3 July 2025

Motilal Oswal Financial Services

MORNING INDIA

Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	83,410	-0.3	6.7
Nifty-50	25,453	-0.3	7.6
Nifty-M 100	59,667	-0.1	4.3
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	6,227	0.5	5.9
Nasdaq	20,393	0.9	5.6
FTSE 100	8,775	-0.1	7.4
DAX	23,790	0.5	19.5
Hang Seng	8,725	0.5	19.7
Nikkei 225	39,762	-0.6	-0.3
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	70	1.6	-5.9
Gold ($/OZ)	3,357	0.6	27.9
Cu (US$/MT)	10,109	0.6	16.8
Almn (US$/MT)	2,617	0.7	3.6
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	85.7	0.2	0.1
USD/EUR	1.2	-0.1	14.0
USD/JPY	143.7	0.2	-8.6
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.3	0.00	-0.5
10 Yrs AAA Corp	7.1	-0.01	-0.1
Flows (USD b)	**2-Jul**	**MTD**	**CYTD**
FIIs	-0.2	2.19	-8.0
DIIs	0.35	8.82	41.6
Volumes (INRb)	**2-Jul**	**MTD***	**YTD***
Cash	1,121	1107	1083
F&O	2,02,940	1,50,367	2,09,857

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

Financials: Banks | 1QFY26 Preview: Margin pressure to weigh on earnings

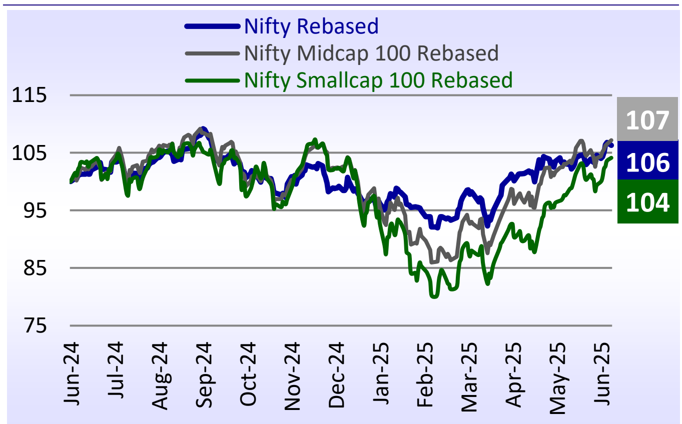
- Credit growth remains muted; expect recovery in 2HFY26. We expect credit growth to sustain at 11.5% YoY in FY26, led by a recovery in 2HFY26. System deposit growth was stable at 10.4% in Jun'25, although banks continue to face challenges in mobilizing low-cost CASA deposits. SA rates have declined by 25-100bp since Apr'25 and TD rates have fallen by 20-100bp in the past two months. We expect muted deposit growth in 1QFY26, as the seasonal flow of 4Q unwinds.
- We expect double-digit NIM decline for all banks under our coverage in 1QFY26E. Asset quality broadly stable; unsecured retail (MFI) to witness continued stress. Large private/PSU banks should continue to report controlled credit costs, while mid-size lenders with higher exposure to Retail/MFI segments are expected to report elevated provisioning levels, mainly during 1H.
- Private Banks - Earnings to decline 2.5% YoY (9% YoY PAT growth in FY26E). Estimate NII to grow 3.1% YoY/flat QoQ in 1QFY26. Overall slippages are expected to inch up amid agri seasonality, especially for large private banks.
- PSU Banks - PAT growth to moderate sharply to 4.8% YoY (down 11.7% QoQ), amid a decline in NIMs, normalized opex, and higher provisions QoQ due to the benefits of the one-time reversal in provisions on SRs reported in 4Q.

Research covered

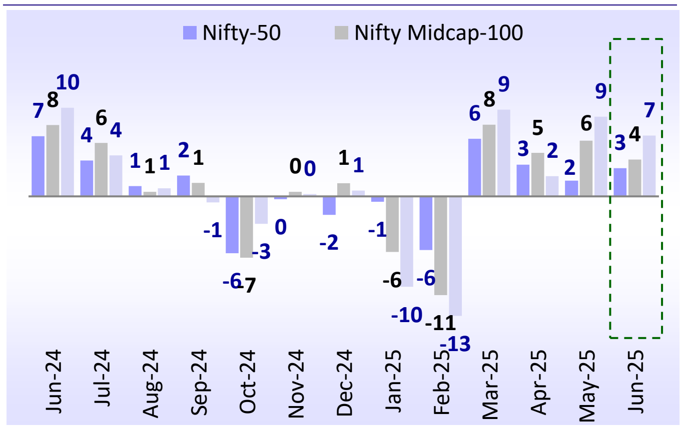
Cos/Sector	Key Highlights
Financials	Banks | 1QFY26 Preview: Margin pressure to weigh on earnings
Bulls & Bears	Market continues its winning streak; Nifty closes above 25k in Jun'25
EcoScope	Understanding monetary transmission: From policy actions to the real economy
CreditAccess Grameen	Pivoting from stress to stability
Business updates	Avenue Supermarts | Punjab National Bank | Indian Bank | Mahindra Finance

Chart of the Day: Bulls & Bears (Market continues its winning streak; Nifty closes above 25k in Jun'25)

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



MoM performance (%) – Midcaps/smallcaps outperform in Jun'25



Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Adani to bring all cement units under one roof; eyes 140 mt single entity

The Adani group has started the process to consolidate all its cement operations under a single entity as part of its “One Business, One Company” strategy.

2

Tata Steel eyes net profit at UK unit this fiscal: N Chandrasekaran

Tata Sons chairman N. Chandrasekaran has set a new goal for Tata Steel Ltd chief executive and managing director T.V. Narendran: to deliver net profit from the company’s UK operations in the current fiscal year.

3

NCLT defers approval for Vedanta Demerger to next hear on August 20

The Ministry of Petroleum and Natural Gas has raised objections to Vedanta Limited’s proposed demerger during a hearing before the National Company Law Tribunal (NCLT), Mumbai Bench, held on Wednesday, July 2.

4

Mahindra may raise prices in coming months, expects strong SUV and export growth

Mahindra and Mahindra (M&M) is considering a vehicle price hike over the next two to three months as part of its regular pricing strategy, said Nalinikanth Gollagunta, CEO of the company’s Automotive Division

5

PVR INOX eyes deeper south push with cost-efficient expansion model

PVR INOX is doubling down on its southern expansion, with average occupancies in states like Tamil Nadu, Karnataka, Kerala and Telangana touching 30%, significantly higher than the 23–25% pan-India average.

6

PNB reports over 11% year-on-year growth in gross business in first quarter of FY25

Punjab National Bank (PNB) reported gross business of ₹27.19 lakh crore in the first quarter of financial year 2024-25, marking a 1.4% rise quarter-on-quarter and an 11.6% increase year-on-year.

7

Hindustan Zinc reports record Q1 mined metal at 265 kt; silver and refined output fall

The company achieved its highest Q1 mined metal output at 265 kilo tonnes, marking a 1% year-on-year (YoY) increase.

