Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	82,555	0.0	14.3
Nifty-50	25,280	0.0	16.3
Nifty-M 100	59,298	0.2	28.4
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,529	-2.1	15.9
Nasdaq	17,136	-3.3	14.2
FTSE 100	8,298	-0.8	7.3
DAX	18,747	-1.0	11.9
Hang Seng	6,204	-0.1	7.5
Nikkei 225	38,686	0.0	15.6
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	76	-4.8	-2.3
Gold ($/OZ)	2,493	-0.3	20.8
Cu (US$/MT)	8,830	-2.5	4.3
Almn (US$/MT)	2,386	-0.7	1.7
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	84.0	0.0	0.9
USD/EUR	1.1	-0.3	0.0
USD/JPY	145.5	-1.0	3.1
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.9	0.00	-0.3
10 Yrs AAA Corp	7.4	-0.08	-0.4
Flows (USD b)	**3-Sep**	**MTD**	**CYTD**
FIIs	0.1	1.52	5.8
DIIs	0.23	5.98	37.3
Volumes (INRb)	**3-Sep**	**MTD***	**YTD***
Cash	1,200	1192	1300
F&O	4,50,243	3,45,419	3,78,398

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

EcoScope: So what if loan-to-deposit ratio is rising?

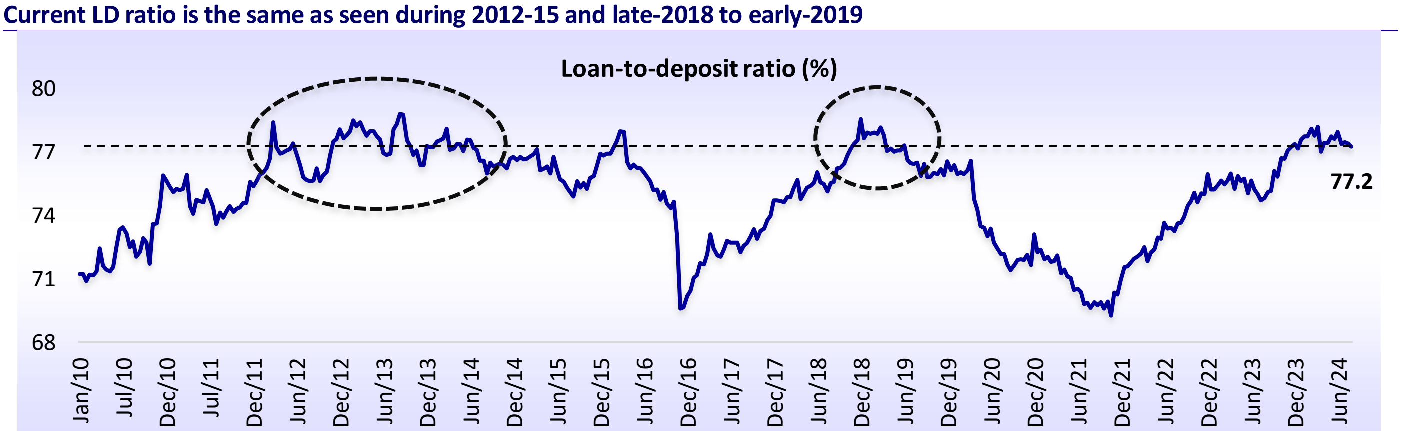
- The Indian banking sector's loan-to-deposit (LD) ratio stood at 77.2% as of 9th Aug'24 vs. the recent peak of 78.2% (as of 22nd Mar'24) and the all-time peak was 78.8% in Sep'13. However, a closer look at the banking sector's transactions with the RBI, through LAF and recent trends in WACR clearly indicates that a rising LD ratio does not signal any signs of tightness and, therefore, is not a cause for concern. Bank deposit growth is also stable (not weak) at 10.8% YoY as of 9th Aug'24.
- Historical data confirm that total bank deposits grew at an average of 9.5% during the pre-Covid period (Jan'15-Feb'20) and 10.4% during the post-Covid period (Mar'20-Aug'24). Our analysis suggests that deposit growth could be raised by either making other asset classes unattractive (through taxation and/or interest rate) or increasing the growth in net credit to the government by pushing fiscal spending higher.
- Since Jan'24, net credit to the government has grown at low single-digits, acting as a drag on deposit growth. Overall, we hope that do not place excessive emphasis on the rising LD ratio. As fiscal spending increases, bank credit to the government would grow at a faster rate, which will subsequently elevate total deposits and the broad money supply (M3).

