Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	77,301	0.4	7.0
Nifty-50	23,558	0.4	8.4
Nifty-M 100	55,490	0.5	20.2
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,487	0.3	15.0
Nasdaq	17,862	0.0	19.0
FTSE 100	8,191	0.6	5.9
DAX	18,132	0.4	8.2
Hang Seng	6,368	-0.1	10.4
Nikkei 225	38,482	1.0	15.0
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	85	4.3	9.9
Gold ($/OZ)	2,329	-0.2	12.9
Cu (US$/MT)	9,532	-0.9	12.6
Almn (US$/MT)	2,432	-1.2	3.7
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	83.4	-0.2	0.2
USD/EUR	1.1	0.3	-2.7
USD/JPY	157.9	0.3	11.9
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.0	0.00	-0.2
10 Yrs AAA Corp	7.6	0.00	-0.2
Flows (USD b)	**18-Jun**	**MTD**	**CYTD**
FIIs	0.3	0.07	-3.0
DIIs	0.19	1.80	26.7
Volumes (INRb)	**18-Jun**	**MTD***	**YTD***
Cash	1,542	1661	1231
F&O	3,63,249	3,62,335	3,75,435

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research theme

Jewelry | Thematic: Transcending tradition; adorning fashion

- The jewelry sector has experienced significant formalization, with the organized market now accounting for 36-38% of the total market, up from around 22% in FY19. This shift has been driven by an 8% CAGR in total market revenue from FY19-24, reaching INR 6,400b, and an even higher 18-19% CAGR in the organized sector. Major players like Titan, Kalyan, and Senco have seen ~20% CAGR in the same period.
- The top 10 organized jewelry players now command over 30% of the total market, compared to less than 20% in FY19. The top 10 states, which include Tamil Nadu, Maharashtra, Karnataka, West Bengal, and Uttar Pradesh, account for 78% of the organized retail network and contribute 68% of the GDP.
- Retailers are expanding through various formats, including the successful franchise model, which is asset-light and allows for rapid expansion. Jewelry stores are proliferating, driven by small jewellers, presenting significant growth opportunities for organized players. Unlike other retail sectors such as QSR, the jewelry market faces limited substitution risk, as consumers tend to stick to their preferred brands.
- We initiate coverage on Kalyan Jewellers and Senco Gold with a BUY rating and a TP of INR525 (based on 45x FY26E EPS) and INR1,300 (based on 35x FY26E EPS), respectively. We reiterate our BUY rating on Titan with a TP of INR4,150 (premised on 65x FY26E EPS).

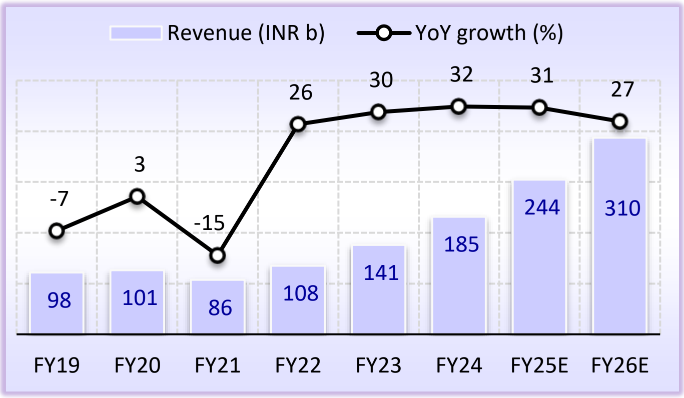
Research covered

Cos/Sector	Key Highlights
Jewelry (Thematic)	Transcending tradition; adorning fashion
Trent	Aggressive expansion with improved cash flow
Other Updates	IIFL Finance | Automobiles | Indian General Insurance

Chart of the Day: Jewelry (Transcending tradition; adorning fashion)

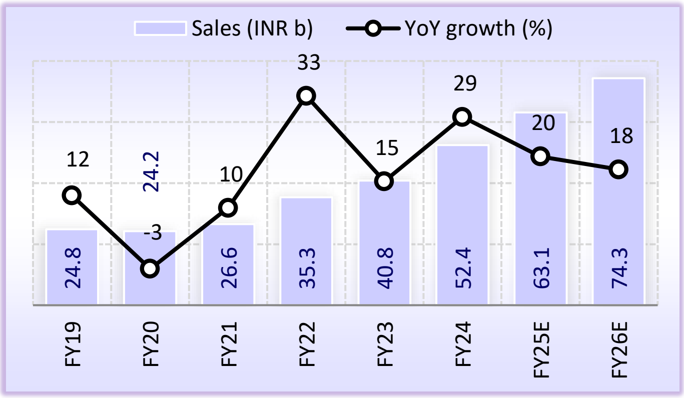
Kalyan Jewellers

Revenue to record 29% CAGR over FY24-FY26E



Senco Gold

Revenue to record 19% CAGR over FY24-FY26E



Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

As unrelenting heat wave makes power demand spike, utilities told to be on high alert

The ministry's statement highlighted that the northern region has faced high electricity demand since May 17, 2024, due to the heatwave.

2

CCEA may consider Rs 76,220-crore Maharashtra container port plan on June 19

The proposal for the Vadhavan Port project was a part of the 10 major infrastructure projects sent to the Union Cabinet for approval in March 2024.

3

Vodafone PLC likely to sell Indus Towers shares worth up to $1.1 bn via block deals

Vodafone will sell 26.8 crore shares at a price range of Rs 310-314, valuing the stake between $996 mn to $1.1 bn, the term sheet showed

4

Vedanta sees sale of steel operations by October, to spend $1.9 billion on capex

The plan to divest the steel business is a part of the company's efforts to cut debt, Agarwal said in the company's annual report for 2023-24 (Apr-Mar).

