18.8)	28.3	85.7	4.1	9.5
Adj. EPS growth (%)	0.0	0.0	781.3	11.0	17.7
RoE (%)	(21.5)	1.6	37.1	28.8	26.0
RoIC (%)	0.0	3.0	27.5	29.6	32.6
P/E (x)	(29.1)	425.8	15.2	13.7	11.7
EV/EBITDA (x)	16.6	12.0	6.0	5.3	4.4
P/B (x)	7.0	6.9	4.8	3.5	2.7
FCFF yield (%)	(0.2)	4.7	10.7	7.7	13.5

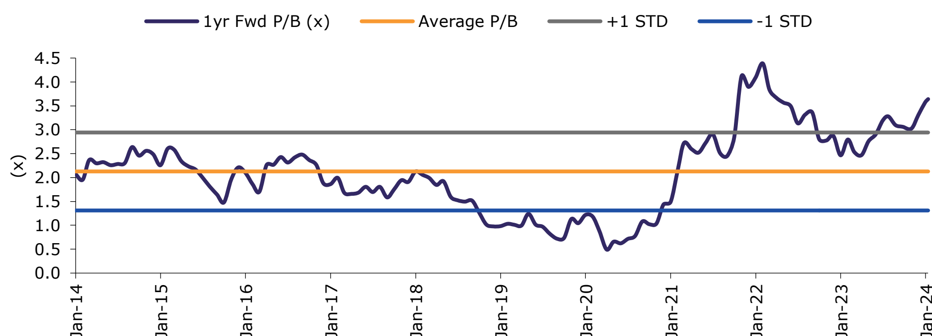
Source: Company, Emkay Research

Key investment argument

- For JLR, while volume outlook over the medium term is largely stable (~5% CAGR over FY24E-26E), upgradation in the product mix (new *Range Rover*, *Range Rover Sport* and *Defender* form over 75% of the order book), along with continued focus on costs and cash savings, provides better visibility on margins and, hence, cash generation (Company has raised FY24 EBIT guidance to 8% vs. 6% earlier – achieved ~8% in H1; FY26 EBIT guidance also maintained at 10%). **We believe improved profitability would drive JLR turning net-debt free by FY25E.**
- TTMT has been gaining market share in CVs in recent months. While we believe domestic CV industry volumes are likely to peak in FY25E, the margin outlook would stay resilient on the back of pricing discipline/benign commodity prices. In the domestic PV business, two new SUV launches (Q1FY25 onwards) are expected to drive out-performance vs. the industry, at a time when the bulk of new launches on the internal combustion front are behind majority of the players.
- Healthy profitability, along with monetization of non-core assets, is likely to drive sharp deleveraging for TTMT (~0.6x Net Debt/Equity by FY26E vs. ~2.8x as of FY23) along with return to double-digit return ratios.

Tata Motors – P/B

Exhibit 40: Tata Motors – P/B (1-year forward)



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Motherson Sumi Wiring India

(Analyst: Chirag Jain; CMP: Rs62; TP: Rs70; Rating: Add)

Exhibit 41: Motherson Sumi Wiring India – Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	56,350	70,574	80,694	98,143	1,16,312
EBITDA	7,303	7,814	9,361	12,072	15,121
Adj. PAT	4,671	4,870	6,029	8,044	10,214
Adj. EPS (Rs)	1.1	1.1	1.4	1.8	2.3
EBITDA margin (%)	13.0	11.1	11.6	12.3	13.0
EBITDA growth (%)	32.0	7.0	19.8	29.0	25.3
Adj. EPS growth (%)	3.6	18.6	23.8	33.4	27.0
RoE (%)	51.2	39.8	41.6	47.5	53.3
RoIC (%)	51.6	36.5	35.3	42.0	47.4
P/E (x)	60.2	57.7	46.6	35.0	27.5
EV/EBITDA (x)	38.5	36.4	30.3	23.5	18.8
P/B (x)	25.2	21.1	17.9	15.5	13.9
FCFF yield (%)	1.4	0.1	1.8	2.1	2.9

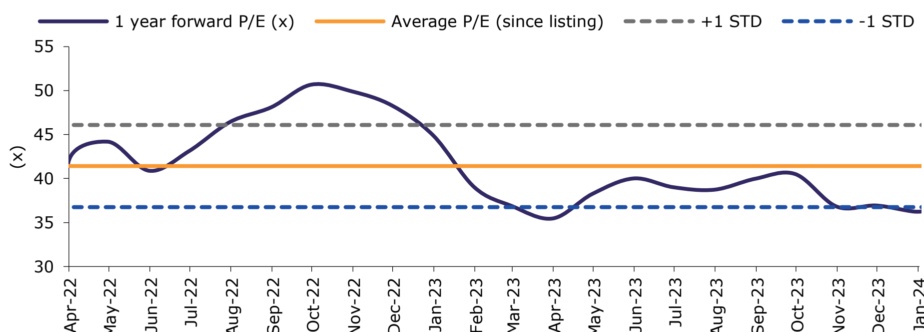
Source: Company, Emkay Research

Key investment argument

- **The TTMT breakthrough provides upside risk to estimates:** MSUMI's recent breakthrough into TTMT PVs (majority share of upcoming TTMT PV models include EVs) will improve the company's competitive positioning, with higher utilization from FY25E – with TTMT set to launch 2 major products over the coming year as against the launch cycle for the rest of the industry now being largely over. The breakthrough into TTMT provides significant upside risk to Street estimates. We believe MSUMI is well placed to post ~18%/~28% revenue/EPS CAGR over FY23-26E.
- **Market-share loss in MSIL being addressed:** After lagging MSIL's (~35% revenue contribution) revenue performance since H2FY22, MSUMI's revenue performance has again started to move in line with MSIL's – indicating that the worst of the competitive intensity impact (from Yazaki) is behind. Yazaki itself expects current industry market shares to largely hold till the next major PV industry model refresh cycle (slated for 2027-2028).
- **Strong player with premiumization, electrification tailwinds**: MSUMI has built a dominant franchise in the wiring harness space (~55% market share). The general trend of vehicular premiumization (addition of more features) provides strong content-per-vehicle tailwinds; moreover, the product profile is immune to electrification, with content per vehicle in EVs placed at up to 2x vs. ICE vehicles.

Motherson Sumi Wiring India – P/E

Exhibit 42: Motherson Sumi Wiring India – P/E (1-year forward)



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Zomato

(Analyst: Dipesh Mehta; CMP: Rs127; TP: Rs140; Rating: Buy)

Exhibit 43: Zomato – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	41,924	70,792	118,733	168,117	217,435
EBITDA	(18,508)	(12,105)	470	14,377	26,277
Adj. PAT	(15,061)	(9,716)	2,706	12,365	21,918
Adj. EPS (Rs)	(1.7)	(1.1)	0.3	1.4	2.5
EBITDA margin (%)	(44.1)	(17.1)	0.4	8.6	12.1
EBITDA growth (%)	0.0	0.0	0.0	2,957.7	82.8
Adj. EPS growth (%)	0.0	0.0	0.0	357.0	88.1
RoE (%)	(12.2)	(5.4)	1.4	6.1	9.9
RoIC (%)	(131.5)	(41.1)	(8.1)	13.1	32.4
P/E (x)	(77.0)	(119.7)	429.9	94.1	53.1
EV/EBITDA (x)	(56.3)	(86.9)	2,219.0	71.4	38.0
P/B (x)	7.0	6.0	5.9	5.5	5.0
FCFF yield (%)	(0.8)	(1.0)	0.4	1.3	2.2

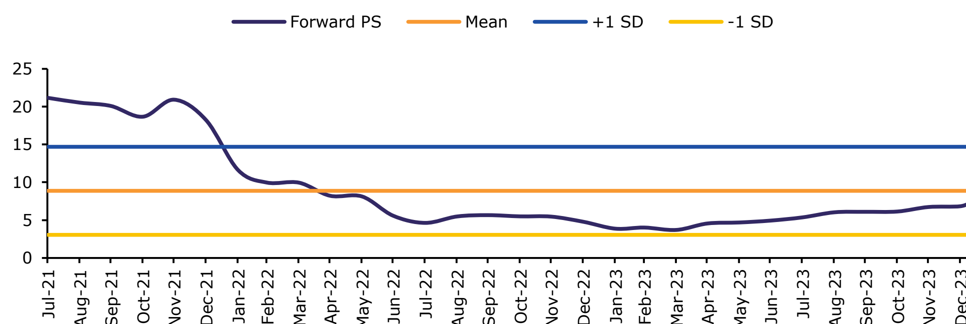
Source: Company, Emkay Research

Key investment argument

- **Market to grow multifold over the next few years:** We expect India's online food delivery (OFD) market to grow ~7x over the next decade, led by an increase in: 1) per capita income; 2) online penetration/availability; 3) eating out habit or behavior; and 4) women labor force participation. Zomato's path to profitability and future value creation and, therefore the investment case, primarily rests on the continuation of the duopoly market structure, supported by inherent network effects, with Zomato maintaining ~50% market share.
- **Food delivery growth to remain elevated:** We are projecting Zomato's MTU to reach ~72mn by FY35E which we believe is realistic and reasonably conservative. Its MTU will be <11% of urban population and <5% of India's population by that time (3.8bn food delivery order projections in FY35 vs Meituan's 14.4bn orders in CY21/Doordash's 1.7bn orders in CY22). As per BCG estimates, there will be 79mn households in the affluent (income bracket: Rs1-2mn) and elite (income: >Rs2mn) categories in 2030. We forecast contribution margins to improve by ~100bps to 7.5% through to FY26E, as take-rate dispersion reduces, scale efficiencies are derived, and delivery subsidies abate. Management has guided to over 40% adjusted revenue growth for the next couple of years at least, and remaining profitable.
- **Adjacency businesses to add further value:** We expect the company to capitalize on captive customers and exploit 'adjacencies' over the medium term. Zomato has managed to turn around Blinkit's losses while sustaining revenue growth through operating leverage and better execution. According to the management, Blinkit is now on track to break even by Q1FY25, coupled with more than 60% GOV growth.

Zomato – Price-to-Sales

Exhibit 44: Zomato – Price-to-sales (1-year forward)



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Dabur India

(Analyst: Nitin Gupta; CMP: Rs549; TP: Rs660; Rating: Buy)

Exhibit 45: Dabur India – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	108,887	115,299	125,451	139,526	153,423
EBITDA	22,538	21,641	24,243	29,092	32,668
Adj. PAT	18,242	17,182	19,354	23,124	26,015
Adj. EPS (Rs)	10.3	9.7	10.9	13.1	14.7
EBITDA margin (%)	20.7	18.8	19.3	20.9	21.3
EBITDA growth (%)	12.5	(4.0)	12.0	20.0	12.3
Adj. EPS growth (%)	7.7	(6.0)	12.6	19.5	12.5
RoE (%)	22.7	19.8	20.7	22.6	23.2
RoIC (%)	60.7	44.3	41.6	49.4	57.0
P/E (x)	53.1	56.5	50.2	42.0	37.3
EV/EBITDA (x)	40.4	42.4	37.5	30.9	27.1
P/B (x)	11.6	10.8	9.9	9.1	8.3
FCFF yield (%)	1.5	1.1	1.5	1.9	2.3

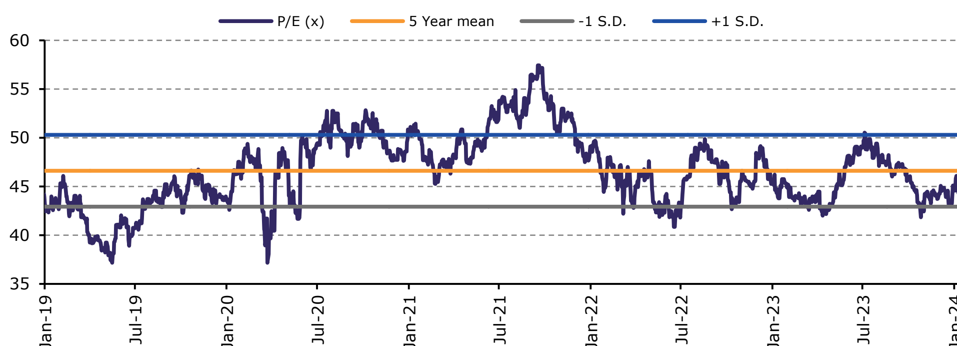
Source: Company, Emkay Research

Key investment argument

- We see demand from Rural on the cusp of recovery. Though the near-term outlook stays benign, long-term prospects hold promise. Dabur generates ~45% of its revenue from Rural and has further strengthened distribution post Covid-19 which, in our view, would help it better leverage Rural demand during recovery. In international markets (entailing 25% of its revenue), Dabur has resolved business issues and is now geared for double-digit growth.
- Management efforts to widen the addressable market have seen limited success, but scale-up in the e-commerce channel has been decent. Dabur is expected to further hone its healthcare strategy and expand coverage across core categories, going ahead.
- Under the current leadership, the stock has seen execution ramp-up, which has been accounted for in relative premium valuations till the Covid period lasted; but this valuation premium turns into a discount, as the company performance becomes muted on a high base. With the base normalizing and given the expected recovery in demand, we see Dabur placed well to drive an accelerated top-line growth ahead. Recovery in healthcare sales will aid mix and margin. We are building-in 12% sales CAGR and 17% earnings CAGR over FY24-FY26E. We have a BUY rating on the stock, with Dec-24E TP of Rs660/share, based on 46x P/E.

