Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	72,623	-0.6	0.5
Nifty-50	22,055	-0.6	1.5
Nifty-M 100	48,631	-1.3	5.3
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	4,982	0.1	4.4
Nasdaq	15,581	-0.3	3.8
FTSE 100	7,663	-0.7	-0.9
DAX	17,118	0.3	2.2
Hang Seng	5,643	2.2	-2.2
Nikkei 225	38,262	-0.3	14.3
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	85	0.7	10.0
Gold ($/OZ)	2,026	0.1	-1.8
Cu (US$/MT)	8,457	0.4	-0.1
Almn (US$/MT)	2,178	0.9	-7.2
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	83.0	0.0	-0.3
USD/EUR	1.1	0.1	-2.0
USD/JPY	150.3	0.2	6.6
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.1	-0.01	-0.1
10 Yrs AAA Corp	7.6	-0.02	-0.1
Flows (USD b)	**21-Feb**	**MTD**	**CYTD**
FIIs	0.0	7.06	-3.4
DIIs	-0.05	1.50	5.5
Volumes (INRb)	**21-Feb**	**MTD***	**YTD***
Cash	1,142	1326	1269
F&O	6,65,803	4,10,797	4,05,990

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

Oil & Gas | India Upstream: Still has more steam left!

- Despite recent re-rating, we still see another 15-20% of 'value' upside' left in both ONGC/OINL; beyond this, we believe growth prospects become paramount for a sustained re-rating.
- As a result, investor attention for both stocks could soon shift away from valuation discount (vs previous cycle) to assessing volume growth scenarios, analyzing operating costs (onshore versus offshore acreage) and the strength and visibility of the exploration and development pipeline.
- We see strong earnings growth catalysts for both stocks (IPO for NRL, start of operations at overseas assets such as Libya, Mozambique and Venezuela and turnaround of operations at OPaL) and maintain our Buy rating on both.

Research covered

Cos/Sector	Key Highlights
Oil & Gas	India Upstream: Still has more steam left!
ABB India	Benefiting from quality, localization and penetration
Alkem	Focus remains on DF/US; valuations priced in
Voices	Domestic cyclicals propel growth; earnings beat expectations
EcoScope	Combined fiscal deficit at 55.5% of BEs in 9MFY24

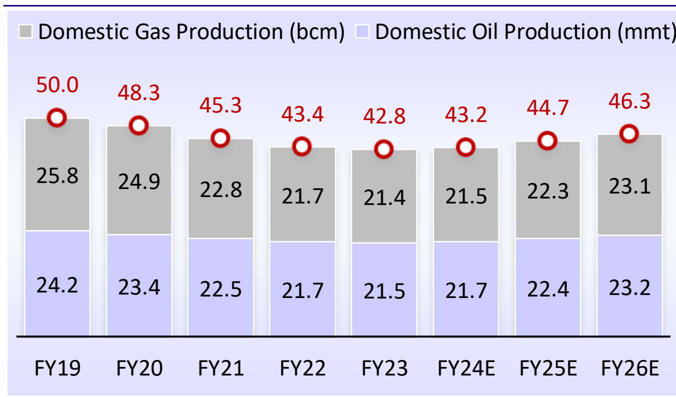
Piping hot news

Govt eases FDI norms in space sector

The government on Wednesday eased Foreign Direct Investment (FDI) norms in the space sector with an aim to attract overseas players and private companies into the segment. The decision was taken at the Cabinet meeting chaired by Prime Minister Narendra Modi.

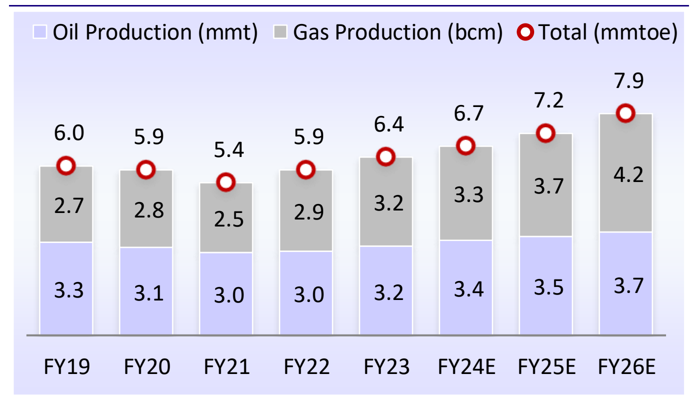
Chart of the Day: Oil & Gas (India Upstream: Still has more steam left!)

Production of ONGC



Source: Company, MOFSL

Production of OINL



Source: Company, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

In the news today

Kindly click on textbox for the detailed news link

1

Govt eases FDI norms in space sector

The government on Wednesday eased Foreign Direct Investment (FDI) norms in the space sector with an aim to attract overseas players and private companies into the segment. The decision was taken at the Cabinet meeting chaired by Prime Minister Narendra Modi.

2

Cabinet approves hike in sugarcane procurement price to Rs 340 per quintal for 2024-25 season

At Rs 340 per quintal, the new Fair and Remunerative Price (FRP) of sugarcane is nearly 8 percent higher than what it is at present.

3

Rural demand lag hits FMCG firms in Q3; benign inflation, MSP hike, Budget augur well for recovery

The FMCG sector had been hit by inflation, uneven rains during the kharif season and the resultant weak sentiment of the rural sector. However, sentiment is positive for the sector in coming months over expectations that the government will initiate measures to boost rural incomes and demand

4

Wipro wins deal to design Intel's latest chips

Though the exact size of the deal is not disclosed, the deal will see Wipro engineers work on Intel's latest '18A' chip node that will be used in cutting-edge consumer electronics devices next year onward

5

Fintech major PhonePe takes on Google, Apple with homegrown Indus Appstore

The Indus Appstore is PhonePe's attempt at creating a more competitive and localized mobile app store economy for India, which is already the world's largest market for mobile apps

6

Govt hits 79% of revised EV targets under FAME II as of February 18

Based on segments, the target achieved in electric two-wheelers is 78 per cent, for electric three-wheelers 88 per cent, and for electric four-wheelers much lower at 56 per cent

7

Novelis IPO in US SEC: A potential booster for base metals major Hindalco

The monetisation proceeds could be used to fund ongoing capex for Novelis' Bay Minette facility

Oil & Gas

India Upstream: Still has more steam left!