5

Digital loans up 49% in FY24 by value, Rs 1.46 lakh cr disbursed: Industry body

The digital lending sector, represented by FACE, saw a significant increase in disbursements and loan numbers in FY23-24, with member entities disbursing Rs 1.46 lakh crore, marking a 49% surge. Over 10 crore loans were issued, up 35% from the previous year. Despite regulatory concerns, the sector emphasizes customer-centricity, compliance, and sustainable practices.

6

Investments in renewable energy, roads, real estate to grow by 38% in fiscals 2025 and 2026, says Crisil Ratings report

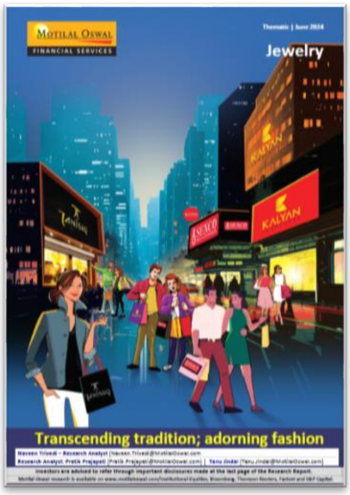
The surge will be aided by India's need for creation of sustainable infrastructure by adding more green power to the energy mix, improving physical connectivity through a denser road network, as well as rising demand for residential and commercial…

7

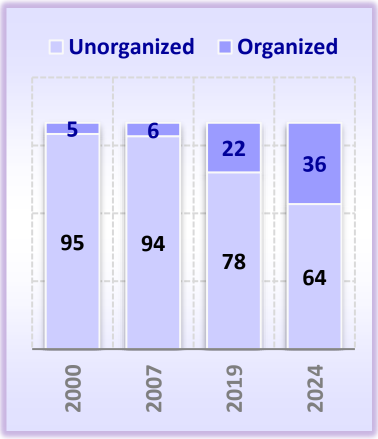
Jewellery consumption growth to moderate to 6-8% in FY25 on elevated gold prices, says ICRA

Gold jewellers reported a revenue growth in FY2024 despite muted volume growth, as gold prices rose by approximately 14 per cent in the fiscal year on a YoY basis.

Jewelry



Visible shift towards organized jewelry players



Top 10 states – organized store network vs. population and GDP mix

Transcending tradition; adorning fashion

Hyper-local play; execution needs to be critical!

- **A giant stride…: The jewelry sector has been experiencing a significant trend towards formalization, with the organized market accounting for 36-38% of the total jewelry market, compared to ~22% in FY19. The total jewelry market reported ~8% revenue CAGR during FY19-24, reaching a market value of INR6,400b. The organized market clocked ~18-19% revenue CAGR while Titan, Kalyan, and Senco combined recorded ~20% revenue CAGR during FY19-24.**
- **…towards the organized channel with…: We are optimistic about the jewelry category and anticipate ongoing rapid shifts in consumer purchasing behavior, transitioning from unorganized/local to organized channels. Factors such as increasing ticket prices, enhanced shopping experiences, greater product variety, et al. are fueling this momentous trend.**
- **…the franchise model being a growth catalyst: In addition, after achieving success in new markets/states, top players are further motivated to expand into newer geographies. The franchise-based model consistently achieved success, prompting several players to modify their business models. The franchise model is not only asset-light but also enables faster reach. Jewelry store penetration is at its peak, driven by small jewelers, which offers significant growth opportunities for organized players.**
- **Our take: We initiate coverage on Kalyan Jewellers and Senco Gold with a BUY rating and a TP of INR525 (based on 45x FY26E EPS) and INR1,300 (based on 35x FY26E EPS), respectively. We reiterate our BUY rating on Titan with a TP of INR4,150 (premised on 65x FY26E EPS).**
- **Key risks:** 1) gold price volatility; 2) failure in store unit economics, especially in new markets; 3) capital inefficiency in rapid store expansion; and 4) pricing pressure (with respect to making charges) due to competition.

Top-10 organized players command >30% of the total jewelry demand

- We analyzed the organized jewelry market, which makes up 36-38% of the total jewelry market, by players to gain a deeper understanding of the industry. The top 10 players in the organized jewelry sector collectively control over 30% (90% of the organized market) of the total jewelry demand in India. We estimate that these players held less than 20% of the total market share in FY19.
- The proliferation of stores and consumers' growing inclination towards purchasing jewelry from branded retailers, especially in the last 3-4 years, have brought about significant shifts in the market composition.

Store mix vs. population mix vs. GDP mix

- We collected store locator information for the top 18 organized retailers to analyze the state-level competitive landscape and the market mix of each player. The top 10 states account for 78% of the organized retail network, comprising over 2,000 stores. These states represent 60% of the total population and contribute 68% of the GDP. The top 5 states are Tamil Nadu, Maharashtra, Karnataka, West Bengal, and Uttar Pradesh, with a store mix of 15%, 14%, 10%, 8%, and 7%, respectively.
- The store-to-GDP ratio for the top 10 states is 1.1x, compared to 0.7x for other states. Tamil Nadu has the highest ratio of 1.7x, followed by West Bengal at 1.4x.

Hyper-local play; execution needs to be critical!

- Although jewelry is emerging as a nationwide trend for several players, it still primarily operates on a hyper-local level. The acquisition of customers, upgrades, and frequency of visits to the store require strict local oversight and competitiveness. Some retailers are engaging in various expansion formats, tailoring their approach to suit the preferences of specific cities or neighboring towns. Others are bridging the gap by attracting consumers from towns to nearby cities where they have a store presence. Effective inventory/SKU management and enhancing customer experiences will be crucial for achieving success.