Dabur India – P/E

Exhibit 46: Dabur India – P/E (1-year forward)



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ITC

(Analyst: Nitin Gupta; CMP: Rs467; TP: Rs550; Rating: Buy)

Exhibit 47: ITC – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	5,63,413	6,60,023	6,82,398	7,50,498	8,27,174
EBITDA	1,89,337	2,39,035	2,54,298	2,87,329	3,19,258
Adj. PAT	1,50,578	1,86,394	2,02,935	2,25,697	2,51,623
Adj. EPS (Rs)	12.2	15.0	16.2	18.0	19.9
EBITDA margin (%)	33.6	36.2	37.3	38.3	38.6
EBITDA growth (%)	22.0	26.2	6.4	13.0	11.1
Adj. EPS growth (%)	15.4	22.7	8.3	10.6	10.9
RoE (%)	25.3	29.2	30.1	32.0	33.0
RoIC (%)	47.7	56.5	57.8	62.8	66.1
P/E (x)	38.2	31.1	28.7	26.0	23.4
EV/EBITDA (x)	28.8	22.8	21.5	19.1	17.1
P/B (x)	9.5	8.7	8.6	8.0	7.4
FCFF yield (%)	2.3	2.9	3.0	3.1	3.5

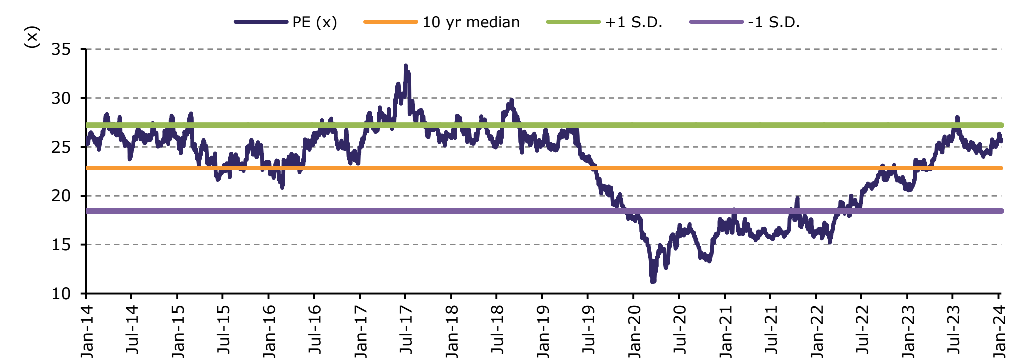
Source: Company, Emkay Research

Key investment argument

- ITC's cigarettes business is likely to see steady rerating on the back of rationality in government action, which will the pave way for structural growth in the category. Compared with flat/decline in volumes, we now see growth in a low to mid-single digit, on an assumption of mid-single digit tax increase on CAGR basis.
- As part of its business diversification strategy, after two decades of incubation in its 'other FMCG' business, growth has seen acceleration and is margin accretive. Management guidance of 100bps YoY margin expansion over the medium term looks achievable. With 3/4ths of the revenue concentrated in foods and beverages, we see relatively better growth and margin expansion ahead in the category.
- Its other businesses like paper and agri are in a sweet spot; we see macro tailwinds in place to drive growth and profitability here. Most of the company's businesses are self sufficient to fund growth now. In its quest to diversify operations, ITC has charted a forceful capex over the last decade which we believe would, in turn, strengthen its outlook for the next decade. We build-in revenue/earnings CAGR of 8%/10% over FY23-26E. We maintain BUY on the stock, with SoTP-based Dec-24E TP of Rs550/share.

ITC – P/E

Exhibit 48: ITC – P/E (1-year forward)



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Reliance Industries

(Analyst: Sabri Hazarika; CMP: Rs2,723; TP: Rs2,730; Rating: Add)

Exhibit 49: Reliance Industries – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	69,99,620	87,78,350	93,88,906	95,36,680	1,01,75,000
EBITDA	11,04,600	14,21,620	16,12,411	17,77,903	19,19,273
Adj. PAT	5,37,474	6,29,665	6,71,232	7,67,073	8,47,999
Adj. EPS (Rs)	95.6	104.3	99.1	113.1	125.0
EBITDA margin (%)	15.8	16.2	17.2	18.6	18.9
EBITDA growth (%)	36.8	28.7	13.4	10.3	8.0
Adj. EPS growth (%)	17.3	9.2	(5.0)	14.2	10.4
RoE (%)	7.3	8.4	9.0	9.5	9.6
RoIC (%)	10.9	13.8	13.4	13.2	13.4
P/E (x)	32.1	27.4	27.4	24.0	21.8
EV/EBITDA (x)	16.7	13.0	12.4	11.2	10.1
P/B (x)	2.2	2.4	2.4	2.2	2.0
FCFF yield (%)	(2.8)	(7.7)	(0.4)	1.7	3.4

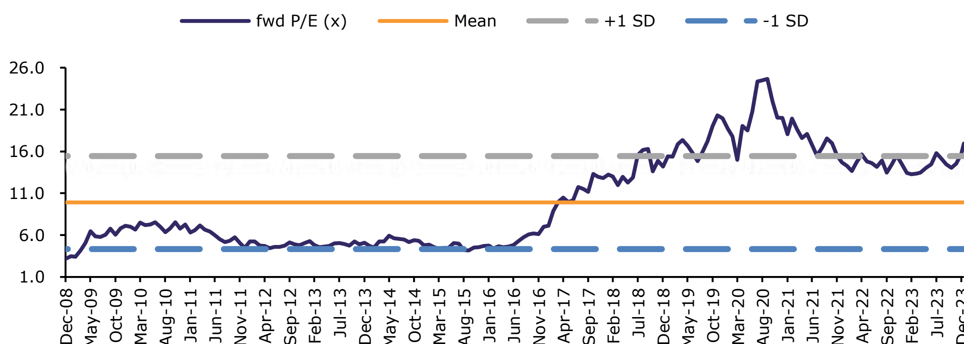
Source: Company, Emkay Research

Key investment argument

- We retain our Add rating on RIL, with Sep-24E TP of Rs2,730/share, driven by improving EBITDA share (45% in FY23 to 55% by FY26E) of consumer businesses (Jio and Retail) in the overall mix, besides a largely steady O2C business on the back of a strong refining margin environment, partly offset by weakness in petchem deltas and a stable Upstream business on near-peak output and moderately high gas prices globally.
- Jio's accelerated 5G roll-out is nearing completion, while it continues to dominate the industry in terms of quarterly subscriber additions. We expect gradual tariff hikes to result in better ARPUs and support earnings growth going ahead. Strategic investments in the Jio Platform increase further value creation opportunities from partnerships/platform leveraging.
- RIL's focus on a strong omni-channel presence across major retail categories (Grocery, Fashion, Electronics), besides strategic push to fill gaps in its portfolio, focus on new-commerce business (B2B/Jiomart), and strengthening of digital/physical back-end, should drive continued growth. We expect core revenue/EBITDA to clock FY23-26E CAGR of 20-25%, on the back of growth investments and maturing of emerging businesses.
- Potential value unlocking through strategic stake sale and/or listing of consumer businesses could lead to further re-rating; ESG could also be a new driver, given RIL's plans to go net zero by CY35, through ~Rs750bn capex in new clean energy over the next 3 years.

Reliance Industries – P/E

Exhibit 50: Reliance Industries – P/E (1-year forward)



Source: Bloomberg, Emkay Research

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ICICI Bank

(Analyst: Anand Dama; CMP: Rs982; TP: Rs1,375; Rating: Buy)

Exhibit 51: ICICI Bank – Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	2,33,395	3,18,965	4,07,870	4,56,426	5,06,944
Loan growth (%)	17.1	18.7	17.8	19.0	20.0
NII growth (%)	21.7	30.9	19.1	13.9	16.0
NIM (%)	3.8	4.4	4.6	4.5	4.4
PPOP growth (%)	7.8	25.1	18.1	15.9	20.0
Adj. EPS (Rs)	33.7	45.8	58.3	65.2	72.4
Adj. EPS growth (%)	39.2	36.0	27.4	11.7	11.1
Adj. BV (INR)	228.2	272.3	320.4	374.3	433.1
Adj. BVPS growth (%)	20.6	19.3	17.7	16.8	15.7
RoA (%)	1.8	2.1	2.4	2.3	2.1
RoE (%)	15.0	17.5	19.0	18.2	17.4
P/E (x)	24.7	18.1	14.2	12.7	11.5
P/ABV (x)	3.6	3.0	2.6	2.2	1.9

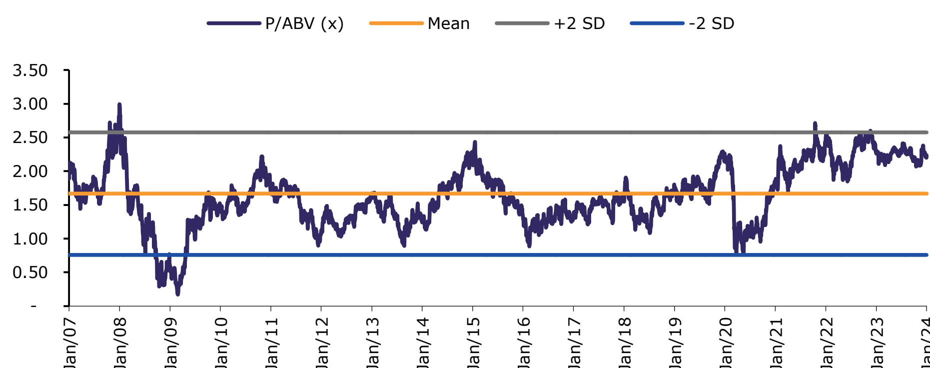
Source: Company, Emkay Research

Key investment argument

- **Well poised to deliver superior growth of >15%; RoA: >2%:** ICICI Bank growth at >15% continues to outpace systemic credit growth, as also the largest peer HDFCB's, led by continued traction in Retail + Rural + BB book, while delivering superior margins. We believe the bank has enough levers to sustain system-beating growth and margins of >4% which, coupled with improving fee income and contained provisions, should help the bank deliver superior RoA (2.1-2.4% over FY24-26E)/RoE (17-19%).
- **Strong capital/provision buffers provide margin of safety, in case macros/micros weaken:** Amid the rising asset quality noise in unsecured loans and the RBI's recent pre-emptive strike, we believe banks should build provision buffers to withstand any asset-quality shock. ICICIB with its strong specific PCR @ 83%/contingent provision pool @1.2% of loans and CET 1 at 16.8% should protect its profitability/balance sheet in the long run.
- **Strong leadership back-up across verticals; valuations leave scope for re-rating:** Notwithstanding the recent senior management attrition/rejig, we take comfort from strong the leadership back-up at ICICIB which is still missing at a few large peer banks (Axis Bank, KMB) and will gain more prominence during turbulent periods. Thus, we believe that a large bank, such as ICICIB, set to sustainably deliver superior growth/return ratios deserves premium valuations. We retain our long-term BUY on the stock with TP of Rs1,375/share, valuing the standalone bank at 3x Sep-25E ABV (assigning a slight premium over HDFCB) and subsidiaries at Rs170/share.