Research covered

Cos/Sector	Key Highlights
EcoScope	So what if loan-to-deposit ratio is rising?
Godrej Consumer Products	Building blocks; outperformance to sustain
Bulls & Bears	Nifty scales a new peak and closes above 25k; robust DII flows continue

Chart of the Day: EcoScope (So what if loan-to-deposit ratio is rising?)

Current LD ratio is the same as seen during 2012-15 and late-2018 to early-2019



Latest data as of 9th Aug'24 — Excluding the impact of the merger of HDFC Ltd. with HDFC Bank

Bank credit to commercial sector (loans) and bank deposits from money stock — Source: RBI, CEIC, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

TCS to prioritise automotive labs and AI for growth in ER&D

Rapid technological advancements demand a workforce that is not only highly skilled but also quickly adaptable to new tools and innovations.

2

Ebix exits bankruptcy after acquisition by Eraaya LifeSpaces

The US-based entity had filed for bankruptcy in January. It also operates an Indian subsidiary, EbixCash, which experienced the resignation of two directors shortly after the filing.

3

Unease among Coke bottlers over HCCB monetisation plan; some franchise bottlers keen to participate in pre-IPO round

In January of this year, HCCB announced the sale of its bottling operations in Rajasthan, Bihar, the northeast, and select areas in West Bengal to franchise bottlers.

4

Classic Legends may hit the IPO route in FY27, co to focus on ramping up volumes

Classic Legends, backed by Mahindra & Mahindra, plans to launch an IPO in the financial year starting April 1, 2026. The company, which manufactures Jawa, Yezdi, and BSA motorcycles, aims to boost production and expand its network.

5

Tighter regulations will make NBFCs robust, support growth: Sanjiv Bajaj

Banks have an advantage because of CASA, but CASA comes with the requirement of CRR and SLR. So it ends up balancing itself. Banks have stable sources of retail money and large deposits and it's also cheaper, but the cost to raise it (retail money) is large. In HFCs we have wholesale money, which may be expensive but the cost of raising it also lower.

6

CCI approves Canadian pension fund's additional stake buy in Highway Infrastructure Trust

The Competition Commission of India has approved Ontario Teachers Pension Plan Board's acquisition of additional units in Highway Infrastructure Trust and Citrine Inclusion's stake in Utkarsh CoreInvest Ltd.

7

BSNL to get Rs 6,000 crore more from govt to meet capex needs for 4G rollout

The Centre plans to allocate over Rs 6,000 crore to BSNL for its delayed 4G rollout. This funding aims to cover the shortfall in capital expenditure for 4G network gear. The government expects the nationwide rollout of 100,000 sites to be completed by mid-2025, delayed from the earlier deadline of Diwali, 2024.

So what if loan-to-deposit ratio is rising?