Unlike other retail plays, there is a limited risk of product substitution

- Unlike several other retail stories (e.g., the QSR category), where competition arises not only from peers but also from product substitutions, the jewelry sector has a limited risk of product substitution. Consumers always have numerous choices in the QSR category, leading to major substitution risks. However, customers in the jewelry category stick to their preferred choices only, thereby limiting substitution risk.

Initiate coverage with a BUY rating on Kalyan Jewellers and Senco Gold

- **Kalyan Jewellers (KALYAN)** is one of the largest jewelry retail chains in India, with a strong network of over 217 stores across the country. The asset-light expansion (franchise-driven) will generate the necessary cash flows to repay its debt in India (INR6.0b) over the next two years. The studded ratio of 28% in FY24 was best in class and reflected the company's understanding of evolving consumer trends, such as youth-led and non-traditional preferences. We model 29%/26%/41% revenue/EBITDA PAT CAGR during FY24-26E. **Initiate coverage on KALYAN with a BUY rating and a TP of INR525 (based on 45x P/E on FY26E).**
- **Senco Gold (SENCO)** is one of the most promising players in the organized retail jewelry market. The company has a pan-India presence with a strong network in the eastern region (store/revenue mix of 75%/ 80%). SENCO operated a total of 159 stores across India, with 93 company-owned stores and 66 franchise stores as of FY24. SENCO holds ~4% market share in the eastern region, predominately in West Bengal, where 75% of its eastern region stores are located. We model 19%/20%/26% revenue/EBITDA PAT CAGR during FY24-26E. **Initiate coverage on SENCO with a BUY rating and a TP of INR1,300, based on 35x P/E on FY26E.**
- **We reiterate our BUY rating on Titan with a TP of INR4,150 based on 65x P/E on FY26E.** We have been bullish on Titan for more than a decade due to its superior execution track record and strong competitiveness in such a fragmented market. We model 17%/20%/25% revenue/EBITDA PAT CAGR during FY24-26E.

Valuation summary

Company Name	CMP (INR)	TP (INR)	Rating	MCap (INR b)	EPS (INR)			P/E (x)			RoE (%)			RoIC (%)		
					FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Titan	3,589	4,150	BUY	3,188.5	39.3	50.2	60.9	91	71	59	32.8	33.5	28.2	26.1	23.3	22.9
Kalyan	424	525	BUY	437.8	5.8	8.5	11.5	73	50	37	15.3	19.4	22.6	11.6	13.9	16.0
Senco	1029	1,300	BUY	80.0	23.3	30.3	37.1	44	34	28	15.7	15.9	16.8	11.8	11.7	12.1

Source: MOFSL, Company

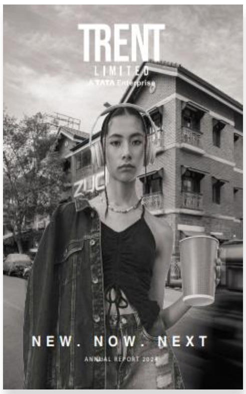
18 June 2024

Annual Report Update | Sector: Retail

Trent

BSE SENSEX	S&P CNX
77,301	23,558

TRENT LIMITED



Stock	Info
Bloomberg	TRENT IN
Equity Shares (m)	355
M.Cap.(INRb)/(USDb)	1904.6 / 22.8
52-Week Range (INR)	5452 / 1657
1, 6, 12 Rel. Per (%)	11/70/187
12M Avg Val (INR M)	2565
Free float (%)	63.0

Financials Snapshot (INR b)

INR b	FY24	FY25E	FY26E
Sales	123.8	176.3	224.1
EBITDA	19.2	26.8	34.5
NP	10.4	17.5	22.3
EBITDA Margin (%)	15.5	15.2	15.4
Adj. EPS (INR)	29.2	49.4	62.7
EPS Gr. (%)	162.5	68.9	27.0
BV/Sh. (INR)	122.4	175.2	242.3
Ratios			
Net D:E	0.0	0.3	0.2
RoE (%)	31.2	35.5	32.1
RoCE (%)	18.0	23.0	19.9
Payout (%)	7.7	0.0	0.0
Valuations			
P/E (x)	183.0	108.4	85.3
EV/EBITDA (x)	98.9	71.7	55.5
EV/Sales (x)	15.5	11.0	8.6
Div. Yield (%)	0.1	0.0	0.0

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	37.0	37.0	37.0
DII	13.9	14.8	16.1
FII	26.8	25.9	24.4
Others	22.3	22.3	22.4

CMP: INR5,358 TP: INR5,800 (+8%) Buy

Aggressive expansion with improved cash flow

We pored over Trent's FY24 annual report to get insights about its performance and other developments. Here are the key takeaways:

Stellar performance continues

Trent continued to report strong standalone/consolidated revenue growth of 55%/50% YoY to INR119b/INR124b in FY24, aided by 51% YoY area addition and +10% LFL growth. Despite a slight contraction in standalone gross margin by 20bp (due to higher Zudio mix), EBITDA margin (pre Ind-AS) improved to 11.7% (up 300bp YoY), aided by lower ad spending and operating leverage. Standalone adj. PAT improved to INR10.3b (vs. INR5.5b in FY23). In addition, the Booker subsidiary and Star (JV) losses have narrowed. As a result, consolidated PAT surged to INR10.4b (vs. INR4b in FY23). On the standalone basis, Trent generated FCF of INR4b (vs. –INR275m in FY23), and RoCE improved to 21% (vs. 12% in FY23), backed by improved profitability and asset turns.