ICICI Bank – P/Adj. Book Value

Exhibit 52: ICICI Bank – P/ABV (1-year forward)



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HDFC Bank

(Analyst: Anand Dama; CMP: Rs1,538; TP: Rs2,100; Rating: Buy)

Exhibit 53: HDFC Bank – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	3,69,614	4,41,087	6,71,291	7,76,460	9,16,541
Loan growth (%)	20.8	16.9	13.9	15.6	16.6
NII growth (%)	11.0	20.6	34.3	17.9	17.5
NIM (%)	3.9	4.1	3.6	3.7	3.7
PPOP growth (%)	11.7	9.9	45.8	18.7	18.0
Adj. EPS (Rs)	66.7	79.1	88.5	102.4	120.9
Adj. EPS growth (%)	18.1	18.6	28.6	0.4	18.0
Adj. BV (INR)	428	498	547	626	721
Adj. BVPS growth (%)	17.5	16.2	9.9	14.5	15.1
RoA (%)	1.9	1.9	1.9	2.0	2.0
RoE (%)	16.7	17.0	15.9	16.9	17.4
P/E (x)	22.7	19.2	16.8	14.6	12.3
P/ABV (x)	3.5	3.0	2.7	2.4	2.1

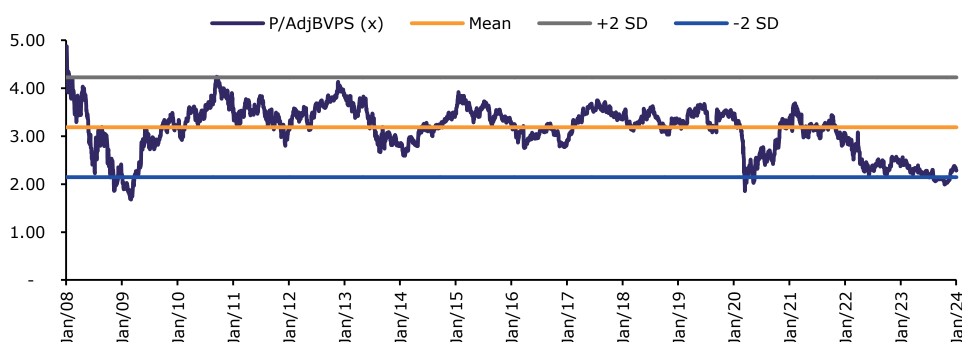
Source: Company, Emkay Research

Key investment argument

- **FY24 to be a year of consolidation, before the growth/margin trajectory normalizes in FY25:** Bank's credit growth trajectory has already improved and should further accelerate as the mortgage engine fires up from the bank's platform. This, coupled with the bank's still higher share of fix rate (VF, Card, PL) and gradual replacement of HDFCL's high-cost borrowings (80-85% to be replaced via retail deposits) as they mature, should lead to margin normalization for HDFC Bank, when most other banks would witness higher margin deceleration.
- **Better asset quality outcomes across cycles coupled with healthy provision buffers to be key differentiator amid rising noise in unsecured loans:** Notwithstanding some stress recognition due to the merger of eHDFCL, HDFC Bank has delivered better asset quality outcomes across cycles, which we believe will be the key differentiator amid the rising noise in unsecured loans. Additionally, Bank carries strong specific PCR (73.5% of NPAs) as well as contingent buffer (0.7% of loans), which it could shore-up further.
- **Management stability, improving return ratios to help partly re-tract lost premium valuations:** With KMB undergoing management transition (typically leading to business/valuation softness, as seen in HDFCB), HDFCB—now with a relatively stable management, expected improvement in RoA/RoE over FY25/26E (2%/16-17%), and reasonable valuations (2.1x FY26E ABV vs. 2.2x for KMB)—offers a good bet from a medium-to-long term viewpoint. The long-awaited listing of HDB Financial should be another stock catalyst going ahead.

HDFC Bank – P/Adj. Book Value

Exhibit 54: HDFC Bank – P/ABV (1-year forward)



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IndusInd Bank

(Analyst: Anand Dama; CMP: Rs1,644; TP: Rs2,000; Rating: Buy)

Exhibit 55: IndusInd Bank – Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	46,111	73,897	93,901	1,16,115	1,43,450
Loan growth (%)	12.4	21.3	20.7	23.1	23.0
NII growth (%)	10.9	17.3	18.2	19.8	21.0
NIM (%)	4.2	4.4	4.4	4.4	4.4
PPOP growth (%)	9.5	11.7	14.5	21.4	24.1
Adj. EPS (Rs)	59.5	95.2	120.8	149.4	184.6
Adj. EPS growth (%)	62.3	60.0	26.9	23.7	23.5
Adj. BV (INR)	584.8	646.6	718.3	831.7	973.3
Adj. BVPS growth (%)	8.6	10.6	11.1	15.8	17.0
RoA (%)	1.2	1.7	1.9	1.9	2.0
RoE (%)	10.2	14.5	16.1	17.3	18.3
P/E (x)	27.9	17.4	13.7	11.1	9.0
P/ABV (x)	2.8	2.6	2.3	2.0	1.7

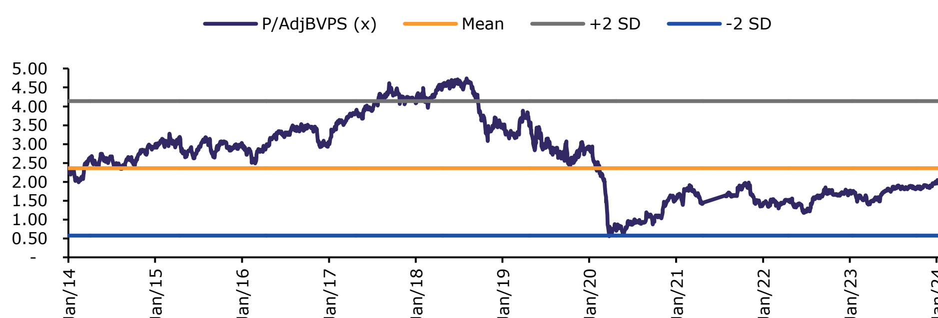
Source: Company, Emkay Research

Key investment argument

- **Plans to build a balanced credit portfolio mix, to drive better risk-adjusted RoA:** The bank has bounced back from sub-industry credit growth over FY22-23, and has been delivering >20-21% credit growth. Bank assures that the incremental growth will be guided by its strategy to deliver better RARoC (>2.5%) instead of just chasing growth, as in the past. Although vehicle financing will continue to dominate the credit portfolio, mortgages (mainly affordable housing), SME/mid-corporates, and cards will emerge as key growth drivers.
- **Strong focus on retailization of liability – a weakling otherwise:** Key pillars of the liability strategy are likely to be: 1) differentiated product/price offering (at least for the next two years); 2) ramping up 'home market' share to 5% from ~3.7% currently, and adding new geographies; 3) digital leverage to tap Gen Z/Millennial customers; and 4) branch expansion (addition of another 1,000 branches/46% to the current network of 2,600).
- We retain BUY on the stock; multiple re-rating catalysts are in place: We expect the bank to deliver better RoA @ 1.9-2%, RoRWA @ 2.6-2.8%, and RoE @ 16-18% over FY24-26E, on the back of healthy growth, stable margins (amid rising pressure for peers), and improving LLP (given healthy contingent buffer, which the bank plans to further shore-up). The bank already has a strong capital buffer (CET 1: 16.3%), while we believe any infusion by promoters towards increasing the stake should further boost capital levels and is likely to be BV accretive. Current MD's term extension beyond Mar-25, given the bank's improving regulatory compliance, should lead to further re-rating.

IndusInd Bank – P/adj. Book Value

Exhibit 56: IndusInd Bank – P/ABV (1-year forward)



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Shriram Finance

(Analyst: Avinash Singh; CMP: Rs2,288; TP: Rs2,450; Rating: Add)

Exhibit 57: Shriram Finance – Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profits	37,941	59,794	73,380	88,814	108,595
AUM growth (%)	9.1	15.9	19.7	16.9	16.9
NII growth (%)	11	27.5	18.5	20.7	19.2
NIMs (%)	8.3	10.3	10.6	10.9	11.1
PPOP growth (%)	13	26.5	17.1	22.5	20.5
Adj. EPS (Rs)	115.6	168.1	196	237.2	290
Adj. EPS growth (%)	1.1	45.3	16.6	21	22.3
Adj. BV (INR)	1,035.30	1,162.80	1,252.00	1,432.00	1,697.00
Adj. BVPS growth (%)	11.3	12.3	7.7	14.4	18.5
RoA (%)	2.2	3.1	3.3	3.5	3.6
RoE (%)	11.7	15.5	16.2	17.2	18.3
P/E (x)	19.7	13.6	11.6	9.6	7.9
P/ABV (x)	2.1	1.8	1.7	1.5	1.3

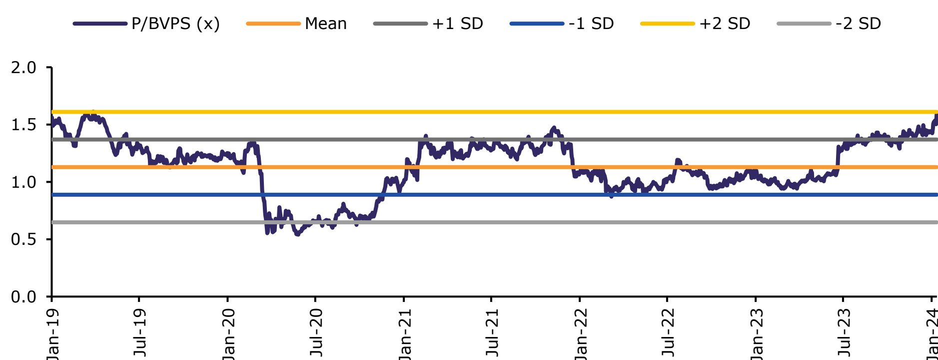
Source: Company, Emkay Research, #Note FY22 data is abridged financial of SHFT & SCUF

Key investment argument

- We expect SHFL's overall AUM to clock ~18% CAGR over FY23-26E, led by diverse product offerings and continued demand for TWL, used-vehicle coupled with other faster-growing segments like SME, and personal loan.
- Overall margin improvement due to improved product mix and increasing share of the high-yield disbursement and operating leverage kicking in would lead to ROE expanding by ~290bps (from the current 15.5% in Q2FY24 to 18.3% in FY26E)
- Increased spend towards Infrastructure and Tech is likely to help SHFL source new business and improve productivity, thus contributing significantly to the bottom line on a sustainable basis.