Financials: Banks

Result Preview

Margin pressure to weigh on earnings

Loan growth muted; treasury remains the key profitability driver

- **Credit growth remains muted; expect recovery in 2HFY26:** Systemic credit growth slowed to ~9.6% as of 13th Jun'25 amid demand moderation in the retail segment and a cautious growth strategy followed by banks in unsecured loans. With moderation in loan growth, the incremental CD ratio has eased to 74%, though the outstanding CD ratio remains elevated at ~79%. We expect credit growth to sustain at 11.5% YoY in FY26, led by a recovery in 2HFY26.
- **Deposit growth stable at 10.4% in Jun'25; funding cost to ease gradually:** System deposit growth was stable at 10.4% in Jun'25, although banks continue to face challenges in mobilizing low-cost CASA deposits. With a sharp decline in policy rates, banks are reducing both SA and TD rates. SA rates have declined by 25-100bp since Apr'25 and TD rates have fallen by 20-100bp in the past two months. We expect muted deposit growth in 1QFY26, as the seasonal flow of 4Q unwinds. Deposit costs should begin to ease gradually as liability repricing happens.
- **NIMs to decline sharply during 1H; expect trends to improve from 2H onward:** With a reduction in benchmark rates, we estimate lending yields to compress across banks, while the moderation in funding costs happens with a lag even as most banks have reduced SA/TD rates. Banking sector NIMs are thus expected to remain under pressure in 1HFY26, with some variation across banks depending upon the quantum of repo-linked loans and the transmission timelines. **Thus, we expect double-digit NIM decline for all banks under our coverage in 1QFY26E.** However, a phased reduction in deposit rates and a 100bp CRR cut, effective from Sep'25, will enhance liquidity and bring some relief to margins.
- **Asset quality broadly stable; unsecured retail (MFI) to witness continued stress:** Asset quality trends remain stable for large lenders; however, unsecured retail (MFI) continues to witness elevated stress levels. We thus expect the credit cost differential to persist. Large private/PSU banks should continue to report controlled credit costs, while mid-size lenders with higher exposure to Retail/MFI segments are expected to report elevated provisioning levels, mainly during 1H.
- **Estimate 11.1% PAT CAGR over FY25-27E:** We estimate NII for our banking coverage universe to report a muted growth at 1.7% YoY (down 0.6% QoQ). PPoP is expected to decline by 2.4% QoQ (up 3.3% YoY). We estimate private banks' PAT to decline 2.5% YoY (up 2.8% QoQ) and PSU banks to report PAT growth of 4.8% YoY (down 11.7% QoQ). For our coverage universe, we estimate PAT to stay broadly flat YoY (down 4.5% QoQ). Overall, we estimate an 11% CAGR in earnings over FY25-27E.

Private Banks: Earnings to decline 2.5% YoY (9% YoY PAT growth in FY26E)

- **For the private banks under our coverage**, we estimate PPoP to grow 4.2% YoY/ 3.8% QoQ and PAT to decline 2.5% YoY (up 2.8% QoQ). We estimate ~15% CAGR in earnings over FY25-27E for private banks.

1QFY26 earnings estimates (INR b)

PAT	1Q FY26E	YoY (%)	QoQ (%)
Private Banks			
AUBANK	5.5	10.1	9.8
AXSB	59.7	-1.0	-16.1
BANDHAN	4.6	-57.0	43.8
DCBB	1.7	31.3	-2.6
EQUITAS	0.2	-14.7	-47.8
FB	9.2	-8.8	-10.7
HDFCB	171.3	5.9	0.0
ICICIBC	120.0	8.5	-5.0
IDFCFB	2.5	-63.7	-18.8
IIB	5.7	NA	NA
KMB	34.8	-1.1	-2.0
RBK	1.4	-62.0	105.7
Private Total	**416.7**	**-2.5**	**2.8**
PSU Banks			
BOB	41.7	-6.4	-17.3
CBK	41.4	6.1	-17.2
INBK	28.4	18.1	-4.0
PNB	41.4	27.5	-9.3
SBIN	170.1	-0.1	-8.8
UNBK	40.8	10.9	-18.1
PSU Total	**363.9**	**4.8**	**-11.7**
Banks Total	**780.6**	**0.8**	**-4.5**
SBICARD	5.7	-3.4	7.5
PAYTM	0.0	NA	NA

- **Estimate NII to grow 3.1% YoY/flat QoQ in 1QFY26**: Among large private banks under our coverage, HDFCB's NII growth is estimated at 6.9% YoY (flat QoQ), ICICI at 7.0% YoY (down 1.3% QoQ), Axis at 1.5% YoY (down 1.2% QoQ), KMB at 5.6% YoY (down 0.8% QoQ), and Federal at 0.2% YoY (down 3.4% QoQ).
- **Overall slippages are expected to inch up amid agri seasonality,** especially for large private banks. Bureau data indicates that there are signs of easing in early stress and that peak slippages are likely behind, though unsecured retail NPA should remain elevated. We expect credit costs to rise marginally over the year.

PSU Banks: PAT growth to moderate sharply to 4.8% YoY

- **We estimate PSU banks to report a modest PAT growth of 4.8% YoY (down 11.7% QoQ)** amid a decline in NIMs, normalized opex, and higher provisions QoQ due to the benefits of the one-time reversal in provisions on SRs reported in 4Q.
- NII is likely to remain flat YoY (down 1.8% QoQ) owing to a decline in NIMs. We estimate PSU banks to report a 6% CAGR in PAT over FY25-27E.
- **Opex is likely to be under control** and should follow a normalized trajectory for PSU banks. **Treasury performance is likely to be better** QoQ amid a sharp decline in G-sec yields.
- **Asset quality outlook stable:** We expect stable asset quality trends for PSU banks, aided by controlled slippages and robust PCR.

Small Finance Banks: NIMs to fall further; asset quality stress continues

- **AUBANK'**s PAT is likely to improve by 9.8% QoQ (10.1% YoY) to INR5.5b, aided by a decline in credit costs (down 23% QoQ) as the bank improved PCR during 4Q. NII is expected to grow by 1.9% QoQ (up 11.1% YoY), while NIMs are estimated to decline ~28bp QoQ. Delinquencies in MFI+Cards portfolio are likely to remain elevated, keeping credit cost at higher levels.
- **EQUITASB** is estimated to report another muted quarter, with PAT likely to decline by 15% YoY (down ~48% QoQ), dragged down by higher provisions and 25bp QoQ decline in margins to 6.88%. Business growth is likely to remain modest at 17.6% YoY/3.0% QoQ.

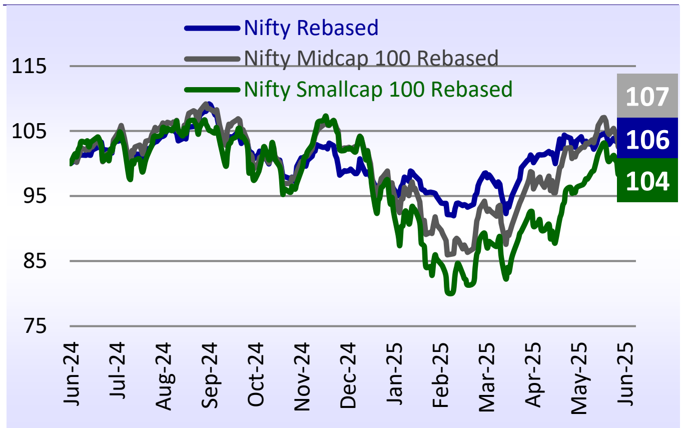
Payments/Fintech: SBI Cards – Credit cost to stay elevated | Paytm – PAT nearing breakeven

- **SBICARDS:** Retail spending is likely to see a modest growth, while some pickup in corporate spending is expected. NIMs are likely to improve on the back of rate cuts. Asset quality stress is likely to persist, driving up credit costs. We thus estimate PAT to grow 7.5% QoQ (down 3.4% YoY).
- **PAYTM:** We estimate 3% QoQ growth in GMV to INR5.3t in 1QFY26. Revenue from operations is likely to remain flat QoQ (up 26% YoY) at INR18.96b, while contribution profit is expected to decline marginally (largely due to UPI incentives in 4QFY25) to INR10.5b. Contribution margin is expected to improve to 55.6%. We expect the company to report marginal profits during 1Q.