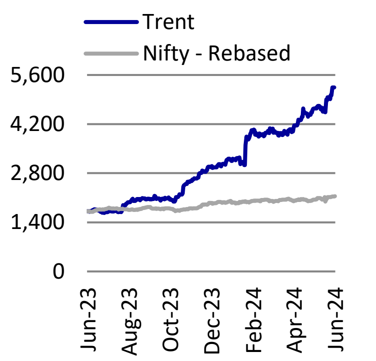
Profitability improves for standalone formats; Zara moderates

Standalone revenue growth was fueled by Zudio's stellar performance (revenue up 95% YoY to ~INR69b), well supported by Westside (revenue up 20% YoY to ~INR50b). Growth was aided by store additions of 18/193/10 for Westside/ Zudio/Other formats. The company has also increased the average store area by ~16%/19% YoY to 19.4k/9.2k for Westside/Zudio. As per our calculations, both the formats reported ~INR12k/~INR18k sales per sqft, which, along with healthy LFL (+10%) and operating leverage, led to 15%/9% pre-Ind-AS EBITDA margin. Zara revenue grew 8% YoY to INR28b, led by store addition (+15% YoY; 3 stores). Growth in revenue per store moderated to 3% YoY. A contraction in GM by 130bp led to a decline in EBITDAM by 110bp YoY to 15.2%. As a result, dividend received from Zara moderated to INR737m (vs. INR1.46b in FY23). However, the format is funding its growth capex and working capital from internal accruals, with strong RoIC of 47% in FY24.

Star: Strong LFL, but yet to garner EBITDA level profitability

Star revenue grew 21% YoY to INR22b, largely led by 27% LFL growth. Despite an improvement in GM (+150bp YoY), Star posted EBITDA of INR255m (vs. INR1.7b in FY23) and margins of only 1%, which could be due to the reclassification of lease liability and the cost of modification of stores. Trent has funded the losses mainly through the issue of equity (by Trent and Tesco). This could be the reason Star added only three stores in FY24, taking the total count to 66 stores. For the last two years, the company has been constantly optimizing the format. The management indicated to add 20-25 stores in FY25 by following the cluster strategy to expand and focus on its own brands. We believe Star Bazaar might need funds for its expansion for a year, but going forward it may fund its growth internally as the size of the grocery market is INR76t, which provides tailwinds for the sector. Improved traction in productivity with higher margins could drive the next leg of growth.

Stock Performance (1-year)



Healthy return ratios with improved profitability

Return ratios improved in FY24, thanks to healthy profitability and FCF generation of INR3.7b/INR4b on the consolidated/standalone basis. Standalone RoE/RoCE/RoIC improved to 27%/21%/26% (vs. 22%/12%/15% in FY23). Our format-wise financial working (see exhibit 10) indicates that Westside clocked healthy RoIC of 26% and Zudio's EBITDA margin/RoIC improved to 9%/25%. Zara's EBITDA margin/RoIC declined 110bp/9pp YoY to 15%/47%, while Star Bazaar posted ROIC of -12.5%. Trent operates on a strong consolidated net cash position of INR5.1b despite aggressive store additions over the last few years. The cash conversion cycle improved to 27 days (vs. 34 days in FY23), led by a reduction in inventory/payable days to 48/23 (vs. 63/30 in FY23). Trent has effectively managed its debt levels while continuing to pursue its growth objectives.

Valuation and view: Growth levers explain premium valuation; retain BUY

- The discretionary category continues to see muted demand, but Trent has far outpaced the industry. The company delivered industry-leading LFL growth of +10% and hence gained market share over other retailers in the apparel segment (especially in value format).
- Further, despite aggressive store addition, Trent has limited balance sheet risk or weakness in operations. Trent's industry-leading revenue growth is mainly driven by: 1) strong SSSG and productivity, 2) healthy footprint additions, and 3) Zudio's strong value proposition.
- Trent's successful store performance, healthy store economics, and aggressive growth strategy offer a huge runway for growth over the next three to five years.
- We estimate a CAGR of 36%/34% in standalone revenue/EBITDA over FY24-26, led by 20% store addition and healthy SSSG, which explain the premium valuation for the stock. We have ascribed 57x to standalone business, 2x EV/sales to Star Bazaar, and 15x EV/EBITDA to Zara to arrive at our TP of INR5,800. Adjusting Star and Zara value, the stock is trading at 88x FY26E EPS for the standalone business. Weak demand in tier 2-3 cites and a slow turnaround of Star could be the key risks going forward. Retain BUY.

Valuation as on FY26 (INRb)

Particulars	Financial metric	Multiple	EBITDA/Sales	Enterprise Value
Westside and Zudio	EBITDA	57	34.6	1,976
Star	Sales	2	19.4	39
Zara	EBITDA	15	3.3	49
Total Enterprise Value				2,064
Net Debt				2
Equity Value				2,062
Shares (m)				356
Target Price				**5,800**
CMP				5348
Upside				8%

IIFL Finance

Estimate changes	↓
TP change	↑
Rating change	↔

Bloomberg	IIFL IN
Equity Shares (m)	382
M.Cap.(INRb)/(USDb)	204.3 / 2.4
52-Week Range (INR)	684 / 304
1, 6, 12 Rel. Per (%)	15/-33/-28
12M Avg Val (INR M)	795

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
NII	59.6	62.0	73.3
Total Income	62.9	70.3	85.6
PPoP	34.8	37.9	47.1
PAT (pre-NCI)	19.7	19.9	26.5
PAT (post-NCI)	17.6	17.4	23.5
EPS (INR)	46.2	41.1	55.5
EPS Gr. (%)	17	-11	35
BV (INR)	279	317	368
Ratios (%)			
NIM	8.3	7.6	7.7
C/I ratio	44.6	46.1	45.0
Credit cost	2.0	2.2	1.9
RoA	3.4	3.0	3.4
RoE	18.0	14.5	16.2
Valuations			
P/E (x)	10.4	11.7	8.7
P/BV (x)	1.7	1.5	1.3

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	24.8	24.8	24.9
DII	8.6	8.3	4.0
FII	29.1	31.3	28.1
Others	37.5	35.7	43.0