Shriram Finance – P/BV

Exhibit 58: Shriram Finance – P/BV (1-year forward)



Source: Company, Emkay Research; Note: #forward P/BV till Nov-23 is calculated based on market cap of SCUF and SHFT pre-merger

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Max Financial

(Analyst: Avinash Singh; CMP: Rs929; TP: Rs1,100; Rating: Add)

Exhibit 59: Max Financial – Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
GWP	224,142	253,419	287,380	326,523	372,940
APE	55,880	62,480	69,309	79,898	92,114
VNB	15,280	19,490	18,713	21,572	24,871
VNB margin (%)	27.3	31.2	27	27	27
APE growth (%)	12.7	11.8	10.9	15.3	15.3
VNB growth (%)	22.3	27.6	-4	15.3	15.3
Adj. EPS (Rs)	7.3	11	14.1	17	20
EV	141,740	162,630	208,319	246,258	290,239
EVOP	22,760	31,320	32,836	39,454	45,762
Op. RoEV (%)	19.2	22.1	20.2	18.9	18.6
EVPS (INR)	336.8	377.1	483	570.9	672.9
P/EV (x)	2.8	2.5	2	1.7	1.4
P/EVOP (x)	17.5	13.1	12.5	10.4	8.9

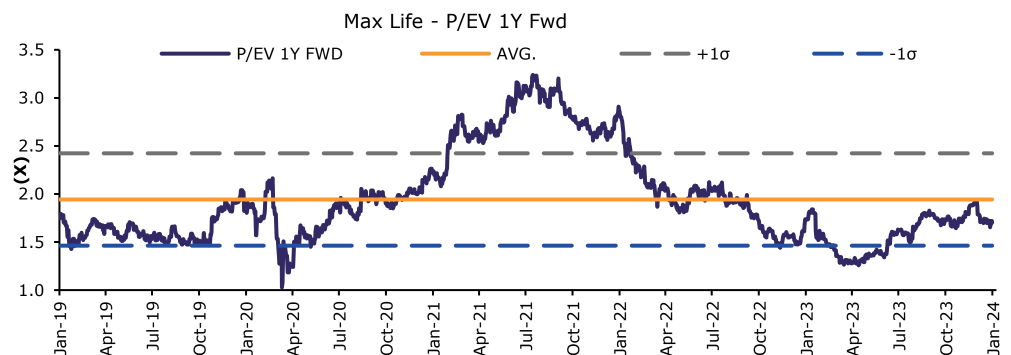
Source: Company, Emkay Research

Key investment argument

- Max Life is set to deliver strong profitable growth, led by its balanced product strategy, powerful distribution network (including Axis Bank), a strong agency channel, and a solid presence in the proprietary and web aggregator digital channels. We expect Max Life to clock in 10% APE CAGR over FY23-26E, while margins would remain stable at 27% during FY26E.
- The share of Bajaj Allianz Life is expected to stay steady in the Axis Bank Channel which will provide further growth opportunity for Max Life. Further, the significant protection gap will drive growth in the retail protection segment, leading to expansion in margins.
- The proposed capital infusion of Rs16.12bn by Axis Bank increases Max Life’s solvency by 39%, providing capital for funding the growth and removing the overhang of delay in stake increase by Axis Bank. Further, the company-structure simplification may lead to re-rating of MAXF shares, to truly reflect the underlying strong life insurance franchise.

Max Financial – P/EV

Exhibit 60: Max Financial – P/EV (1-year forward)



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Cyient

(Analyst: Dipesh Mehta; CMP: Rs2,273; TP: Rs2,700; Rating: Buy)

Exhibit 61: Cyient – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	45,344	60,159	71,801	82,086	93,656
EBITDA	8,217	10,240	13,314	15,304	17,793
Adj. PAT	5,220	5,766	7,556	9,027	10,916
Adj. EPS (Rs)	47.3	46.6	66.6	81.5	98.5
EBITDA margin (%)	18.1	17.0	18.5	18.6	19.0
EBITDA growth (%)	34.5	24.6	30.0	14.9	16.3
Adj. EPS growth (%)	43.0	(1.6)	43.0	22.4	20.9
RoE (%)	17.2	17.5	20.7	22.2	23.9
RoIC (%)	24.2	20.9	21.6	24.1	27.5
P/E (x)	48.0	43.5	33.3	27.9	23.1
EV/EBITDA (x)	29.7	25.1	19.3	16.6	14.1
P/B (x)	8.0	7.2	6.6	5.9	5.2
FCFF yield (%)	2.3	1.9	2.0	2.9	3.3

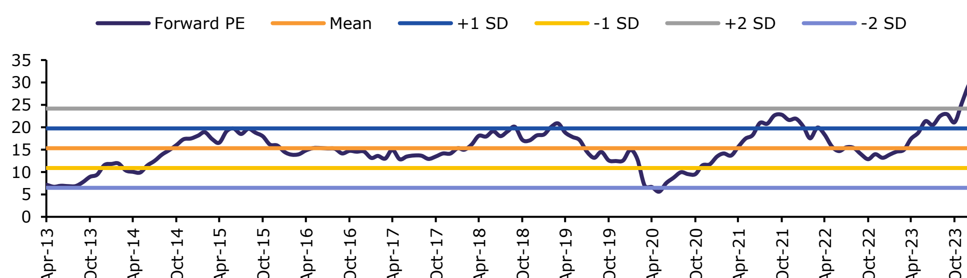
Source: Company, Emkay Research

Key investment argument

- **Portfolio diversification benefits starting to show:** Cyient's revenue growth was weak during FY18-22, down 2% CAGR, and underperformed peers' due to higher exposure to Aerospace, which was in a down-cycle, and given the weak positioning in fast-growing areas like embedded and digital engineering. Rebound in the Aero growth trajectory and corrective steps taken by the management helped the company to accelerate revenue growth.
- **Aerospace, Auto and Sustainability segments to drive near-term growth:** Transportation (includes Aero and Rail) revenue contribution has reduced to ~31% in Q2FY24 from ~46% in FY19, and overall revenue is now better diversified with a more balanced contribution across the four business units, which are expected to contribute to growth in coming 3-5 years.
- **Margins have further scope for improvement, aided by offshore shift:** Cyient's margins have been volatile in the past due to volatility in revenue growth (higher exposure to A&D) and relatively higher onshore revenue mix driven by M&As. The management aspires to expand EBITM to ~18% (now improved to 16.5% in Q2FY24) over the next three years on the back of higher offshore mix, operating efficiencies driven by productivity, employee pyramid structure, SG&A leverage with revenue growth.
- We value the company's DET business at 27x on Dec-25E EPS and its DLM business at Rs256/share after applying 20% discount to its CMP. Our valuation of Cyient's DET business is based on the two-stage Gordon Growth valuation framework. Our SoTP-based TP of Rs2,700 per share implies ~29x on Dec-25E EPS for the consolidated entity.

Cyient – P/E

Exhibit 62: Cyient – P/E (1-year forward)



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Infosys

(Analyst: Dipesh Mehta; CMP: Rs1,640; TP: Rs1,850; Rating: Buy)

Exhibit 63: Infosys – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,216,410	1,467,670	1,542,961	1,691,683	1,882,466
EBITDA	314,920	351,310	372,056	411,768	460,963
Adj. PAT	221,110	240,950	247,566	280,928	316,380
Adj. EPS (Rs)	52.6	58.1	59.7	67.7	76.2
EBITDA margin (%)	25.9	23.9	24.1	24.3	24.5
EBITDA growth (%)	12.9	11.6	5.9	10.7	11.9
Adj. EPS growth (%)	15.8	10.5	2.7	13.5	12.6
RoE (%)	29.0	31.8	30.8	31.2	31.3
RoIC (%)	55.7	55.2	51.8	55.9	59.9
P/E (x)	31.2	28.2	27.5	24.2	21.5
EV/EBITDA (x)	20.7	18.5	17.3	15.4	13.5
P/B (x)	9.1	9.0	8.0	7.1	6.4
FCFF yield (%)	3.3	3.0	3.3	3.8	4.3

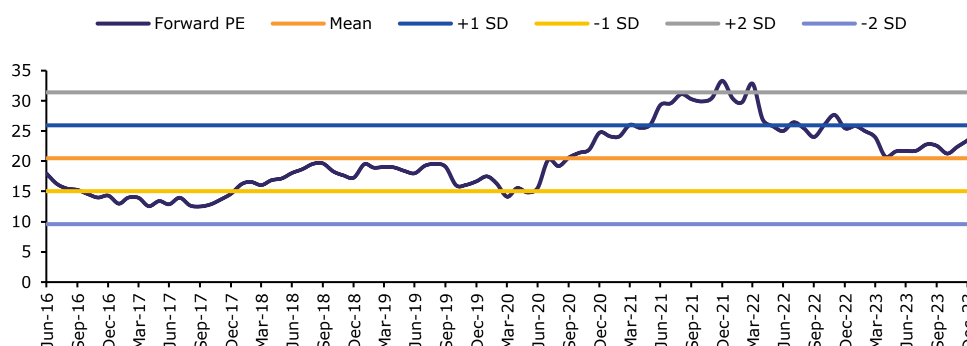
Source: Company, Emkay Research

Key investment argument

- Ramp up of deals and recovery in discretionary spending bodes well for the company: Infosys is well poised to benefit from ramp up of large deals and the anticipated uptick in discretionary spending, with the Fed's dovish stance. Revenue growth leadership is likely to sustain on the back of strong large-deal win momentum and steady progress on client mining: Infosys is likely to improve revenue growth momentum over the medium term on the back of: 1) continued healthy large-deal wins and robust pipeline, 2) benefits accruing from sales transformation initiatives and increased focus on large deals, and 3) strengthening relationships with ecosystem partners, and startups.
- AI to fuel further growth: Infosys has already integrated generative AI components into its service line portfolio, enhancing services for its clients. Clients are leveraging all of these generative AI capabilities in Topaz, combined with Company's cloud capabilities in Cobalt, to help them navigate the current environment.
- Cloud and Digital remain key focus areas for driving growth, as uncertainty recedes: Infosys has successfully executed its growth strategy that it laid out in FY18 and which was built around four pillars, which are: 1) scaling up the agile digital business, 2) energizing clients' core technology landscape via AI and automation 3) driving localization in markets such as the USA, Europe and Australia.
- We expect growth to accelerate in FY25 on account of ramp-up of large deals, strong deal pipeline, and expected recovery in discretionary spending. We have a BUY recommendation with a TP of Rs1,850/share, at 25x its Dec-25E EPS.

Infosys – P/E

Exhibit 64: Infosys – P/E (1-year forward)



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UltraTech Cement

(Analyst: Dharmesh Shah; CMP: Rs9,855; TP: Rs11,400; Rating: Buy)

Exhibit 65: UltraTech Cement– Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	15FY23	FY24E	FY25E	FY26E
Revenue	5,25,988	6,32,400	7,21,662	7,89,379	8,76,901
EBITDA	1,15,143	1,06,198	1,41,902	1,59,896	1,80,603
Adj. PAT	56,665	50,639	80,120	94,211	1,10,814
Adj. EPS (Rs)	248.9	175.4	277.5	326.3	383.9
EBITDA margin (%)	21.9	16.8	19.7	20.3	20.6
EBITDA growth (%)	(0.5)	(7.8)	33.6	12.7	13.0
Adj. EPS growth (%)	35.0	(29.5)	58.2	17.6	17.6
RoE (%)	12.0	9.7	13.9	14.6	15.2
RoIC (%)	10.8	9.3	13.6	14.6	15.7
P/E (x)	50.5	56.6	35.7	30.4	25.8
EV/EBITDA (x)	25.2	27.2	20.2	17.7	15.4
P/B (x)	5.7	5.3	4.7	4.2	3.7
FCFF yield (%)	1.4	0.9	1.7	1.7	2.2

Source: Company, Emkay Research

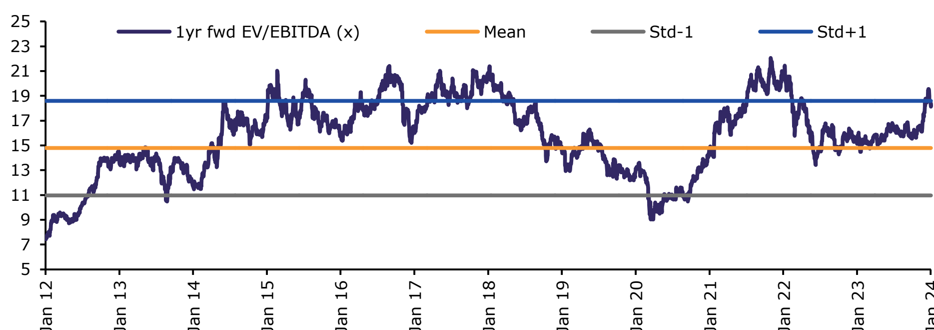
Key investment argument

- **Strong growth outlook, despite the large scale:** UltraTech (UTCEM) targets adding capacity of ~49mt (vs 133mt currently) at USD70/ton by FY27 (9% CAGR; >200bps above industry growth), totalling to 193mt, which would enable the company to post industry-leading volume growth over the next few years despite the large scale. Besides, nearly 60% of organic incremental capacity addition (~29mt) is targeted in the South and East which will help it improve its positioning in these markets (currently <20% capacity share).
- **Structural profitability improvement of at least Rs100-150/ton over next few years:** The management focus is on cost optimization and de-risking efforts. We estimate sustainable cost savings of Rs100-150/ton, through: 1) additional grinding units in the East which will help improve blending ratio (from 1.35x to 1.4x) and lower the lead distance (~20km, Rs35-40/ton); 2) increasing share of green power (targets >60% share by FY27E from 20-22% currently; Rs70-80/ton) will also help to reduce exposure towards input cost fluctuations and carbon emissions; 3) better operating leverage (Rs20-30/ton) stemming from higher volume growth.
- **RoIC likely to improve to a sustainable >20% over next 4-5 years**: After 5-6 years of sub-par profitability, we believe UTCEM is poised for a structural improvement in RoIC to a sustainable >20% over the next 4-5 years (its best incremental RoIC in this cycle) vs 12% in the past decade.

