PhillipCapital

FY24-25 Macro and Strategy Outlook

Tepid economic and equity momentum; bullish on India long-term

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The Indian economy will go through a phase of softness and consolidation in FY24 due to the higher base of the last two years, steeper interest rates, and a global slowdown. Supportive government policies and the long-term potential of the Indian economy will continue to augur well for capital formation, but other GDP components like consumption and exports are expected to weaken in FY24. Corporate earnings are currently estimated to be extremely strong but we expect disappointment and cuts ahead. So far, growth and inflation have been fairly resilient, but we anticipate weaker trends in FY24; weak demand should dent pricing power, keeping inflation under control in FY24. Key advanced economies are not yet showing meaningful signs of slowdown/recession; so, elevated inflation and rising growth will lead to more interest rate tightening followed by rates being held higher for longer, which should lead to growth slowing down in 2023 in these economies.

As a result, equities should continue be under pressure in the near/medium term (we have been cautious to negative since Nifty was at 18.2k and as latest as last week (Click here; Click here) . In case, Indian and global central bankers call out peaking of interest rates at current levels, equities will respond positively. For India, we assign a PE of 18.0-18.5x to our FY24-25 Nifty-50 earnings estimates (assuming a 6% discount to current EPS growth estimates of +18%/+15% in FY24/25), and forecast a Nifty target of 18,500-19,500 for March-September 2024. While the Indian economy should fundamentally be on a strong footing in FY25, the return of a formidable BJP in 2024 elections and controlled inflationary and interest environment can induce markets higher (19,500-20,000), ceteris paribus. PC-U FY24-25 revenue/EBITDA/PAT CAGR is estimated at 7%/11%/13%. While medium-term challenges will mar stock returns across the board, from a long-term perspective, we remain positive on cyclicals vs. discretionary; sector preference – capital goods, cement, defence, and financials. For others, we will adopt a bottom-up approach in stock selection. Our multi-Cap model portfolio has generated an Alpha of 10% against Nifty 100 and 7% against Nifty 200, since inception (Aug'20).

Our base-case scenario for FY24 (India/globe) assumes stable/lower commodity prices, lower inflation trends, higher interest rates (followed by a pause), weaker economic growth (not a steep recession), and stable geo-political conditions.

Indian economy in FY24: For FY24, we estimate India GDP growth of 5.5-6.0% and CPI inflation at 4.8-5.2% (assuming stable commodity prices). Due to the stickiness in recent CPI numbers, the RBI should deliver another 25bps interest rate hike in its April policy. The Fed's monetary policy stance will be an important factor that drives RBI's future policy stance; we believe inflation will reduce in FY24, so we expect a pause at least until 3Q-4Q FY24. The 10-year bond yield is likely to be at 7.0-7.6% and CAD at 1.0-1.5% of GDP; while this is positive for the INR, foreign capital flows may not be very supportive. We expect USD-INR at 80-84 in FY24. Reasonable petrol/diesel price cuts, led by lower brent prices, and upcoming elections can lead to broad-based gains across industries and macro data.

We remain upbeat about India's long-term growth prospects (click here– India Growth Story 2.0, led by multiple growth triggers). We forecast 6.5-7.0%+ GDP growth from FY25, and expect CPI to fall back to RBI's comfortable levels of approximately 5%, lower interest rates, stronger currency, higher capital flows, and continued government and RBI policy support – which will significantly boost Indian equities. In the long-run, manufacturing, exports, capex (public + private) are likely to fare well, generating higher employment and consumption, implying that all the GDP components will be contributing to growth, trending up in the long-run. Investors should use any sharp correction during the year as an attractive investment opportunity.

We assessed the performance of equities and FII flows when interest rates were near their previous peak (2018-19). Then, markets majorly corrected before reaching the peak, and rallied after interest rates stagnated. During this period, FIIs were net sellers, but turned buyers after the interest-rate peak. The differentiating factor this time is that rate tightening has been swifter and larger. A high US fed rate for a prolonged period is bound to cause economic and financial damage.

Key positives for the Indian economy and equities:

1 Continued focus on indigenisation, exports (through PLIs) along with alternative technologies
2 Government policies – innovative, long-term vision, multiplier benefits, timely execution
3 Rising public and private capex, led by higher long-term demand, to have a multiplier impact

Mixed:

1. Corporate earnings; stable corporate margins
2. DII flows are decent/strong (so far), future trend could be mixed as debt offers an attractive investment opportunity
3. High-frequency data largely resilient

Key negatives for the Indian economy and equities:

1 Volatile FII flows assuming further tightening
2 Elevated interest rates due to sticky inflation and global tightening
3 Weaker demand scenario impacted by higher base, inflation, and interest rates
4 Discretionary consumer spending to trend lower
5 Global slowdown and liquidity tightness

Key risks:

Higher commodity prices, sticky inflation despite higher rates warranting aggressive monetary policy tightening, sharp adverse impact on growth, geo-political risks, poor execution/decision making pre-election by the Indian government.

Top Picks:

L&T, Siemens, Thermax, HAL, Bharat Electronics, UltraTech Cement, Shree Cement, JK Lakshmi Cement, ICICI Bank, HDFC Bank, Axis Bank, BAF, CIFC, SRF, HUL, Britannia, GCPL, ITC, M&M, Maruti Suzuki, Tata Motors, SAIL, Tata Steel, Infosys, LTIMindtree, Persistent, Trent and Shoppers Stop, Orient Electric, Finolex Cables, and PG Electroplast.

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FY24 macro outlook – high base, weak global demand, and monetary tightening to cause weakness

Base effect will aid manufacturing growth; services to dip in FY24

We have lowered our FY24 GVA growth projections to 5.5-6.0% from 6.0-6.5% earlier because global/domestic tightening persists. Elevated inflation and resilient demand will lead to higher-for-longer interest rates. While the dollar will affect commodity prices, we expect these to remain stable/benign. Additionally, due to a high base of last two years across segments, we estimate inflationary pressure to ease in FY24. In the long run, we continue to expect the Indian economy to rise to the GDP trajectory of 6.5-7.0%+ and trend higher due to conducive government policies, business prospects, and consumer demand.

Services growth will soften after two years of robust performance, but it will still be the highest growth among segments. We see growth (over a high base) at 6.4%, as:

- Financials, insurance, real estate and business services will continue their momentum because of strong credit growth trends and domestic resilience.
- Trade, hotels, and transport & communication should see softer growth after the surge in growth due to covid-induced pent-up demand.
- Construction growth will be supported by increased government budget allocation for infrastructure ministries such as roads and railways.
- Public administration, defence and administration services will remain buoyant with continued government budgetary support.

Manufacturing growth to pick-up in FY24 (over FY23's low base) taking industrial growth higher. Benefits of Atmanirbhar Bharat, especially PLI schemes, should be more evident in FY24, as seen in the success of the PLI for mobile-phone manufacturing; we expect more government support in this area. Easing RM prices will also support growth.

- The mining sector will continue to grow, supported by natural-gas production, which should rise in coming years as India's economy aims to be carbon neutral.
- Electricity generation should continue to advance sustainably, as manufacturing activity gathers pace.

Agriculture sector growth will be in the range of 3-4% depending on the monsoon; El-Nino may adversely impact 2023 monsoon in India, looking at historical precedence.

For FY25, we foresee GVA growth at 6.5-7.0%, manufacturing to gain momentum with the support of government policies, and increased export opportunities – as global economies shift back to growth from recessionary worries. Services growth will rise, as its sub-sectors contribute more. Assuming normal monsoon, agriculture growth is likely to rise to 4%.

CSO estimates FY23GVA growth at 6.6% vs. 8.8% in FY22. Growth will be led by a strong services sector, which has seen pent-up demand supporting activity, especially in contact-intensive sectors. Manufacturing growth will be limited over a higher base, while agriculture output will be resilient at 3% growth.

Trends in GVA (yoy growth rate %)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E#	FY24E	FY25E
Agriculture	**0.6**	**6.8**	**6.6**	**2.1**	**6.2**	**4.1**	**3.5**	**3.3**	**3.0**	**4.0**
Industry	**11.9**	**8.4**	**6.1**	**4.9**	**-2.5**	**0.9**	**10.5**	**1.7**	**5.4**	**6.5**
Mining and Quarrying	10.1	9.8	-5.6	-0.8	-3.0	-8.6	7.1	3.4	4.0	6.0
Manufacturing	13.1	7.9	7.5	5.4	-3.0	2.9	11.1	0.6	5.5	6.5
Electricity, gas and water supply	4.7	10.0	10.6	7.9	2.3	-4.3	9.9	9.2	6.1	7.0
Services	**8.6**	**8.1**	**6.2**	**7.1**	**5.8**	**-7.9**	**9.6**	**9.3**	**6.4**	**8.0**
Construction	3.6	5.9	5.2	6.5	1.6	-5.7	14.8	9.1	5.0	8.0
Trade, hotels, Transport & Communication	10.2	7.7	10.3	7.2	6.0	-19.7	13.8	14.2	7.5	8.0
Financing, Insurance, Real Estate & business services	10.7	8.6	1.8	7.0	6.8	2.1	4.7	6.9	7.0	8.5
Public administration, Defence & other services	6.1	9.3	8.3	7.5	6.6	-7.6	9.7	7.1	5.0	7.0
GVA at Basic Price	**8.0**	**8.0**	**6.2**	**5.8**	**3.9**	**-4.2**	**8.8**	**6.6**	**5.7**	**7.0**

Source: CSO, PhillipCapital India Research; FY23E are CSO advance estimates.

Our **in-house time-tested PC India Index** (monthly) and **PC-WIT** (PC – Weekly Indonomics Tracker) indicate stable-to-positive outlook across 40-50 domestic and global indicators, which we have incorporated in these indices and track consistently.

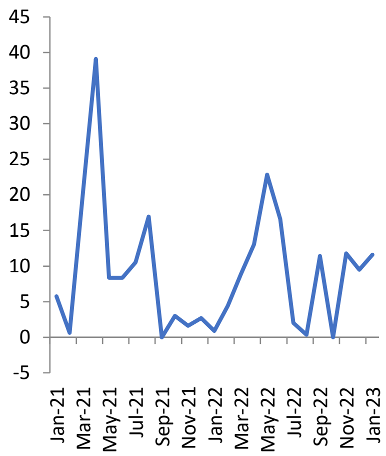
PC India Index is PhillipCapital's monthly index that tracks domestic and global factors across asset classes such as economic variables (GDP, inflation, yields, currencies, trade etc.), industrial indicators (IIP, PMI, auto sales, fuel consumption, logistics movements, core-sector output, etc.), banking indicators (credit, deposit, M3, CIC, MCLR etc.), and financial indicators (capital flows, equities, etc.).

We have assigned weights to each variable to arrive at *Positive Index, Negative Index*, and *Net Index*. The *Positive Index* is the weighted average of all the factors that are positive for India. The *Negative Index* is the weighted average of all factors impacting India negatively. The *Net Index* is the result of the Positive Index minus the Negative Index.

Our PCI Index has been stable for the last 4-5 months (highlighting resilience in economic indicators amidst the global tightening cycle) after slipping from record highs seen in 2021 and recent lows of June 2022. Equity market swings, global/domestic inflation pressures, tight liquidity, currency depreciation, and higher trade deficit are major negative factors that have dragged the index lower. The latest index, for December 2022, saw a slight decline in economic activity, as equities corrected. (**click here).**

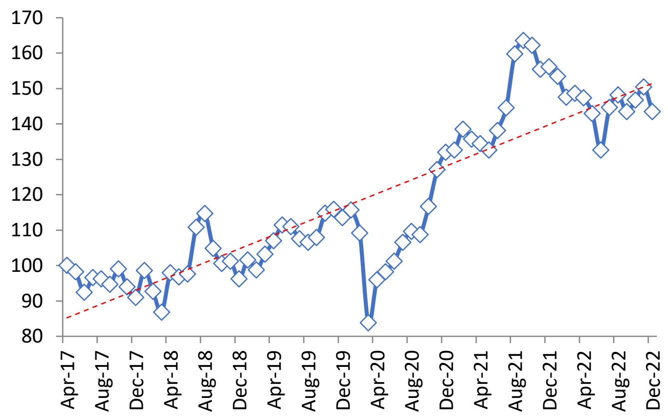
High Frequency Indicators (HFI) that we track weekly have been surprisingly robust – energy consumption, E-way bill generations, vehicle registrations and Maharashtra property registrations showed resilient economic activity.

Energy consumption (yoy growth,%)

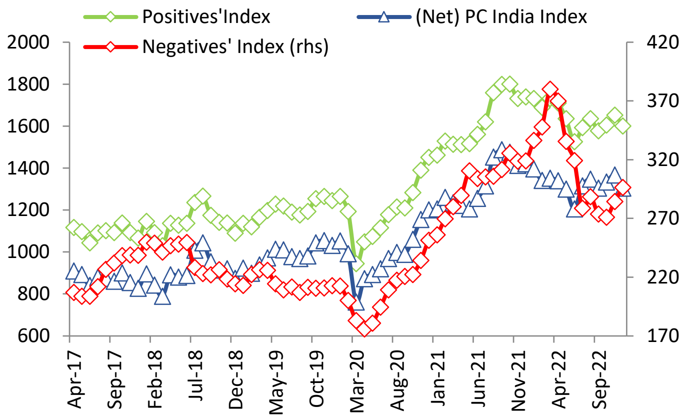


Source: POSOCO, PhillipCapital India Research

Net PC India Index (April 2017 = 100)

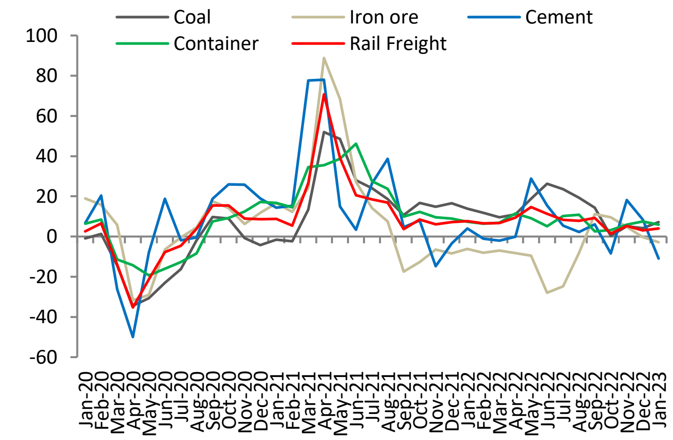


PC India Index: Heightened in November 2022

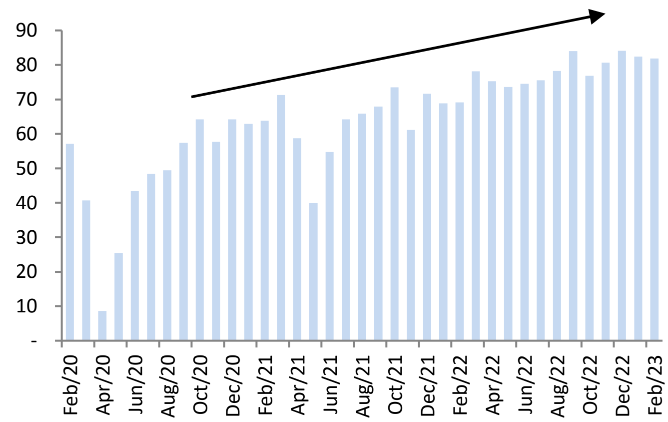


Source: PhillipCapital India Research

Railway freight volume (yoy growth, %)



E-way bill generation (mn)



Source: Ministry of Railways, GSTN, PhillipCapital India Research

Private consumption: Weaker demand expected in FY24

As expected, Private Final Consumption Expenditure (PFCE) grew in FY23 due to post-covid normalisation and pent-up demand. According to the government's FY23 advance estimates, FY23 PFCE growth is likely to be healthy at 7% vs. 11% in FY22 (average 6% in FY18-20). PFCE is estimated at 3.5-4.5% in FY24 and 5.5-7% in FY25.