FII Includes depository receipts

CMP: INR482 TP: INR570 (+18%) Buy

One-time MTM loss on AIF investments led to earnings miss

RBI gold loan ban resulted in gold AUM declining to <INR160b as on date

- NII in 4QFY24 grew 39% YoY to ~INR16.5b (15% beat). Non-interest loss stood at INR873m (3Q: gain of ~INR1.1b) **because of MTM loss of ~INR2b on AIF investments (sold to ARC) and loss of ~INR0.9b on unwinding of prior assignments.**
- Opex grew 25% YoY to INR7.7b (in line), with the cost-income ratio of 49% (~43% YoY). PPoP declined ~2% YoY to INR7.9b (23% miss).
- 4Q PAT (post-NCI) declined 10% YoY/24% QoQ to ~INR3.7b (22% miss). FY24 PAT grew ~18% YoY to INR17.6b. FY24 RoA/RoE stood at 3.4%/18.4%. IIFL (standalone) CRAR stood at ~20% (Tier 1: ~13%). IIFL raised ~INR12.7b through a rights issue in May'24, which will further improve CRAR.

Deceleration in AUM growth due to ban on gold loans

- Consol. AUM rose 22% YoY and ~2% QoQ to INR790b. On-book loans grew ~27% YoY. Off-book formed ~36% of the AUM mix, including co-lending, which contributed ~15% of the AUM mix.
- Disbursements (core products) declined ~15% YoY/2% QoQ, led by YoY decline in home loans, gold loans and microfinance loans. The company is treading cautiously in microfinance due to funding constraints from banks. After the RBI's ban on gold loans, banks have been cautious in lending to the other businesses of IIFL Finance. IIFL Samasta's incremental sanctions from banks have been impacted more than those of its HFC subsidiary. We estimate an AUM CAGR of ~16% over FY24-26.

CoB showed no signs of uptick because of lower incremental borrowings

- Consolidated yields/CoB for FY24 stood at 17.2%/9.1% (9MFY24: 17.2%/9.1%). We model NIM of ~7.6%/7.7% in FY25/FY26 (FY24: 8.3%).

Cost ratios to remain elevated; no rationalization in gold business opex

- Opex grew 25% YoY to INR7.7b (in line), with the cost-income ratio of 49%. This increase was attributable to a decline in the gold loan business. The management shared that the cost ratios are expected to remain elevated until gold loan operations resume and normalize.
- IIFL Finance has not done any employee layoffs in the gold loan business during the quarter. Employees in the gold loan division are being cross-trained for cross-selling unsecured business loans, LAP, and insurance. The management sounded confident of positive action soon from the RBI after it reviews a special audit report submitted by the auditor. The company is preserving its branch infrastructure and workforce in preparation for a full resumption of its gold loan business after the RBI ban is lifted.
- We expect opex-to-avg AUM of 4.0%/4.1% for FY25/FY26.

Asset quality deteriorated; one-time credit costs from CRE and gold loans

- GS3 rose ~60bp QoQ to 2.3%, while NS3 rose ~30bp QoQ to 1.2%. Credit costs declined to ~1.9% (~2.1% in 3QFY24 and ~2.2% in 4QFY23).
- GS3 in gold loans rose to 3.8% (3Q: 0.8%). Earlier, gold loans with LTV of <75% and customers in default were rolled over. Auditors asked for ~INR2.8b of such gold loans to be classified as NPAs. IIFL has made provisions for these gold loans. The management shared that it anticipates gold loan NPAs to normalize by 1HFY25.
- One loan exposure in CRE of ~INR600m has been classified as NPA and few CRE accounts were sold to ARC during the quarter.
- We expect credit costs to increase to 2.2% in FY25 and then gradually decline to 1.9% in FY26.

Highlights from the management commentary

- A special audit has been completed and the report has been submitted by auditors to the RBI. The company is confident that it has addressed all the deficiencies highlighted by the RBI and it is now compliant with all the RBI guidelines.
- The management did not share any guidance on AUM growth as its focus will remain on compliance and risk control in FY25.
- Gold loans declined to <INR160b as on date vs. ~INR234b as on Mar'24.

Valuation and view

- IIFL management shared that the company is now compliant with all the RBI observations, which led to the ban on gold loans. The special audit commissioned by the RBI in Apr'24 has been completed. The RBI's review is awaited and the company expects positive action soon. In FY25, IIFL will focus on making its assurance functions across risk management, audit and compliance, more robust for better-quality AUM growth.
- The stock trades at 1.3x FY26E P/BV and ~9x P/E for a PAT CAGR of ~16% over FY24-FY26E. We estimate RoA/RoE to decline to 3.0%/15% in FY25 (because of impact of gold loan ban) but recover to 3.4%/16.2% in FY26. Our estimates are based on assumption of the gold loan ban getting revoked by Sep'24 and IIFL regaining gold business momentum in 2HFY25. We have a BUY rating on the stock and a TP of INR570 (based on SOTP valuation; refer table below).