We ascribe BUY on the stock with Dec-24E target price at Rs11,400/share, based on 18x EV/E.

UltraTech Cement – EV/EBITDA

Exhibit 66: UltraTech Cement – EV/EBITDA (1-year forward)



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Ambuja Cements

(Analyst: Dharmesh Shah; CMP: Rs521; TP: Rs580; Rating: Buy)

Exhibit 67: Ambuja Cements – Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	15FY23	FY24E	FY25E	FY26E
Revenue	1,39,650	1,99,854	1,79,468	1,94,321	2,24,094
EBITDA	32,075	32,204	37,001	42,115	50,264
Adj. PAT	21,462	27,108	24,720	27,818	33,118
Adj. EPS (Rs)	10.5	10.3	12.5	14.0	16.7
EBITDA margin (%)	23.0	16.1	20.6	21.7	22.4
EBITDA growth (%)	21.2	0.4	14.9	13.8	19.4
Adj. EPS growth (%)	16.2	(1.8)	21.0	12.5	19.1
RoE (%)	21.3	15.9	13.5	13.6	14.4
RoIC (%)	46.6	42.4	30.7	25.7	21.8
P/E (x)	40.6	32.2	35.3	31.4	26.3
EV/EBITDA (x)	25.1	23.5	20.9	18.7	16.0
P/B (x)	8.4	5.2	4.7	4.2	3.7
FCFF yield (%)	1.3	(0.1)	(1.7)	(1.5)	(1.5)

Source: Company, Emkay Research

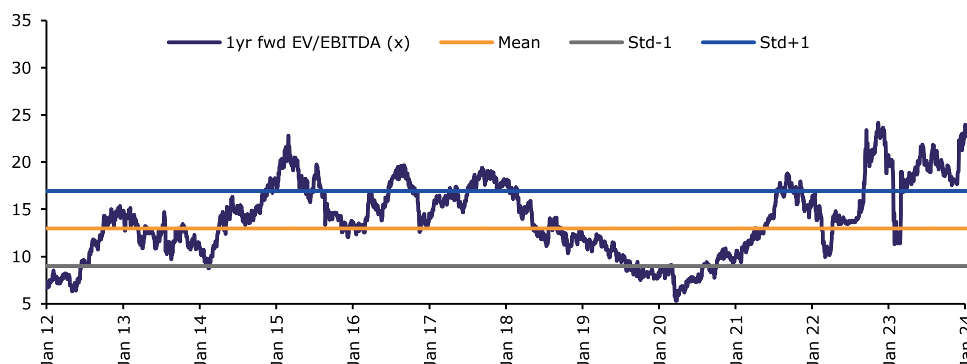
Key investment argument

- **Doubling the capacity to propel growth:** Adani Group's doubling of cement capacity to 140mt (15% CAGR up to FY28) has raised growth expectations. We believe Ambuja will remain the epicentre of expansion, as it has sufficient limestone reserves. The management indicated a capex outlay of USD80/t for doubling capacity, which implies a higher share of brownfield expansion. Company targets enhancing the Group capacity to 101mt by FY25.
- **To be the lowest-cost producer:** Besides, the Adani Group plans to become a cost leader in the India cement industry, targeting Rs400/t (Rs100/t already kicked-in) cost savings over the next 1-3 years. Ambuja should benefit from the Group's vast footprint and expertise in areas such as logistics, energy, and supply chain, in our view. The management aims to increase WHRS capacity to 175MW by Mar-25 (vs. 90MW currently). Besides, it targets primary lead distance reduction of ~100km. The company's EBITDA/ton goal is Rs1,450-1,500 by FY28.
- **Healthy balance sheet to support expansion plans:** Ambuja has a consistent cash generation profile and a cash-rich balance sheet, with investment of ~Rs120bn. Going forward, we expect the company to generate ~Rs170bn cumulative OCF during FY24-26E which would assist funding its capex requirements (Rs150bn).

  We value the company on an SOTP basis, assigning 17x EV/EBITDA (Dec-24E) for the standalone business and ascribe 50% fair valuation of ACC. We arrive at a TP of Rs580/share.

Ambuja Cements – EV/EBITDA

Exhibit 68: Ambuja Cements – EV/EBITDA (1-year forward)



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Delhivery

(Analyst: Anshul Agarwal; CMP: Rs404; TP: Rs470; Rating: Buy)

Exhibit 69: Delhivery – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	68,823	72,253	84,830	1,08,115	1,33,693
EBITDA	(1,722)	(4,686)	1,257	5,714	10,690
Adj. PAT	(7,113)	(10,248)	(3,212)	(863)	2,361
Adj. EPS (Rs)	(11.1)	(14.1)	(4.4)	(1.2)	3.2
EBITDA margin (%)	(2.5)	(6.5)	1.5	5.3	8.0
EBITDA growth (%)	0.0	0.0	0.0	354.5	87.1
Adj. EPS growth (%)	0.0	0.0	0.0	0.0	0.0
RoE (%)	(16.2)	(13.5)	(3.5)	(0.9)	2.5
RoIC (%)	(21.4)	(19.3)	(8.0)	(5.1)	0.2
P/E (x)	(37.1)	(29.2)	(93.8)	(349.0)	127.5
EV/EBITDA (x)	(155.8)	(64.4)	241.0	52.7	27.8
P/B (x)	4.4	3.3	3.3	3.3	3.1
FCFF yield (%)	(11.1)	(2.7)	(1.0)	(0.2)	1.0

Source: Company, Emkay Research

Key investment argument

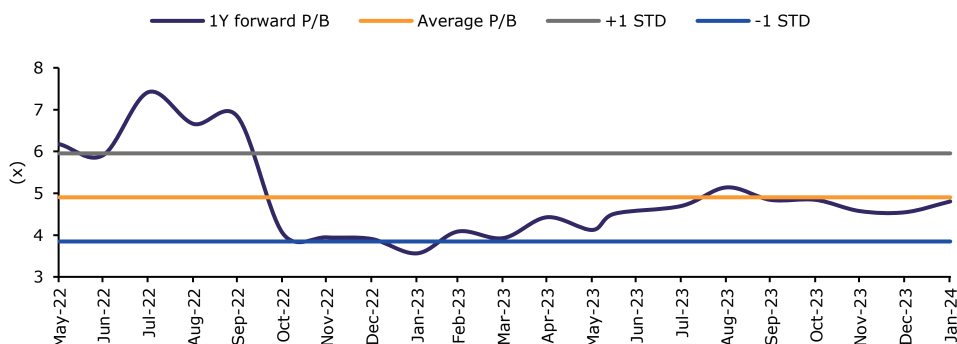
- **Differentiated business model (being asset-light and asset-right) providing a strong delta in mid-mile trucking costs:** Delhivery has created a virtuous cycle by up-fronting investments in technology, passing on efficiency gains to customers that allows it to scale up complementary businesses faster, resulting in structural cost advantages. Company's approach of investing in critical service elements and IP-sensitive areas of the network through a large number of network partners allows it to be agile, efficient, and flexible in managing the customer 'peak to trough' demand without compromising on profitability or service reliability.

- **Denser network and scale curbing last-mile logistics costs:** Our analysis suggests that Delhivery's cost of transportation in the B2C Express segment is ~20% cheaper than the competition's, stemming from: 1) differentiated business model of combining B2C Express and B2B PTL networks to provide a strong delta in mid-mile trucking costs; 2) denser network and scale curbing last-mile logistics costs; and 3) expanding share of direct routes in a mesh network, thereby reducing distance travelled on trunk routes.

- **Industry landscape shifting to organized players:** India's fragmented road logistics industry offers a wide landscape (USD210bn), with bulk of Delhivery's revenue coming from two niche sub-segments, viz. B2C Express and Part Truck Load (PTL). Despite the ecommerce industry clocking a decadal CAGR of ~28%, India's per-capita parcel consumption (1.9 parcels) remains significantly behind that of China (77), USA (65) and Brazil (7). With the roll-out of GST and GoI focus on reducing indirect logistics costs (via programs like Gati Shakti plan, National Logistics policy), a shift towards organized, fully integrated logistics players is inevitable, in our view.

Delhivery – P/B

Exhibit 70: Delhivery – P/B (1-year forward)



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Small-cap picks:

Aditya Vision

(Analyst: Devanshu Bansal; CMP: Rs3,562; TP: Rs5,000; Rating: Buy)

Exhibit 71: Aditya Vision – Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	8,991	13,222	17,807	23,715	30,829
EBITDA	831	1,330	1,602	2,209	2,956
Adj. PAT	353	641	768	1,121	1,608
Adj. EPS (Rs)	29.3	53.3	63.9	93.2	133.7
EBITDA margin (%)	9.2	10.1	9.0	9.3	9.6
EBITDA growth (%)	55.6	60.1	20.5	37.9	33.8
Adj. EPS growth (%)	72.6	81.8	19.8	46.0	43.4
RoE (%)	55.1	59.7	45.9	45.8	44.8
RoIC (%)	30.4	31.8	26.1	29.2	33.6
P/E (x)	124.6	68.6	57.2	39.2	27.3
EV/EBITDA (x)	54.5	34.5	28.8	20.9	15.5
P/B (x)	55.9	32.3	22.1	15.1	10.3
FCFF yield (%)	0.3	(0.4)	0.6	1.9	3.2

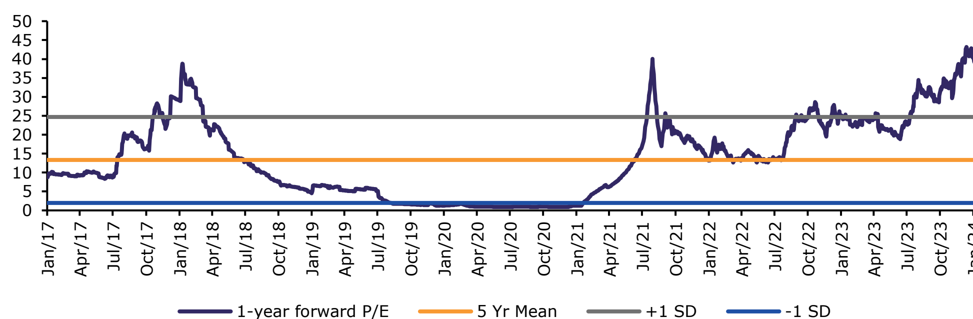
Source: Company, Emkay Research

Key investment argument

- **Low penetration to effect industry CAGR of ~15% in Bihar vs. ~10% in India:** Consumer durable penetration in India is the lowest in Bihar (over 15% for AC/Ref vs. India avg. of 24-38%). Ease of financing, about 3x CAGR in Bihar's per-capita power consumption vs. pan-India (FY12-22), and higher disposable income with free food-grain schemes have greatly improved accessibility and should drive a strong, mid-teen industry CAGR in Bihar (vs. ~10% in India).
- **Foray into the remaining Hindi Heartland provides a 5x expansion opportunity; SSG to remain upwards of 20%:** Expansion opportunity in adjacent regions of UP, MP, Chhattisgarh and WB, along with fortressing the existing Bihar/Jharkhand regions, remains a key lever. With broader tailwinds, AVL would leverage its well-oiled business machinery to 5x its FY23 store-count of 105 by FY35E, thus granting confidence on long-term growth.
- **Best-in-class model – Under 3-yr paybacks, even better-than-the-best retailers':** Consumer-durable retail is a unique business model, wherein success is contingent on scale, cost structure, and support from OEMs, as gross margin is in the low 10-15% range. AVL stands out on most parameters, as it has crossed the crucial scale barrier, has an asset-light & low-cost model, and has due support from brands w.r.t. shared employees, marketing costs and capital expenses for creating new markets. With a payback period of under 3 years, AVL outshines the best retailers across categories.
- **Major valuation gap; apt candidate for rerating, in line with earnings delivery:** AVL would clock over 30% EBITDA CAGR during FY23-27E, higher than most best-performing retailers'. Despite better prospects, AVL trades at a steep 35-50% discount to our coverage stocks, which is unwarranted, and delivery per our estimate should lead to its continued re-rating. Given higher concentration in Bihar and entry into new regions, we conservatively value AVL at 40x its Dec-25 EPS; recommend BUY (TP: Rs5,000/share).