Private consumption growth slowed to +2% yoy in Q3FY23, after much stronger 20%/9% in Q1/Q2FY23. PFCE contributed 62% to GDP in Q3FY23 vs. 63% in Q3FY22.

(1) PFCE components – post covid, the services sector's share dipped, goods inched up

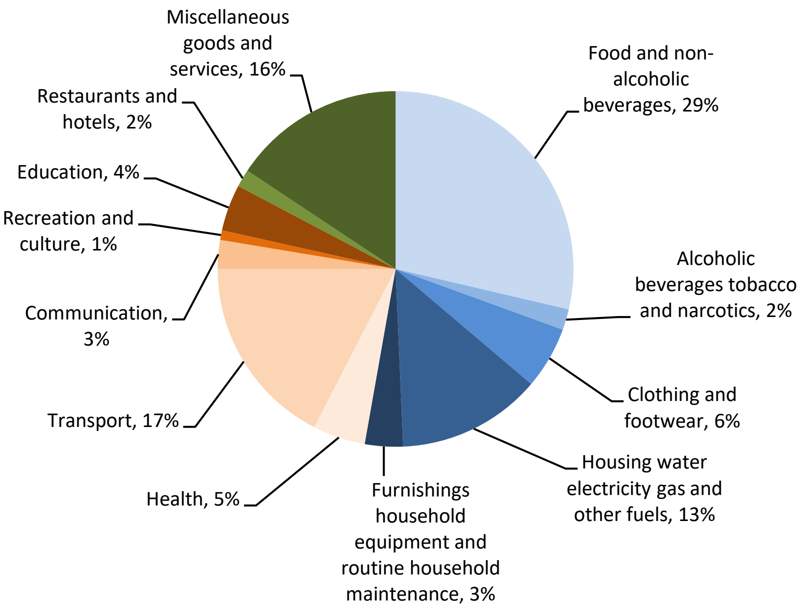
- Rising (for FY22): Transport saw substantial strengthening of share (17% of total consumption) followed by clothing & footwear (6%), health (5%), household maintenance (4%), education (4%), restaurants & hotels (2%), and recreation & culture (1%).
- Declining (for FY22): Food & non-alcoholic beverages (29%), miscellaneous goods & services (16%, comprises of goods like jewellery/watches/leather products and personal care & banking/legal/business services), electricity, gas, water & utilities (13%) and communication (3%).
- By durability, share of services remained relatively stable at close to 49% as in the previous year vs. 51% in FY18-20. Share of durable/semi-durable goods also improved to 4%/7% with around 22% yoy growth while share of non-durable goods softened to 40%.

PFCE components at constant and current prices (Rs bn)

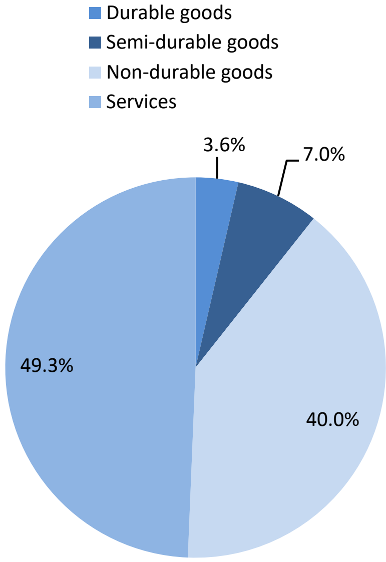
	Constant price							Current price						
By purpose	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Food and non-alcoholic beverages	17571	19607	20288	21382	22498	23217	24843	23830	27906	29791	31923	35383	38839	43147
Alcoholic beverages tobacco and narcotics	1407	1416	1399	1589	1672	1552	1643	1999	2136	2231	2655	2921	2975	3280
Clothing and footwear	4211	4233	4313	4490	4534	3960	4898	5823	6140	6540	7114	7303	6610	8743
Housing water electricity gas and other fuels	9804	10113	10413	10774	11144	11215	11376	12182	13028	14268	15640	16574	17290	18942
Furnishings household equipment and routine household maintenance	2187	2259	2398	2672	2786	2526	3004	2490	2741	2981	3413	3582	3300	4254
Health	2745	3085	3218	3481	3750	3708	4135	3497	4109	4473	5182	5935	6169	7394
Transport	9736	10748	12881	14068	15064	12293	15128	12187	13788	16447	18803	20705	17534	23373
Communication	1609	1620	1964	2163	2197	2071	2267	1887	1954	2436	2815	2921	2958	3533
Recreation and culture	568	580	658	701	729	616	759	710	748	868	967	1043	905	1162
Education	2389	2625	2925	3245	3366	3168	3667	3200	3704	4311	5100	5578	5396	6429
Restaurants and hotels	1445	1561	1689	1859	2009	968	1382	1639	1803	2022	2324	2556	1242	1975
Miscellaneous goods and services	10566	11602	11696	12513	13320	12809	13594	12287	13704	14606	16636	18569	18105	20735
By durability														
Durable goods	2064	2335	2592	2891	2714	2573	3140	2382	2720	2973	3342	3254	3242	4118
Semi-durable goods	5173	5207	5421	5702	5682	5033	6105	6936	7289	7858	8583	8715	7983	10416
Non-durable goods	24791	27080	28515	30437	32169	32046	34666	33580	38522	41605	45604	50335	53018	59805
Services	32211	34825	37312	39907	42503	38449	42783	38831	43230	48538	55043	60765	57080	68629
Private Final Consumption Expenditure in domestic market	**64239**	**69446**	**73841**	**78938**	**83068**	**78101**	**86694**	**81730**	**91761**	**100974**	**112572**	**123070**	**121323**	**142968**
Final consumption expenditure of resident households in the rest of the world	882	989	1095	1264	1279	692	871	968	1103	1258	1515	1557	854	1214
Final consumption expenditure of non-resident households in the economic territory	1307	1433	1628	1698	1785	548	530	1433	1599	1870	2034	2174	676	739
Private Final Consumption Expenditure	**63814**	**69002**	**73307**	**78504**	**82562**	**78245**	**87035**	**81264**	**91265**	**100362**	**112053**	**122454**	**121501**	**143443**

Source: RBI, PhillipCapital India Research

PFCE components, by purpose (% of total, FY22)

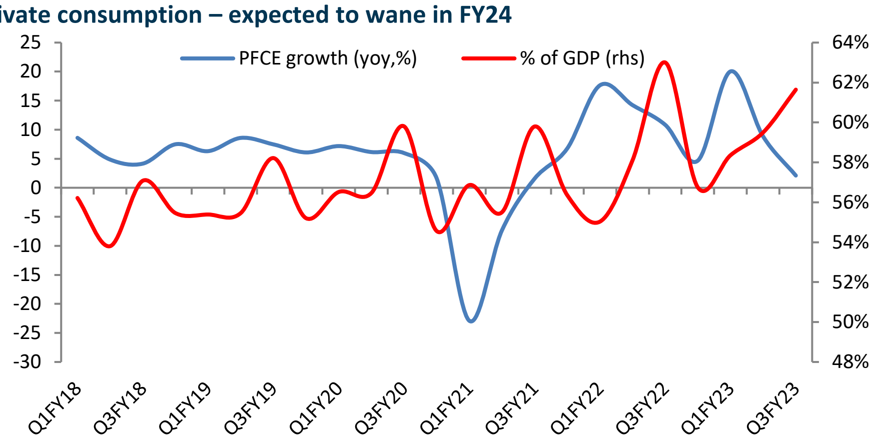


PFCE components, by durability (% of total, FY22)



Source: CSO, RBI, PhillipCapital India Research

Private consumption – expected to wane in FY24

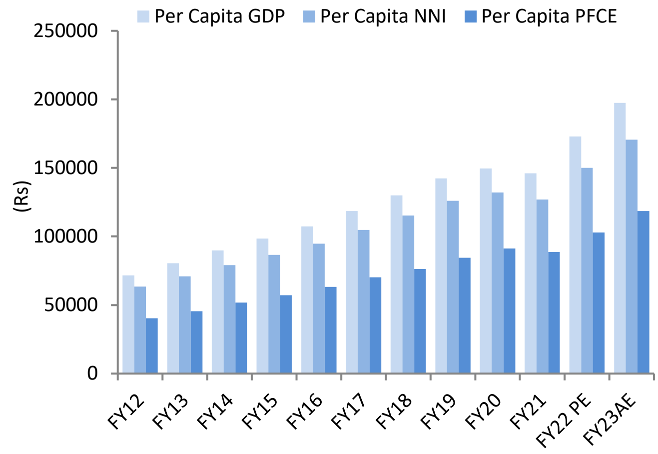


Source: CSO, PhillipCapital Research

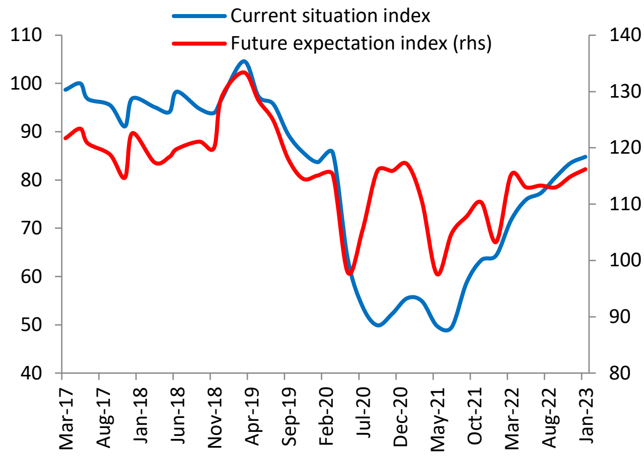
(2) Per-capita income and consumption – to surge ahead

- Nominal per-capita GDP should display strong 15% growth in FY23 (at Rs 196,716) vs. 17% growth registered in FY22, while real per-capita GDP growth should be at 6% at Rs 115,490. Both nominal/real per-capita consumption will be robust at 14%/6% in FY23.
- India ranks third on GDP (based on PPP), just after China and the US and it contributes 7% of the world's GDP growth as of 2022-23, which should rise to 8.5% by 2027.
- Consumer confidence (RBI Survey Index) has seen sustained improvement in FY23 with the latest data indicating improved confidence, both for the current period, as well as for the year ahead.

Per-capita GDP, income, and consumption inching up



RBI Consumer Confidence Index – improvement in FY23

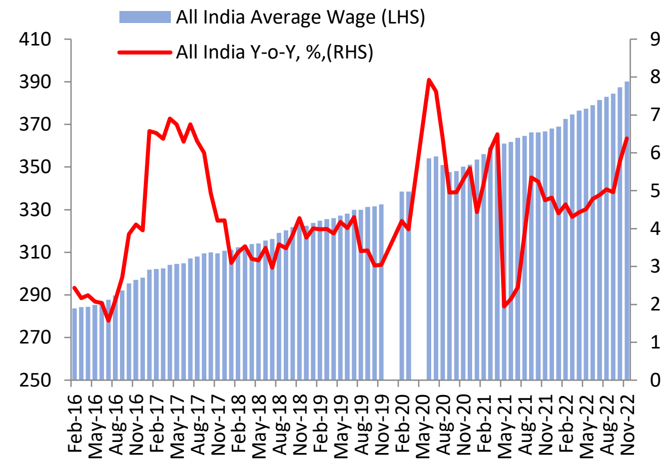


Source: RBI, CSO, PhillipCapital India Research

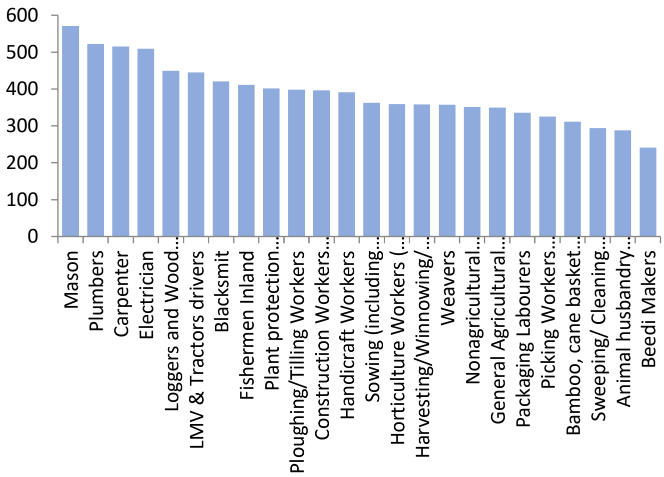
Wages rise at 5% in FY23

All-India average daily wages increased 5% in April-November 2022 vs. 4% in FY22. Average wages were at Rs 390 in November 2022 vs. Rs 367 in the same month a year ago.

All-India wages – growth picked up



All-India wages by type of work as of November 2022

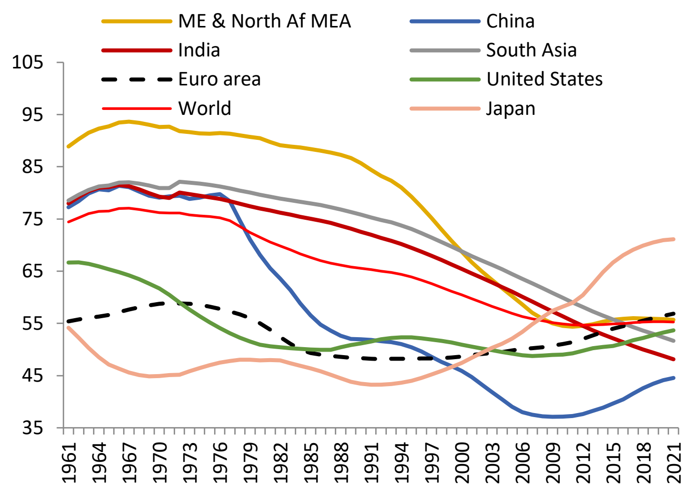


Source: RBI, PhillipCapital India Research

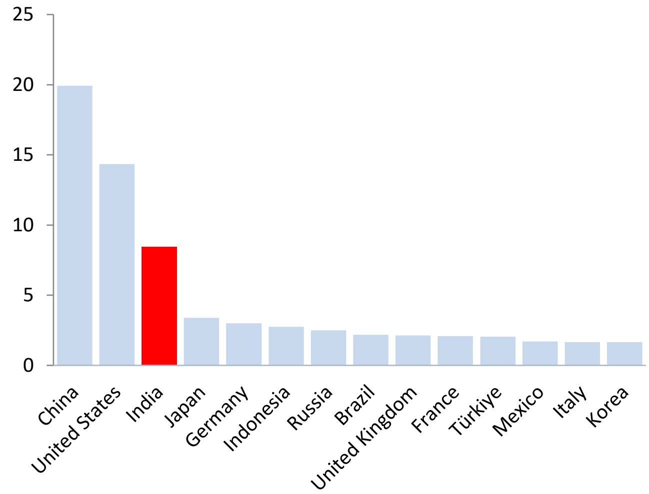
(3) Demographic dividend to help the long-run consumption story

India's rising working age population/falling dependent population will continue to aid rapid growth and offer dividends to India's consumption story in the long-run. As seen in the chart below, India's dependency ratio is falling, compared to China and other developed countries' rising ones.