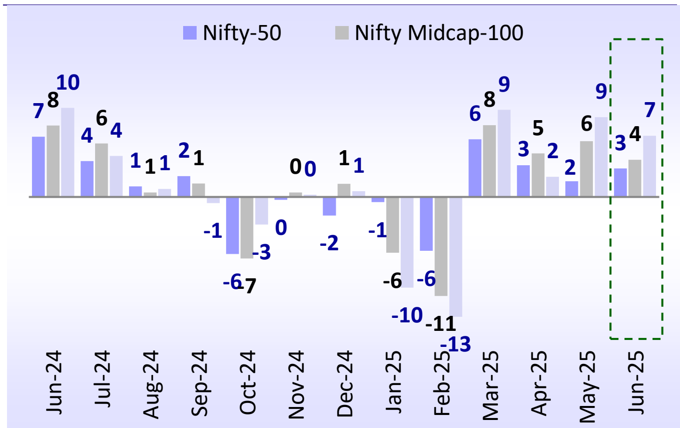
BULLS & BEARS (July 2025): India Valuations Handbook — Market continues its winning streak; Nifty closes above 25k in Jun'25

- **Nifty closes above 25k after nine months:** The Nifty ended higher for the fourth successive month in Jun'25 (+3.1% MoM) to close above 25k after Sep'24 (to 25,517). Notably, the index continued to remain volatile and hovered around 1,196 points before closing 766 points higher. The Nifty is up 7.9% in CY25YTD. The Nifty Smallcap 100 (+6.7% MoM) and Nifty Midcap 100 (+4% MoM) outperformed the Nifty-50 during the month. Over the last 12 months, largecaps and midcaps have gained 6% and 7%, respectively, outperforming smallcaps, which have risen 4%. During the last five years, midcaps (CAGR: 32.4%) have significantly outperformed largecaps (CAGR: 19.9%) by 158%, while smallcaps (CAGR: 32.8%) have markedly outperformed largecaps by 165%.
- **FIIs record inflows for the fourth consecutive month:** FIIs were net buyers for the fourth consecutive month, investing USD2.4b in Jun'25. DIIs also showed healthy inflows, amounting to USD8.5b in Jun'25. FII outflows into Indian equities have reached USD8.2b in CY25YTD vs. outflows of USD0.8b in CY24. DII inflows into equities remain robust at USD41.5b in CY25YTD vs. USD62.9b in CY24.
- **All major sectors end higher in Jun'25:** Among the sectors, Telecom (+6%), Infrastructure (+5%), Technology (+4%), Real Estate (+4%), and Metals (+4%) were the top gainers MoM, while Consumer (-1%) was the only laggard. The breadth was favorable in Jun'25, with 39 Nifty stocks ending higher. Jio Financial (+14%), Grasim (+12%), Eternal (+11%), Shriram Finance (+11%), and Trent (+10%) were the top performers, while Tata Motors (-4%), Bajaj Auto (-3%), HUL (-2%), Hero Motocorp (-2%), and Coal India (-1%) were the key laggards.
- **Major economies end higher in Jun'25:** Among the key global markets, Korea (+14%), Japan (+7%), MSCI EM (+6%), the US (+5%), Taiwan (+4%), India (+3%), China (+3%), and Brazil (+1%) ended higher MoM in local currency terms in Jun'25. However, Indonesia (-3%), Germany (-0.4%), and the UK (-0.1%) ended lower MoM. Over the last 12 months in USD terms, the MSCI India Index (+1%) has underperformed the MSCI EM Index (+13%). Over the last 10 years, the MSCI India Index has notably outperformed the MSCI EM Index by a robust 90%. In P/E terms, the MSCI India Index is trading at a 74% premium to the MSCI EM Index, slightly below its historical average premium of 80%.
- **Earnings – Corporate profit-to-GDP standing tall at a 17-year high!:** In 2025, the corporate profit-to-GDP ratio for the Nifty-500 Universe remained at 4.7%, marking a 17-year high. Notably, for listed India Inc., the ratio stood at 5.1%, at a 14-year high. The sustained profit-to-GDP ratio for the Nifty-500 was positively influenced by sectors such as Telecom (which shifted from being a negative contributor for the past seven years to a positive contributor in FY25), PSU Banks (with a 0.07% increase in the ratio), Healthcare (a 0.04% rise), Consumer (a 0.04% increase), Metals (a 0.03% rise), and Infrastructure (a 0.2% increase). In contrast, sectors that experienced a decline in the ratio included Oil & Gas (a 0.28% decline), Automobiles (a dip of 0.03%), Cement (a decline of 0.02%), Utilities (a dip of 0.02%), Private Banks (a decline of 0.01%), and Retail (a dip of 0.01%; Detailed report).
- **Our view:** Amid geopolitical tensions and slowing global growth, India's macroeconomic outlook presents a contrasting picture. India's nominal GDP grew 9.8% in FY25, surpassing market expectations, and is projected to accelerate further to 10.8% in FY26. Although corporate profit growth moderated in FY25 due to a high base set in FY24, a slowdown in government spending during 1HFY25 amid elections, weak consumption, and volatile exports led by global uncertainties, we expect a gradual recovery ahead. The market has rebounded notably over the last three months, completely reversing its YTD decline. Currently, the Nifty is trading 7.9% higher in CY25YTD. With this rally, the Nifty trades at 22.5x FY26E earnings, near its LPA of 20.7x. Our model portfolio stance remains unchanged, with a distinct bias towards largecaps and domestic plays, given the current volatile backdrop. We are OW on BFSI, Consumer Discretionary, Industrials, Healthcare, IT, and Telecom, while we are UW on Oil & Gas, Cement, Automobiles, Real Estate, and Metals.
- **Top ideas: Largecaps** – Reliance Industries, Bharti Airtel, ICICI Bank, L&T, Kotak Mahindra Bank, Titan, M&M, Trent, and Tech Mahindra; **Midcaps and Smallcaps** – Indian Hotels, HDFC AMC, BSE, Suzlon Energy, Dixon Tech., SRF, Jindal Stainless, Coforge, Page Industries, Kaynes Tech, and LT Foods.