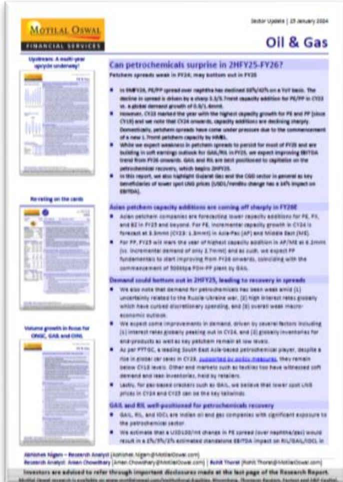
One last leg of value trade still remains; beyond that focus shifts to growth

- **The India upstream stocks have proven to be strong value plays in recent months, with both ONGC and Oil India trading higher led by robust production growth guidance. We s4till see another 15-20% of 'value' upside' left in both these stocks; beyond this, we believe growth prospects become paramount for a sustained re-rating.**
- **As a result, investor attention for both stocks could soon shift away from valuation discount (vs previous cycle) to assessing volume growth scenarios, analyzing operating costs (onshore versus offshore acreage) and the strength and visibility of the exploration and development pipeline.**
- **We remain positive on both the stocks and reiterate our BUY rating on ONGC and Oil India with target prices of INR315 and INR650, respectively.**

Multiple milestones can crystallize further value in the coming years

- **Oil India:** We believe the commissioning of the expanded capacity at the Numaligarh refinery (NRL) in Sep'25E can be a key growth driver. We estimate that NRL, at the current utilization rate, could generate ~INR20b per annum at the PAT level in FY24. Hence, if we assume NRL to achieve a PAT run-rate of even INR45b post-commissioning of the new capacity, this can provide a solid value to OINL shareholders (assuming the Street ascribes a P/E ratio of 6-8x). We note that NRL's MD, Mr. Bhaskar Jyoti Phukan, recently spoke about the potential IPO for the refinery in the next two years (link). Additionally, the Indradhanush Gas Grid (IGGL) start-up, slated for Apr'24, is another key catalyst that can drive volume growth, in our opinion.
- **ONGC:** 1) the potential operational and financial turnaround at ONGC Videsh Limited (OVL) can be a major share price catalyst; the Street currently ascribes no or little value to OVL, 2) if ONGC manages to turn around ONGC Petro additions Limited (OPaL), we believe this can add 5-8% to the current market price, 3) the merger of HPCL and MRPL can be an indirect value creator by strengthening HPCL's business model and alleviating cash infusion concerns.

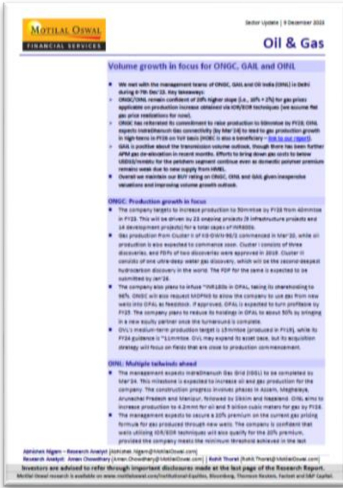
Can petrochemicals surprise in 2HFY25-FY26?



ONGC vs. Oil India: key investor pushbacks and a divergent growth path

- The key pushback on Oil India has been the inadequate free float given the government's large stake and the cross-shareholdings of other PSUs. Other key queries/concerns have centered around delays in commissioning of expanded capacity at NRL, potential cost overruns (no evidence of this till now) and the ability to place products from the expanded refining capacity.
- A potential post-election offer for sale in light of the government's monetization drive is another concern that has come up for both these stocks.
- We prefer Oil India over ONGC for its: 1) exposure to the refining upcycle led by its NRL stake, and 2) higher core O&G volume growth, which is stemming from exposure to onshore acreage (having lower risk and shorter gestation period) and a smaller production base.
- Compared to Oil India, we believe the growth path for ONGC could be more challenging and fraught with uncertainty (although it arguably offers potential for above-average returns). The company's development pipeline includes: 1) KG basin cluster 3 FDP application, likely in CY25, 2) ongoing Daman upside

Volume growth in focus for ONGC, GAIL and OINL



- development, and 3) potential resumption of operations in overseas assets such as Libya and Venezuela (though it is still very early days). ONGC's growth profile is therefore more offshore-oriented and has a longer gestation period. In our meeting with its management on Dec'23, the company also emphasized that mergers and acquisitions done by OVL are likely to be the key growth driver going forward.

Reiterate BUY on ONGC and Oil India

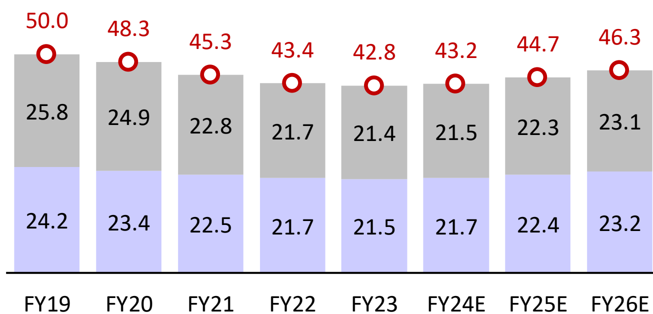
- We value the standalone business of ONGC at 6x Dec'25E adj. EPS of INR34.2 and add the value of investments to arrive at our TP of INR315. **We reiterate our BUY rating on the stock.**
- Oil India remains a strong **conviction BUY** with a 1.5x FY25E P/B (standalone) valuation. It is a unique play to benefit from the strong multi-year upcycle in both upstream and refining sectors. The stock currently trades at a P/E multiple of 8.5x FY25E EPS and 6.4x FY25E EV/EBITDA. We value the stock at 7x Dec'25E standalone adj. EPS and add investments to arrive at our TP of INR650.

Valuation snapshot

Oil & Gas	Reco	TP (INR)	EPS (INR)			P/E (x)			P/BV (x)			EV/EBITDA (x)			ROE (%)		
			FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
O N G C	Buy	315	39.3	44.3	48.6	7.0	6.2	5.6	1.1	1.0	0.9	4.2	3.5	2.9	17.0	17.1	16.8
Oil India	Buy	650	64.0	69.4	77.1	9.2	8.5	7.6	1.6	1.5	1.3	7.4	6.4	5.5	21.0	18.2	18.2