IIFL Finance: SOTP - Mar'26E

Particulars	Stake	Value (INR B)	Value (USD B)	INR per share	% To Total	Target Multiple(x)	Basis
IIFL Finance (Standalone)	100	89	1.1	210	37	1.2	PBV
IIFL Home Finance (HFC)	80	115	1.4	272	48	2.0	PBV
IIFL Samasta Finance (MFI)	100	37	0.4	88	15	1.2	PBV
Target Value		**241**	**2.9**	**570**	**100**		
Current market cap.		204	2.4	482			
Upside (%)		***18***	***18***	***18***			

IIFL Finance (Consolidated): Quarterly Performance (INR m)

Y/E March	FY23				FY24				FY23	FY24	4QFY24E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	16,567	17,613	18,980	20,454	21,989	23,576	25,630	27,200	73,693	98,386	23,967	13
Interest Expenses	7,760	7,758	8,095	8,606	8,878	9,321	9,885	10,744	32,218	38,829	9,679	11
Net Interest Income	**8,807**	**9,855**	**10,885**	**11,849**	**13,111**	**14,255**	**15,745**	**16,456**	**41,474**	**59,557**	**14,288**	**15**
YoY Growth (%)	19.9	27.7	39.3	38.5	48.9	44.7	44.7	38.9	31.9	43.6	20.6	
Other Income	3,186	2,901	2,464	2,306	1,306	1,878	1,120	-873	10,778	3,342	3,347	-126
Total Income	**11,992**	**12,756**	**13,349**	**14,155**	**14,417**	**16,134**	**16,865**	**15,584**	**52,253**	**62,899**	**17,635**	**-12**
YoY Growth (%)	44	32	25	22	20	26	26	10	29.6	20.4	24.6	
Operating Expenses	5,166	5,502	5,667	6,132	6,332	6,772	7,272	7,691	22,466	28,067	7,346	5
Operating Profit	**6,827**	**7,255**	**7,682**	**8,023**	**8,085**	**9,361**	**9,593**	**7,893**	**29,787**	**34,832**	**10,289**	**-23**
YoY Growth (%)	32.4	24.7	18.1	16.0	18.4	29.0	24.9	-1.6	22.0	16.9	28.2	
Provisions & Loan Losses	2,487	1,960	2,132	2,083	1,901	2,526	2,430	2,356	8,661	9,113	2,966	-21
Profit before Tax	**4,340**	**5,294**	**5,550**	**5,941**	**6,184**	**6,835**	**7,163**	**5,537**	**21,125**	**25,719**	**7,323**	**-24**
Tax Provisions	1,042	1,324	1,319	1,365	1,455	1,580	1,711	1,231	5,050	5,977	1,920	-36
PAT (Pre NCI)	**3,298**	**3,971**	**4,231**	**4,576**	**4,729**	**5,255**	**5,452**	**4,306**	**16,076**	**19,742**	**5,403**	**-20**
NCI	0	175	449	448	475	513	548	572	1,072	2,107	605	-5.5
PAT (Post NCI)	**3,298**	**3,796**	**3,782**	**4,128**	**4,254**	**4,743**	**4,904**	**3,734**	**15,003**	**17,635**	**4,798**	-22.2
YoY Growth (%)	24	30	22	29	29	25	30	-10	26	18	16	
Key Parameters (%)												
Yield on AUM	12.7	13.0	13.4	13.3	13.2	13.4	13.6	13.9				
Cost of funds	8.8	8.9	9.2	9.1	9.1	9.5	9.5	9.7				
Spread	3.9	4.1	4.3	4.2	4.1	3.9	4.1	4.3				
NIM (on AUM)	6.8	7.3	7.7	7.7	7.9	8.1	8.4	8.4				
Credit cost	2.9	2.3	2.4	2.2	1.9	2.4	2.1	1.9				
Cost to Income Ratio (%)	43.1	43.1	42.5	43.3	43.9	42.0	43.1	49.4				
Tax Rate (%)	24.0	25.0	23.8	23.0	23.5	23.1	23.9	22.2				
Balance Sheet Parameters												
Consol. AUM (INR B)	**528**	**553**	**579**	**646**	**682**	**731**	**774**	**790**				
Change YoY (%)	22	25	24	26	29	32	34	22				
Disbursements - Core (INR B)	**116**	**120**	**131**	**193**	**150**	**159**	**166**	**163**				
Change YoY (%)	118	45	23	37	30	32	27	-15				
Borrowings (INR B)	**348**	**348**	**360**	**396**	**385**	**404**	**430**	**460**				
Change YoY (%)	25	19	7	11	11	16	19	16				
Borrowings/AUM (%)	65.9	62.9	62.1	61.3	56.4	**55.3**	55.5	58.2				
Debt/Equity (x)		4.3	4.1	4.4	4.1	4.1	4.1	4.4				
Asset Quality (%)												
GS 3 (INR M)	**8,850**	**8,500**	**7,540**	**7,380**	**7,639**	**7,931**	**8,026**	**10,858**				
G3 %	2.6	2.4	2.1	1.8	1.8	1.8	1.7	2.3				
NS 3 (INR M)	**5,098**	**4,284**	**3,853**	**3,771**	**4,400**	**4,402**	**4,045**	**5,527**				
NS3 %	1.5	1.2	1.1	0.9	1.1	1.0	0.9	1.2				
PCR (%)	**42.4**	**49.6**	**48.9**	**48.9**	**42.4**	**44.5**	**49.6**	**49.1**				
ECL (%)	3.6	3.6	3.4	3.2	2.9	2.9	2.6	2.6				
Return Ratios - YTD (%)												
ROA (Rep)	2.9	3.5	3.4	3.3	3.6	3.9	3.8	3.4				
ROE (Rep)	20.5	19.6	17.9	19.9	19.1	20.1	19.7	18.4				

E: MOFSL Estimates

Automobiles

Auto OEM's	Rating	CMP (INR)
Bajaj Auto	Neutral	9,917
Hero MotoCorp	Buy	5,756
TVS Motor	Neutral	2,469
Eicher Motors	Sell	4,926
Maruti Suzuki	Buy	12,560
M&M	Buy	2,961
Tata Motors	Neutral	986
Ashok Leyland	Buy	239
Escorts	Neutral	4,301
Auto Ancillaries		
Bharat Forge	Neutral	1,696
Exide Industries	Neutral	565
Amara Raja	Neutral	1,372
BOSCH	Neutral	33,273
Endurance Tech	Buy	2,722
SAMIL	Buy	180
CIE Automotive	Buy	582
CEAT	Buy	2,504
Balkrishna Ind	Neutral	3,350
MRF	Sell	1,25,823
Apollo Tyres	Buy	478
Sona BLW	Neutral	641
Tube Investments	Buy	4,370
MSUMI	Buy	79
CRAFTSMAN	Buy	4,776
Happy Forgings	Buy	1,200