Age dependency ratio – still declining for India (% of working-age population)



% of world GDP (PPP basis) – India to rank third till 2027



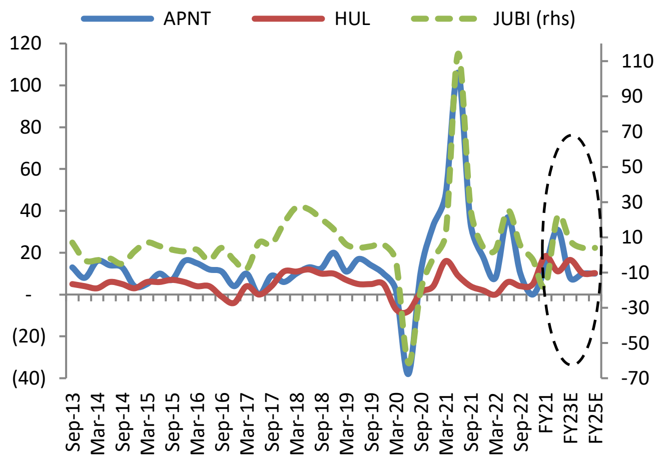
Source: UNDP, IMF, PhillipCapital India Research

(4) Key consumption-sector growth trends (*PhillipCapital Estimates)*

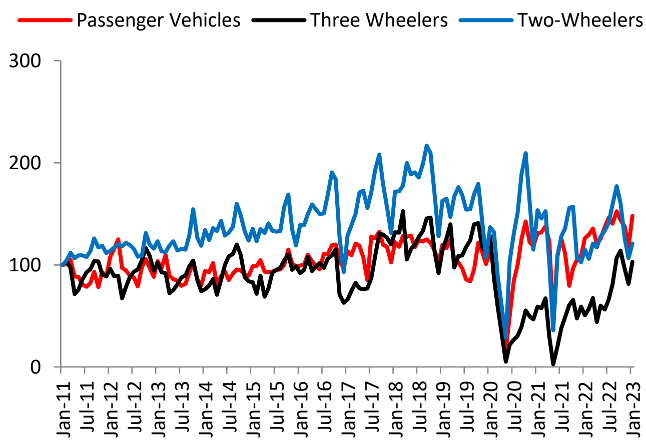
FMCG expected to fare better; discretionary quite weak

- Volume growth for staples and discretionary products in FY24/25 to see slight improvement from the low growth period in FY23.
- HUL's volume growth should be 6% in both FY24/25 vs. 5% in FY23; ITC at 13%/7%/3% in FY23/24/25; Dabur at 2%/6%/6%.
- Asian Paints to register 10% growth in FY24/25 vs. 8% in FY23. Jubilant to register softer 4% growth in FY24/25 after 8% growth in FY23.
- Our estimates are based on the assumption of rural recovery and low base of last 3-years. Adverse rural impact of El-Nino carries a downside risk to our estimates.

Volume growth of key consumption companies



Auto segment's volume growth (Base: Jan-11 = 100)



Source: SIAM, Companies, PhillipCapital India Research

Retail – Tepid SSSG growth in FY24-25, store additions strong

SSSG growth to be softer at 5-9% in FY24-25 after extremely strong growth seen in FY22/23. D-Mart will continue with double-digit growth in FY24-25.

Retail store additions should be stronger. ABFRL and Shopper's Stop will continue with higher store openings, both in FY24/25, while West Side, V-Mart and D-Mart will see lower store additions in FY24, which should strengthen in FY25.

Retail companies' SSSG growth (%) and new-store additions

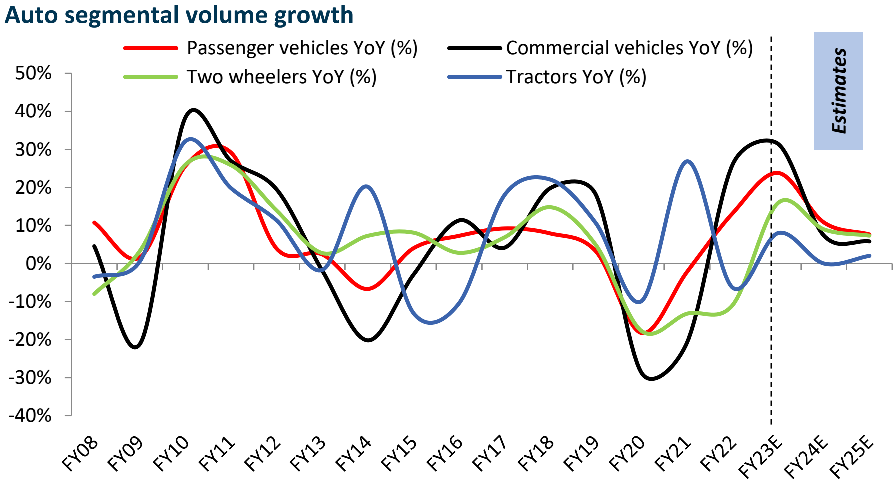
	SSSG Growth (%)					New store addition				
Company	FY21	FY22	FY23E	FY24E	FY25E	FY21	FY22E	FY23E	FY24E	FY25E
ABFRL (Pantaloons)	-51%	33%	46%	5%	5%	34	4	31	49	65
Shoppers stop	-52%	48%	62%	9%	7%	6	-5	4	14	14
Westside (Trent)	-43%	73%	70%	9%	9%	15	9	26	15	25
V-Mart	-39%	23%	14%	7%	6%	52	13	101	50	77
D-Mart	-13%	17%	29%	15%	15%	38	20	50	44	50

Source: Companies, PhillipCapital Research

Automobiles – softer volume growth in FY24/25

- CVs, PVs, and 2Ws to record lower volume growth in FY24/25 after remarkable growth trends in FY23.
- PVs to grow 11%/8% in FY24/25 vs. a strong 24% in FY23.
- 2Ws sales to register 9%/7% growth in FY24/25, post the robust 16% growth in FY23.
- CVs sales growth trend to cool down in FY24/25 to 7%/6% after a 31% growth in FY23.
- Tractor sales to be muted in FY24 from the 8% growth in FY23. FY25 sales likely to attain 2% growth.

Auto segmental volume growth



Source: SIAM, PhillipCapital India Research

Inflation/interest rates – price pressure to ease; interest rates to remain elevated

We expect CPI growth for FY23/24/25 at 6.7%/4.8%-5.2%/4.5%-5%, assuming stable commodity prices. Brent prices have eased from the highs seen after the start of Ukraine-Russia conflict, but there was no resultant decrease in retail fuel prices except the excise duty cut undertaken by government. A cut in retail fuel prices will help ease inflation to a large extent. While inflation eased in November and December due to significant correction in food inflation, especially vegetable prices, core inflation remained elevated and sticky at 6.2-6.4% throughout the year. Sticky core inflation and a higher-than-expected surge in price pressure in January will keep RBI vigilant about the future inflation trajectory. RBI will also keenly follow other global central banks, especially US Fed policy action, to decide on the domestic action.

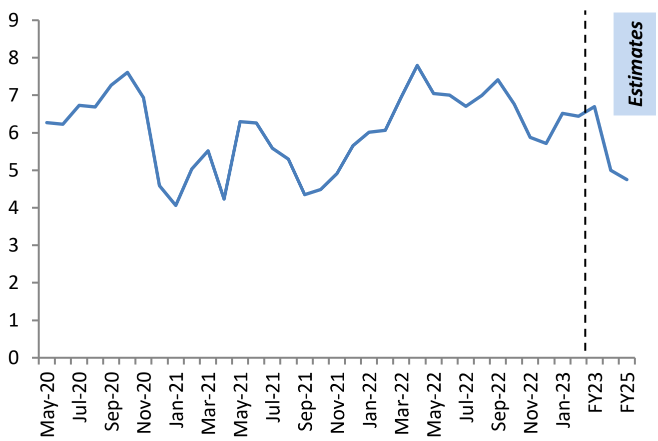
With the dilemma on how much to focus on inflation and growth, MPC members stand divided on their stance on policy rate hikes. Two members currently favour a pause in repo rate tightening – to gauge the impact of past tightening measures. However, other members have opted to hike rates to prioritise inflation, and do not want to take some relaxation in price pressures for granted.

Going ahead, weaker demand and the high base of the last two years (recording persistent price rise) should dent pricing power, which will help lower inflation. Services inflation should also benefit from slower demand conditions and easing up of pent-up demand. Housing inflation should ease, as interest rates inch up, while clothing inflation should tone down after moderation in cotton prices seen in FY23.

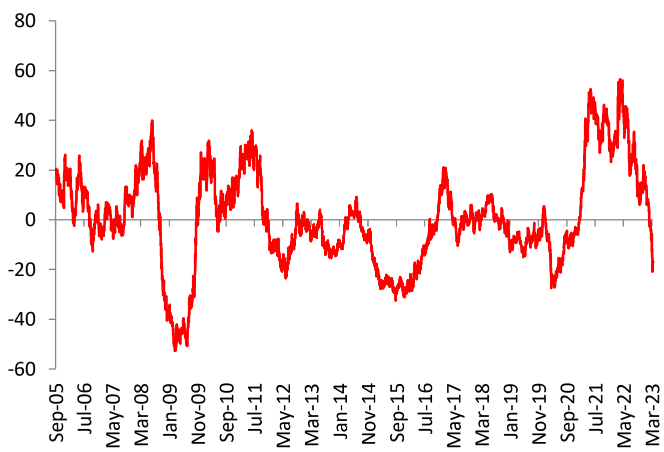
Policy rates to remain elevated
Global central banks and the RBI have been signalling that they are looking for clear indication on inflation (and its future course) to be closer to their targets, before deciding on pausing and rate reduction. Thus, policy rates will rise further and stay at peak levels for some time until inflation cools off. For India, the RBI is likely to announce one last rate hike in its April policy, based on the sticky inflation in January 2023, after which a pause is likely until Q3-Q4 FY24. More clarity on RBI's policy path will emerge in coming months, as monsoon shapes up in an El-Nino environment, commodity prices respond to growth-supply-dollar dynamics, and greater visibility emerges on the Fed's future policy stance – these factors can also be termed risks to our expectations.

We expect the 10-year yield to range at 7.0-7.6% in FY24.

CPI (yoy growth, %)

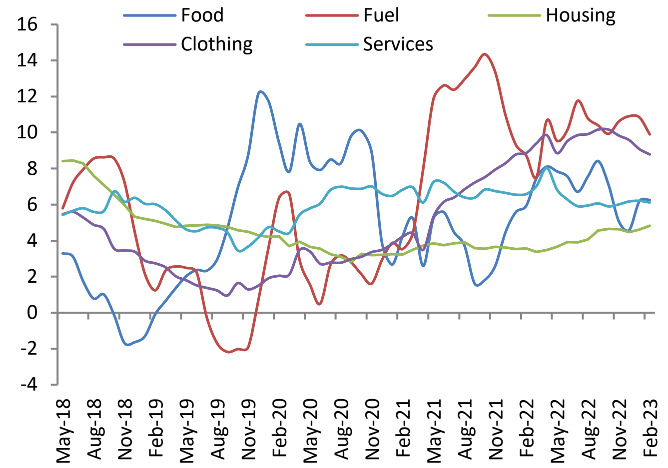


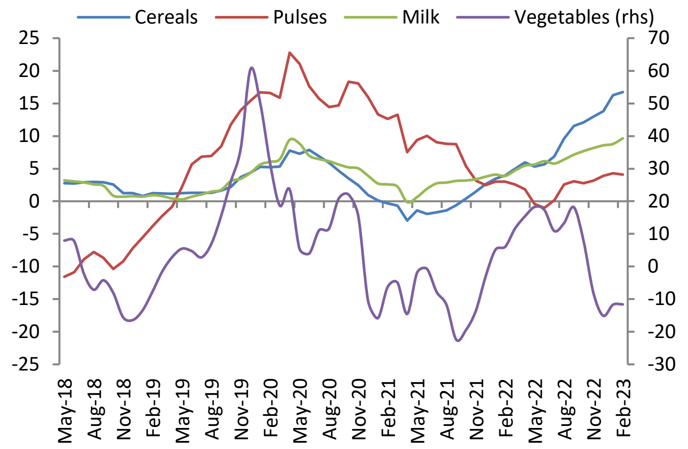
Bloomberg Commodity Index (yoy growth, %)



Source: CSO, Bloomberg, PhillipCapital India Research

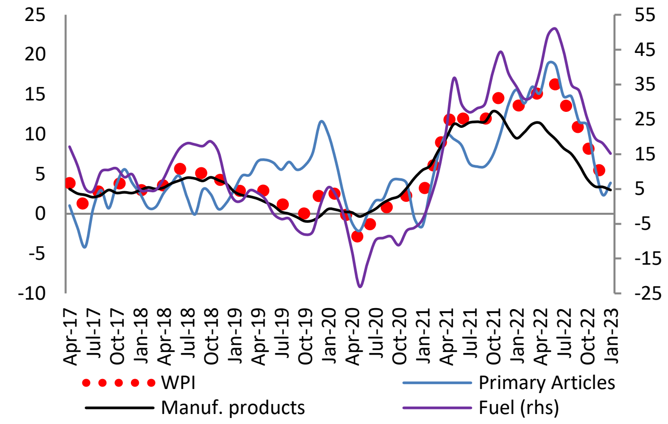
CPI components (yoy growth, %)

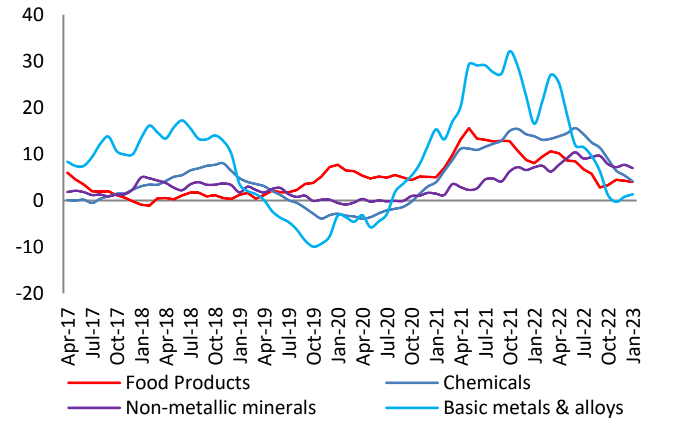




Source: CSO, PhillipCapital India Research

WPI components (yoy growth, %)





Source: Ministry of Commerce, PhillipCapital India Research

Financial sector – higher interest rates to soften credit off-take in FY24; long-term trends intact

Credit off-take grew in double-digits throughout FY23 (currently at 16%), even in the policy-tightening phase. While we expect it to remain decent, a high base of FY23 and interest rates will have an adverse impact on its growth pace in FY24. Fundamentally, banks are healthy – they are well capitalised with strong balance sheets and are well capitalised. We expect FY24 credit growth at 9-11% primarily due to an elevated base.