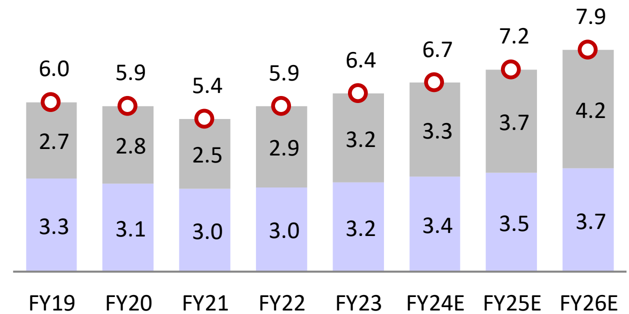
Source: Company, MOFSL

Production of ONGC



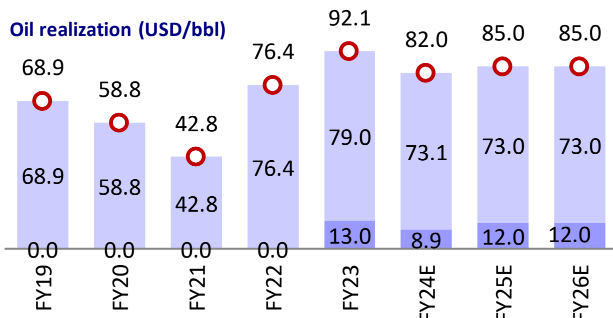
Source: Company, MOFSL

Production of OINL



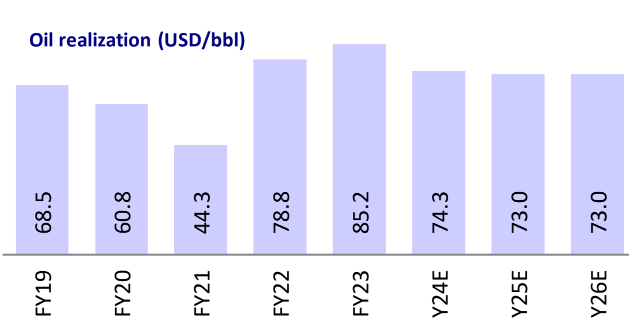
Source: Company, MOFSL

Realization of ONGC



Source: Company, MOFSL

Realization of OINL



Source: Company, MOFSL

ABB India

Estimate changes	↑
TP change	↑
Rating change	↔

Bloomberg	ABB IN
Equity Shares (m)	212
M.Cap.(INRb)/(USDb)	1056.3 / 12.7
52-Week Range (INR)	5134 / 3049
1, 6, 12 Rel. Per (%)	3/2/34
12M Avg Val (INR M)	1191

Financials Snapshot (INR b)

Y/E DEC	CY23	CY24E	CY25E
Net Sales	104.5	130.0	158.8
EBITDA	14.9	17.8	22.0
PAT	12.5	14.9	18.1
EPS (INR)	58.9	70.2	85.4
GR. (%)	81.9	19.2	21.6
BV/Sh (INR)	280.5	343.7	420.6
Ratios			
ROE (%)	22.9	22.5	22.3
RoCE (%)	23.1	22.6	22.5
Valuations			
P/E (X)	84.7	71.1	58.4
P/BV (X)	17.8	14.5	11.9
EV/EBITDA (X)	67.7	56.1	44.8
Div Yield (%)	0.3	0.4	0.4

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	75.0	75.0	75.0
DII	6.9	7.4	9.7
FII	10.7	10.2	7.6
Others	7.4	7.5	7.7

FII Includes depository receipts

CMP: INR4,985 TP: INR5,800 (+16%) Buy

Benefiting from quality, localization and penetration

- ABB's PAT came in ahead of our estimate in 4QCY23, as margins significantly beat our expectation. Revenue growth was lower than our estimate due to a higher share of its long-duration projects business. Order inflows have plateaued over the last four quarters and future growth will depend on how fast the orders are finalized and how fast the private sector recovers. ABB has been benefiting from strong demand for quality players across industries - government or private. With a deeper penetration across market segments and geographies and control over costs via localization, ABB has been able to gain higher margins. We continue to believe that ABB's addressable market is expanding fast across segments like transmission, railways, data center, electronics, and PLI-led capex. We expect the company's margins to remain strong at around 14%. We raise our CY24/CY25 EPS estimates by 2%/4.4% and increase our DCF-based TP to INR5,800 (from INR5,480), implying a P/E of 65x on Mar'26E EPS. ABB remains our top pick in the sector.

Results were ahead of our estimates on strong margin/PAT beat

Revenue grew 14% YoY to INR27.6b, driven by Robotics & Motion (+2%), Electrification (+19%), and Process Automation (+23%). Gross margin at 37.5% expanded ~140bp YoY/80bp QoQ, led by a favorable product mix. EBITDA at INR4.1b clocked 15% YoY growth, while margin stood at 15.1%, flat YoY and down 70bp QoQ. PAT at INR3.4b grew 13% YoY, led by a healthy operational performance. Order inflow stood at INR31.4b (+35% YoY), while the order book stood at INR84b (+30% YoY). On an annual basis, revenue/EBITDA/PAT came in at INR104.4b/INR14.9b/INR12.4b, up 22%/55%/80% YoY. EBITDA margin expanded ~310bp to 14.3%. Cash balance stood at INR48.1b vs. INR31.5b in CY22. FCF generation was INR11.7b (+104% YoY).

Demand outlook remains strong, near-term weakness may persist

ABB is benefiting from demand tailwinds emerging from high-growth areas such as renewables, data centers, railways, metros, and electronics. Although traditional sectors, such as cement, metals, oil & gas, and pharma, are not growing at the desired pace, they still account for the bulk of the order book of ~INR84b. The management indicated that as these sectors gather steam, they will act as growth catalysts going ahead. Overall, the domestic market is expanding at a much faster rate than the export market. We believe that with an expected revival of the private sector, inflows will start ramping up faster, which had been flat in the previous four quarters. So far the company has been benefiting from opex-led orders from the private sector and will now start witnessing capex-led orders from the private sector in few quarters after elections.

Margin expansion driven by product mix, localization and improved penetration

ABB is fairly comfortable about its gross margin, which stood at 36.8% in CY23, and it has achieved these gains through an improved product mix, increased localization, and a deeper penetration in markets, which we believe will sustain. The company intends to maintain its gross margin at this level through value-added products and a deeper penetration in markets despite a higher share of large projects and waning down of RM tailwinds. Improved employee productivity and control over costs led to strong margins of 15.1% despite an adverse impact of forex of INR100m in 4Q.

Segment-wise performance was strong from electrification and process automation

The electrification segment is witnessing strong traction from data centers, OEMs, and major metals and energy players and will also see improved inflows from renewable projects. The motion segment has benefited from large orders for traction motors in 3Q/4QCY23, but its margins were impacted by forex fluctuations on import dependence for drives. We expect the motion segment to continue to benefit from a strong addressable market for railways and metro-related projects. The preference for quality products from ABB is also helping the company tide over aggressive pricing in some segments of motors. Process automation order inflows came from sectors such as power, metals and logistics, and service orders due to the healthy installed base. Robotics has seen delays in finalization, which will start coming in the next few quarters. Overall, we expect ABB to benefit from increasing investments across: 1) electrification – driven by T&D & renewable power (INR2.4t), data center (INR400-500b), and EV charging (INR140b); 2) motion and mobility – led by planned investments by the government in metro, high-speed rail and RRTS (INR5-6t); 3) industrial automation – driven by a surge in investments in smart manufacturing led by PLI (INR4t); and (4) robotics.