It is very likely to subside on its own in the coming months

- **The Indian banking sector's loan-to-deposit* (LD) ratio stood at 77.2% as of 9th Aug'24. The recent peak was 78.2% as of 22nd Mar'24 and the all-time peak was 78.8% in Sep'13. Recently, there has been considerable debate about the rising LD ratio, sluggish deposit growth, and the potential concerns to the financial stability. In this report, we weigh in on this debate and address the following key questions related to these issues:**
  1) ***How high is the LD ratio in India? Are recent trends a cause for concern?***
  2) ***What is driving the higher LD ratio: weak deposit growth or higher lending to the commercial (or private) sector?***
  3) ***How can policymakers encourage higher growth in deposits? Do increased flows in equity market hurt deposit growth?***
  4) ***How can the policymakers restrict loan growth? Which sections are experiencing faster growth in loans?***
  5) ***What would be the key macroeconomic implications of potential policy options to reduce the LD ratio and likely path of LD ratio in the near future?***
  6) ***What role does the RBI's foreign exchange policy play in influencing deposit growth within the economy?***
- **We are actually quite perplexed regarding this entire debate about the high LD ratio. Typically, an increasing LD ratio is associated with heightened tightness in the banking sector, which may suggest potential overheating. A closer look at the banking sector's transactions with the RBI, through liquidity adjustment facility (LAF), and recent trends in weighted average call rate (WACR) clearly indicates that a rising LD ratio does not signal any signs of tightness and, therefore, is not a cause for concern.**
- **We are also not convinced that deposit growth is weak in India. Historical data confirm that total bank deposits* grew at an average of 9.5% during the pre-Covid period (Jan'15-Feb'20) and 10.4% during the post-Covid period (Mar'20-Aug'24), implying an average growth of 9.9% during the past decade (Jan'15-Aug'24). Bank deposits increased 10.8% YoY as of 9th Aug'24.**
- **However, the Finance Minister has reportedly nudged the state-run banks to step up deposit mobilization. What precise steps are to be taken by these banks are highly unclear. However, our analysis suggests that deposit growth could be raised by either making other asset classes unattractive (through taxation and/or interest rate) or increasing the growth in net credit to the government by pushing fiscal spending higher. Since Jan'24, net credit to the government (by the RBI and the banking sector) has grown at low single-digits, acting as a drag on deposit growth.**
- **Alternatively, the policymakers could try to curtail loan growth to pull down the LD ratio. It must be noted that if credit to the commercial sector grows at a weaker pace (without any surge in government credit), it could lead to a deceleration in deposit growth. In any case, an analysis of private credit suggests that the LD ratio for the corporate sector has halved in the past decade, while it has increased for the household sector. It means that corporate credit growth is still weak. If so, any attempts to curtail loan growth implies either more restrictions on unsecured personal loans (on which the RBI has already sounded caution) and/or unincorporated business loans.**
- **Policymakers can also attempt to encourage savers to shift their investments from other asset classes to bank deposits. However, this may require significant effort from regulators and carries the risk of overreach. Further, such measures could undermine general confidence, potentially hindering economic growth. Overall, nearly all policies aimed at reducing the LD ratio could ultimately harm domestic economic growth.**
- **Overall, we hope that policymakers in New Delhi and Mumbai do not place excessive emphasis on the rising LD ratio. While we are not particularly concerned about the LD ratio itself, we are apprehensive about policymakers becoming overly fixated on this trend. As fiscal spending increases, bank credit to the government is expected to grow at a faster rate, which will subsequently elevate total deposits and the broad money supply (M3). Even if loan growth remains robust at approximately 14%, the LD ratio is likely to decline. However, the extent of foreign capital inflows and the RBI's policy for managing these inflows remain uncertain.**

* There are two sources of fortnightly data on deposits and credit, both of which are published on the same day. The RBI publishes scheduled banks' statement of position and money stock: components and sources in its Weekly statistical supplement. Since the latter is more comprehensive than the former, we have used it in the entire report.

Godrej Consumer Products

BSE SENSEX	S&P CNX
82,555	25,280

Stock Info

Bloomberg	GCPL IN
Equity Shares (m)	1023
M.Cap.(INRb)/(USDb)	1494.2 / 17.8
52-Week Range (INR)	1525 / 960
1, 6, 12 Rel. Per (%)	-2/2/15
12M Avg Val (INR M)	1437
Free Float (%)	37.0

Financials Snapshot (INR b)