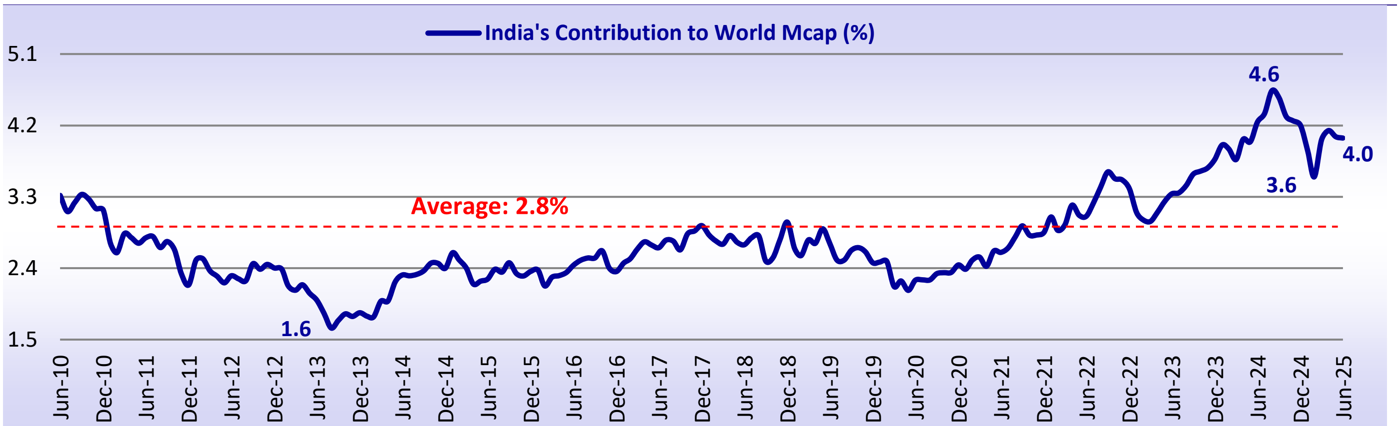
Performance of midcaps/smallcaps vs. largecaps over the last 12 months



MoM performance (%) – Midcaps/smallcaps outperform in Jun'25



Trend in India's contribution to the global market cap (%)



Understanding monetary transmission: From policy actions to the real economy

Rate cuts in 2025 set the stage for growth revival

- **The 2025 monetary easing cycle in India represents a crucial development in the country's policy framework, highlighting the importance of monetary transmission for credit stimulation and economic growth. The Reserve Bank of India (RBI) reduced the policy repo rate by a total of 100bp, from 6.5% in Feb'25 to 5.5% in Jun'25. This was accompanied by significant liquidity measures, including a 150bp reduction in the Cash Reserve Ratio (CRR), open market purchases totaling INR4.05t, and foreign exchange swap operations amounting to USD25.1b. These actions collectively injected ~INR9.8t of systemic liquidity, fostering a favorable monetary environment.**
- **Given the scale and breadth of these policy actions, it becomes essential to understand their real economic impacts. This report aims to explore this relationship by detailing the theoretical framework that connects monetary tools—such as interest rates and liquidity operations—to credit expansion and, ultimately, to real GDP growth. We then adopt an empirical perspective, utilizing historical macroeconomic data, easing cycle timelines, and regression models to assess the effectiveness of policy tools (repo rate and liquidity tools) in influencing credit growth and GDP outcomes.**
- **Drawing from historical easing cycles and aligned with our regression analysis, we observe that monetary policy transmission to the real economy follows a multi-stage lagged pathway. The first leg involves the response of lending rates (WALR) to changes in the policy rate (repo). Our regression results show that the interest rate channel is the most effective means of transmission in monetary policy, with a regression coefficient of 0.87 showing a strong and significant pass-through from the policy rate to the weighted average lending rate (WALR) on outstanding loans. This implies that a 100bp change in the repo rate typically translates into an 87bp movement in WALR. Interestingly, the coefficient on net liquidity balance (as % of NDTL) is positive (0.077) but statistically insignificant ($p \approx 0.10$). This implies that when the system experiences a liquidity surplus, WALR may move slightly higher. This counterintuitive sign can be attributed to several structural and timing-related factors. First, the RBI often injects liquidity after observing tight financial conditions, creating a lagged relationship where higher WALR precedes liquidity injections. Second, even under surplus liquidity, banks may not lower lending rates unless credit demand revives or risk premiums ease.**
- **The second leg evaluates the relationship between lending rates (WALR) and credit growth. We employ a dynamic regression model using quarterly data spanning from 1QFY13 to 4QFY25, where the dependent variable is credit growth (% YoY). Our best-performing model includes the WALR on outstanding loans, CPI (% YoY), net liquidity balance (as % of NDTL), a positive value denoting surplus liquidity-and lagged values of credit growth (1-period and 2-period lags) as the independent variables. The regression results strongly validate the model's explanatory power, with an R^2 of 0.91, implying that over 91% of the variation in credit growth is accounted for by the included variables. WALR emerged as a key determinant, with a statistically significant negative coefficient of approximately –0.89, affirming that lower lending rates stimulate credit expansion. Net liquidity conditions also played a supportive role, with surplus liquidity associated with increased credit growth. The model also emphasizes the importance of credit inertia, as evidenced by significant coefficients on lagged credit growth, which reflect persistent borrowing behaviors. Furthermore, inflation appears to have a positive effect, suggesting that moderate price increases may correlate with rising credit demand in a growing economy.**
- **The analysis of the final leg of the transmission mechanism in the macroeconomic context reveals a statistically significant but modest relationship between credit growth and nominal GDP. We perform a two variable regression model using quarterly data spanning from 1QFY02 to 4QFY25 with credit growth (% YoY) as the independent variable and nominal GDP growth (% YoY) as the dependent variable. Our regression results show that, a 1pp increase in credit growth is associated with approximately a 0.24pp rise in nominal GDP growth. However, the low explanatory power of the regression results (R^2 ~8.5%) indicates that GDP is influenced by a broader range of structural and cyclical factors beyond just monetary conditions.**
- **The analysis of historical monetary easing episodes in India reveals that the effectiveness of monetary policy transmission hinges critically on macroeconomic context and the strength of pass-through across various stages-policy rate to lending**

rates, to credit, and finally to real output. Empirical results aligned with regression evidence suggest that easing is most effective when inflation is low, fiscal deficit is contained, and financial sector conditions are stable enough to allow lending to respond. The 2015 cycle demonstrated this synergy, with a high transmission efficiency ratio (TER) of 78%, benign inflation (averaging 4.4%) and low fiscal deficit (averaged 3.4% of GDP), resulting in strong credit revival (+5.8 percentage points), and a corresponding uplift in GDP growth.

- **In contrast, ineffective easing cycles like 2012-13 and 2019 (NBFC stress period) featured repo cuts of 125 and 135bp respectively, but recorded weak WALR response (only 40bp and 23bp decline), with TERs as low as 32% and 17%. These episodes were accompanied by either elevated inflation (9.7% in 2012) or financial instability, both of which impaired banks' ability and willingness to extend credit. Credit growth actually declined during these cycles (e.g., -0.7 pp in 2012, -4.1 pp in 2019), and GDP either remained flat or fell, highlighting broken transmission chains.**
- **The 2025 monetary easing cycle (Feb'25-Jun'25) stands out as a notably effective phase in India's recent policy history. A combination of well-timed repo rate cuts (100bp between February and June 2025), abundant liquidity and improved transmission to lending rates have created an accommodative monetary environment. Crucially, the macroeconomic backdrop has been conducive to easing. Headline inflation has remained moderate and comfortably within the RBI's target range, reducing the risk of policy reversal. It stood at 2.8% in May'25, averaging only 3.2% during the easing period (Feb'25-May'25). (Exhibit 14). We believe that the overall inflation trajectory is expected to remain benign at 3.8% YoY in FY26 (vs. 4.6% in FY25) as well, further allowing space for efficient monetary transmission. At the same time, fiscal consolidation has progressed, with the fiscal deficit narrowing to 4.8% of GDP in FY25 and budgeted at 4.4% of GDP in FY26, preserving macroeconomic stability and anchoring inflation expectations. On the real side, GDP growth has picked up to 7.4% in 4QFY25 from 6.4% in 3QFY25, signaling that easing is effectively stimulating economic activity.**
- **Given these dynamics, the current monetary policy environment is not only favorable for credit expansion but also likely to support further gains in output. With inflation anchored, fiscal support steady, and private sector balance sheets gradually improving, monetary easing in 2025 is well-aligned with macroeconomic fundamentals and will boost credit growth and real GDP growth in the next few quarters.**

Inside RBI's liquidity playbook: How policy turned to growth mode in 2025?