Demand drivers remain in place

Reiterate our positive outlook on CVs; prefer PV stocks over 2Ws

- **Favorable 4QFY24, though margin appears to have peaked:** The automobile industry in 4QFY24 witnessed a healthy volume growth of ~20% YoY, largely driven by 2Ws and PVs, even as demand for CVs and tractors remained weak. While exports improved in 4QFY24, overall outlook across major geographies is still uncertain. Moreover, gross margins were supported by higher volume growth, a better product mix, and foreign exchange benefits, resulting in an EBITDA margin expansion of 140bp/100bp YoY for OEMs/auto ancillaries. However, commodity prices appear to have bottomed out, and incremental margin improvement, if at all, will largely be driven by the improved mix and operating leverage benefits from hereon. The most prominent FY26E EPS downgrades in OEMs were for EIM (-7%) and TTMT (- 5%), as we believe margins have largely peaked out in 4QFY24 for these companies. In terms of rating downgrades, we have downgraded BHFC to Neutral (from BUY) and EIM to Sell (from Neutral) largely due to the sharp run-up in the stocks.
- **FY25 starts on a positive note:** The current fiscal has commenced on a positive note, with all segments displaying steady YoY growth. In the initial two months, wholesale volumes for 2Ws, PVs, CVs, and tractors registered a YoY increase of 20%, 3%, 13%, and 3.5%, respectively. Notably, this growth occurred despite subdued demand sentiments due to factors such as heat waves (affecting footfalls), unseasonal rains (adversely impacting certain segments), and pre-election season (adversely impacting the fleet utilization levels). Additionally, the recovery in export volumes contributed to the overall volume growth, especially for 2Ws. The major export players in India, e.g., BJAUT and TVSL posted a volume growth of ~10% and ~20% YoY, respectively, during Apr-May'24. The CV growth of 13% YoY over Apr-May'24 was ahead of our and consensus estimates so far. We had highlighted our positive stance on CVs in our recent thematic report (click here to refer our note) released in Apr'24, where we had argued that the inherent underlying demand drivers for CVs remained intact and the slowdown in 2HFY24 was largely due to the near-term concerns related to elections and a high base of last year.
- **Government stability would mean long-term policy continuity:** A stable government at the Centre would mean long-term policy continuity. We also expect the government to continue with its focus on infra push, as it has been delivering for the last decade. This has been one of the key reasons why we continue to remain positive on the CV sector. Further, the relatively lower-than-expected election mandate may also see some policy action to lift up the rural sector. If this were the case, it is likely to be positive for PVs, 2Ws, and tractors. We are summarizing our current segmental view as follows:
  - After reporting consecutive double-digit growth over the last two years, the domestic 2W ICE industry is still 17% below its previous peak of 21.1m units achieved in FY19. Given the relatively low base and a good momentum observed in the 125cc+ segment, we anticipate the 2W ICE industry to achieve ~9% volume CAGR over FY24-26.

- The PV industry has witnessed a strong 16% volume CAGR over the last three years. Hence, we expect the PV industry to take a breather in FY25. We anticipate it to report ~5% YoY growth in FY25, driven primarily by a high single-digit growth in UVs.
- We believe the long-term demand drivers for the CV industry will remain in place. Besides, one has to note that, unlike in previous cycles, a few factors would be favorable for the industry, such as: 1) the average fleet age, which is at a record high of more than nine years; and 2) fleet operators' profitability, which has remained sound as fleet utilization levels have been healthy, allowing them to pass on the rising cost pressures. Further, the fleet sentiment index is also positive. Hence, beyond the near-term weakness, we expect the CV industry to revive from 2HFY25. However, given a relatively weak 1HFY25, we expect the industry to report a mid-single-digit growth in FY25.

Valuation and View

- The Auto sector clocked a healthy earnings growth of 96% YoY in FY24 backed by steady volume growth, improved mix, pricing discipline, and benign input costs. This is also reflected in the outperformance of the Auto index (by 45%) relative to Nifty over the last 12 months. Apart from this, there have been sector-specific events that have driven the sub-sector outperformance relative to Nifty.
- It is also now an established fact that the majority of easy gains in the Auto OEM stocks are now behind us, as we have witnessed significant volume growth across segments over the last two years, and input costs also appear to have bottomed out. Hence, one will have to make selective micro strategies to outperform from hereon. Against this backdrop, **Maruti Suzuki is our top pick in Auto OEMs** as: 1) we expect it to continue outperforming the PV segment aided by new launches; 2) its improved mix will help margins sustain at elevated levels; and 3) it could be the key beneficiary if the government decides to reduce GST on hybrid vehicles. **We also like Ashok Leyland** as: 1) we anticipate a revival in CV demand by 2HFY25 after the near-term weakness; and 2) its valuations are attractive compared to peers. We are also positive on Mahindra & Mahindra given: 1) the continued strong demand momentum in UVs; and 2) a likely revival in the tractor segment in FY25, after the corrected base in FY24.
- Further, given the strong long-term growth opportunities for the domestic auto ancillary industry, we continue to remain positive on the sector. Within the auto ancillary sector, **our top picks** include: **1) Craftsman Automation** (well-positioned to benefit from global supply chain de-risking, strong growth opportunities from lightweighting, and multiple growth drivers in the storage solutions business); **2) Samvardhana Motherson** (a key beneficiary of global trends towards premiumization and EV transition, as well as the recent acquisitions); and **3) Happy Forgings** (enjoying a sustainable competitive advantage in forgings, with robust new orders helping to offset the near-term weaknesses in core segments).