Y/E Mar	2024	2025E	2026E
Sales	141.0	149.7	166.5
Sales Gr. (%)	5.9	6.2	11.2
EBITDA	30.7	33.9	37.9
Margins (%)	21.8	22.6	22.7
Adj. PAT	19.8	22.7	27.6
Adj. EPS (INR)	19.3	22.2	27.0
EPS Gr. (%)	13.2	15.1	21.3
BV/Sh.(INR)	123.3	134.7	149.3
Ratios			
RoE (%)	15.0	17.2	19.0
RoCE (%)	15.2	16.2	18.3
Payout (%)	77.6	76.5	70.5
Valuations			
P/E (x)	75.5	65.6	54.1
P/BV (x)	11.8	10.8	9.8
EV/EBITDA (x)	48.8	43.9	39.0
Div. Yield (%)	1.0	1.2	1.3

Shareholding Pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	63.0	63.2	63.2
DII	9.3	8.9	7.4
FII	22.4	22.6	23.5
Others	5.3	5.3	5.9

FII includes depository receipts

CMP: INR1,461 TP: INR1,700 (+16%) BUY

Building blocks; outperformance to sustain

Godrej Consumer Products (GCPL) has adopted a growth-oriented strategy that includes pursuing acquisitions, cross-selling, entering new categories, and expanding the Total Addressable Market (TAM) for existing products. Additionally, it has increased reinvestments, particularly in marketing (+36% YoY in FY24). The company has made strategic moves, such as improving inventory management in RCCL and Indonesia and exiting non-core businesses, to drive consistency in its performance and improve the earnings growth trajectory.

In FY24, GCPL delivered a healthy performance across various regions, reporting consolidated sales growth of 6% YoY (21% in CC terms), led by volume growth of 10% (7% organic). The EBITDA margin has shown improvement across geographies, expanding 270bp YoY to 21.8%. We expect the operating margin to expand by 100bp over FY24-FY26 due to benign raw material costs, margin recovery in the GAUM region, a return to normalized operating margins in Indonesia (around mid-20s), and structural cost savings in India. EBITDA and Adj. PAT grew by 21% and 13% YoY in FY24. We expect the company to deliver Sales/EBITDA/Adj. PAT CAGR of 9%/11%/18% over FY24-FY26E. The earnings growth trajectory is the strongest among its peers (refer to Exhibit 38).

The stock trades at 66x and 54x P/E in FY25E and FY26E, respectively. We reiterate our BUY rating with a TP of INR1,700.

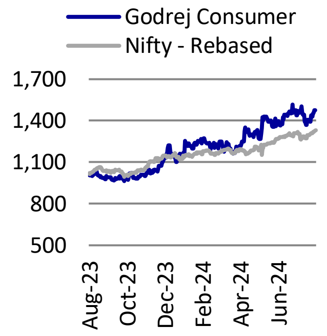
Strategies for growth

- GCPL's FY24 strategy was focused on: a) expanding existing categories by innovating products in different sizes and at multiple price points, while broadening distribution to enhance consumer reach; b) streamlining operations through radical simplification by reducing SKUs, personnel, and processes; and c) prioritizing sustainability and social responsibility alongside profitability under the principle of 'People and Planet alongside Profit'.
- For FY25, GCPL has outlined a three-pronged strategy: 1) premiumization, which involves launching premium innovations, entering new premium categories, and expanding premium channels; 2) efficiency improvement, wherein GCPL plans to enhance efficiency by investing in manufacturing capabilities and increasing media investments; and 3) affordability in rural markets, wherein the company aims to drive growth in rural areas by introducing access packs to cater to price-sensitive consumers.

Strong focus on innovation

- GCPL has consistently introduced innovations across its categories. In FY24, the company launched (1) Goodknight Agarbatti (Jan'24) using the RNF molecule, (2) Godrej Fab Liquid Detergent priced at INR99, and (3) Godrej Aer O car freshener. Each of these products is expected to generate over INR1b in revenue in FY25. The new products together contribute ~4% additional volume growth for FY25. While the success of these innovations has varied, GCPL's robust pipeline of new products and effective go-to-market strategy provide a competitive advantage, especially in underpenetrated categories.