Aditya Vision – P/E

Exhibit 72: Aditya Vision – P/E (1-year forward)



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Fusion Micro Finance

(Analyst: Anand Dama; CMP: Rs638; TP: Rs810; Rating: Buy)

Exhibit 73: Fusion Microfinance – Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	217	3,871	5,308	6,514	7,704
Loan growth (%)	35.7	35.9	26.3	25.8	24.1
NII growth (%)	25.6	68.4	32.4	23.2	20.6
NIM (%)	9.0	12.0	12.5	12.3	11.9
PPOP growth (%)	41.6	81.2	38.5	20.6	17.6
Adj. EPS (Rs)	2.7	42.3	52.9	64.8	76.7
Adj. EPS growth (%)	(51.8)	1,477.6	25.0	22.6	18.3
Adj. BV (INR)	151.5	245.0	277.6	342.6	418.0
Adj. BVPS growth (%)	5.2	61.8	13.3	23.4	22.0
RoA (%)	0.3	4.6	5.1	5.0	4.7
RoE (%)	1.7	21.2	20.5	20.5	19.8
P/E (x)	239.1	15.2	12.1	9.9	8.4
P/ABV (x)	4.2	2.6	2.3	1.9	1.5

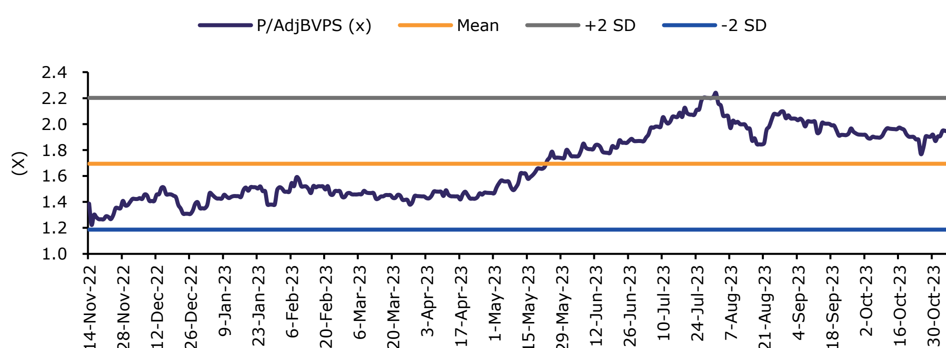
Source: Bloomberg, Emkay Research

Key investment argument

- **Poised to deliver strong growth, riding on the MFI growth story, more so in UP:** Fusion has been one of the fastest-growing listed NBFC-MFIs with AUM CAGR of 42% over FY18-23/37% in FY23), given its strong presence in high-growth-oriented northern India. It has spread its wings, from 12 states in FY17 to 20 in FY23 (top-5 states that entail 66% GLP are: UP, Bihar, Orissa, MP and TN) and now plans to gradually expand operations in southern India with entry into AP and Telangana, after Karnataka.
- **Asset quality on the mend, barring minor hiccups:** Post-Covid, Fusion logged peak GNPA of 5.8% in FY22 which was slightly higher than best-in-class players' like CREDAG's (3.7%), but lower than that of some peers' benefiting partly from lower NPA trends (90-180DPD) in Bihar and Punjab. In FY23/2QFY24, GNPA ratio moderated to 3.5%/2.7%, and is expected to dip below 2% over FY24-26E, aided by improving collections and possible shift to an aggressive write-off policy.
- **Sustainable RoA above 4.5%; reasonable valuations:** From a loss in FY18 due to DeMon-induced asset quality shocks, Fusion managed the post-Covid asset-quality trend relatively well. This, coupled with sharp improvement in NIMs, led to strong RoA of 4.6% in FY23. Factoring-in a better margin/fee income delivery, partly offset by the higher LLP, we expect Fusion to report a healthy RoA/RoE of 4.7-5.1%/20-21%. Trading at reasonable valuations of 1.9x/1.5x FY25/26E ABV, we believe the stock could re-rate led by improving return ratios. Promoter stake sale (prevalent across NBFC-MFIs) too has been relatively smooth and should thus not be a major overhang on the stock.

Fusion Microfinance – Price/adjusted Book Value

Exhibit 74: Fusion Microfinance – P/ABV (1-year forward)



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Saregama

(Analyst: Pulkit Chawla; CMP: Rs352; TP: Rs465; Rating: Buy)

Exhibit 75: Saregama India – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	5,806	7,366	8,894	11,592	13,836
EBITDA	1,871	2,210	2,676	3,606	4,446
Adj. PAT	1,526	1,853	1,967	2,618	3,224
Adj. EPS (Rs)	7.9	9.6	10.2	13.6	16.7
EBITDA margin (%)	32.2	30.0	30.1	31.1	32.1
EBITDA growth (%)	43.8	18.1	21.1	34.7	23.3
Adj. EPS growth (%)	21.8	21.5	6.1	33.1	23.2
RoE (%)	16.2	13.6	13.9	16.5	17.7
RoIC (%)	38.6	31.8	24.3	24.0	24.9
P/E (x)	44.5	36.6	34.5	25.9	21.1
EV/EBITDA (x)	31.6	26.9	23.0	17.1	13.7
P/B (x)	4.9	5.1	4.6	4.0	3.5
FCFF yield (%)	0.4	(0.2)	(0.1)	0.6	1.5

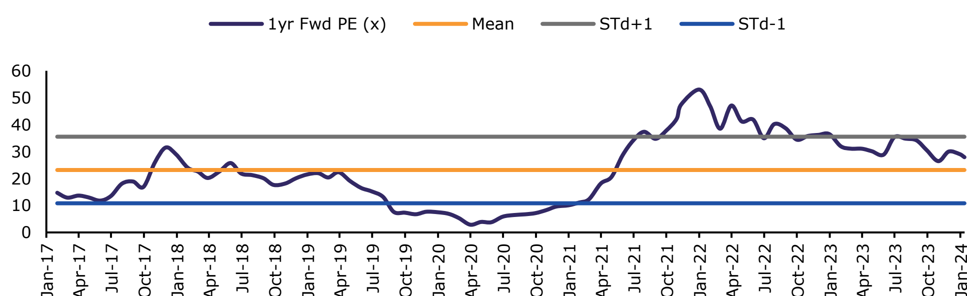
Source: Company, Emkay Research

Key investment argument

- **Industry tailwinds to aid growth:** Music licensing has emerged as an attractive segment, with the decline in piracy over the last decade. Coupled with cheap data offerings, the overall ecosystem has evolved to a large extent in the last 7-8 years. Going ahead as well, the overall music industry is expected to grow 14% from 2022 to 2025, led by digital revenues, a higher paid-subscriber base, and continued recovery of performance rights, as events and activations increase in number and scale. The music licensing industry has inherently high entry barriers, as new players cannot scale-up to the level of the large content library of existing players which acts as a natural moat for such (existing) players.
- **Saregama in prime position to capitalize on industry tailwinds:** Saregama has consistently outperformed industry growth levels over the last few years, led by strong competitive positioning, an impressive catalog, and increasing new content acquisitions. The strength of its content library also provides higher bargaining power with distribution platforms. It has forged partnerships with over 65 music licensing platforms, >30 streaming platforms, more than 20 broadcasting platforms, and >8 social media platforms which is extremely difficult to replicate.
- **Subscription model to aid realizations in medium term; Pocket Aces provides new dimension:** Saregama's realization per song on the ad-supported model is currently 10paise, which has a significant upside if the OTTAs were to transition to a paid-subscription model. Saregama's recent acquisition of Pocket Aces has opened doors to a new, fast-growing segment of digital and social media. Saregama can extract synergies with Pocket Aces in multiple areas—artist/influencer management, brand partnerships, content acquisition, marketing, etc.

Saregama – P/E

Exhibit 76: Saregama – P/E (1-year forward)



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Senco Gold

(Analyst: Devanshu Bansal; CMP: Rs758; TP: Rs850; Rating: Buy)

Exhibit 77: Senco Gold – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	35,346	40,774	51,471	61,438	72,901
EBITDA	2,772	3,166	3,671	4,576	5,662
Adj. PAT	1,291	1,585	1,790	2,261	2,866
Adj. EPS (Rs)	19.4	22.9	23.1	29.1	36.9
EBITDA margin (%)	7.8	7.8	7.1	7.4	7.8
EBITDA growth (%)	58.1	14.2	16.0	24.6	23.7
Adj. EPS growth (%)	110.0	18.0	0.6	26.3	26.8
RoE (%)	19.4	19.0	15.4	15.2	16.6
RoIC (%)	17.3	15.5	14.9	15.9	16.7
P/E (x)	37.9	32.1	31.9	25.3	19.9
EV/EBITDA (x)	19.2	17.7	16.4	13.4	11.0
P/B (x)	6.7	5.4	4.1	3.6	3.1
FCFF yield (%)	(1.2)	(2.1)	0.9	0.4	0.9

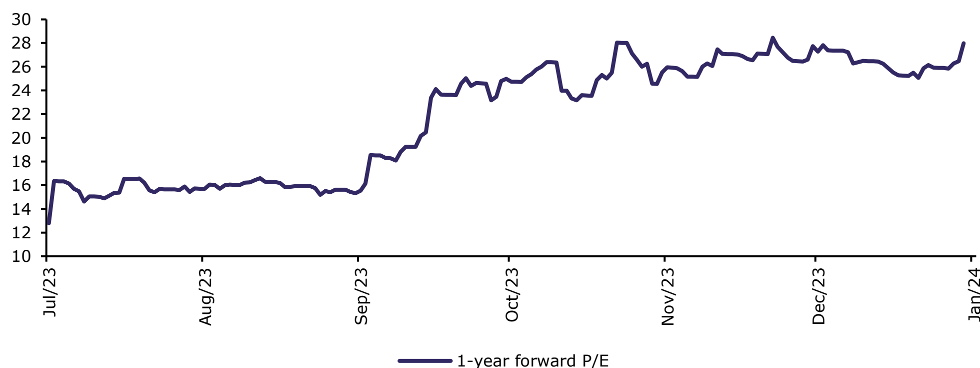
Source: Company, Emkay Research

Key investment argument

- **Lightweight product offers strongest brand accessibility:** Leveraging its multi-decadal relationship with *karigars* to kick-off its basic offering at <10gram ensures a 15-20% lighter product with a similar heavy-look – a key differentiator for Senco aiding affordability. New formats – Everlite (GenZ) and D'signia (Premium) – catering to a different target population make it more accessible and provide new levers of growth.
- **Deep penetration widens product availability for consumers:** Growth headroom is still huge, as Company's market share is still at a mid-single-digit in the East, and focused efforts are afoot to capitalize on non-East prospects (UP/NCR markets). A 12% store-addition CAGR is expected over FY23-26, funded by internal accruals.
- **Upbeat franchisee interest and shift to organized should drive strong revenue-led EPS CAGR of >20%**: Our >20% earnings CAGR expectations are backed by near-equal contribution from new stores and healthy SSG on the back of shift to organized, premiumization, and rise in price of gold. FY24 EPS growth will be muted due to IPO dilution and margin normalization, in the absence of diamond inventory gains.
- **Valuations at a major discount to peers, despite similar growth prospects:** Senco has consistently delivered a mid-teen topline growth over a long period now. Senco's valuations at ~25x FY25E EPS are at a major >40% discount to Kalyan's. Senco offers a vast re-rating opportunity, as it delivers on our expectations. We recommend BUY on Senco, with TP of Rs850/share.