Bond yields to remain elevated:

- Corporate bond yields up by 196bps
  - 3-year AAA-rated corporate bond yield rose to 7.9% in FY23 (as on end February) from 6% during the same period in the previous year.
  - 3-year AA-rated corporate bond yield, too, rose to 8.6% in FY23 (as on end February) from 7% during the same period last year.
- Bank credit to NBFCs rose to Rs 13tn as on January 2023 from Rs 9.8tn in January 2022 – with a 31% yoy growth.
- Even during the tightening cycle, banking liquidity remained in surplus, but lower at an average Rs 1.7tn from April-February FY23 vs. Rs 6.5tn during the same period last year.

For the NBFCs under our coverage (our analysts' estimates):

- AUM growth at 16%/18% for FY24/25 vs 15% in FY23. Including Bajaj Finance & LIC HF, at 17%/19%. 16% in FY23
- Disbursement to grow by 12% in FY24/25 vs. 15% in FY23. Incremental disbursement of Rs 335bn in FY24.

Banks: Healthy BS and decent PPoP

- We see bank credit growth at 9-11% in FY24 and 10-12% in FY25 vs. 16% in FY23.
- Private banks' credit growth at 18%/17%/16% in FY23/24/25 (our banking team's estimates).
- We see NII growth of 9-20%/11-26% in FY24/25, except HDFC, which will see 53% growth in FY25 (due to the merger); NIMs will fall marginally.
- PCR will also fall, considering anticipated NPA decline in FY24.
- PPOP of private banks under our coverage should grow 11-16% in FY24-25; 7-10% for PSBs vs. 20%+ in FY23.
- GNPAs will decline across banks (except HDFC, due to the merger).
- Capital-adequacy ratio is sufficient at 13-22% (much above the regulatory norm of 8%) across all private banks and most public-sector banks.

Bank-wise NII, NIM, PPOP and PCR

	NII (Rs bn)				NIM (%)				PPOP (Rs bn)				PCR (%)			
	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	3Q23	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Axis	332	388	463	535	3.28%	3.67%	3.61%	3.62%	93	307	345	396	75%	80%	79%	77%
DCB	13	15	18	21	3.39%	3.63%	3.54%	3.45%	2	7	9	11	56%	64%	61%	60%
ICICI	474	558	660	780	3.79%	4.34%	4.30%	4.22%	133	493	546	613	80%	80%	79%	79%
IndusInd	150	171	197	219	4.16%	4.30%	4.21%	4.24%	369	143	158	184	72%	72%	70%	68%
HDFC	720	838	979	1497	3.89%	4.05%	3.86%	3.60%	190	704	1,120	1,352	73%	71%	66%	69%
Kotak	168	200	232	272	4.51%	5.10%	4.89%	4.82%	38	144	165	191	73%	71%	69%	70%
BOB	324	364	408	514	2.81%	3.16%	3.12%	3.13%	82	264	282	319	75%	78%	71%	64%
Indian	168	185	204	235	2.70%	3.04%	2.95%	3.00%	41	154	148	162	75%	87%	88%	85%
SBI	1216	1330	1450	1742	2.76%	2.98%	3.00%	2.97%	252	849	930	1,015	75%	77%	74%	72%

Source: Companies, PhillipCapital India Research

Bank-wise GNPA and NNPA trends and our expectations

	GNPA Ratio				NNPA Ratio			
	3Q23	FY23E	FY24E	FY25E	3Q23	FY23E	FY24E	FY25E
Axis	2.38%	2.22%	1.90%	1.71%	0.47%	0.44%	0.41%	0.39%
DCB	3.62%	3.29%	2.53%	2.01%	1.37%	1.25%	1.02%	0.83%
ICICI	3.07%	2.87%	2.49%	2.31%	0.55%	0.60%	0.53%	0.49%
IndusInd	2.06%	2.00%	1.72%	1.52%	0.62%	0.57%	0.53%	0.50%
HDFC	1.23%	1.19%	1.51%	1.62%	0.33%	0.35%	0.52%	0.51%
Kotak	1.90%	1.59%	1.48%	1.49%	0.43%	0.46%	0.46%	0.46%
BOB	4.53%	4.12%	2.95%	2.51%	0.99%	0.94%	0.86%	0.91%
Indian	6.53%	6.21%	4.83%	3.74%	1.00%	0.84%	0.60%	0.60%
SBI	3.14%	3.01%	2.33%	1.87%	0.77%	0.71%	0.61%	0.52%

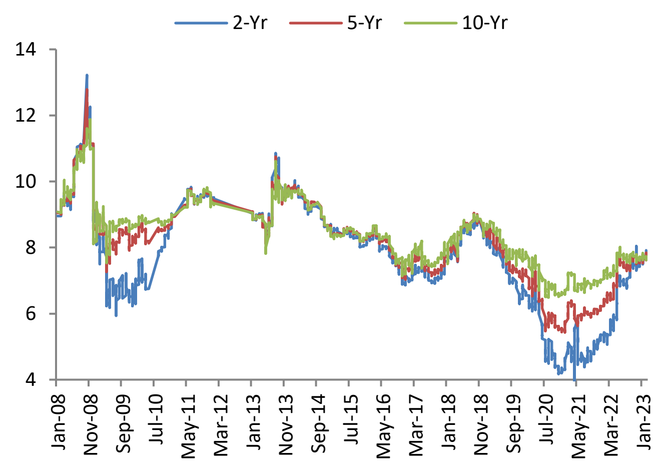
Source: Companies, PhillipCapital India Research

Bank-wise capital availability trends

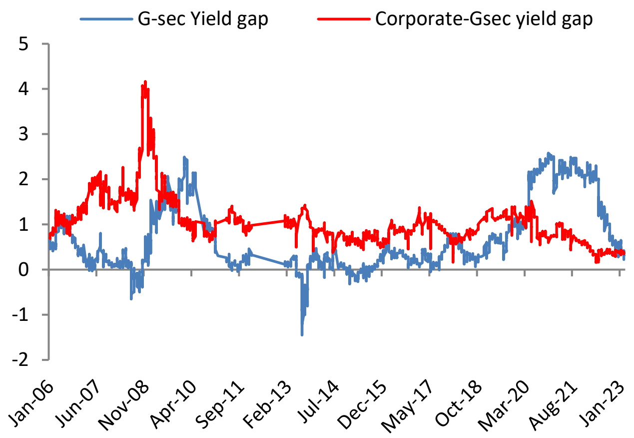
	CET 1(%)				Tier 1(%)				Total capital (%)			
	Mar-20	Mar-21	Mar-22	Q3FY23	Mar-20	Mar-21	Mar-22	Q3FY23	Mar-20	Mar-21	Mar-22	Q3FY23
Axis	11.30	13.34	15.40	15.24	14.49	16.47	16.34	14.24	17.73	19.12	18.54	17.60
DCB	13.10	13.90	15.49	15.84	13.90	15.49	15.84	14.47	17.75	19.67	18.92	16.26
ICICI	13.64	13.39	16.80	17.60	14.72	18.06	18.35	15.51	16.11	19.12	19.16	16.26
IndusInd	13.51	13.22	15.55	15.96	14.57	16.83	16.80	16.47	15.04	17.38	18.42	18.06
HDFC Bank	14.93	16.43	16.85	16.67	17.23	17.56	17.87	17.20	18.56	18.79	18.90	19.40
Kotak Bank	16.70	17.08	21.21	21.51	17.27	21.40	21.70	20.80	17.90	22.30	22.70	21.70
BOB	8.63	9.44	10.94	11.59	10.71	12.67	13.34	13.18	13.30	14.99	15.83	15.44
Indian Bank	10.96	10.23	11.27	12.53	10.41	11.94	13.18	12.58	13.27	15.72	16.54	15.74
SBI	9.62	9.77	10.02	9.94	11.00	11.43	11.42	10.80	13.06	13.73	13.83	13.27

Source: Companies, PhillipCapital India Research

Corporate bond yield curve (%)



G-sec and corporate-Gsec yield gap (%)

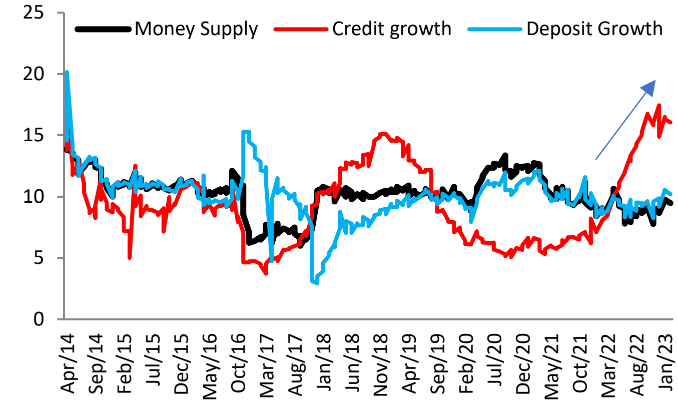


Source: Bloomberg, PhillipCapital India Research

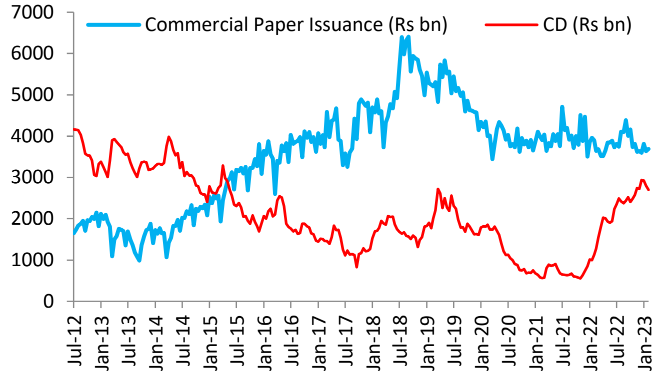
Credit boomed in FY23, FY24 – a tad softer; liquidity neutral

- Net bank deposits in FYTD23 were stronger at Rs 13tn vs. Rs 10tn seen in FY22, due to attractive interest rates. We see deposit growth at 9-10% in FY24 similar to the ongoing pace.
- M3 and CIC registered a decent rise in FY22; FYTD M3 growth is at 5.6%, CIC at 7%. For FY24, we estimate M3 growth of 9-10%.
- On account of buoyant demand and capex expansion, credit disbursement grew significantly in FY23, registering 16% growth as of January 2023 on a favourable base in FY21-22. Bank credit growth will be 9-11% in FY24 and 10-12% in FY25 vs. 16% in FY23. FY24 credit off-take will be impacted by an unfavourable base and higher interest rates.
- Liquidity will be neutral-to-positive, considering RBI's focus on productive credit channels.

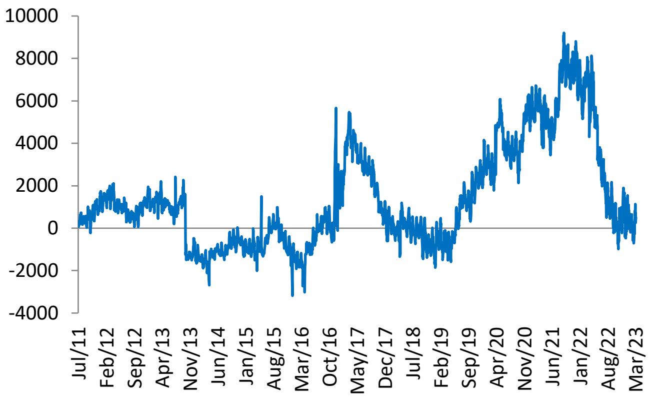
M3, deposits – decent; credit growth surge (yoy, %)



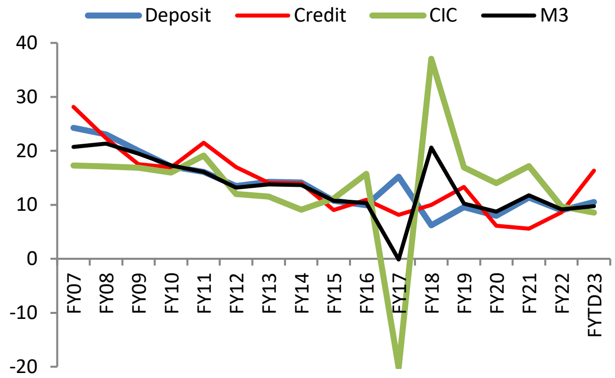
Stable CP issuances and increased CDs



LAF balances (Rs bn)



Banking parameters growth (yoy, %)