Stock Performance (1 year)



Volume-led growth in the Indian business

Since FY21, GCPL's domestic business has shown early signs of revival following the sales slowdown experienced during FY17-FY20 (5% revenue CAGR). Factors such as innovations in the underpenetrated HI category, robust growth in personal care driven by shifts in consumer behavior post-pandemic, and a strong position in the mass hair color category—which experienced recovery as pandemic restrictions eased—contributed to the growth observed during FY21-FY24 (10% revenue CAGR). In FY24, GCPL experienced domestic revenue growth of 10% (4% organic) and UVG of 13% (6% organic).

Improving momentum for the RCCL business

Although RCCL revenue declined ~25% in FY24 due to its simplification initiatives, the underlying business momentum remains strong. GCPL is targeting to achieve INR6.0-INR6.5b revenue in FY25. The company has gained significant market share in modern trade, e-commerce, and rural areas but has experienced a decline in its share of urban General Trade (GT). The management is returning to RCCL's previous strategy of focusing on GT channels, recognizing that cosmetic stores require more active selling efforts than distribution. GCPL aims to achieve an EBITDA of ~INR1.4-1.5b in FY25.

Improvements in international operations

GCPL has made progress in its international operations, particularly in emerging markets such as Indonesia, Latin America, and Africa. The company has adopted a "Think Local, Act Global" approach, allowing it to tailor its strategies to local market conditions while leveraging global efficiencies to maintain its competitive edge. This has resulted in a focus on category leadership, simplification of operations, and strategic exits from less profitable markets, such as the East African market. The management targets to reach ~14-15% operating margins over the next two years from the average 10% for GAUM regions. In Indonesia, GCPL plans to improve its return on capital employed to double-digit within the next 2-3 years. The company is also reducing its manufacturing footprint by around 40% to streamline operations and increase profitability globally.

Medium-term aspirations

The consolidated business will deliver high single-digit volume growth with mid-teens EBITDA margin in FY25. Over the medium term, the company is looking to achieve high single to low double-digit volume growth in India with a healthy mix of pricing. EBITDA margin is expected to be in the mid-to-high 20s. International business will continue to improve its operating profitability by reducing overhead costs and closing down non-performing businesses.

Valuation and view

- GCPL has experienced improved growth in sales volume in its Indian business during FY24 and is likely to record a double-digit EPS growth over FY24-26E. Factors such as the implementation of disruptive innovations, introduction of access packs, expansion into new growth categories, and increased advertising expenditure will continue to deliver sustainable earnings growth.
- The company is consistently working toward expanding the TAM for its Indian business, along with product innovation to drive frequency. Besides, it has made consistent efforts to bridge the gaps in profitability/growth for its international business. **We reiterate our BUY rating with a TP of INR1,700 (based on 60x Jun'26E EPS).**