Financial outlook

We raise our CY24/CY25 EPS estimates by 2%/4.4% to bake in better margins and higher other income. We expect a CAGR of 18% in ABB's order inflow over CY23-25 and expect a CAGR of 23%/22%/20% in revenue/EBITDA/PAT, driven by EBITDA margin of 13.7%/13.9% in CY24/CY25.

Valuation and recommendation

We increase our DCF-based TP to INR5,800 from INR5,480, implying P/E of 65x on Mar'26E EPS. ABB remains our top pick in the sector.

Standalone - Quarterly Earning Model (INR m)

Y/E December	CY22				CY23				CY23	CY24E	CY23	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Var (%)
Net Sales	**19,684**	**20,525**	**21,197**	**24,269**	**24,112**	**25,086**	**27,692**	**27,575**	**1,04,465**	**1,30,022**	**31,866**	**-13**
YoY Change (%)	20.8	44.0	19.2	15.5	22.5	22.2	30.6	13.6	21.9	24.5	31.3	
Total Expenditure	17,805	18,538	19,088	20,626	21,259	21,599	23,307	23,403	89,567	1,12,215	28,347	
EBITDA	**1,879**	**1,988**	**2,110**	**3,643**	**2,853**	**3,487**	**4,385**	**4,172**	14,898	17,807	**3,518**	19
Margins (%)	9.5	9.7	10.0	15.0	11.8	13.9	15.8	15.1	14.3	13.7	11.0	
Depreciation	257	253	269	268	274	292	303	329	1,199	1,293	272	21
Interest	15	28	16	72	22	14	9	82	127	113	67	23
Other Income	3,335	186	780	694	723	750	768	776	3,017	3,491	842	-8
PBT before EO expense	**4,943**	**1,891**	**2,605**	**3,996**	**3,279**	**3,931**	**4,842**	**4,537**	**16,589**	**19,892**	**4,022**	**13**
Extra-Ord expense												
PBT	**4,943**	**1,891**	**2,605**	**3,996**	**3,279**	**3,931**	**4,842**	**4,537**	**16,589**	**19,892**	**4,022**	**13**
Tax	1,212	489	638	943	827	972	1,222	1,085	4,106	5,013	1,030	
Rate (%)	24.5	25.8	24.5	23.6	25.2	24.7	25.2	23.9	24.8	25.2	25.6	
Reported PAT	**3,731**	**1,403**	**1,968**	**3,053**	**2,452**	**2,959**	**3,620**	**3,452**	**12,483**	**14,879**	**2,992**	**15**
Adj PAT	**3,731**	**1,403**	**1,968**	**3,053**	**2,452**	**2,959**	**3,620**	**3,452**	**12,483**	**14,879**	**2,992**	**15**
YoY Change (%)	164.0	99.7	64.1	62.2	-34.3	110.9	84.0	13.1	79.5	19.7	-2.0	
Margins (%)	19.0	6.8	9.3	12.6	10.2	11.8	13.1	12.5	11.9	11.4	9.4	

21 February 2024
Company Update | Sector: Healthcare

Alkem

BSE SENSEX	S&P CNX
72,623	22,055

Stock Info

Bloomberg	ALKEM IN
Equity Shares (m)	120
M.Cap.(INRb)/(USDb)	647.5 / 7.8
52-Week Range (INR)	5520 / 2835
1, 6, 12 Rel. Per (%)	9/28/43
12M Avg Val (INR M)	871
Free float (%)	43.3

Financials Snapshot (INR b)

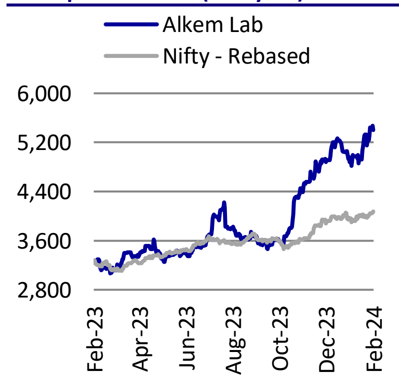
Y/E MARCH	FY24E	FY25E	FY26E
Sales	128.7	144.8	161.2
EBITDA	23.7	27.1	30.6
Adj. PAT	19.6	21.6	23.4
EBIT Margin (%)	16.2	16.5	16.9
Cons. Adj. EPS (INR)	164.0	180.9	196.0
EPS Gr. (%)	54.6	10.3	8.4
BV/Sh. (INR)	877.1	1,017.3	1,169.2
Ratios			
Net D:E	-0.2	-0.2	-0.3
RoE (%)	20.1	19.1	17.9
RoCE (%)	18.6	17.9	16.9
Payout (%)	22.5	22.5	22.5
Valuations			
P/E (x)	33.0	29.9	27.6
EV/EBITDA (x)	26.5	22.8	19.9
Div. Yield (%)	0.5	0.6	0.7
FCF Yield (%)	1.7	2.0	1.7
EV/Sales (x)	4.9	4.3	3.8

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	56.7	56.7	57.2
DII	15.9	17.6	16.4
FII	8.5	6.0	4.4
Others	18.9	20.9	22.0

FII Includes depository receipts

Stock performance (one-year)



CMP: INR5,410 TP: INR5,160 (-5%) Neutral

Focus remains on DF/US; valuations priced in

- **ALKEM is one of the pharmaceutical companies with the highest proportion of (66% of total sales 9MFY24) sales from the domestic formulation (DF) segment.**
- **While it continues to outperform the industry in the DF segment, the outlook is dependent on the variability of season and acute infections as it derives 82% of DF sales from acute therapies.**
- **After muted performance in the US generics business (23% of sales) over FY18-23, there has been some recovery in 9MFY24. The sound compliance track-record and a healthy product pipeline would enable 6% sales CAGR in CC terms to USD394m over FY24-26.**
- **Further, ALKEM is focusing on the biosimilar and CDMO business through Enzene biosciences and expects to reach breakeven in FY25.**
- **Over FY18-23, ALKEM has delivered 13%/10%/12% Revenue/EBITDA/PAT CAGR. However, ROE decreased from 15% in FY18 to 14% in FY23.**
- **Considering 9% earnings CAGR and return ratio stabilizing at ~18% over FY24-26, we value ALKEM at 25x 12M (in line with its 10-yr average and 17% discount to sector average) forward earnings to arrive at a target price of INR5160. We believe the current valuation and ~65% stock appreciation over the past one year adequately factor the upside in earnings. We reiterate our Neutral stance on the stock.**

DF: Slowdown in acute therapies affects DF sales growth

- Given the highest share of acute therapies in the domestic formulation segment (~82% of DF sales), the growth prospects continue to remain hinged on variability of season and acute infections.
- The company is emphasizing on strengthening its position in the Chronic therapies and biosimilars.
- ALKEM's acute therapies (82% of DF sales) exhibited 15.5% CAGR and chronic therapies (18% of DF sales) exhibited 18.3% CAGR over MAT Dec'20-23. However, in 9MFY24, acute therapies showcased modest growth, while chronic therapies strong YoY growth.
- Additionally, ALKEM is focusing on improving MR productivity, which would boost the DF revenue and improve profitability.
- We expect a 13% sales CAGR in the DF segment over FY24-26.