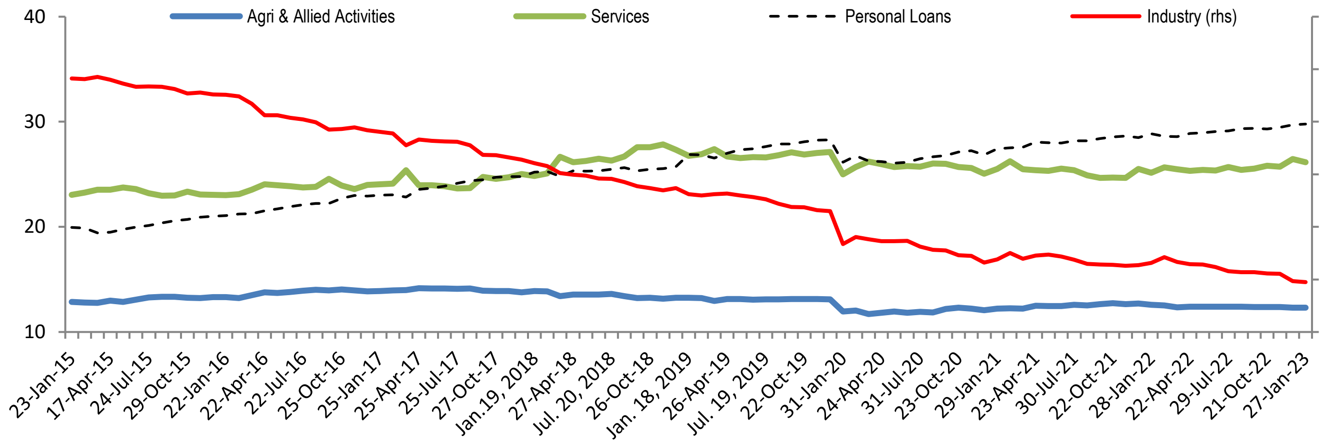


Source: RBI, PhillipCapital India Research

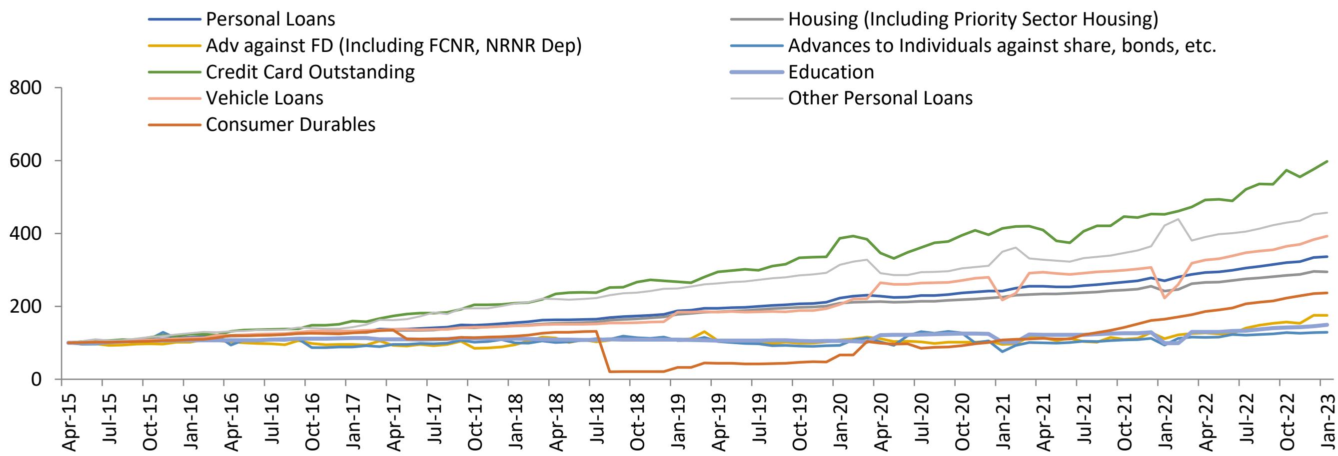
Credit trends: Mix of demand and inflation push off-take

- **Agriculture-sector credit – trending higher:** Growth strong at 14% yoy in January 2023 vs. 10% during the same period in the previous year.
- **Industrial credit – healthy growth:** Industrial credit saw 9% growth as of January 2023. Medium-scale industries grew 18%, micro- and small-industry saw 15% growth, and large industries 7%.
  - Credit deployment saw significant growth in petroleum products, wood products, construction, mining, basic metal, rubber & plastic, cement, paper products, engineering and chemical products.
  - Credit deployment was softer for leather, food processing, infrastructure (led by telecom, other are strong) and textiles.
- **Services-sector credit – led by NBFC off-take:** Annual growth rate of credit to the sector was higher at 22% vs. 6% in the previous year. Share of NBFC credit rose to 10% vs. 9% a year ago, with much stronger 31% yoy growth vs. 10% in the previous year. Lending to trade, hotels, tourism saw 2% growth vs. 10% in the previous year. Wholesale trade recorded 12% growth. Software services credit growth softened to 2% yoy.
- **Personal loans – the push factor:** Share was at 30% vs. 29% a year ago, led by housing and other personal loans. Annual growth increased to 20% from 13% in the previous year. Strongest growth was recorded in loans for consumer durables and vehicle loans. There was a 15% jump in credit to housing vs. 13% in the previous year.

Bank credit break-up (% of total credit) – credit up-tick across agriculture, industry, services, and personal loans



Retail credit growth trends (April 15 = 100)



Source: RBI, PhillipCapital India Research

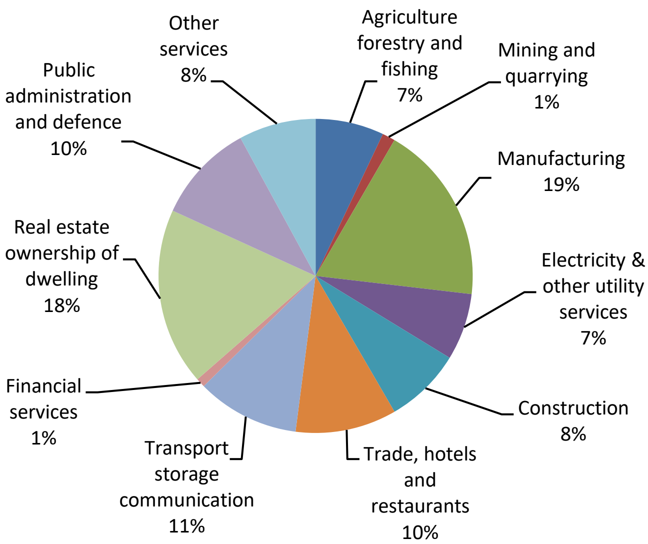
Investments – at peak, to trend higher in the long-run

The government has been laser-focussed on capex expansion in India. Along with a substantial jump in public capex, the government continues to implement policies to induce private capex. We remain positive on PLI execution in the next 2-3 years and its positive impact on manufacturing and exports. The Indian government is also seriously pursuing FTAs (free-trade agreements) to improve the country's exports – this should develop a long-term sustainable manufacturing hub in the country. Apart from domestic policy support, government capex, ease of doing business reforms, and export-oriented reforms, geo-political issues, China + 1, Europe + 1 strategy will also help India's growth in the long run. For FY24, we expect GFCF growth to be strong at 7-8% followed by 10% in FY25 vs. 11% in FY23.

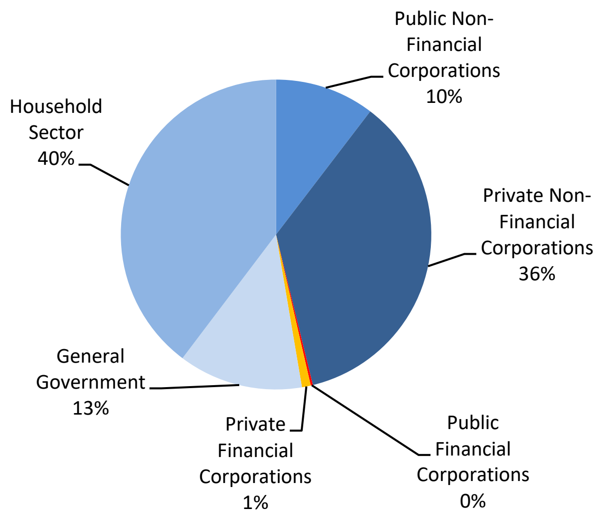
GCF has seen healthy rebound, with 17% growth in FY22 over a favourable base, and 6% growth over FY20. This growth trend was noted across most sectors. Significantly sharp investments in the manufacturing sector pushed its share to 19%, surpassing real estate sector, which has been leading. Agriculture and mining sector growth softened/declined in FY22 after strong growth in FY21. Investments in construction weakened over a higher base in FY21. Significant growth over a favourable base was seen among electricity & utilities, trade, repair & hotels, transport & communications, and other services. Apart from manufacturing and real estate, major share in investment is for transport, storage & communication (11% share), defence & public administration (10%), trade, repair, hotels & restaurant (10%), construction (8%) and electricity (7%).

GFCF swung back with 15% yoy growth to Rs 49tn over a favourable covid-induced low base of Rs 43tn. Growth over FY20 was at 6%. Household sector contributes highest to GFCF – with a share of 40%. Compared to FY20, highest growth was noted in the government (11%), followed by household (8%) while private sector just crossed the pre-covid levels by 1%.

Sectoral share of GCF in FY22 (% of total at constant prices)



Sectoral share of GFCF in FY22 (% of total at constant prices)



Source: CSO, PhillipCapital India Research

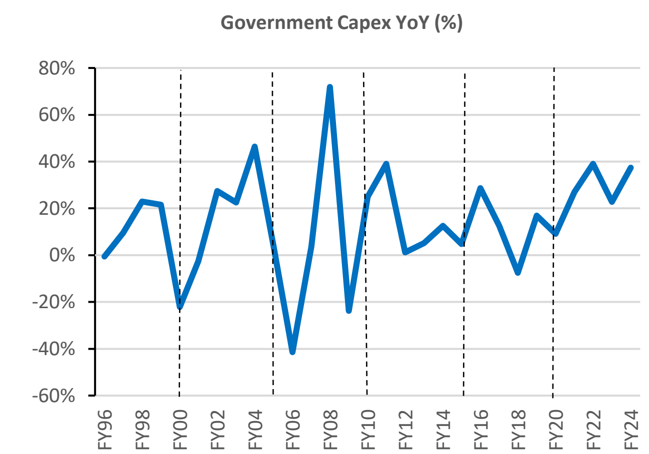
Gross capital formation by industry of use at constant (2011-12) prices

		Rs Bn					% share of GCF				
S.No	**Item**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
1	**agriculture, forestry and fishing**	**2723**	**2966**	**3028**	**3504**	**3526**	**6.3**	**6.2**	**6.4**	**8.2**	**7.0**
1.1	crops	2,267	2,464	2,491	2,891	2,909	**5.3**	**5.1**	**5.3**	**6.8**	**5.8**
1.2	livestock	212	233	246	308	291	**0.5**	**0.5**	**0.5**	**0.7**	**0.6**
1.3	forestry and logging	36	44	48	43	47	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
1.4	fishing and aquaculture	208	224	243	262	279	**0.5**	**0.5**	**0.5**	**0.6**	**0.6**
2	**mining and quarrying**	**671**	**714**	**585**	**674**	**662**	**1.6**	**1.5**	**1.2**	**1.6**	**1.3**
3	**manufacturing**	**7,576**	**8,124**	**7,770**	**7,451**	**9,247**	**17.7**	**16.9**	**16.5**	**17.4**	**18.5**
4	**electricity, gas, water supply & other utility services**	**2,882**	**3,624**	**3,410**	**2,780**	**3,441**	**6.7**	**7.5**	**7.3**	**6.5**	**6.9**
5	**construction**	**2,844**	**4,139**	**3,799**	**4,438**	**3,950**	**6.6**	**8.6**	**8.1**	**10.4**	**7.9**
6	**trade, repair, hotels and restaurants**	**4767**	**4859**	**4402**	**3180**	**5210**	**11.1**	**10.1**	**9.4**	**7.4**	**10.4**
6.1	trade & repair services	4,328	4,316	3,681	2,606	4,150	**10.1**	**9.0**	**7.8**	**6.1**	**8.3**
6.2	hotels & restaurants	438	542	722	575	1,061	**1.0**	**1.1**	**1.5**	**1.3**	**2.1**
7	**transport, storage, communication & services related to broadcasting**	**5,496**	**6,409**	**5,640**	**3,450**	**5,293**	**12.8**	**13.3**	**12.0**	**8.1**	**10.6**
7.1	railways	697	730	752	423	901	**1.6**	**1.5**	**1.6**	**1.0**	**1.8**
7.2	road transport	1,754	2,228	1,506	659	1,496	**4.1**	**4.6**	**3.2**	**1.5**	**3.0**
7.3	water transport	34	27	18	34	36	**0.1**	**0.1**	**0.0**	**0.1**	**0.1**
7.4	air transport	76	53	543	110	106	**0.2**	**0.1**	**1.2**	**0.3**	**0.2**
7.5	services incidental to transport	281	282	312	305	409	**0.7**	**0.6**	**0.7**	**0.7**	**0.8**
7.6	storage	62	61	91	74	32	**0.1**	**0.1**	**0.2**	**0.2**	**0.1**
7.7	communication & services related to broadcasting	2,592	3,029	2,418	1,845	2,312	**6.0**	**6.3**	**5.1**	**4.3**	**4.6**
8	**financial services**	**498**	**398**	**477**	**472**	**470**	**1.2**	**0.8**	**1.0**	**1.1**	**0.9**
9	**real estate, ownership of dwelling & professional services**	**8,565**	**9,703**	**10,024**	**9,127**	**9,136**	**20.0**	**20.2**	**21.3**	**21.4**	**18.3**
10	**public administration and defence**	**3,894**	**4,094**	**4,421**	**4,551**	**5,126**	**9.1**	**8.5**	**9.4**	**10.7**	**10.2**
11	**other services**	**2,980**	**3,001**	**3,453**	**3,087**	**3,970**	**6.9**	**6.2**	**7.3**	**7.2**	**7.9**
12	**Total GCF by industry of use**	**42,895**	**48,033**	**47,011**	**42,714**	**50,029**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

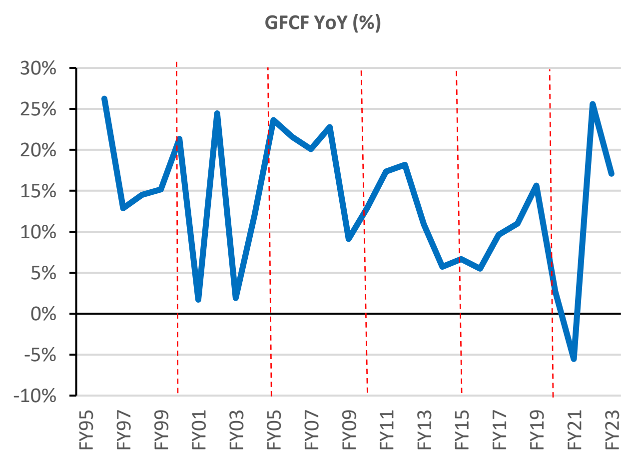
Source: CSO, PhillipCapital India Research

Union elections and Capex: We analysed the data of GFCF and government capex prior and post union elections. Below table reflects that capex dips prior to elections due to lack of decision making while it picks up post elections. <u>While we do expect similar effect in FY24, we view that this time BJP government is fighting elections on the agenda of development and infrastructure investment, thus we do not expect meaningful drop owing to union elections.</u> Additionally, previously announced massive capex will continue to see execution. The BJP government has been focussing on capex with an average growth of 32% from FY21-24 and targets 37% capex growth in FY24.

Government capex growth before union election trends



GFCF growth and union election trends



Source: CSO, Union Budget, PhillipCapital India Research

Some key points:

- Disinvestment target for FY24 seems achievable and is closer to the FY23RE.
- Government's focus on disinvestment, asset monetisation, and Gati Shakti plan will aid the investment cycle in India and remain positive.
- We continue to retain our long-term positive stance on infra sectors (roads, railways, construction, logistics, industrials, defence, cement, and steel); short-term nuances and stances will vary.
- The government's capital expenditure has been strong – a CAGR of 27% since FY19-23.
- We expect the government's capex to rise further in coming years.
- Private capex will see strong momentum.
- For FY24, we expect GFCF growth to be strong at 7-8% followed by 10% in FY25.
- GFCF will rise 11% in FY23; the share of GFCF to real GDP will improve to 34% in FY23 vs. 31%/33% FY22/23.