In 2025, the RBI launched a decisive monetary easing cycle to counteract weakening domestic demand and support continued economic resilience. Between Feb'25 and Jun'25, the RBI reduced the repo rate by a total of 100bp—starting with a 25bp cut in Feb'25, another in Apr'25, followed by a 50bp "material" cut in Jun'25, bringing the policy rate down to 5.5%. Alongside interest rate reductions, the RBI cut the Cash Reserve Ratio by 150bp, bringing it down to 3%, with 50bp cut already done in Dec'24 (releasing INR1.16t) and another 100bp cut announced in four staged tranches starting Sep'25—a move projected to release approximately INR2.5t into the banking system. To underpin the growth push, the RBI conducted INR4.05t worth of open market operations (OMOs) and executed foreign exchange swaps amounting to USD25.1b, injecting INR2.1t of durable liquidity *(Exhibit 1).*

These liquidity-enhancement measures, combined with aggressive rate cuts, reflect the RBI's strategic emphasis on easing financial conditions, bolstering credit flows, and sustaining output growth.

While the repo rate was reduced by 100bp to support monetary transmission, the real boost to credit conditions resulted from a substantial liquidity infusion (via OMOs, FX swaps, and CRR cuts) totaling INR9.8t. These liquidity-enhancement measures, combined with aggressive rate cuts, reflect the RBI's strategic emphasis on easing financial conditions, bolstering credit flows, and sustaining output growth.

CreditAccess Grameen

BSE SENSEX	S&P CNX
83,410	25,453

Bloomberg	CREDAG IN
Equity Shares (m)	160
M.Cap.(INRb)/(USDb)	202.6 / 2.4
52-Week Range (INR)	1400 / 750
1,6,12 Rel. Per (%)	7/28/-11
12M Avg Val (INR M)	1167

Financials &Valuations (INR b)

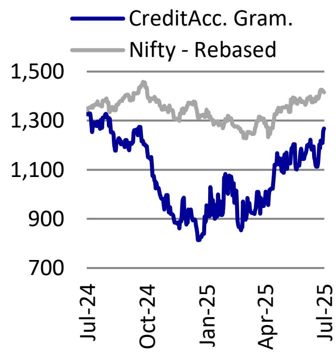
Y/E March	FY25	FY26E	FY27E
NII	36.0	37.4	43.8
Total Income	38.1	40.1	47.1
PPoP	26.4	26.9	32.1
PAT	5.3	8.7	16.5
EPS (INR)	33	55	103
EPS Gr. (%)	-63	64	89
BV (INR)	436	490	594
Ratios (%)			
NIM	14.6	14.5	14.5
C/I ratio	30.7	32.8	31.8
Credit cost	7.5	5.6	3.2
RoA	1.9	3.0	4.9
RoE	7.9	11.8	19.1
Valuations			
P/E (x)	38.0	23.1	12.2
P/BV (x)	2.9	2.6	2.1

Shareholding pattern (%)

As On	Mar-25	Dec-24	Mar-24
Promoter	66.4	66.5	66.6
DII	12.7	14.2	15.8
FII	11.4	9.8	11.7
Others	9.5	9.6	6.0

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,268 TP: INR1,485 (+17%) Buy

Pivoting from stress to stability

Operational resilience driving recovery; diversification in progress

We met with the management of CreditAccess Grameen (CREDAG) to gain insights into evolving trends in the microfinance industry, the company's approach to addressing challenges, and its strategy to sustain growth while managing credit costs through this fiscal year.

- CREDAG has effectively navigated a challenging operating environment, supported by strong operational discipline and proactive risk management. Its robust execution is expected to drive a steady recovery as the company shifts its focus toward expanding and diversifying its loan portfolio.
- While credit costs are expected to remain slightly elevated in 1HFY26 due to provisioning for legacy stress pools—including the impact of the Karnataka ordinance—fresh slippages have largely normalized. Loans disbursed in the past three months (3 MOB) are performing in line with expectations, and the Karnataka originated portfolio has shown a marked improvement since Mar'25, indicating that the worst of the asset quality cycle may be behind.
- Unlike many of its peers that faced high attrition due to aggressive incentive structures, CREDAG has maintained workforce stability through a fixed-heavy compensation model complemented by employee wellness initiatives.
- CREDAG is proactively diversifying its portfolio by leveraging its existing customer base. The company views the introduction of the 60% qualifying asset criteria (QAC) for MFIs as a structural positive, encouraging players to build broader and more resilient retail lending franchises. Importantly, the company aims to execute this diversification strategy without compromising on yields and margins.
- *A trend reversal is on the horizon in the MFI sector and is expected to play out over the next couple of quarters, with the sector likely nearing normalization by 2HFY26. That said, we strongly believe that the upcoming three months present an opportunity to separate high-quality franchises from weaker ones, with performance divergence across the MFI sector expected to be increasingly evident.*
- Backed by a strong capital position (Tier-1 of ~24%), CREDAG is well-placed to embark on a healthy loan growth trajectory as delinquency trends show further signs of normalization. CREDAG trades at 2.0x FY27E P/BV, and its premium valuation over MFI peers is likely to sustain, driven by stronger confidence in its ability to return to normalcy ahead of its peers. **Reiterate BUY with a TP of INR1,485 (based on 2.5x Mar'27E P/BV).**

Industry overview: Crisis triggers and current trends

- Over the past year, the MFI industry has undergone a cycle of stress, triggered by borrower overleveraging and rising delinquencies. After two years of COVID-induced losses, lenders entered an aggressive credit expansion phase to recover losses. This resulted in an oversupply of loans, particularly through MFIs and unsecured personal loans, with several borrowers taking on excessive debt. Defaults began surfacing around Nov-Dec'23 and became more widespread in the following months.
- MFIs bore the brunt of the crisis due to their monoline exposure, unlike diversified NBFCs and banks. In the latter part of the credit cycle, region-specific regulatory challenges also added to the pressure, such as the **Karnataka ordinance**, which temporarily disrupted operations and led to additional provisioning. In contrast, the Tamil Nadu microfinance bill has had no material impact at the ground level. While issues such as duplicate KYC entries, including voter IDs, were present, they were not significant contributors to asset quality deterioration, especially for CREDAG, which maintains robust verification systems.

Robust collection processes and due diligence to drive faster normalization

- CREDAG maintains a strong focus on operational discipline, with over 90% of collections driven by center meetings, reflecting consistent borrower engagement and timely repayments. Doorstep collections remain minimal at 2-3%, with stable daily collection trends. Key processes, including average attendance at center meetings, are closely monitored at the Board level to ensure consistency and control.
- Additionally, a regulatory change effective Jan'25—reducing credit bureau reporting frequency from monthly to every 15 days—is expected to significantly strengthen credit discipline by limiting borrowers' ability to avail multiple loans from different lenders within a short span.