Exports: US business picks up; healthy growth momentum in Non-US business

- US sales has declined on compounded basis in CC terms by 3% over FY21-23 due to intense price erosion in the base portfolio. However, in 9MFY24, US sales registered 6% YoY (CC terms) growth, partly due to reduced intensity of price erosion and partly due to low base of past year.
- We expect ALKEM to register a 7% CAGR over FY24-26 in CC terms on the back of the healthy approval pace, sound track record on compliance front, and focus on biosimilars.

- Non-US exports (9% of total exports) continue to exhibit healthy growth, driven by improved traction in existing products, successful new launches, and an expanding market reach (43% YoY growth in 9MFY24). We expect 21% sales CAGR in exports over FY24-26 to INR18b.

Enzene: the additional growth lever

- ALKEM has entered into developing/manufacturing biosimilar products and provides CDMO services through its subsidiary Enzene Biosciences.
- Seven biosimilars are commercialized in India and seven more products are under various stages of development (three biosimilars and four Synthetic peptide). Further to enhance CDMO offerings, the company plans to open a CDMO facility at Princeton, New Jersey, to reduce turnaround time.
- Additionally, the company plans to invest around ~INR600m in R&D to further support the future growth. Enzene is expected to reach breakeven by FY25, supported by new launches, improved CDMO services, and an expanded presence in emerging markets.

Valuation and view

- The positive factors for ALKEM include a) its position as a domestic player with a strong brand franchise, and b) a consistent record of compliance with USFDA regulations. However, factors that may impact the valuation multiple are a) a very high share of acute therapies in the DF segment, b) increased volatility in DF growth, led by seasonality and infection rates, and c) lower profitability in the US generics business. Accordingly, ALKEM's long-term average valuation has been 24x, and it is currently trading at +1SD (30x 12M forward earnings).
- We value ALKEM at 25x 12M forward earnings to arrive at a price target of INR5,160. Considering 9% earnings CAGR over FY24-26, we believe the current valuation adequately factors the upside in earnings. We reiterate our Neutral stance on the stock.

Valuation snapshot

Company	Reco	MCap	EPS (INR)			EPS Gr. YoY (%)		PE (x)		EV/EBITDA (x)		ROE (%)		
		(USD B)	FY24E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY24E	FY25E	FY26E
Ajanta Pharma	Buy	3.3	61.1	74.4	89.5	21.7	20.3	28.9	24.1	21.9	16.1	21.1	21.9	22.3
Alembic Pharma	Neutral	1.8	28.6	33.8	38.0	18.2	12.3	23.7	21.1	14.8	15.7	12.1	12.9	13.0
Alkem Lab	**Neutral**	**7.5**	**149.2**	**173.0**	**183.7**	**15.9**	**6.2**	**29.9**	**27.6**	**22.8**	**19.9**	**18.4**	**18.5**	**17.1**
Aurobindo Pharma	Neutral	7.9	51.2	58.7	67.5	14.6	15.1	19.1	16.6	10.1	9.9	10.6	11.0	11.4
Biocon	Neutral	4.0	7.2	13.1	16.9	82.5	29.1	21.5	16.7	13.9	12.2	4.7	8.3	10.0
Cipla	Buy	12.3	47.4	53.4	57.5	12.5	7.8	24.2	22.4	14.2	13.1	14.6	14.3	13.6
Divi's Lab.	Neutral	12.6	60.9	81.1	97.4	33.2	20.1	49.1	40.9	35.5	30.3	12.1	14.7	15.9
Dr Reddy's Labs	Neutral	11.5	296.7	308.8	324.9	4.1	5.2	18.6	17.7	10.5	9.9	19.5	17.2	15.5
Eris Lifescience	Neutral	1.5	33.0	33.5	40.7	1.6	21.5	27.3	22.5	14.4	12.4	19.1	17.0	17.6
Gland Pharma	Buy	3.8	54.4	65.7	74.5	21.0	13.3	29.5	26.1	17.9	15.7	10.6	11.5	11.6
Glenmark Pharma	Neutral	3.0	24.1	39.3	48.0	63.2	22.2	22.6	18.5	9.9	8.5	6.8	10.1	11.2
Glaxosmit Pharma	Neutral	4.3	38.1	42.1	46.4	10.5	10.1	49.6	45.0	35.8	31.6	30.8	30.4	29.5
Granules India	Buy	1.1	19.4	27.1	34.9	40.0	28.6	15.1	11.8	8.7	6.6	15.3	18.1	19.4
Ipca Labs.	Neutral	3.3	24.5	36.9	49.0	50.8	32.8	29.9	22.5	16.4	13.0	10.2	13.9	16.2
Laurus Labs	Buy	2.7	9.1	16.9	19.0	84.5	12.7	25.2	22.4	13.8	12.9	11.6	18.7	18.1
Lupin	Sell	7.5	36.0	40.7	48.3	13.0	18.7	34.3	28.9	17.3	15.1	12.3	12.3	13.0
Piramal Pharma	Buy	2.3	1.4	3.0	4.6	112.1	52.7	47.4	30.8	17.4	14.6	2.5	4.9	7.1
Sun Pharma.Inds.	Buy	37.7	39.5	45.6	53.7	15.5	17.7	29.0	24.7	20.6	17.8	15.9	16.0	16.4
Torrent Pharma.	Neutral	9.5	50.1	66.3	79.5	32.4	19.9	35.3	29.4	20.1	17.4	23.3	26.9	32.3
Zydus LifeScience	Neutral	8.8	32.6	33.7	36.1	3.5	7.1	21.1	19.8	13.3	12.2	17.3	15.4	14.6

Source: MOFSL, Company

Voices

BSE Sensex: 72,623 **S&P CNX: 22,055**

Domestic cyclicals propel growth; earnings beat expectations

In this report, we present the detailed takeaways from our 3QFY24 conference calls with various company managements as we refine the essence of India Inc.'s 'VOICES'.