Private sector has already started investing more

The private sector showed enormous strength in its capex undertaking in FY23; we expect strong capex in the coming years as well. Capex for companies under PC's coverage stood at Rs 1,914bn in FY23; we expect it to average at Rs 1,857bn in FY24-25, which is healthier than the average Rs 1,761bn seen during FY18-20. Our detailed analysis shows that private-sector capex has started to fare well when compared with government capex as well as its own levels a few years ago. Similarly, select NIFTY500 companies also showed record high capex in FY23, with slight softening in FY24/25, but stronger than FY18-22 numbers.

Capex trends from CMIE show very clearly how the private sector has overtaken government capex consistently from Q3FY21 until date. This was never the case, except one-offs in previous years. Private new projects have shot up to as high as 77-92% in the first three quarters of FY23. Among government capex, central government took the lead, except Q2FY23, where state government projects took the lead.

Private-sector capex under implementation saw a gradual decline from 2012, while government capex supported the economy throughout. However, recent data – from Q3FY22 – shows that private capex implementation is slowly picking-up. Among government projects under implementation, the central-government led execution, with around 60% of the projects in FY23.

(1) Capex to remain resilient for the 121 companies under our coverage in FY24

For FY24, metals/auto/cement will contribute 37%/25%/10% to total capex. Capex was healthy and elevated in FY22/23 across most sectors. Analysing the FY22-24 CAGR, highest growth is evident in infrastructure (63%), followed by FMCG (32%), consumer durables (32%), capital goods (15%), cement (11%), oil & gas (10%) and specialty chemicals (9%). Logistics (3%) and metals & pipes (1%) saw softer growth while agri and pharma saw slight weakness.

FMCG (Nestle, Dabur), auto & anc (Apollo, Hero), capital goods (L&T), cement (ACC, Star cement), pharma (Aurobindo, Biocon), specialty chem (Aarti), metals (JSPL, Hindalco, SAIL), consumer durables (Havells, Bajaj), logistics (Container Corp, Aegis), oil & gas (Petronet) and pipe (Maharashtra Seamless) should see highest yoy increase in capex.

For FY25, Capex is estimated to remain strong considering high base of FY22-24. Capital goods, FMCG and Pharma sectors are expected to register decent FY23-25 CAGR growth while other sectors to slightly dip from the peaks.

Capex of select companies under PCI coverage

Sectors	Capex (Rs mn)					Annual growth			CAGR		
	FY21	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY19-22	FY22-24	FY23-25
FMCG	54,301	68,088	87,687	1,18,006	1,11,354	29%	35%	-6%	-12%	32%	13%
Agri	18,291	42,444	38,160	35,656	36,814	-10%	-7%	3%	3%	-8%	-2%
Auto & Anc	3,30,549	4,60,643	4,69,043	4,65,901	4,68,787	2%	-1%	1%	28%	1%	0%
Capital Goods	49,825	63,936	53,844	83,898	83,279	-16%	56%	-1%	-8%	15%	24%
Cement	96,675	1,60,454	2,20,372	1,97,156	1,97,127	37%	-11%	0%	-3%	11%	-5%
Infra	13,257	10,337	30,978	27,306	23,152	200%	-12%	-15%	-19%	63%	-14%
Pharma	1,10,818	1,28,644	88,683	1,16,876	1,03,016	-31%	32%	-12%	-9%	-5%	8%
Specialty Chem	30,532	41,412	46,967	48,795	45,579	13%	4%	-7%	24%	9%	-1%
Metals & Pipes	6,31,110	6,95,763	7,98,231	7,03,033	7,02,292	15%	-12%	0%	-9%	1%	-6%
Consumer durables	10,489	17,099	26,410	29,804	23,484	54%	13%	-21%	3%	32%	-6%
Logistics	13,786	20,506	21,789	21,917	19,100	6%	1%	-13%	6%	3%	-6%
Oil & Gas	12,957	24,500	32,000	29,500	22,000	31%	-8%	-25%	27%	10%	-17%
Total	**13,72,588**	**17,33,827**	**19,14,164**	**18,77,847**	**18,35,984**	**10%**	**-2%**	**-2%**	**-7%**	**4%**	**4%**

Source: Companies, PhillipCapital India Research

NIFTY500 capex: Minor decline, but over a strong base

Within NIFTY500, for the 294 companies for which data is available evenly till FY25 (excluding financials and IT), capex is likely to see a slight decline of 8% in FY24 over a significantly high base and strong growth seen in FY22/23. Energy (36%), materials (20%) and utilities (14%) should be the highest contributors to capex in FY24. Capex by utilities (9%), consumer discretionary (3%), and consumer staples (1%) could see slight growth over high base while industrials (-23%), communication services, energy (-10%) and materials (-5%) are likely to see a decline. A dip in industrial capex in FY24 is largely due to lower capex by Adani Enterprises, Adani Ports & SEZ, Indigo, Havells, and HAL.

Capex expectations for FY24/25 for these sectors are healthy and above allocations seen in FY18-22.

For FY25, capex is largely stable; there will be weakness in utilities (-20%) and materials (-7%) due to high base. However, consumer discretionary should continue with 6% higher capex. All other sectors will see marginal growth. Top performers in consumer discretionary will be Tata Motors, Apollo Tyres, Hero, and TVS. In utilities, NTPC and JSW Energy will drag, while in materials, it would be JSW Steel and Vedanta.

Capex of select NIFTY500 companies

Sectors	Capex (Rs mn)					Annual growth			
	FY21	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Health Care	138146	168431	247912	185860	184342	22%	47%	-25%	-1%
Materials	666752	985643	1307267	1246164	1162393	48%	33%	-5%	-7%
Consumer Discretionary	352995	417121	616609	634976	672271	18%	48%	3%	6%
Industrials	210981	337135	424701	325437	332583	60%	26%	-23%	2%
Consumer Staples	86761	121607	134668	136313	133951	40%	11%	1%	-2%
Utilities	512587	656148	790979	863019	686793	28%	21%	9%	-20%
Communication Services	336127	393743	664549	540990	539402	17%	69%	-19%	0%
Real Estate	28032	39685	52538	47645	48489	42%	32%	-9%	2%
Energy	2083080	2082409	2526096	2263600	2225160	0%	21%	-10%	-2%
Total	**4415460**	**5201922**	**6765317**	**6244003**	**5985382**	**18%**	**30%**	**-8%**	**-4%**

Source: Bloomberg, PhillipCapital India Research

(2) Infrastructure and capital goods companies' order book – decent expectations for FY24-25

We analysed the order inflows and outstanding order books of infra and capital goods companies (6 + 12 = 18) to gauge the capex execution in coming years. The current analysis is based on the analysts' estimates:

Order inflows to show mixed trends in FY24: Infra companies are expected to register some weakness in order inflows while capital goods companies are likely to see modest growth in FY24. However, these order inflows were still healthier than the previous years. Total order inflows to rise to Rs 4.5tn/4.6tn/5.1tn in FY23/24/25 (average growth of 7% in the next two years).

- **Infra companies** are likely to see a 5% fall in order inflows in FY24 after rising 80% on a favourable base in FY22. This should rebound 20% in FY25. In FY24, orders are likely to be higher for KNR and PNC while for FY25 NCC, KNR, PNC, Ahluwalia, and HG Infra could see higher orders; for GR Infra orders will be weak in both years.
- **NHAI** awarded 6,306kms of road construction orders in FY22, up a strong 32% yoy vs. 4,788/3,211 kms in FY21/20. We expect roads awarded to increase in FY23/24 as well.
- **Within the capital-goods space,** in terms of order inflows, infrastructure will continue to be the largest sector, followed by power and defence.
- Infrastructure sector order growth will soften to 14%/12% in FY24/25 after the strong 24% growth in FY23.
  - Defence orders, which are expected to close FY23 with a 2% decline, are likely to register significant growth of c.65% in FY24, followed by 9% in FY25.
  - The power sector will see 3%/7% orders in FY24/25 while power transmission to see 16%/15%.
  - Ordering also should be robust for electrical & automation (17%/14% in FY24/25), railways (13%/14%) and decent for hydrocarbon (6%/5%).
- Total order inflows are likely to grow 4%/10% in FY24/25 after 27% growth in FY23. BEL and BDL could see strong ordering in FY24 with growth softening in FY25. GE T&D will see stronger orders in FY24/25 while ABB, EIL, KEC, L&T and Thermax are likely to see healthy growth in FY24/25.
- **Order book (infra + capital goods):** We expect order book for infra and capital goods companies to grow by an average 9% in FY24-25 vs. 15% in FY23. It should stand at Rs 9.6tn in FY25 vs. Rs 8.1tn in FY23.

Order inflows and order book for infra and capital-goods companies

Order Inflows (Rs Bn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Infra	225	362	457	139	471	334	600	570	685
Capital goods	2418	2559	2809	2736	2502	3029	3852	4011	4430
Total	**2642**	**2921**	**3266**	**2875**	**2973**	**3363**	**4452**	**4581**	**5115**
Growth rate (yoy, %)									
Infra	-6.0	60.9	26.5	-69.6	238.6	-29.2	79.9	-5.0	20.2
Capital goods	-0.1	5.8	9.8	-2.6	-8.6	21.1	27.2	4.1	10.4
Total	**-0.7**	**10.5**	**11.8**	**-12.0**	**3.4**	**13.1**	**32.4**	**2.9**	**11.7**

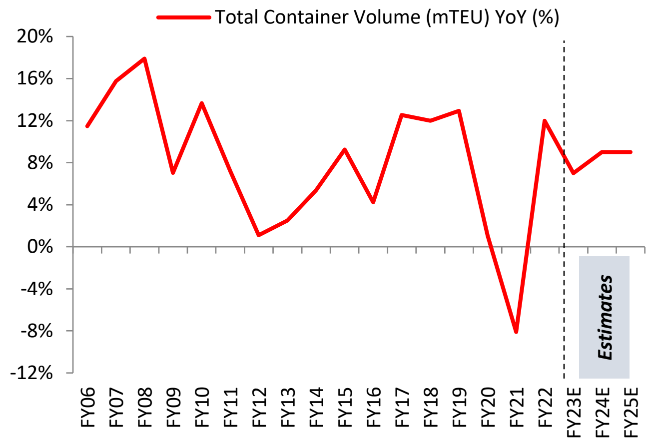
Order Book (Rs Bn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Infra	430	617	814	699	903	900	1106	1219	1392
Capital goods	4931	5007	5404	5547	5673	6158	7021	7631	8252
Total	**5361**	**5624**	**6218**	**6246**	**6577**	**7057**	**8128**	**8850**	**9644**
Incremental	**302**	**263**	**594**	**28**	**331**	**480**	**1070**	**723**	**794**
Growth rate (yoy, %)									
Infra	15.2	43.4	31.9	-14.2	29.3	-0.4	22.9	10.2	14.2
Capital goods	5.2	1.5	7.9	2.6	2.3	8.5	14.0	8.7	8.1
Total	**6.0**	**4.9**	**10.6**	**0.4**	**5.3**	**7.3**	**15.2**	**8.9**	**9.0**

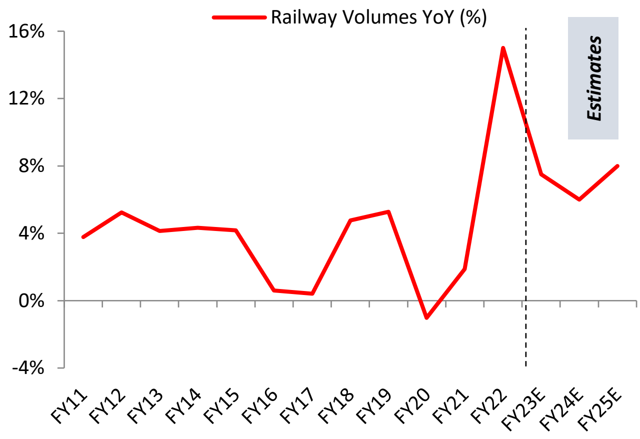
Source: Companies, PhillipCapital India Research

(3) Ports and railways data – government focussed on PM Gati Shakti

- **Container volumes** are expected to see 9% growth in FY24/25 vs. 7% growth in FY23.
- **Overall, port volume (all commodities)** is estimated to record a growth of 8% each in FY24/25 vs. 7% growth in FY23.
- **Railways volumes** to grow by 6%/8% in FY24/25 as compared to 8% growth in FY23.
- **Railways container volume** are estimated to jump to 11% in FY24 followed by 12% in FY25. FY23 volume growth stood at 8%.
- **Volume growth** likely for Concor at 18%/17% and GDL at 12%/16% in FY24/25. Growth expected at 12%/12% for Concor/GDL in FY23.

Port container volumes and railway volume



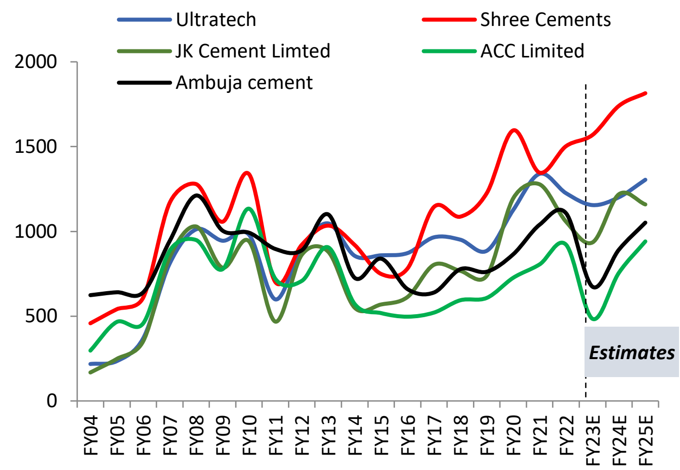


Source: Companies, PhillipCapital India Research

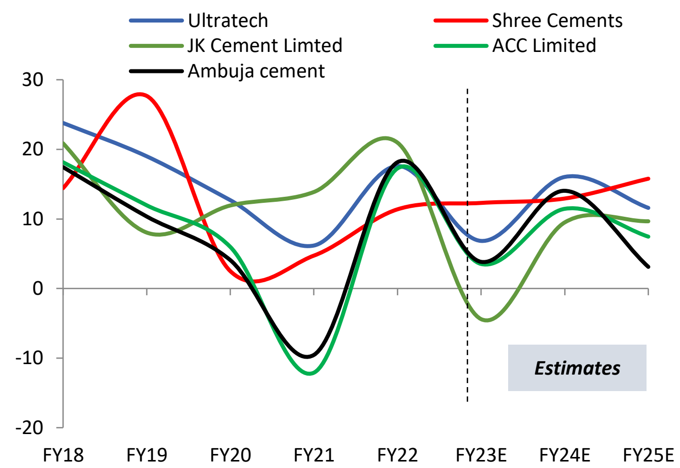
(4) Cement: Infrastructure-led growth in FY24, vigilant on pre-election softness

- For the 12 companies under our coverage, sales growth is expected to scale up in the range of 9-22% in FY24 (low growth in FY23); growth to remain strong at 10-17% in FY25 except for Ambuja and JK Lakshmi.
- Realizations for cement companies will inch up FY24-25 from a low base of FY23.
- While there is a risk on likely growth in the real estate sector in FY24 due to higher interest rates, infrastructure focus by the government should continue to provide support to the sector. Additionally, project sanctioning takes a backseat pre-union election; we will be vigilant about this.