Effective employee management backed by stronger incentive structure

- Unlike some MFI lenders that witnessed high employee attrition due to aggressive incentive structures tied to disbursements and collections, CREDAG has maintained a relatively lower employee attrition. *Its employees receive a significantly higher **fixed salary compared to peers,** with incentives accounting for less than 10% of their overall salary. These incentives are linked to new customer acquisition and audit ratings rather than disbursement volumes or collection efficiency*, making *payouts less sensitive to market stresses.*
- At CREDAG, employee attrition was primarily limited to Tamil Nadu and parts of Bihar (where it had previously undertaken some lateral hiring). Notably, ~2k former employees expressed interest in re-joining, and CREDAG has rehired ~1k experienced personnel.

Strategic diversification and cross-sell opportunities

- CREDAG is proactively diversifying its portfolio by leveraging its existing customer base. The company views the introduction of the 60% qualifying asset criteria (QAC) for MFIs as a structural positive, encouraging players to build broader and more resilient retail lending franchises.
- With ~10% of its current customer base already holding non-MFI retail loans, CREDAG is focused on cross-selling housing loans/LAP where the ATS is less than INR300k. For higher vintage customers (with at least three years of history with CREDAG) holding a strong credit track record, the company is also offering unsecured business loans and other products.

Building non-MFI business without compromising on NIMs

- Even in the secured business loan segment, CREDAG aims to maintain strong yields. With interest rates of ~21%, these loans are broadly in line with its MFI lending rates, indicating that the company is building its non-MFI business without compromising on blended yields.
- Going forward, as CREDAG's loan book becomes more diversified, it may explore dedicated funding avenues for housing loans or pursue co-lending arrangements with banks. This diversification will help balance its high-risk microfinance business with more secure offerings.

Valuation and view: Driving normalization; building resilience

- CREDAG has successfully navigated a period of industry-wide challenges, demonstrating remarkable resilience and a return to normal operational efficiency. New stress formation (ex-Karnataka) has largely normalized, supported by robust internal processes such as rigorous daily collection monitoring, detailed audit reports, and consistent tracking of center attendance. While some residual stress from recent headwinds is still being managed, the core business is now operating as expected, reinforcing confidence in the company's fundamental strength.
- The updated regulatory framework, particularly the revised qualifying asset criteria, offers a clear opportunity for CREDAG to invest in and expand its non-qualifying asset portfolio. This will enable the company to strengthen its microfinance foundation while building a more resilient and diversified balance sheet, paving the way for long-term value creation.
- The upcoming three months present an opportunity to separate high-quality franchises from weaker ones, with performance divergence across the MFI sector expected to be increasingly evident. **We expect CREDAG to deliver AUM/PAT CAGR of ~18%/75% over FY25-FY27 and RoA/RoE of 4.9%/19% in FY27. Reiterate our BUY rating on the stock with a TP of INR1,485 (based on 2.5x Mar'27E P/BV).**

Valuation matrix of CREDAG and MFI peers

Val summary	Rating	CMP (INR)	Mkt. Cap (INRb)	EPS (INR)		BV (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
				FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
CreditAccess	**Buy**	**1,268**	**200**	**54.7**	**103.3**	**490**	**594**	**3.0**	**4.9**	**11.8**	**19.1**	**23.2**	**12.3**	**2.6**	**2.1**
Fusion Finance	Neutral	194	32	13.2	25.5	137	187	2.0	4.0	9.0	15.7	14.7	7.6	1.4	1.0
Spandana Sphoorty	Buy	277	20	-21.0	28.5	348	377	-1.7	2.0	-5.9	7.9	-13.2	9.7	0.8	0.7

Avenue Supermarts

BSE SENSEX	S&P CNX
83,410	25,453

CMP: INR4,392 **Buy**

D-Mart 1QFY26 pre-quarter update

Revenue grew 16% YoY (vs. 17% YoY in 4Q and our est. ~18% YoY)

- DMart's 1QFY26 standalone revenue at INR159b grew **16.2% YoY** (slightly weaker vs. our pre-quarter estimate of ~18% YoY), driven by 14% YoY store addition and likely mid to high single-digit SSSG.
- Unlike value fashion retailers, we do not expect any significant impact on LTL growth for DMart due to the shift in Eid dates as apparel forms a small part of DMart's overall revenue mix.
- DMart added 9 stores during the quarter (vs. 6 stores opened in 1QFY25), taking the total count to 424 stores.
- **Productivity remains weak**
  - Annualized revenue per store grew ~2% YoY to INR1.52b (vs. +3% YoY growth in 4QFY25).
  - Annualized revenue/sqft. (calculated) stood at INR36.7k, up ~2% YoY (~3% YoY growth in 4QFY25).

Acceleration in store additions remains the key monitorable for DMart. We are building in 60 net store additions in FY26 (vs. 50 in FY25).

Stock Info

Bloomberg	DMART IN
Equity Shares (m)	651
M.Cap.(INRb)/(USDb)	2858 / 33.3
52-Week Range (INR)	5485 / 3337
1, 6, 12 Rel. Per (%)	6/16/-14
12M Avg Val (INR M)	2869
Free float (%)	25.4

Financials Snapshot (INR b)

Y/E March	FY25	FY26E	FY27E
Sales	594	699	819
EBITDA	45	52	61
Adj. PAT	27	30	36
EBITDA Margin (%)	7.6	7.4	7.5
Adj. EPS (INR)	42	47	55
EPS Gr. (%)	7	13	17
BV/Sh. (INR)	329	376	431
Ratios			
Net D:E	0.0	0.0	0.0
RoE (%)	13.5	13.3	13.6
RoCE (%)	13.3	13.0	13.4
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	105.7	93.9	80.0
EV/EBITDA (x)	63.9	55.1	46.8
EV/Sales (X)	4.8	4.1	3.5

Quarterly trend

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY26E	vs. est
Revenue (INR b)	116	123	132	124	137	141	156	145	159	161	-1.2
YoY growth	18.1%	18.5%	17.2%	19.9%	18.4%	14.2%	17.5%	16.7%	16.2%	17.6%	
Store count	327	336	341	365	371	377	387	415	424	424	0.0
Store adds	3	9	5	24	6	6	10	28	9	9	
YoY growth	11%	11%	11%	13%	13%	12%	13%	14%	14%	14%	
Total Area (mn sqft)	13.5	13.9	14.2	15.2	15.4	15.8	16.1	17.2*	17.6 *	17.6	0.0
YoY growth	12%	12%	13%	13%	14%	14%	13%	13%	14%	14%	
Rev/Store (INR m)	1,424	1,485	1,565	1,404	1,490	1,503	1,630	1,443	1,519	1,537	-1.2
YoY growth	5%	7%	5%	7%	5%	1%	4%	3%	2%	3.2%	
Rev/sq ft	34,465	35,935	37,728	33,793	35,907	36,026	39,035	34,797*	36,668*	37,109	-1.2
YoY growth	4%	6%	4%	6%	4%	0%	3%	3%	2%	3.3%	

**calculated number*

Punjab National Bank

BSE SENSEX	S&P CNX
83,410	25,453

Stock Info	
Bloomberg	PNB IN
Equity Shares (m)	11493
M.Cap.(INRb)/(USDb)	1308.5 / 15.3
52-Week Range (INR)	129 / 85
1, 6, 12 Rel. Per (%)	2/3/-11
12M Avg Val (INR M)	3308
Free float (%)	29.9