- **Corporate earnings – Financials and Autos drive earnings:** The 3QFY24 corporate earnings ended on a strong note, with widespread outperformance across aggregates, driven by continued margin tailwinds. Domestic cyclicals such as Autos and Financials, along with global cyclicals (i.e., Metals and O&G) drove the beat. Technology posted a marginal decline in earnings, its first in 26 quarters.
- Many **banks** have indicated a consistent trajectory of loan growth, driven primarily by ongoing momentum in the Retail, Business Banking, and SME segments, coupled with improved utilization of sanctions in the corporate sector. Despite this positive outlook, concerns persist regarding deposit mobilization, leading banks to increasingly turn to bulk TDs and CDs to fund asset growth.
- Within the **NBFC/HFC** sector, managements highlighted the following: 1) Adjusting growth trajectory in the personal loans segment due to sector-wide elevated delinquencies in the small-ticket personal loans segment; 2) Anticipating a moderation in disbursement volumes for Select Vehicle Financiers in FY25 (relative to FY24); 3) CoB has largely peaked out or may experience a slight uptick for one more quarter before stabilizing; and 4) Asset quality is expected to remain favorable and 5) Operating leverage will start playing out especially for entities that have made substantial investments in technology upgradation and distribution expansion in recent years.
- Most of the **Automobile** managements have guided for the near-term demand headwinds in both domestic and global markets. Near-term challenges withstanding in 4QFY24, FY25 volume growth should be in the range of 4-6% YoY for most of the segments due to high base and moderation in demand. However, 2Ws and SUVs should outperform the auto pack with 8-12% YoY growth in FY25.
- **Management of IT** companies remain cautious on the near-term demand environment for key verticals (BFSI, Retail). While a few companies have witnessed early signs of recovery, they are hesitant to label it as a definitive trend. The management indicated that the reprioritization of projects and execution deferrals on discretionary areas continue to exert significant pressure on revenue conversion.
- Revenue growth of consumer companies remain subdued due to weakness in the rural market and competition from the local and regional players. The management highlighted the delayed onset of winter adversely impacted the winter portfolio during the quarter. Companies continuously passed on the benefits of lower commodity prices across categories such as soaps, detergents, paints, oils, and biscuits. The management anticipates volume recovery in FY25 and has also highlighted that gross margins have already rebounded satisfactorily for most companies in 9MFY24.
- In **Healthcare**, companies indicated sustained growth momentum in the chronic category of therapies in the domestic formulation segment for the quarter. The weak seasonality adversely impacted the off-take of products in acute therapies

as per the management. Companies witnessed the benefit of lower raw material cost for the quarter. They expect this benefit to sustain over the near term.

- In the ferrous **Metals** space, managements across companies pointed to: 1) higher coking coal costs; and 2) development of captive raw material mines. Though a better performance from Indian operations backed by strong domestic demand should aid volumes and margins in the near term, managements believe that global uncertainties might pose challenges to international steel, base metal, and raw material prices in the short term. In the non-ferrous space, managements maintained their CoP and EBITDA guidance for FY24.
- For **Cement**, most managements have guided for industry volume growth of ~8-9% YoY in FY25. Cement prices have corrected in Dec'23 across regions and this weakness persisted in Jan-Feb'24.

Autos

- Most of the managements have guided for the near-term demand headwinds in both domestic and global markets. Near-term challenges withstanding in 4QFY24, FY25 volume growth should be in the range of 4-6% YoY for most of the segments due to high base and moderation in demand. However, 2Ws and SUVs should outperform the auto pack with 8-12% YoY growth in FY25. The macro environment remains uncertain due to geopolitical tensions. However, the continuing devaluation of emerging market currencies has eased now. The companies have hinted toward stable commodity prices in 4QFY24. While the Rea Sea crisis has not had any material impact on any of the coverage companies so far, there was an indication toward a rise in logistics costs in 4Q and shipping times to increase by about 3-4 weeks.

Capital Goods

- EPC companies reported robust visibility from sectors such as power T&D, renewable energy, data centers, real estate, and defence. In international markets such as the Middle East, companies have guided for a better-than-expected tendering pipeline, chiefly from Saudi Arabia, UAE, Kuwait, Qatar. Margin guidance has been revised slightly downward, with the expectation that a return to double-digit levels will take a few quarters. This is due to the winding down of legacy projects nearing completion, while newer projects are yet to the margin recognition threshold. Accordingly, double-digit performance has been deferred to 2HFY25. Most of the companies reported healthy order inflow and execution growth during the quarter, largely led by up-fronting before the election schedule kicks in. Most companies foresee a temporary slowdown in government ordering in the ensuing one to two quarters; however, private sector should not really be affected by the same. Product companies have seen improving margins, led by easing RM inflation and favorable product mix, especially for genset players. International geographies have been a mixed bag for companies with continued weak exports for Cummins, while L&T, Kalpataru, Triveni Turbine witnessed strong traction.

Cement

- Cement demand was subdued in 3Q due to multiple reasons (festive season, labor unavailability, excessive rains, flood and state elections in a few regions, fiscal challenges). However, demand has improved in Jan'24, supported by government-led infrastructure projects and pick-up in housing demand. Most managements have guided for industry volume growth of ~8-9% YoY in FY25.

Cement prices have corrected in Dec'23 across regions and this weakness persisted in Jan-Feb'24. Fuel consumption costs for cement players declined 5-15% QoQ (except for ACC and ACEM, which reported 1-2% QoQ increase) to INR1.50-INR2.05/Kcal in 3QFY24. Companies expected fuel cost to either remain flat or decline 4-5% in 4Q.

Chemicals Specialty

- Chemical companies mentioned that destocking intensity is down and in some cases, it is almost over. However, there were no signs of revival in demand as mentioned by most of chemical company and it could be sometime away till there is a sustained demand recovery. Chinese dumping is still very much an issue and therefore pricing pressure still exists for most companies. Some firms experienced declining input costs, leading to lower product prices eventually. Management anticipates recovery in FY25, although some projects have been postponed further.

Consumer

- Revenue growth of consumer companies remain subdued due to weakness in the rural market and competition from the local and regional players. Management highlighted the delayed onset of the winter season adversely impacted the winter portfolio during the quarter. Companies continuously passed on the benefits of commodity prices in categories such as soaps, detergents, paints, oils, and biscuits. This resulted in the sequential improvement in volume growth in 3QFY24. The trajectory of gross margin expansion remained strong. EBITDA margin expansion is trailing behind gross margin growth, primarily attributed to increased investments in marketing and distribution. Management anticipates volume recovery in FY25. Additionally, it has also highlighted that gross margins have already rebounded satisfactorily for most companies in 9MFY24.