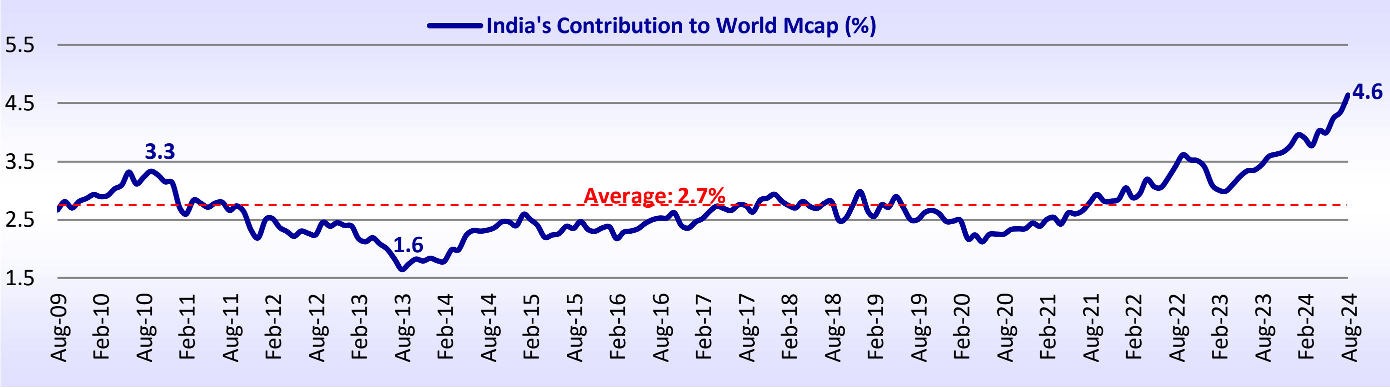
Bulls & Bears

India Valuations Handbook

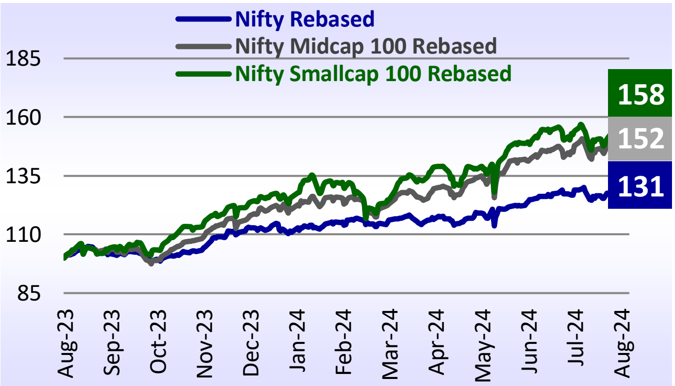
Strategy: Nifty scales a new peak and closes above 25k; robust DII flows continue

- **Nifty scales a record high; closes above 25k:** The Nifty touched a fresh high of 25,268 before ending +1.1% MoM at 25,236 in Aug'24. The index has closed higher for the third straight month now. Notably, the index was extremely volatile and swung around 1,375 points before closing 285 points higher. The Nifty is up 16.1% in CY24YTD. Over the last 12 months, midcaps and smallcaps have gained 52% and 58%, respectively, while largecaps have risen 31%. During the last five years, midcaps have outperformed largecaps by 150%, while smallcaps have outperformed largecaps by 126%.
- **DII inflows remain strong; FIIs record third consecutive month of inflows:** FIIs turned buyers for the third consecutive month of USD1.4b in Aug'24. DII inflows continue to remain strong at USD5.8b in Aug'24. FII inflows into Indian equities stand at USD5.1b in CY24YTD vs. inflows of USD21.4b in CY23. DII inflows into equities in CY24YTD continue to be strong at USD37b vs. USD22.3b in CY23.
- **Breadth favorable in Aug'24:** Among sectors, Healthcare (+7%), Technology (+5%), Telecom (+2%), Consumer (+2%), and Financial (+1%) were the only gainers, whereas PSU Banks (-6%), Real Estate (-4%), Capital Goods (-3%), Utilities (-2%), and Media (-2%) were the key laggards MoM. Bajaj Auto (+13%), Shriram Finance (+9%), LTIMindtree (+9%), Bajaj Finserv (+8%), and Cipla (+7%) were the top performers, while Tata Steel (-8%), SBI (-7%), Adani Ports (-6%), Maruti (-5%), and Ultratech Cement (-5%) were the key laggards.
- **Major economies end higher in Aug'24:** Among the key global markets, Brazil (+7%), Indonesia (+6%), the US (+2%), MSCI EM (+1%), India (+1%) ended higher in local currency terms. However, Russia (-11%), Korea (-3%), China (-3%), and Japan (-1%) ended lower MoM in Aug'24. Over the last 12 months, the MSCI India Index (+40%) has significantly outperformed the MSCI EM Index (+12%). Over the last 10 years, the MSCI India Index has notably outperformed the MSCI EM index by a robust 205%.
- **Earnings review – 1QFY25: A muted quarter, as expected!:** The 1QFY25 corporate earnings came in line, with overall growth primarily propelled once again by domestic cyclicals. Notable contributions were witnessed from the Healthcare, Real Estate, Capital Goods, and Metals sectors. In contrast, earnings growth was adversely affected by OMCs. The aggregate earnings of the MOFSL Universe companies were in line with our expectations and grew 1% YoY (vs. our est. of -1% YoY). Earnings for the Nifty-50 rose 4% YoY (vs. our est. of +3%). The aggregate performance was hit by a drag from OMCs. Excluding OMCs, the MOFSL Universe and Nifty posted 12% and 9% earnings growth vs. expectations of +10% and +7%, respectively.
- **Our view:** Over the past five years, the Nifty-50 has delivered stellar returns at 17% CAGR, supported by equally impressive corporate earnings CAGR of 18%, resulting in an increase in Nifty profits to INR7.9t in FY24 from INR3.5t in FY19. We expect earnings momentum to sustain; albeit, the magnitude of its growth is expected to moderate to ~15% over FY24-26. As highlighted in our report – Nifty-50 P/E dissection: Devil is in the details!, the Nifty P/E remains well within its 10-year average range and is expected to maintain this level going forward. We remain constructive on the markets, and our preference is predominantly in favor of large-caps, as the valuations of mid- and small-cap indices are trading at a premium of 59% and 5% to Nifty-50, respectively. Our model portfolio underscores our strong belief in domestic structural and cyclical themes. We continue to remain bullish on PSU Banks, Consumption, Industrials, and Real Estate, and we have turned constructive on Technology. We also remain positive on Healthcare, and remain underweight on Private Banks and Energy.
- **Top ideas: Largecaps –** ICICI Bank, SBI, HUL, L&T, HCL Tech, M&M, Coal India, Titan, Hindalco, and Mankind Pharma; **Midcaps and Smallcaps –** Indian Hotels, Godrej Properties, Ashok Leyland, Persistent System, Kaylan Jewellers, KEI Industries, Metro Brands, PNB Housing, Cello World, and Angel One.