Financials Snapshot (INR b)

Y/E March	FY25	FY26E	FY27E
NII	427.8	452.4	525.5
OP	268.3	283.5	340.0
NP	166.3	176.5	211.9
NIM (%)	2.7	2.5	2.6
EPS (INR)	14.8	15.4	18.4
EPS Gr. (%)	97.4	3.9	20.0
BV/Sh. (INR)	107	120	134
ABV/Sh. (INR)	101	114	128
Ratios			
RoA (%)	1.0	0.9	1.0
RoE (%)	15.3	14.0	14.9
Valuations			
P/E(X)	7.6	7.4	6.1
P/BV (X)	1.1	0.9	0.8
P/ABV (X)	1.1	1.0	0.9

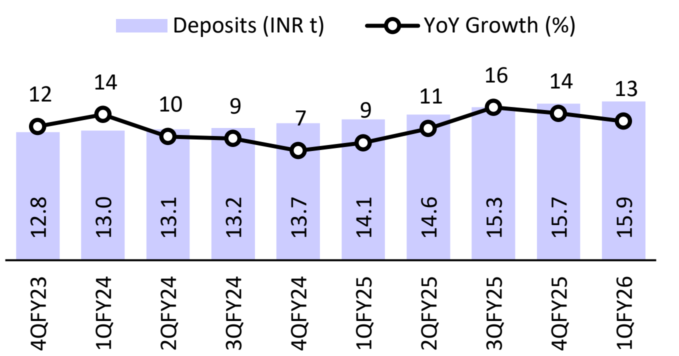
CMP: INR 114 Buy

Business growth modest; CD ratio stands flat at 71.2%

PNB released its quarterly business numbers for 1QFY26. Here are the highlights:

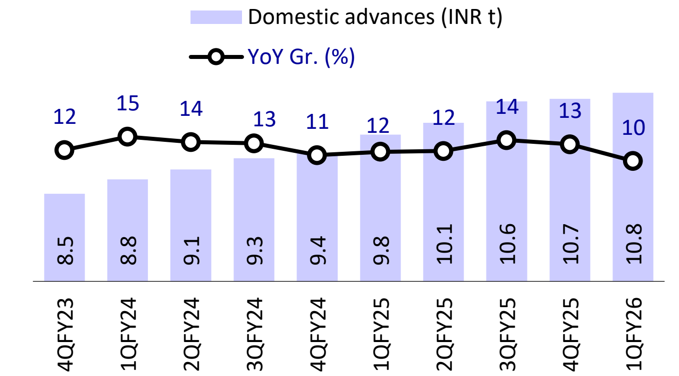
- Gross global advances grew at a modest 9.9% YoY/1.3% QoQ to ~INR11.3t. Domestic advances grew 9.7% YoY/1.3% QoQ, forming 95.5% of the total advances pool.
- Deposits growth stood at 12.8% YoY/1.4% QoQ to INR15.9t. Domestic deposits grew 12.2% YoY (1.7% QoQ).
- The bank's CD ratio stood at 71.2% vs 71.3% as of 4QFY25.
- Overall, PNB's loan growth remained slow, while deposit accretion was steady and broadly in line. Business growth stood at 11.6% YoY/1.4% QoQ, while CD ratio was largely flat QoQ.

Total deposits grew ~12.8% YoY (1.4% QoQ)



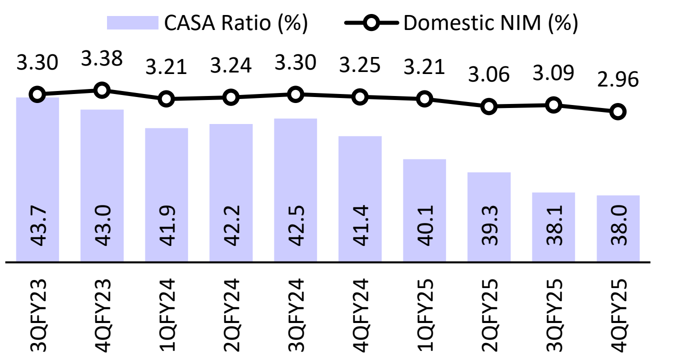
Source: MOFSL, Company

Domestic advances grew 9.7% YoY (1.3% QoQ)



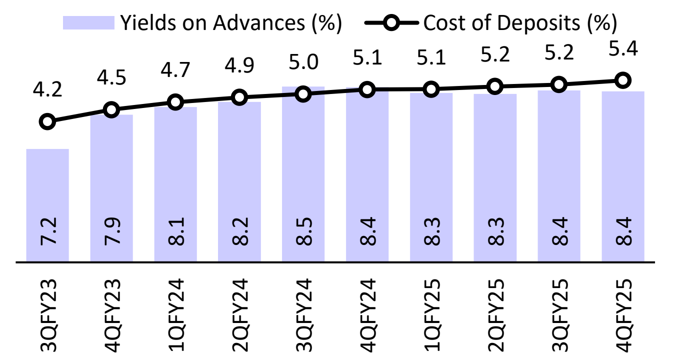
Source: MOFSL, Company

NIM stood at 2.96% in 4QFY25



Source: MOFSL, Company

Cost of deposits stood at 5.4% in 4QFY25



Source: MOFSL, Company

Indian Bank

BSE SENSEX	S&P CNX
83,410	25,453

Stock Info

Bloomberg	INBK IN
Equity Shares (m)	1347
M.Cap.(INRb)/(USDb)	876.4 / 10.2
52-Week Range (INR)	659 / 474
1, 6, 12 Rel. Per (%)	-2/19/15
12M Avg Val (INR M)	1080
Free float (%)	26.2

Financials & Valuations (INR b)

Y/E March	FY25	FY26E	FY27E
NII	251.8	265.1	292.4
OP	190.0	197.8	220.7
NP	109.2	111.8	123.5
NIM (%)	3.1	3.0	3.0
EPS (INR)	81.1	83.0	91.7
EPS Gr. (%)	30.3	2.4	10.5
BV/Sh. (INR)	490	540	611
ABV/Sh. (INR)	477	531	601
Ratios			
RoA (%)	1.3	1.2	1.2
RoE (%)	18.9	16.8	16.5
Valuations			
P/E(X)	8.0	7.8	7.1
P/BV (X)	1.3	1.2	1.1

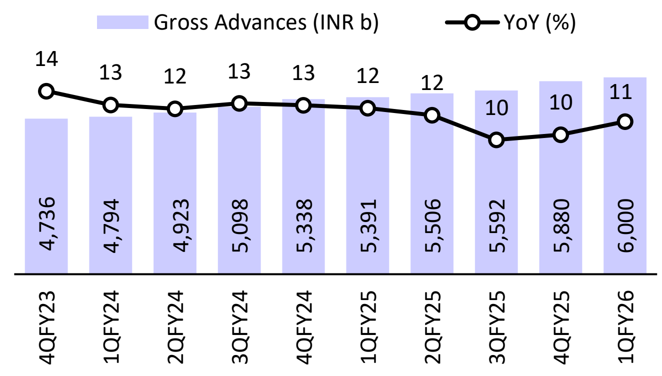
CMP: INR 651 Buy

Business growth in line; CD ratio increases QoQ

Indian Bank released its 1QFY26 business update. Following are the key takeaways:

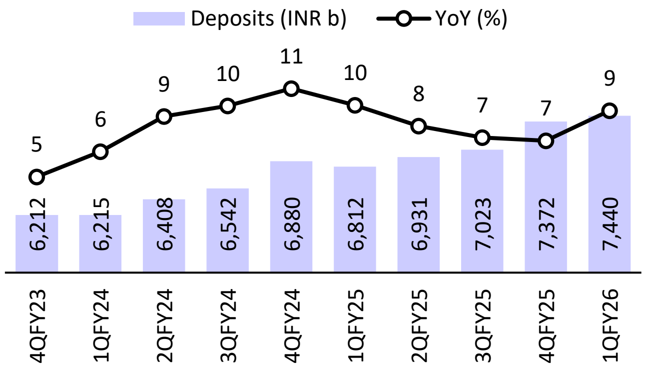
- The bank's total business crossed INR13.44t, registering a YoY growth of 10.2%.
- Gross advances grew 11.3% YoY (up 2% QoQ) to INR6t, driven by the RAM segment, which grew 16% YoY to INR3.6t.
- Deposits grew 9.2% YoY/0.9% QoQ to INR7.44t, largely in line with our estimates of 1.5% QoQ.
- Overall business growth has been largely in line with our estimates. CD ratio on a calculated basis stood largely flat at 78.3% (up 88bp QoQ/1.9% YoY).

Domestic advances grew 11.3% YoY (up 2.0% QoQ)



Source: MOFSL, Company

Deposits grew 9.2% YoY (up 0.9% QoQ)



Source: MOFSL, Company

Mahindra Finance

BSE SENSEX	S&P CNX
76,617	23,332

Bloomberg	MMFS IN
Equity Shares (m)	1390
M.Cap.(INRb)/(USDb)	363.8 / 4.2
52-Week Range (INR)	334 / 232
1, 6, 12 Rel. Per (%)	-2/-8/-17
12M Avg Val (INR M)	781
Free float (%)	47.5

Financials Snapshot (INR b)

Y/E March	FY25	FY26E	FY27E
NII	81.8	97.1	113.4
PPP	47.7	58.9	70.5
PAT	23.5	28.8	36.2
EPS (INR)	19.0	23.3	29.3
EPS Gr. (%)	33	23	26
BV/Sh.(INR)	160	177	200
Ratios			
NIM (%)	6.7	6.8	6.9
C/I ratio (%)	41.7	39.3	37.9
RoA (%)	1.9	2.0	2.2
RoE (%)	12.4	13.8	15.6
Payout (%)	34.2	30.0	27.3
Valuations			
P/E (x)	13.8	11.2	8.9
P/BV (x)	1.6	1.5	1.3
Div. Yield (%)	2.5	2.7	3.1

CMP: INR262 Buy

Business assets rose 15% YoY; seasonal deterioration in asset quality

Key takeaways from 1QFY26 business update:

- Disbursements at INR128b grew 1% YoY and declined ~18% QoQ.
- Gross business assets as of Jun'25 stood at ~INR1.22t, up 15% YoY/2% QoQ.
- CE stood at 95% (PY: 94% and PQ: 97%).
- MMFS reported that its Stage 3 is estimated at 3.8-3.9% (PQ: 3.7% and PY: 3.6%) and Stage 2 is estimated at 5.8-5.9% (PQ: 5.4% and PY: 6.1%).
- As of Jun'25, MMFS maintained a comfortable liquidity position with a liquidity chest of ~INR96b.

Trends in disbursements, collection efficiency, and asset quality

MMFS	1QFY25			2QFY25			3QFY25			4QFY25			1QFY26		
	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Disbursements (INR b)	**39.3**	**44.3**	**43.7**		**131.6**			**164.5**			**154.8**			**128**	
Growth - YoY (%)	4%	7%	3%		-1%			7%			1%			1%	
Business Assets (INR b)	**1040**	**1053**	**1062**			**1126**			**1149**			**1193**			**1218**
Growth - YoY (%)	24%	23%	22%			20%			18%			16%			15%
Collection Efficiency [Monthly]	**89%**	**96%**	**95%**												
Collection Efficiency [Quarterly]		**94%**			**96%**			**95%**			**97%**			**95%**	
Stage 2			6.10%			6.40%			6.30%			5.50%			5.80-5.90%
Stage 3			3.60%			3.80%			3.90%			3.70%			3.80-3.90%
Stage 2 + Stage 3 [30+dpd]			**9.70%**			**10.20%**			**10.20%**			**9.20%**			**9.60-9.80%**
Write-offs (INR b)		**3.2**													

MMFS	1QFY25			2QFY25			3QFY25			4QFY25			1QFY26		
	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Commentary on Asset Quality															
Stage 2	Range-bound v/s Mar'24	Stage 2 and 3 remained below 10%	~100bp QoQ increase in Stage 2			~30bp QoQ increase in Stage 2			~10bp QoQ decline in Stage 2			~80bp QoQ decline in Stage 2			~30bp-40bp QoQ increase in Stage 2
Stage 3/NPA contracts	Range-bound v/s Mar'24		~30bp QoQ increase in Stage 3			~20bp QoQ increase in Stage 3			~10bp QoQ increase in Stage 3			~20bp QoQ decline in Stage 3			~10bp-20bp QoQ increase in Stage 3

M&M: Maintain mid-high teen SUV volume growth target for FY26; Nalinikanth Gollagunta, Division Chief Executive Officer

- M&M maintains mid-to-high teen SUV volume growth guidance for FY26, after 22% YoY growth in Q1 led by strong demand for Scorpio, XUV700, and Bolero.
- EV production at 4,000 units/month to scale to 5,000; new variants planned for festive season launch.
- Strong double-digit export growth expected, aided by new models like 3XO in South Africa and upcoming Australia launch.
- CV growth guided at high single digits, with strength in 2–3.5 ton and 3W EV segments; new SUV platform to debut in August.

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Apollo Hospitals: Offline pharmacy biz is growing at 20%, Keimed growing at 18-19% at present; Suneeta Reddy, Managing Director

- Apollo's demerged pharmacy & digital biz ("NewCo") to hit ₹25,000cr revenue, 7% EBITDA margin by FY27.
- Offline pharmacy growing 20%+; Keimed distribution arm scaling at 18–19% with margin boost from private labels.
- Apollo 24/7 expected to break even by Q4 FY26.
- Apollo Hospitals retains 17% in NewCo; earns starting royalty of ₹10cr/year, growing 5% annually.

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PVR Inox: Out of 100 screen additions, 40% will come up in south India; Sanjeev Kumar Bijli, ED, PVR INOX

- 40% of new screens to be added in South India, driven by higher occupancy and cinema culture.
- Expansion follows asset-light FOCO/developer models, cutting screen capex to ₹175–200 crore.
- Operates 1,761 screens; ~100 new screens planned this year, 40% in South.
- Q1 footfalls up 10% YoY; F&B spend per head rose 10–12%, showing healthy demand.

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Marathon Nextgen: Will use ₹300 cr of funds raised via QIP pare debt & rest for business growth; Mayur Shah, Vice Chairman

- Co raised ₹900cr via QIP; ₹300cr to repay debt, rest for growth and acquisitions.
- Merging 418 acres of group land (worth ₹3,200cr) into listed entity; promoter stake to rise to ~74.5%.
- Aims to cut debt from ₹1,100cr to ₹200cr by year-end through QIP proceeds and cash flows.
- Targeting 20% sales growth in FY26 with 22 lakh sq ft launches, focused on Mumbai and JDA/JV models.

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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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