Financials

Banks

- Many banks have indicated a consistent trajectory of loan growth, driven primarily by ongoing momentum in the Retail, Business Banking, and SME segments, coupled with improved utilization of sanctions in the corporate sector. Despite this positive outlook, concerns persist regarding deposit mobilization, leading banks to increasingly turn to bulk TDs and CDs to fund asset growth. The industry-wide CASA mix has been declining, resulting in a sequential increase in funding costs. While several banks have faced stagnation or decline in NIM, they anticipate that the rising cost of funds will contribute to further margin moderation in the upcoming quarters, albeit at a more moderate pace.
- PSU Banks have reported enhanced asset quality, although elevated opex ratios persist due to wage provisions for PSU banks and ongoing investments in branch expansion and technological advancements. The SMA pool remains low, and controlled slippages from the restructuring book, combined with a robust PCR and contingency buffers, are expected to mitigate credit costs and support earnings. Provisioning expenses have generally remained manageable for most banks, and although there is vigilance regarding the turn in the delinquency cycle for unsecured loans, the expectation is that credit costs will remain under control in the coming quarters.

NBFC

- Within the NBFC/HFC sector, managements highlighted the following: 1) Adjusting growth trajectory in the personal loans segment due to sector-wide elevated delinquencies in the small-ticket personal loans segment; 2) Anticipating a moderation in disbursement volumes for Select Vehicle Financiers in FY25 (relative to FY24); 3) CoB has largely peaked out or may experience a slight uptick for one more quarter before stabilizing; and 4) Asset quality is expected to remain favorable and 5) Operating leverage will start playing out especially for entities that have made substantial investments in technology upgradation and distribution expansion in recent years.

Capital Markets

- With strong traction in equity markets, capital market activity measured in any parameter (demat accounts, ADTO, NSE active clients, SIP monthly run-rate) continues to remain upbeat. Most players are indicating investments into the business, which is restricting the benefits of scale. Companies have also been expanding their presence deeper into lower tier cities and also launching new products to diversify their revenue streams.

Insurance

- Life insurance companies alluded to changing product mix toward lower profit products as the key reason for muted VNB margin trajectory during the quarter. Going ahead, managements are conscious of the ensuing change in surrender charge regulations, which could dent margins further. On the other hand, players are expecting strong traction in premiums from FY25. Health insurance players saw elevated loss ratio in 3QFY24, but expect normalization in 4QFY24. They continue to remain upbeat on growth in premiums, particularly retail health.

Healthcare

- In **Healthcare**, companies indicated sustained growth momentum in chronic category of therapies in domestic formulation segment for the quarter. The weak seasonality adversely impacted the off-take of products in acute therapies as per management. Companies witnessed the benefit of lower raw material costs for the quarter. They expect this benefit to sustain over the near term. Considering the inflation scenario, companies do not expect any benefit from WPI-linked price changes for FY25. For the US generics space, management indicated low intensity of price erosion (mid-single digit on a QoQ basis) in their base portfolio. The filings are inclined toward complex products, and thus, there is reduction in overall pace of filings as per management. On the hospitals front, the festivals period led to lower planned In-patients (IPDs) on a QoQ basis. The management continues to indicate robust demand in North India. Companies indicated the benefit being accrued on account of revision in realization for patients under the Central government healthcare scheme (CGHS) category. Overall, the healthcare space continues to witness tailwinds on account of niche pipeline in the US and limited availability of hospital services in certain regions of India. The DF is witnessing seasonality led by some slowdown over the near term.

Logistics

- In the logistics sector, demand activity remained low due to an extended holiday season and weak economic conditions. The management anticipates improved operational performance after the elections, particularly with reduced fuel charges and stable operating costs. However, ongoing issues in the Red Sea could disrupt the supply chain and cause container shortages, though the overall impact on port volumes is expected to be minimal. In the long term, companies are optimistic about sector growth, driven by e-way bills, GST implementation, expanded routes on the Dedicated Freight Corridor (DFC), and enhanced connectivity of major ports, which are expected to encourage businesses to move toward the organized sector.

Metals

- In the ferrous **Metals** space, managements across companies pointed to: 1) higher coking coal costs; and 2) development of captive raw material mines. Though a better performance from Indian operations backed by strong domestic demand should aid volumes and margins in the near term, managements believe that global uncertainties might pose challenges to international steel, base metal, and raw material prices in the short term. In the non-ferrous space, managements maintained their CoP and EBITDA guidance for FY24.

Oil & Gas

- RIL anticipates strong global oil demand, especially in transportation fuel, despite potential short-term challenges in downstream chemical margins. Major expansions for OMCs will conclude within the next two years, paving the way for significant growth. CGDs are concerned about volumes due to lower-than-expected Morbi uptake and increasing competition from EVs. However, domestic gas demand remains robust, with expectations of increased transmission volumes. Upstream companies are poised to benefit from new production wells, with strong guidance for future growth.

Real Estate

- Amid strong demand tailwinds, companies continue to remain confident of achieving 15-20% growth over the medium term and are developing a project pipeline that can support their growth ambitions. There are no supply-side concerns at least in the near term and while the realization growth on account of product mix will continue, companies remain disciplined on taking calibrated price hikes on an LFL basis.

Retail

- **Retail:** Sector-wide management commentary indicated that the continued demand slowdown (weak SSSG) and the revenue growth is driven largely by footprint addition. 4QFY24 further saw early onset of EOSS, as retailers looked to liquidate the old inventory due to soft demand.
- **QSR:** QSR companies sustained sluggish performance as growth metrics (SSSG, ADS) remained weak despite Cricket World Cup and various other initiatives. Most companies have maintained the aggressive store addition in 3QFY24 and the momentum is expected to sustain into 4Q. We expect QSR companies to sustain growth weakness in the near term, which will likely keep operating margins under pressure.

Technology

- **IT** companies' management remain cautious on the near-term demand environment for key verticals (BFSI, Retail). While a few companies have witnessed early signs of recovery, they are hesitant to label it as a definitive trend. The management indicated that the reprioritization of projects and execution deferrals on discretionary areas continue to exert significant pressure on revenue conversion. Weak growth in 3Q was attributed to the impact of furloughs and ongoing softness in key verticals, notably BFS, Retail, and Hi-Tech, which experienced significant weakness. Although deal signing activities moderated in 3Q due to furloughs, the management pointed out that the earlier wins (mega deals) in 9MFY24 have built a strong foundation for FY25 and should support growth. Additionally, despite the slowdown in revenue growth, management expressed confidence in sustaining margins in FY25.

Telecom

Earnings growth continued to remain moderate due to limited tariff hikes. Market consolidation continues to favor Bharti/RJio. Companies remain focused on deleveraging their balance sheets, as capex peaked out in 3QFY24. Bharti/RJio have completed the rollout of 5G rollout in the majority of India.