Company-wise EBITDA/tonne (Rs)



Company-wise net sales (yoy growth, %)

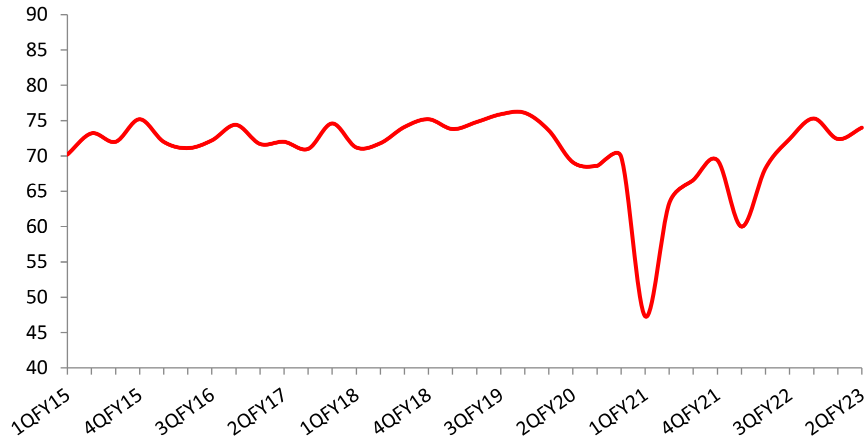


Source: Companies, PhillipCapital India Research

(5) Capacity utilisation at normal levels

- As of Q2FY23, capacity utilization picked up to 74% vs. 68% during the same period in the previous year. Utilization has also inched above its LTA.
- Expectation of stronger manufacturing in FY24 should further support improvement in utilization.

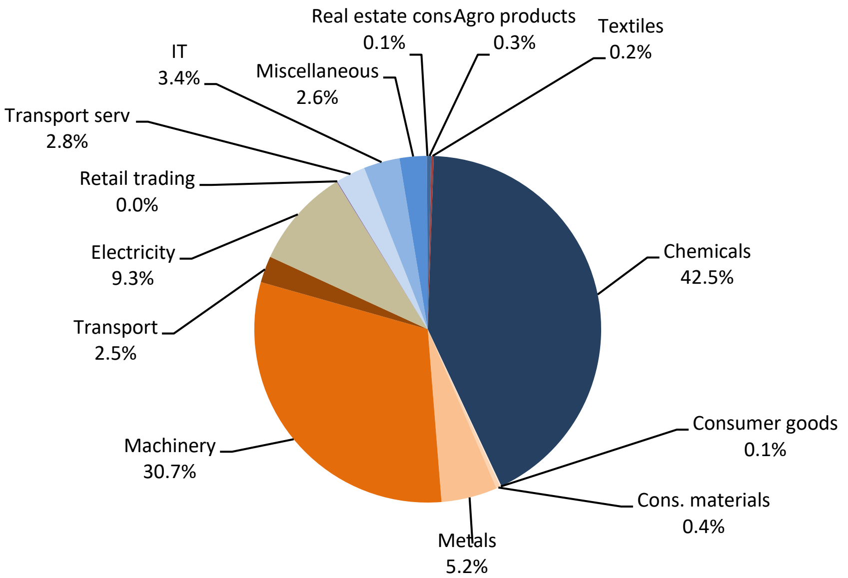
Capacity utilisation rates inching up (%)



Source: RBI, PhillipCapital India Research

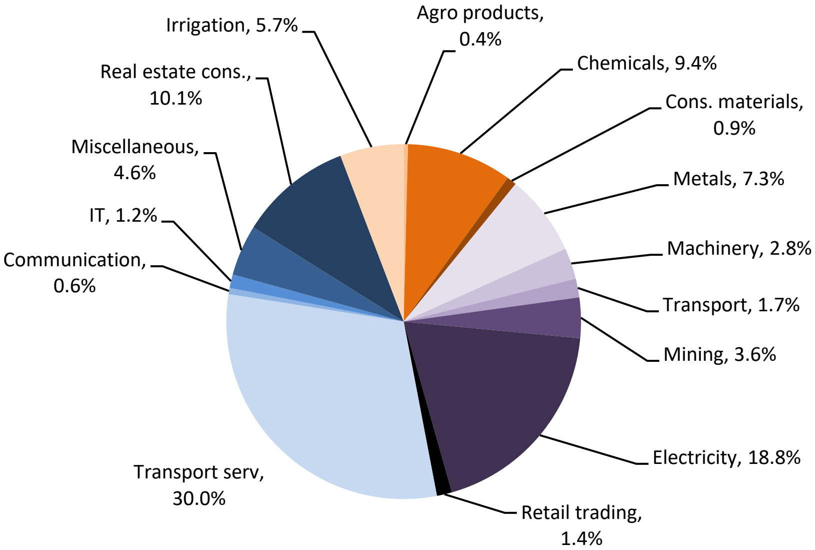
(6) CMIE capex – major chunk of new capex driven by private sector

Break-up of new projects (industry-wise): *New projects announced in FY23 saw healthy growth with Q3FY23 registering 59%/49% yoy/qoq growth. Sequentially higher project value was seen among chemical products, metals, machinery and transport equipment manufacturing.*



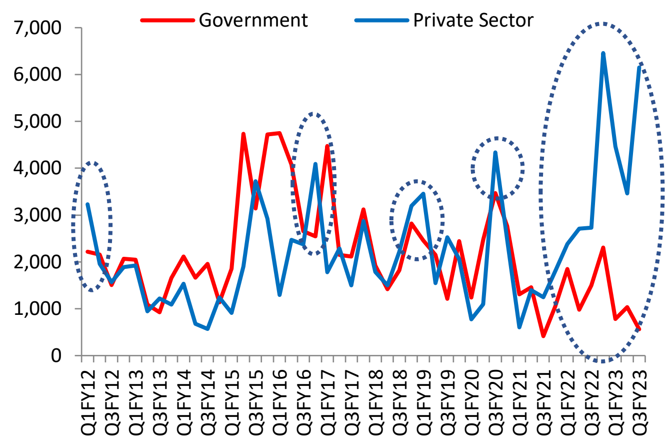
Source: CMIE, PhillipCapital India Research

Break-up of outstanding projects (industry-wise): *Sequentially, among manufacturing chemical products, metals, machinery and transport equipment has the largest outstanding projects as of Q3FY23. Other than manufacturing, transport services and electricity has the major share of outstanding projects.*

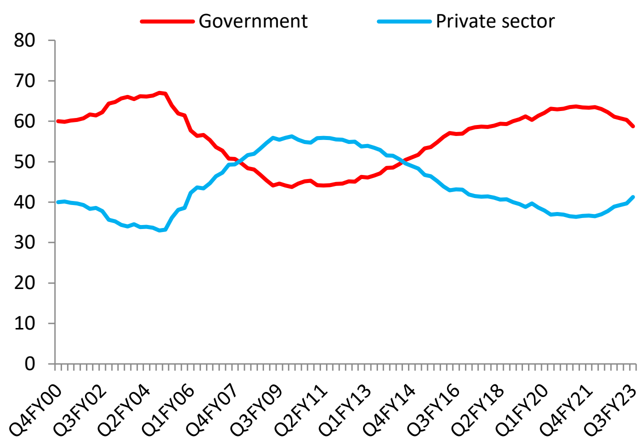


Source: CMIE, PhillipCapital India Research

New projects by government & private sector (Rs bn)

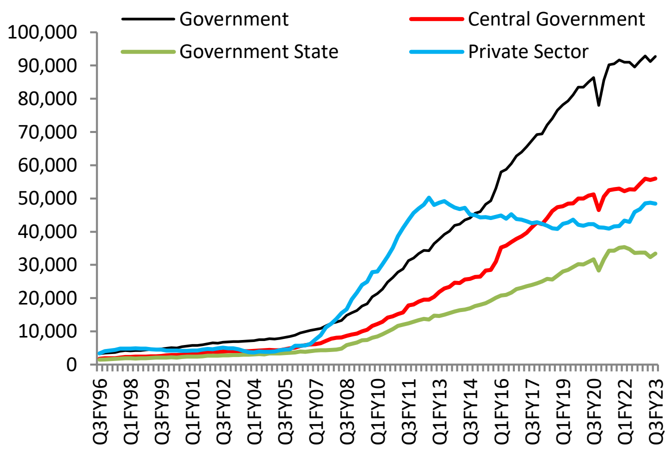


Share of government and private sector (outstanding projects)

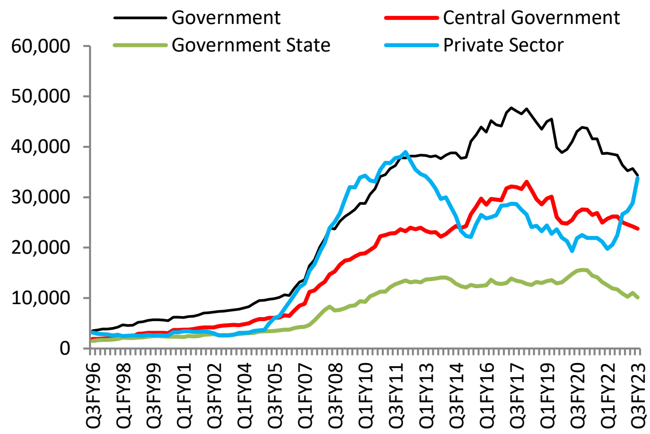


Source: CMIE, PhillipCapital India Research

Projects under implementation by government & private sector (Rs bn)



Projects announced by government & private sector (Rs bn)



Source: CMIE, PhillipCapital India Research

Government spending: Focus on capex, sustainability, and fiscal consolidation

Extremely robust capex allocation across the board
While the 2023 (FY24) Union Budget fared well across all categories, capex budgetary allocation for FY24 saw 37% yoy growth over 23% growth in FY23. Including IEBR, the capex growth is projected at 32%/10% yoy in FY24/23. Incremental capex allocation in FY24 is highest for railways, roads, infra spending by states, and energy; defence and housing are muted; additional allocation of Rs 550bn has been made towards OMCs and BSNL capital infusion. Considering capex + IEBR for core infrastructure spending (defence, road, railway, power, housing & urban affairs), growth is decent at 15% in FY24 vs. 19% in FY23.

Achieving fiscal deficit target of 4.5% by FY26 will be challenging for the government, considering soft growth scenario in FY24. While tax buoyancy is the underlying assumption, its upshot is not unlimited. FD targets for FY24/23 are at 5.9%/6.4%. Higher fiscal deficit has been keeping government borrowing elevated at Rs 12tn. We expect this, along with higher policy rates, to keep yields higher in the near future, until clarity emerges on RBI's rate-reduction path (likely by Q3-Q4 FY24).

Central government fiscal account

	Rs Bn				% of GDP				yoy growth (%)			
	FY22A	FY23BE	FY23RE	FY24BE	FY22A	FY23BE	FY23RE	FY24BE	FY22A	FY23BE	FY23RE	FY24BE
Nominal GDP	**236646**	**258000**	**273078**	**301751**					**19.5**	**9.0**	**15.4**	**10.5**
Revenue receipts	**21699**	**22044**	**23484**	**26323**	**9.2**	**8.5**	**8.6**	**8.7**	**32.8**	**1.6**	**8.2**	**12.1**
Tax (net)	18048	19348	20867	23306	7.6	7.5	7.6	7.7	26.5	7.2	15.6	11.7
Non – tax	3651	2697	2618	3017	1.5	1.0	1.0	1.0	75.8	-26.1	-28.3	15.2
Capital receipts	**16239**	**17405**	**18388**	**18708**	**6.9**	**6.7**	**6.7**	**6.2**	**-13.4**	**7.2**	**13.2**	**1.7**
Recovery of loans	247	143	235	230	0.1	0.1	0.1	0.1	25.6	-42.2	-5.0	-2.1
Other receipts (mainly PSU disinvestment)	146	650	600	610	0.1	0.3	0.2	0.2	-61.4	344.0	309.9	1.7
Borrowings and other liabilities	15845	16612	17553	17868	6.7	6.4	6.4	5.9	-12.9	4.8	10.8	1.8
Total receipts	**37938**	**39449**	**41872**	**45031**	**16.0**	**15.3**	**15.3**	**14.9**	**8.1**	**4.0**	**10.4**	**7.5**
Total revenue expenditure	**32009**	**31947**	**34590**	**35021**	**13.5**	**12.4**	**12.7**	**11.6**	**3.8**	**-0.2**	**8.1**	**1.2**
Total capital expenditure	**5929**	**7502**	**7283**	**10010**	**2.5**	**2.9**	**2.7**	**3.3**	**39.1**	**26.5**	**22.8**	**37.4**
Total expenditure	**37938**	**39449**	**41872**	**45031**	**16.0**	**15.3**	**15.3**	**14.9**	**8.1**	**4.0**	**10.4**	**7.5**
Fiscal deficit	**15845**	**16612**	**17553**	**17868**	**6.7**	**6.4**	**6.4**	**5.9**	**-12.9**	**4.8**	**10.8**	**1.8**
Revenue deficit	**10310**	**9902**	**11105**	**8699**	**4.4**	**3.8**	**4.1**	**2.9**	**-28.9**	**-4.0**	**7.7**	**-21.7**
Effective Revenue deficit	7884	6726	7850	4999	3.3%	2.6%	2.9%	1.7%	-35.3%	-14.7%	-0.4%	-36.3%
Primary deficit	7790	7205	8147	7068	3.3%	2.8%	3.0%	2.3%	-31.6%	-7.5%	4.6%	-13.2%
Gross Market Borrowing	9690	14950	14210	15430	6.4%	5%	4.5%	5.8%	-23.1	54.3	46.6	8.6
Net Market Borrowing	7041	11186	11082	11809	5.2%	4%	3.3%	4.3%	-31.8	58.9	57.4	6.6

Source: Budget Document, PhillipCapital India Research

Gross tax components

	Rs Bn				YoY Growth				% of GDP			
	FY22A	FY23BE	FY23RE	FY24BE	FY22A	FY23BE	FY23RE	FY24BE	FY22A	FY23BE	FY23RE	FY24BE
Gross Tax Revenue	**27093**	**27578**	**30431**	**33609**	33.7%	1.8%	12.3%	10.4%	11.4%	10.7%	11.1%	11.1%
Direct Tax	14083	14200	16500	18233	49%	1%	17%	11%	6.0%	5.5%	6.0%	6.0%
Personal Income Tax	6962	7000	8150	9006	43%	1%	17%	11%	2.9%	2.7%	3.0%	3.0%
Corporation Tax	7120	7200	8350	9227	56%	1%	17%	11%	3.0%	2.8%	3.1%	3.1%
Indirect tax	**13010**	**13378**	**13931**	**15376**	**20%**	**3%**	**7%**	**10%**	**5.5%**	**5.2%**	**5.1%**	**5.1%**
GST	6981	7800	8540	9566	27%	12%	22%	12%	3.0%	3.0%	3.1%	3.2%
Excise Duty	3946	3350	3200	3390	1%	-15%	-19%	6%	1.7%	1.3%	1.2%	1.1%
Customs Duty	1997	2130	2100	2331	48%	7%	5%	11%	0.8%	0.8%	0.8%	0.8%
Service Tax	10	20	10	5	-37%	98%	-1%	-50%	0.0%	0.0%	0.0%	0.0%