Senco Gold – P/E

Exhibit 78: Senco Gold – P/E (1-year forward)



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EMAMI

(Analyst: Nitin Gupta; CMP: Rs515; TP: Rs675; Rating: Buy)

Exhibit 79: Emami – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	31,872	34,057	36,172	39,425	42,834
EBITDA	9,524	8,628	9,727	10,972	12,119
Adj. PAT	7,245	6,401	7,346	8,219	9,163
Adj. EPS (Rs)	16.4	14.5	16.8	18.8	21.0
EBITDA margin (%)	29.9	25.3	26.9	27.8	28.3
EBITDA growth (%)	7.9	(9.4)	12.7	12.8	10.4
Adj. EPS growth (%)	9.1	(11.7)	16.0	11.9	11.5
RoE (%)	37.7	29.2	28.9	27.8	27.6
RoIC (%)	43.9	35.4	42.3	49.8	57.0
P/E (x)	32.8	37.2	32.0	28.6	25.7
EV/EBITDA (x)	25.2	27.5	23.5	20.5	18.2
P/B (x)	11.4	10.3	8.4	7.5	6.7
FCFF yield (%)	0.7	2.9	3.4	3.5	4.0

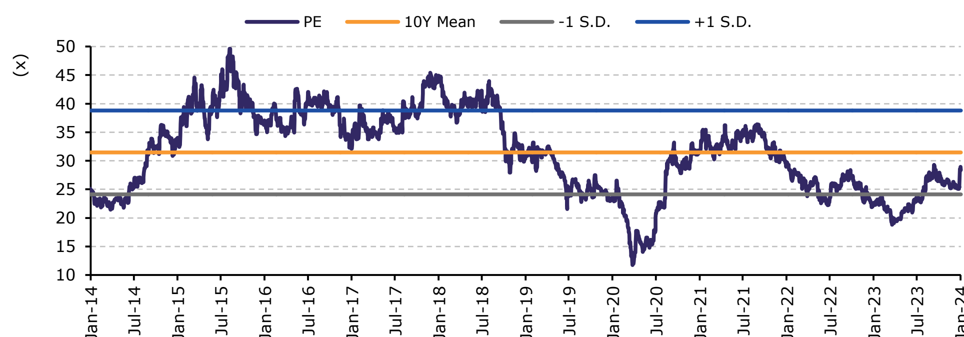
Source: Company, Emkay Research

Key investment argument

- Emami's post-Covid-19 recovery has been contingent on portfolio relevance and Management execution, further accentuated by hiring of skilled professionals.
- With inflationary pressure ebbing and all eyes on Rural recovery, we see Emami well-fitted to uphold topline growth. Its healthy margin profile will further enable it to explore various growth avenues & initiatives. Emami has balanced its rural dependence (was 55%; 52% now) with higher thrust on urban markets (where modern retail contribution is now ~19%). However, seasonal effects across the core portfolio remain a key risk.
- We expect a high single-digit topline CAGR and margin-driven 13% earnings CAGR over FY23-26E. The promoter is gradually addressing concerns on pledge, which it aims to reduce to a low double-digit. We see valuation catch-up sustaining for Emami, given that it has been addressing most business issues and is now ready to leverage the rural demand opportunity. We maintain BUY on the stock and Dec-24 TP of Rs675/share, on33xPER.

Emami – P/E

Exhibit 80: Emami – P/E (1-year forward)



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JK Tyre & Industries (JKI)

(Analyst: Chirag Jain; CMP: Rs403; TP: Rs415; Rating: Buy)

Exhibit 81: JK Tyre – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,19,830	1,46,449	1,61,597	1,74,353	1,86,218
EBITDA	10,733	12,978	21,008	23,538	26,071
Adj. PAT	1,976	3,246	8,197	10,796	12,727
Adj. EPS (Rs)	8.0	13.2	33.3	41.4	48.8
EBITDA margin (%)	9.0	8.9	13.0	13.5	14.0
EBITDA growth (%)	(17.8)	20.9	61.9	12.0	10.8
Adj. EPS growth (%)	(39.2)	30.7	211.6	24.4	17.9
RoE (%)	7.2	10.4	21.9	23.8	23.0
RoCE (pre-tax, %)	9.3	10.8	18.9	20.0	20.9
P/E (x)	49.1	29.9	11.8	9.5	8.1
EV/EBITDA (x)	13.8	11.0	6.8	6.1	5.3
P/B (x)	3.4	2.9	2.4	2.0	1.6
FCFF yield (%)	(5.8)	3.7	4.8	6.3	7.9

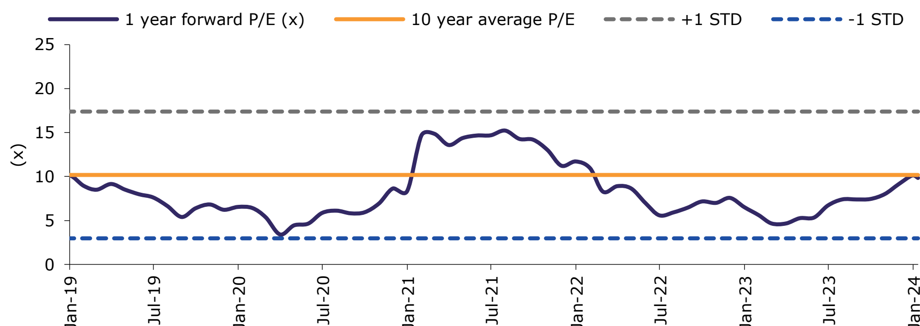
Source: Company, Emkay Research; Note: financials as of before the recent fund raise

Key investment argument

- **The tyre space continues to enjoy multiple tailwinds** in the form of controlled industry capex spends, continued import restrictions, improved export competitiveness, and ongoing premiumization in the underlying OEM industry; the space is becoming much more balanced as against earlier periods – slowly graduating from its 'commodity-driven' status to being more 'consumer-oriented'.
- In particular, we believe **calibrated capex spends (unlike lumpy capex cycles of the past)** would ensure that capacities increase in tune with demand growth (~7-8% CAGR), thereby helping sustain current high utilization levels and thus aiding to **maintain profitability/margin levels around current peak levels (vs expectation of decline, as per consensus view).**
- JK Tyre (JKI) has, over the past few years, caught up with peers as regards in performance (on structural transformation in R&D, distribution, branding, product premiumization); sustained margins around current levels (~15% in Q2FY24), along with controlled capex, would **drive sharp deleveraging** (towards ~0.5x Net Debt/Equity in FY26E vs. ~1.1x as of Sep-23), **with over 20% return ratios,** in turn narrowing the valuation gap with competition (currently trades at ~8x FY26E PER vs. ~13-20x for peers).

JK Tyre – P/E

Exhibit 82: JK Tyre – P/E (1-year forward)



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Top Sells

Britannia Industries

(Analyst: Nitin Gupta; CMP: Rs5,062; TP: Rs5,450; Rating: Reduce)

Exhibit 83: Britannia Industries – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,41,363	1,63,006	1,70,960	1,88,494	2,07,795
EBITDA	22,015	28,309	31,814	35,715	40,337
Adj. PAT	15,258	19,462	21,647	24,408	28,262
Adj. EPS (Rs)	63.3	80.8	89.9	101.3	117.3
EBITDA margin (%)	15.6	17.4	18.6	18.9	19.4
EBITDA growth (%)	(12.3)	28.6	12.4	12.3	12.9
Adj. EPS growth (%)	(18.2)	27.5	11.2	12.8	15.8
RoE (%)	50.0	63.9	61.7	66.3	70.2
RoIC (%)	57.5	70.7	68.0	69.9	79.1
P/E (x)	81.3	63.8	57.3	50.8	43.9
EV/EBITDA (x)	56.6	43.6	39.0	34.7	30.7
P/B (x)	48.5	35.1	35.6	32.0	29.7
FCFF yield (%)	0.6	1.5	1.3	1.8	2.1

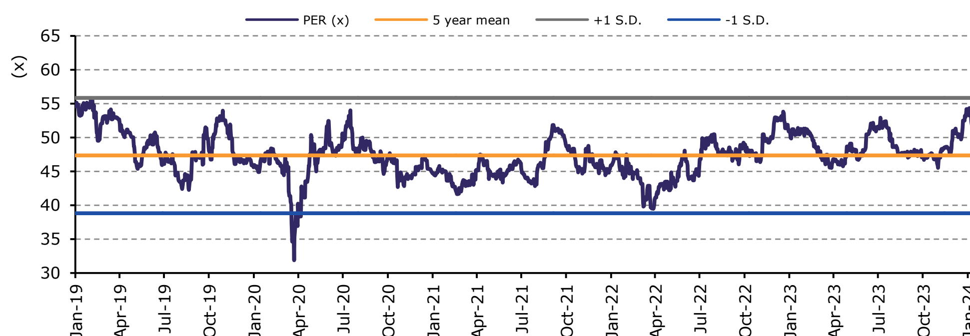
Source: Company, Emkay Research

Key investment argument

- Britannia has been benefitting on the margin front, via retaining product prices (amid easing in raw material prices) and continued focus on shifting the Rs5 pack to Rs10 in biscuits. In the last three quarters, regional competition has revived and focus is on the Rs5 SKU which reflects in the market-share shift. Per our ground checks, the company is now taking action in the Rs5 SKU with higher grammage; we believe this move will help volume growth, but affect its margin profile. Additionally, Company thrust on adjacencies is margin-dilutive.
- Over the past 3-4 years, the management has pursued a strategy involving adjacencies such as rusk, cakes, and croissants. However, the growth in these areas has been constrained due to intensified competition and a notable absence of innovation. As regards its dairy portfolio, the management is expected to drive value-add products that have seen limited success due to supply-chain issues.
- We continue to value Britannia at 48x its P/E which is broadly in line with its last five-year average forward P/E. Any improvement in the demand scenario and delivery acceleration in adjacent businesses are re-rating catalysts. We see sales and earnings CAGR of 9% and 13% over FY23-26E, respectively. With forward P/E at 53x, the stock is now trading at a premium of 12% to its historical five-year average and is closer to the +1SD of 55x.

Britannia Industries – P/E

Exhibit 84: Britannia Industries – P/E (1-year forward)



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Cholamandalam Investment

(Analyst: Avinash Singh; CMP: Rs1,288; TP: Rs1,350; Rating: Reduce)

Exhibit 85: Cholamadalam Invetsment – Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profits	21,467	26,662	34,418	42,018	52,471
AUM growth (%)	9.9	38.5	28.9	24.3	24.9
NII growth (%)	13.3	20.2	38.5	26.5	26.5
NIMs (%)	8	7.9	8.1	8	8.1
PPOP growth (%)	10.4	18	36.8	24.3	24.8
Adj. EPS (Rs)	26.1	32.4	41.8	51	63.7
Adj. EPS growth (%)	41.5	24	29	22.1	24.9
Adj. BV (INR)	142.4	173.7	235.4	281.4	338.7
Adj. BVPS growth (%)	22.3	21.9	35.6	19.5	20.4
RoA (%)	2.7	2.7	2.7	2.6	2.6
RoE (%)	20.2	20.5	20.4	19.7	20.5
P/E (x)	47.7	38.5	29.8	24.4	19.6
P/ABV (x)	9.1	7.5	5.5	4.6	3.8

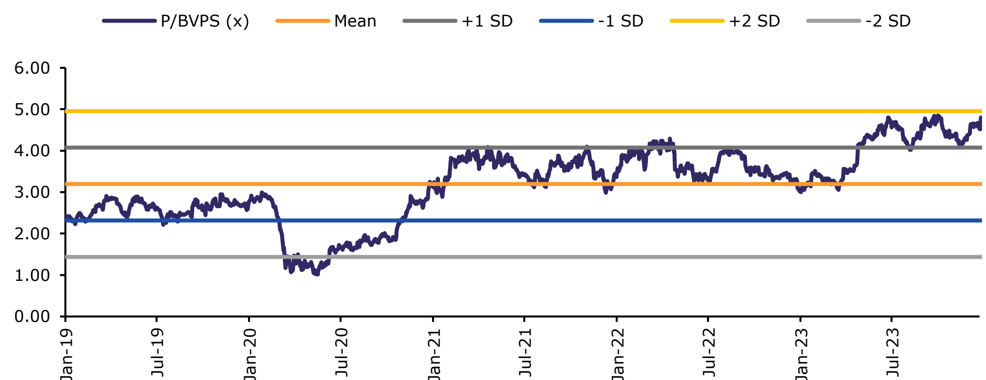
Source: Company, Emkay Research

Key investment argument

- Slow down in CV sales is likely to impact the overall AUM growth, as vehicle finance accounts for 61% of the overall AUM in Q2FY24.
- The management is consciously slowing down its partnership business, which is experiencing higher NPAs and which would result in slower growth of the new business segment.
- CIFC is presently trading at around +2 standard deviations, which we believe aligns with its recent robust operational performance. Nevertheless, we anticipate that the slow down in commercial vehicles (CVs) and the partnership business will impact the stock price.