Combined fiscal deficit at 55.5% of BEs in 9MFY24

Government investments rise 35.5% YoY during the period

- **Based on the provisional data of 21 states, total receipts of all the states grew 7.9% YoY in 3QFY24, following a 2.5% YoY growth in 2Q. Simultaneously, their total spending rose 9.5% YoY in 3QFY24, following a 12.7% YoY growth each in 2Q and 1QFY24. As a result, the states' aggregate fiscal deficit stood at INR1.6t in 3QFY24, down from INR3.0t in 2QFY24. As a percentage of GDP, it declined to 2.2% in 3QFY24 from 4.2%/2.0% in 2QFY24/3QFY23.**
- **Total receipts, thus, grew 8.2% YoY in 9MFY24 (vs. +21% YoY in 9MFY23) and stood at 60.7% of budget estimates (BEs) in 9MFY24, down from 62.9% in 9MFY23. At the same time, total spending grew 11.6% YoY in 9MFY24 (vs. +13.0% YoY in 9MFY23) and stood at 59.9% of BEs (same as in 9MFY23). Revenue spending growth moderated to 9.1% YoY in 9MFY24, while capex (capital spending *less* loans & advances, L&As) rose 31.5% YoY and stood at 51.5% of BEs, the highest in at least a decade. Thus, states' aggregate fiscal deficit was INR5.4t (2.5% of GDP) or 56.5% of BEs in 9MFY24, compared to INR4.1t (2.0% of GDP) or 46.1% of BEs in 9MFY23.**
- **An analysis of individual states suggests that only one state – JH – posted a fiscal surplus in 9MFY24, compared to three states (JH, MH, & OD) in the same period last year. In contrast, AP and BH's 9MFY24 fiscal deficits exceeded their full-year targets. AP's fiscal deficit was 128% of full-year BEs in 9MFY24 (higher than 114% of BEs in 9MFY23), while it was double of BEs for BH (vs. 231% in 9MFY23). Besides these two states, three other states (AS, PB, and KL) witnessed fiscal deficits of more than 70% of BEs in 9MFY24.**
- **Within the states' total receipts, while states' own receipts (taxes and non-taxes) have increased 10.9% YoY in 3QFY24 (+12.1% in 9MFY24), the transfers from the Center (devolution + grants) were up by just 4% YoY (+2.8% in 9MFY24). The latter was led by a 31.2% YoY contraction in 'grants from the Center' in 3QFY24, marking its third successive fall. The states' own taxes, in contrast, grew 7.5% YoY in 3QFY24 (+10.2% YoY in 9MFY24).**
- **A combined analysis of the central and state governments confirms that while total receipts rose 10.8% YoY in 3QFY24 (+14.4% in 9MFY24), total spending grew by just 4.2% YoY in 3QFY24 (+12.9% in 9MFY24). The combined capex (ex-L&As) surged 36.6% YoY in 3QFY24 (+35.5% in 9MFY24), with just 1.5% YoY growth in revenue spending in 3Q (+8.8% in 9M).**
- **In other words, total fiscal receipts were 70.3% of BEs in 9MFY24 (down from 73.4% in 9MFY23), while total spending was 65.8% of BEs (vs. 67.4% in 9MFY23). Consequently, the combined fiscal deficit was 55.5% of BEs in 9MFY24, higher than 55% in 9MFY23, but much lower than the 85% target achieved over FY17-FY20. Assuming an 8.2% YoY nominal GDP growth in 3QFY24, our calculations suggest that the GG fiscal deficit stood at 7.0% of GDP in 9MFY24, same as in 9MFY23.**

Total receipts of all the states grew 7.9% YoY in 3QFY24, while their total spending grew 9.5% YoY

States' fiscal deficit was 56.5% of BEs in 9MFY24: Based on the provisional data of 21 states, total receipts of all the states grew 7.9% YoY in 3QFY24, following a 2.5% YoY growth in 2Q. It implies that the states' total receipts grew 8.2% YoY in 9MFY24 (vs. +21% in 9MFY23), achieving 60.7% of BEs vs. 62.9% of BEs a year ago *(Exhibit 1)*.

Simultaneously, their total spending grew 9.5% YoY in 3QFY24, following a 12.7% YoY growth in 2Q. It implies that the states' total spending grew 11.6% YoY in 9MFY24 (vs. +12.9% in 9MFY23), achieving 59.9% of BEs, compared to 59.8% of BEs in 9MFY23 *(Exhibit 2)*.

Data for all states is based on 21 major states, for which monthly data up to Dec'23 is available. These states account for 90-91% of all states' Budget. The states/UT covered in this report are Andhra Pradesh (AP), Assam (AS), Bihar (BH), Chhattisgarh (CT), Gujarat (GJ), Haryana (HR), Himachal Pradesh (HP), Jammu & Kashmir (JK), Jharkhand (JH), Karnataka (KA), Kerala (KL), Madhya Pradesh (MP), Maharashtra (MH), Odisha (OD), Punjab (PB), Rajasthan (RJ), Tamil Nadu (TN), Telangana (TS), Uttarakhand (UK), Uttar Pradesh (UP) and West Bengal (WB).

Jubilant Foodworks: Will achieve Rs. 1,00 cr revenue once we reach 250 stores; Sameer Khetarpal , MD

- It's never too late to enter the Indian Market
- Popeye will be our speedboat to scale up Jubilant
- We will be the fastest QSR to get thousand crores in India
- This is our 33rd, 11th city – Chandni Chowk, Delhi

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Kaynes Tech: Aim to be a completely integrated EMS player; Jairam Sampath, CFO

- Aim to be completely integrated EMS player
- FY26 expected growth rate at 40-50%
- FY26 can see a 50% growth on FY25 numbers
- Expect PAT in the range of Rs. 400-450 crs in FY26

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Home First: Don't expect cost of borrowing to move up beyond 10-15% from hereon; Manoj Viswanathan, MD & CEO

- Gross NPA there is 10BPS increase @1.7%, no asset quality issue at all
- Generally last quarters are generally better than all the quarters
- Demand is quite strong in the ground, can't see any softening in the demand
- We are having a very positive outlook for rest of FY24 and FY25, 30% AUM growth expected

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Arvind Smartpaces: Arvind Orchards project sold at Rs 5,000 per sq ft; Kamal Singal, MD & CEO

- Will have a total pipeline of Rs. 6,500 cr by year end; added Rs. 4,000 cr + projects this year
- Looking at Rs. 9,000-10,000 cr of total pipeline by March 25
- Will foray into Surat market soon
- Will announce some projects in Mumbai MMR in few months

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NOTES

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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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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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