Insurance Tracker

Premium growth driven by the Health & Motor OD segments

SAHIs and private multi-line players outperform industry growth

- **The industry's gross written premium (GWP) increased 13% YoY to INR206b in May'24. This is because the Motor segment grew 12.6% YoY, while the overall Health segment grew 17% YoY. In May'24, the Fire segment reported muted YoY growth of 4.2% YoY, whereas the Crop/Marine segments reported 38%/11% YoY growth.**
- **During the month, PSU players (INR67b in May'24) reported a growth of 7% YoY (lower than industry growth of 13% YoY) whereas SAHIs and private multi-line players outperformed the industry growth and reported a GWP of INR26.5b (up ~26% YoY) and INR111.9b (up 16% YoY), respectively, in May'24.**
- **Among the key players, ICICIGI/Bajaj Allianz reported strong growth of 22%/9% YoY in May'24. STARHEAL/Go Digit recorded a GWP growth of 16%/36% YoY, whereas New India remained flat at -1% YoY.**

Premium and YoY growth (%)

GWP, INRb	May-24	YoY (%)
Grand Total	**206**	**13**
Total Public	**67**	**7**
Total Private	**112**	**16**
SAHI	**27**	**26**
Bajaj Allianz	11	9
ICICI -Lombard	21	22
New India	24	-1
Star Health	12	16

Source: General Insurance Council , MOFSL

Health business up 17% YoY, fueled by higher growth in Retail Health

The Health business jumped 17% YoY, with the Retail segment reporting 19% YoY growth and Group Health clocking 6% YoY growth. The overseas/government health segments rose 21%/439% YoY. Within the overall Health segment, SAHIs/Private multi-line players reported 27%/16% YoY growth. Within SAHIs, STARHEAL reported 17% YoY growth on overall basis with 15%/37% YoY growth in Retail/Group segments. Aditya Birla Health surged 62%/23% YoY in the Retail/Group health segment respectively. ILOM reported 12% YoY growth in Retail Health and 24% YoY growth in Group Health. Bajaj Allianz clocked a strong growth of 47% YoY in Group Health segment. The PSU multi-line players posted a growth of 10% YoY in the Retail health segment and a muted growth of 3% in the group health segment (mainly on account of 13% YoY decline in New India).

Motor segment clocks a steady growth of 13% YoY

The Motor business grew 13% YoY, driven by healthy 12% YoY growth in the Motor TP segment and Motor OD rose 14% YoY in May'24. Private multi-line players outperformed industry in both the Motor OD segment (up 18% YoY) and the Motor TP segment (up 13% YoY). ILOM reported a growth of 33%/24% YoY in the Motor OD/ Motor TP segment. Bajaj Allianz posted flattish growth in Motor OD and a decline of 6% YoY in Motor TP segment. Acko General posted a strong 34%/29% YoY growth in the Motor OD/Motor TP segments. TATA AIG posted 11%/4% YoY growth in the Motor OD/Motor TP segments. Go Digit recorded an overall growth of 8% YoY with a 24% growth in Motor OD. HDFC Ergo clocked a strong growth of 40% YoY in the Motor OD segment but it reported a decline of 38% YoY in the Motor TP segment.

YTD performances of key players

SAHIs/Private multi-line players gained ~100bp/~170bp market share during May'24, while public players lost ~230bp share.

- **ILOM** reported a growth of 22% YoY (market share of 10.9% vs. 10.2%).
- **Bajaj Allianz** reported a growth of 32% YoY (market share of 7% vs. 6%).
- **New India** reported a growth of 2% YoY (market share of 15.2% vs. 17.1%).
- **STARHEAL** registered a growth of 19% YoY (market share of 4.3% vs. 4.2%).
- **GO DIGIT** recorded a growth of 19% YoY (market share of 3.3% vs. 3.2%).

AurionPro: Forsee INR7000cr opportunity going forward; Ashish Rai, CEO

- 32-35% growth guidance for FY25
- Order book as well as demand continues to remain strong
- EBITDA margin guidance of 20-22% for FY25; RoCE at 25%

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Gravita India: 25% CAGR volume expected to continue for 3-4 years; Navin Prakash Sharma, CEO

- 15-18% share in formal sector, 25% CAGR volume expected to continue for 3-4 years
- Will be shifting more VAP in every segment, EBITDA at 35% CAGR in next 4 years
- See RoCE at 25%, EBITDA/T INR16-18, margin trajectory to improve here on
- Capex to generate turnover of 8-9x and to be funded from internal accruals, no plans to raise equity

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Mahindra & Mahindra: Big opportunity to gain market share in compact SUV segment; Rajesh Jujurikar, CEO

- Have a big opportunity to gain market share in conpact SUV with XUV 3XO
- 3 years from now, at least 70% of market will be ICE
- Want to remain invested in ICE
- Have tripled capacity to bring down waiting periods
- Are number 2 by volumes & number 1 by revenue in SUV segment

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Tech Mahindra: Retain 500bp margin expansion guidance; will deliver 15% EBIT margins by FY27; Mohit Joshi, MD & CEO

- Laid out multi-year plan which includes a >500bp margin expansion
- Will deliver 15% EBIT margin by FY27
- Group wants to retain leadership position in telecom & manufacturing
- Demand environment will get better in next 6-12 months

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M&M Financial: Want to get back to the mid 30s in terms of cost to income in next 2-3 years; Raul Rebllo, MD

- Have been slightly higher in terms of credit cost vs peers
- Write-offs are coming down, structurally credit cost is slated to go down
- Want to get back to the mid 30s in terms of cost to income in next 2-3 years
- Do not have a higher net interest margin to absorb a 1.2-1.5% credit cost
- Wheels is 94% of the business, diversification is required

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NOTES

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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