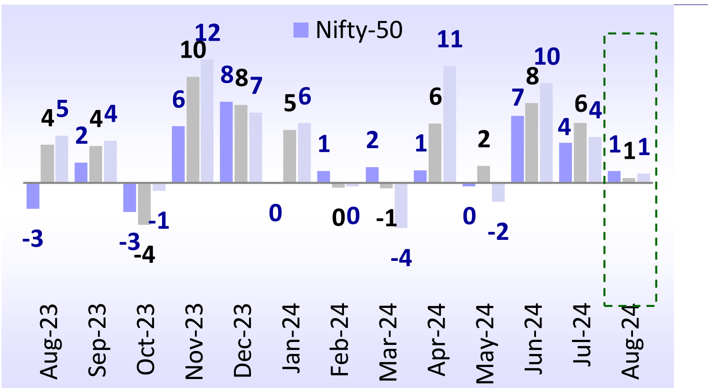
Trend in India's contribution to the global market cap (%) – at an all-time high



Performance of midcaps/smallcaps vs. largecaps over the last 12 months



MoM performance (%) – Midcaps underperform in Aug'24



Genus Power: Expect Working Capital Cycle To Improve Significantly In The Next 6-12 Months; Jitendra Kumar Agarwal

- Promoter has no plans to sell stake
- Revenues at Rs.2500cr with margins around 15%-16%
- Highlights the opportunity in smart meters with order book at Rs.32500 cr
- WC Days will come down to 150 days

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- On Semicon's OSAT project- Investment Rs.800cr
- By FY29 could hit Rs.4000cr revenue with margins at 15%+
- Smart Meter business- May hit revenues of Rs.800cr in FY26

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Insecticides India: Okays ₹50 Cr Buyback | Good Time To Reward Investors With Good Cash Levels; Rajesh Aggarwal, MD

- Revenue +5% to10%
- Double digit margins
- Working capital days could improve by 30 days

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- Retail growth +17% with NIMs around 3.5% & credit cost at 25 bps
- Retail book at Rs.1 lakh cr by FY27
- NIMs to improve as Affordable housing & Emerging segments grow at faster clip

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- Acquired a 49.6% stake in Helios Lifestyle
- Anticipates the male grooming segment to reach ₹500 crores in revenue over the next three to four years
- company maintains a guidance of 5-6% volume growth and 1-2% price increase
- Expected EBITDAM at 26-27% for FY25

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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