Cholamadalam Investment – P/BV

Exhibit 86: Cholamadalam Investment – P/BV (1-year forward)



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Colgate-Palmolive

(Analyst: Nitin Gupta; CMP: Rs2,500; TP: Rs1,850; Rating: Sell)

Exhibit 87: Colgate-Palmolive – Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	50,998	52,262	56,265	60,275	64,573
EBITDA	15,659	15,470	18,302	19,335	20,786
Adj. PAT	10,783	10,584	12,660	13,416	14,517
Adj. EPS (Rs)	39.6	38.9	46.5	49.3	53.4
EBITDA margin (%)	30.7	29.6	32.5	32.1	32.2
EBITDA growth (%)	3.7	(1.2)	18.3	5.6	7.5
Adj. EPS growth (%)	4.1	(1.9)	19.6	6.0	8.2
RoE (%)	74.4	61.3	71.7	72.2	74.5
RoIC (%)	187.2	125.9	195.1	273.0	425.8
P/E (x)	61.8	63.0	52.7	49.7	45.9
EV/EBITDA (x)	42.1	42.5	35.8	33.8	31.3
P/B (x)	38.4	38.8	36.8	35.0	33.4
FCFF yield (%)	2.4	1.7	2.1	2.2	2.4

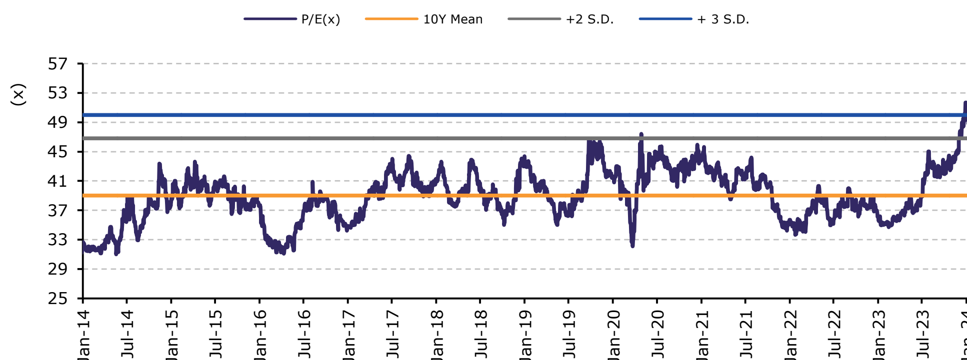
Source: Company, Emkay Research

Key investment argument

- With the toothpaste category's penetration at ~85% in urban and ~75% in rural, volume growth ahead would be a factor of converting non-users and users into 'twice-brushing' users. We see Toothpaste volume CAGR of ~3% over coming 5 years. Colgate India is currently exploring avenues for growth by implementing pricing strategies and emphasizing premiumization within the core business. In terms of structural growth, there is a necessity for diversification where Colgate currently faces a shortfall.
- Although the management expresses optimism about the potential in Oral Care, we observe constrained progress in this area. It is evident that 55% of rural users do not engage in daily brushing, and only around 20% of urban users brush twice a day. Additionally, as Colgate India is prioritizing margins, the management's lack of emphasis on significant innovations within the category raises concerns about the long-term outlook.
- While we see healthy pricing driving the company's topline growth in the near term, the sustained volume weakness is bothersome. Our estimates are broadly in line with Consensus. Our target valuation multiple of 35x P/E demonstrates a ~10% discount to Colgate's last 10-year average forward P/E, mainly to account for the weaker revenue growth. We maintain SELL on the stock with Dec-24E TP of Rs1,825/share.

Colgate-Palmolive – P/E

Exhibit 88: Colgate-Palmolive – P/E (1-year forward)



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Jubilant FoodWorks

(Analyst: Devanshu Bansal; CMP: Rs528; TP: Rs400; Rating: Sell)

Exhibit 89: Jubilant FoodWorks – Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	43,311	50,960	53,746	59,530	68,595
EBITDA	11,046	11,592	11,281	12,968	15,148
Adj. PAT	4,448	4,028	2,865	3,497	4,438
Adj. EPS (Rs)	6.7	6.1	4.3	5.3	6.7
EBITDA margin (%)	25.5	22.7	21.0	21.8	22.1
EBITDA growth (%)	44.1	4.9	(2.7)	15.0	16.8
Adj. EPS growth (%)	90.4	(9.4)	(28.9)	22.1	26.9
RoE (%)	24.7	19.0	12.8	14.1	16.0
RoIC (%)	142.0	73.7	40.4	39.4	45.9
P/E (x)	78.0	86.1	121.0	99.2	78.2
EV/EBITDA (x)	30.8	29.6	30.6	26.5	22.5
P/B (x)	16.5	16.2	14.8	13.3	11.8
FCFF yield (%)	1.4	0.5	0.9	1.9	2.5

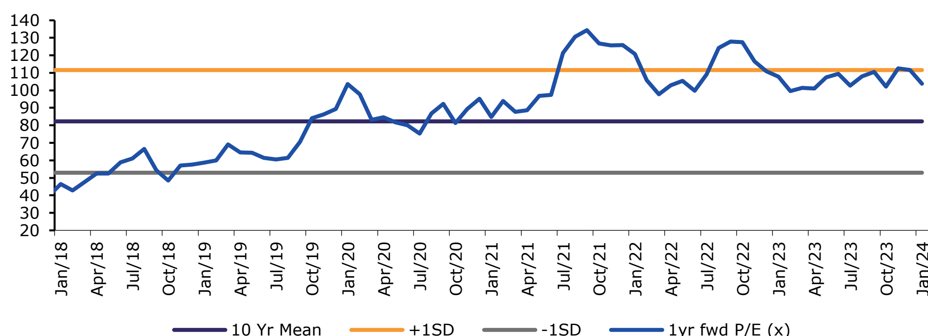
Source: Company, Emkay Research

Key investment argument

- **Prolonged slowdown; Pizza players struggling even more:** We expect challenges to persist in the near term, owing to weak macros and high competition in the pizza category. Company is expected to register a modest 6% growth in Q3. SSG should be negative and we expect sales-per-store to decline to a mid-single digit.
- **Factoring in 200-300bps of incremental growth from Popeyes/other formats:** We expect the Domino's format to deliver 12-13% earnings growth at best in the medium term, due to 7-8% network expansion, a mid-single-digit SSG, and 200bps margin gains over the next decade. Popeyes/other formats can grow faster and incrementally add 200-300bps to growth, providing an overall potential of mid-teens earnings CAGR.
- **Current valuations running ahead of growth prospects:** In our view, current valuations at 42x FY25E standalone EBITDA bake-in much higher growth prospects, and we recommend a SELL on JUBI with TP of Rs400/share. We are currently valuing investment in DP Eurasia/subsidiaries at cost, and a better delivery is a potential upside. However, a slower scale-up of the new formats—Popeyes, Hong's, and Dunkin'—remains a key downside.

Jubilant FoodWorks – P/E

Exhibit 90: Jubilant FoodWorks – P/E (1-year forward)



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LTI Mindtree

(Analyst: Dipesh Mehta; CMP: Rs6,276; TP: Rs5,900; Rating: Reduce)

Exhibit 91: LTIMindtree – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	261,087	331,830	357,088	398,325	455,587
EBITDA	52,486	61,077	65,505	75,813	89,339
Adj. PAT	39,483	44,083	46,895	54,901	65,531
Adj. EPS (Rs)	133.5	149.0	158.5	185.5	221.5
EBITDA margin (%)	20.1	18.4	18.3	19.0	19.6
EBITDA growth (%)	92.6	16.4	7.3	15.7	17.8
Adj. EPS growth (%)	20.5	11.6	6.3	17.1	19.4
RoE (%)	36.6	26.6	26.1	26.2	26.7
RoIC (%)	82.7	53.8	52.9	54.8	60.4
P/E (x)	47.0	42.1	39.6	33.8	28.3
EV/EBITDA (x)	35.1	30.0	27.7	24.0	20.2
P/B (x)	13.0	11.2	9.6	8.2	7.0
FCFF yield (%)	1.2	1.2	2.2	2.6	3.1

Source: Company, Emkay Research

Key investment argument

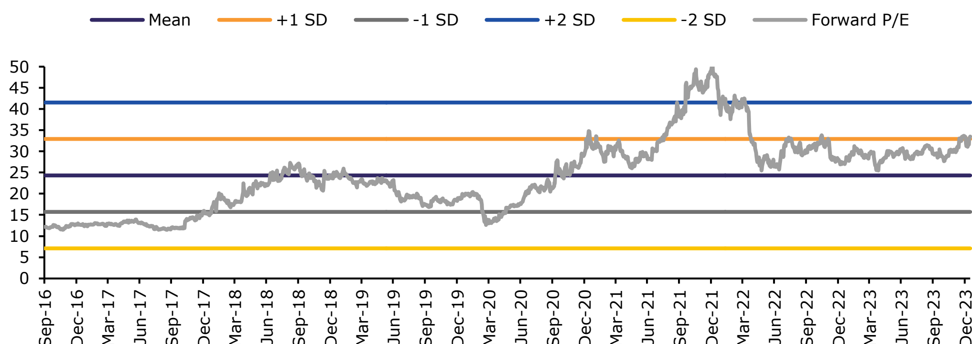
- **Uptick in discretionary spending augurs well for growth acceleration; current estimates back it to a large extent:** LTIMindtree has a well-diversified vertical mix (BFSI: 36%, Manufacturing: 20%, Retail: 15%, HME: 23%, and HLS: 7%), and top client mix (top 5/10/20 clients: 28%/35%/46%). The entity serves nearly a fifth of the fortune 500 clients, which have a significant opportunity to cross-sell and up-sell across the client base. Acceleration in discretionary spending would augur well for growth acceleration, particularly for BFSI and Hi-Tech, as these sectors combined contributed ~60% of the revenue (with flat CQGR) over the last four quarters.

- **Revenue growth estimates build-in material acceleration compared with the last 4 quarters:** We have built-in 2.9% revenue CQGR over the next 10 quarters vs. 1.2% CQGR over the last four. Merger-related costs impacted EBITM in FY23; we expect margins to expand by ~120bps over FY23-26E, on the back of absence of merger-related costs and synergy benefits.

- **Premium valuation, sub-par growth trajectory:** LTIMindtree's USD revenue growth is expected at ~5% in FY24, impacted by continued weakness in discretionary spending, challenging demand environment, cautious client spending, and delayed decision-making. Clients continue to prioritize higher RoI projects, with efficiency and cost takeout deals continuing to gain share. We expect 9.3% USD revenue CAGR over FY23-26E vs an average of 13% USD revenue CAGR over the same period for mid-cap coverage peers. The stock is currently trading at ~34x/28x FY25/FY26E EPS and ~1.6x PEG, which we find rich.

LTI Mindtree – P/E

Exhibit 92: P/E (1-year forward)



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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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