Source: Budget Document, PhillipCapital India Research

Non-tax and capital receipts break-up

Rs Bn	FY19	FY20	FY21	FY22A	FY23BE	FY23RE	FY24BE
Disinvestment	947	503	379	136	650	500	510
Telecom	408	698	455	858	528	688	895
Dividends	1134	1861	969	1606	1139	840	910
Public Enterprises	431	355	398	593	400	430	430
RBI & Financial institutions	704	1506	571	1014	739	410	480

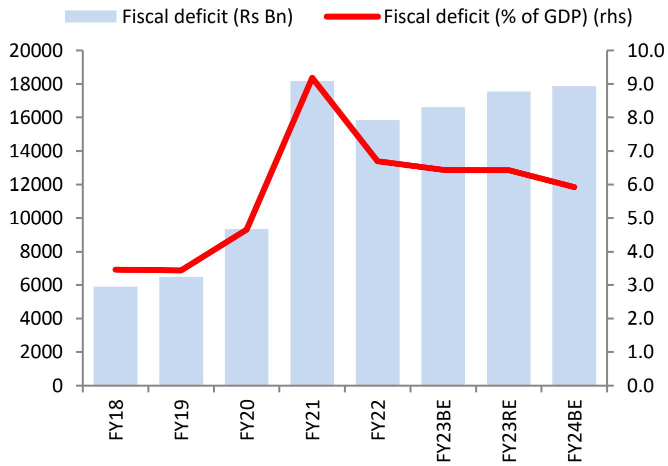
Source: Budget Document, PhillipCapital India Research

Subsidies break-up

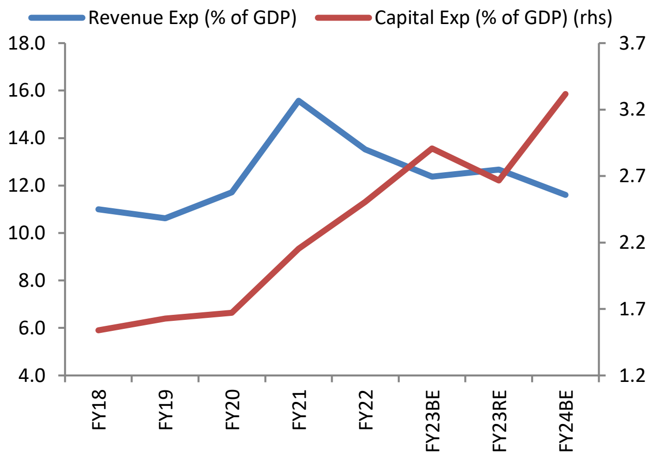
Rs Bn	FY19	FY20	FY21	FY22A	FY23BE	FY23RE	FY24BE
Subsidies	**2992**	**2623**	**7582**	**5039**	**3556**	**5621**	**4031**
Food	1013	1087	5413	2890	2068	2872	1974
Fertilisers	706	811	1279	1538	1052	2252	1751
Petroleum	248	385	385	34	58	92	23
Interest subsidies	227	237	302	413	247	375	276
Others	798	103	202	165	130	30	8

Source: Budget Document, PhillipCapital India Research

Central government fiscal deficit

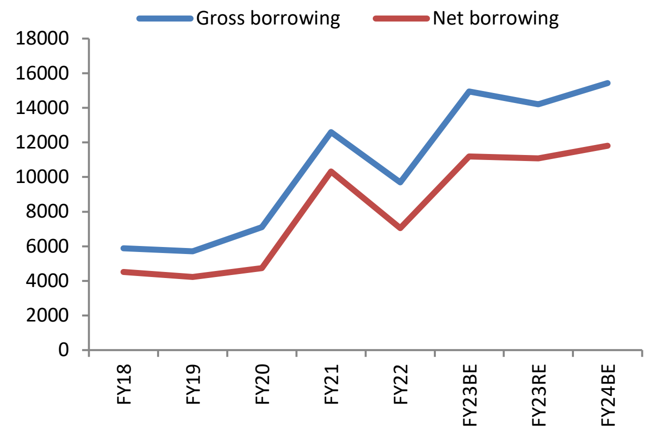


Revenue and capital expenditure (% of GDP)

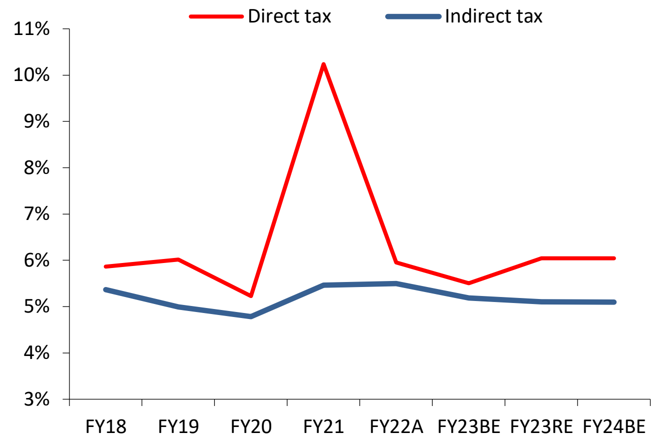


Source: Budget Document, PhillipCapital India Research

Gross and net market borrowing (Rs bn)

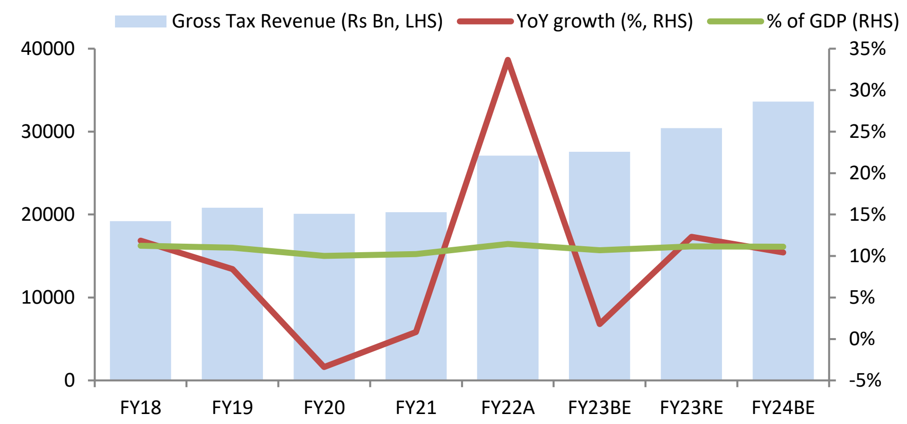


Direct and indirect tax (% of GDP)



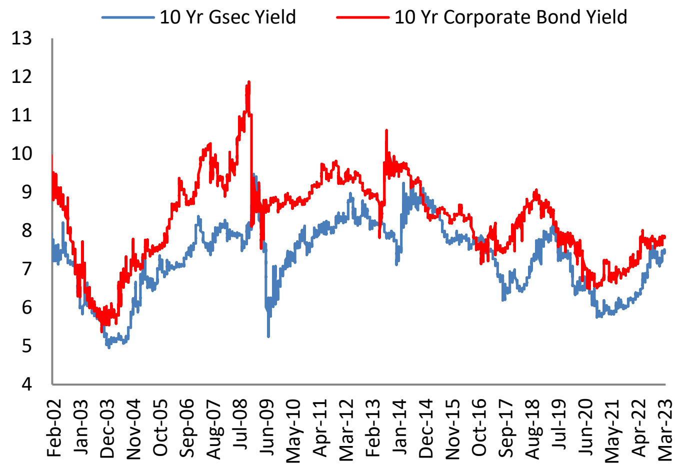
Source: Budget Document, PhillipCapital India Research

Gross tax revenue

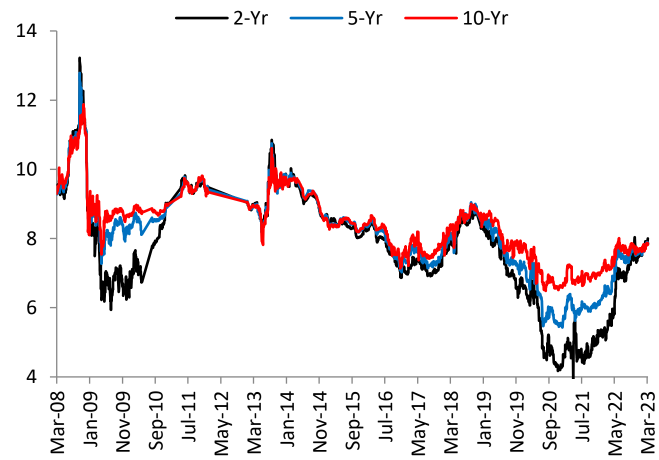


Source: Budget Document, PhillipCapital India Research

India's bond yield curve (%)



G-sec bond yield curve (%)



Source: RBI, CSO, Bloomberg, PhillipCapital India Research

Scheme-wise outlay (comparing with FY23): Sharply higher outlay for drinking water

FY24 vs. FY23 comparison

Up: National Rural Drinking Water Mission (Rs 150bn), construction of new railway line (Rs 69bn), National Education Mission (Rs 63bn), Swachh Bharat Mission (Rs 52bn), metro projects (Rs39bn), National Health Mission (Rs 31bn), Pradhan Mantri Krishi Sinchai Yojana (Rs 27bn), Pradhan Mantri Awas Yojna (Rs 25bn), National Ganga plan (Rs 15bn), police infrastructure (Rs 14bn), road safety works (Rs 14bn), modernisation of police forces (Rs 13bn), crop insurance scheme (Rs 12bn), Urban Rejuvenation Mission: AMRUT (Rs 7bn), Interest Equalisation Scheme (Rs 6bn), Saksham Anganwadi and POSHAN 2.0 (Rs 3bn), National Livelihood Mission (Rs 2bn), Prime Minister Employment Generation Program (Rs 2bn) and Rashtriya Krishi Vikas Yojna (Rs 2bn).

Down: Food subsidy to FCI under Food Security Act (Rs 775bn), MNREGA (Rs 294bn), nutrient-based subsidy (Rs 271bn), urea subsidy (Rs 230bn), food subsidy for decentralized procurement under NFSA (Rs 125bn), Pradhan Mantri Swasthya Suraksha Yojana (Rs 49bn), Pradhan Mantri Poshan Shakti Nirman (Rs 12bn).

Outlay on major schemes

(Rs bn)	FY22A	FY23BE	FY23RE	FY24BE
Food Subsidy to Food Corporation of India under NFSA	2,089	1,459	2,147	1,372
Urea Subsidy	1,010	632	1,541	1,311
Pradhan Mantri Awas Yojna	900	480	771	796
National Rural Drinking Water Mission/ Jal Jeevan Mission	631	600	550	700
MNREGA	985	730	894	600
PM Kisan	668	680	600	600
Food Subsidy for Decentralized Procurement under NFSA	798	606	723	598
Nutrient Based Subsidy	528	420	711	440
National Education Mission	253	396	326	390
National Health Mission (NHM)	330	378	337	368
Construction of New Lines	208		249	319
Saksham Anganwadi and POSHAN 2.0	184	203	203	206
MRTS and Metro Projects	233		156	195
Pradhan Mantri Gram Sadak Yojna	140	190	190	190
Urban Rejuvenation Mission : AMRUT	139	141	153	160
National Livelihood Mission-Ajeevika	102	142	139	141
Crop Insurance Scheme	135	155	124	136
Swachh Bharat Mission (SBM)	51	95	70	122
Pradhan Mantri Poshan Shakti Nirman		102	128	116
Pradhan Mantri Krishi Sinchai Yojana	113	130	81	108
National Social Assistance prog	82	97	97	96
Road Safety Works	47		68	81
SBM: Rural	31	72	50	72
Rashtriya Krishi Vikas Yojna		104	70	72
SBM: Urban	20	23	20	50
Namami Gange-National Ganga Plan		28	25	40
Modernisation of Police Forces	33	28	24	38

Source: Budget Document, PhillipCapital India Research

Ministry-wise government expenditure: Highest incremental outlay towards major ministries was for – railways, new & renewable energy, water resources, MSME, MeITY, drinking water, road transport, petroleum and telecom. Additional allocation of Rs 550bn was made towards OMCs and BSNL capital infusion.

Government spending in FY24 is higher by Rs 3,159bn vs. FY23.

Where will money be spent in FY24? Share of additional spending: Interest payments (44%), transport (40%), transfer to states (17%), energy (8%), defence (7%), IT & telecom (6%), education/health (4%), and home affairs/social welfare/agriculture (3%). Expenditure contracted by 28% for subsidies with allocation for food subsidy lower by Rs 898bn, fertiliser subsidy (Rs 501bn) and petroleum subsidy (Rs 69bn).

GoI expenditure break-up

	Rs Bn				YoY Growth				of total expenditure			
	FY22A	FY23BE	FY23RE	FY24BE	FY22A	FY23BE	FY23RE	FY24BE	FY22A	FY23BE	FY23RE	FY24BE
Pension	1,989	2,071	2,448	2,344	-4.6	4.1	23.0	-4.3	5.2	5.3	5.8	5.2
Defence	3,665	3,854	4,095	4,327	7.8	5.1	11.7	5.7	9.7	9.8	9.8	9.6
Subsidy												
Fertiliser	1,538	1,052	2,252	1,751	20.2	-31.6	46.5	-22.3	4.1	2.7	5.4	3.9
Food	2,890	2,068	2,872	1,974	-46.6	-28.4	-0.6	-31.3	7.6	5.2	6.9	4.4
Petroleum	34	58	92	23	-91.1	69.8	167.9	-75.4	0.1	0.1	0.2	0.1
Agriculture and Allied Activities	1,433	1,515	1,363	1,442	6.6	5.7	-4.9	5.8	3.8	3.8	3.3	3.2
Commerce and Industry	471	531	375	482	118.4	12.8	-20.2	28.3	1.2	1.3	0.9	1.1
Development of North East	27	28	28	59	43.1	5.5	3.8	113.9	0.1	0.1	0.1	0.1
Education	804	1,043	999	1,129	-4.6	29.8	24.3	13.0	2.1	2.6	2.4	2.5
Energy	537	492	709	949	64.1	-8.3	32.1	33.8	1.4	1.2	1.7	2.1
External Affairs	141	173	170	181	-1.3	21.9	20.0	6.3	0.4	0.4	0.4	0.4
Finance	574	214	179	136	54.9	-62.8	-68.8	-24.2	1.5	0.5	0.4	0.3
Health	841	866	774	890	5.1	3.0	-8.0	15.0	2.2	2.2	1.8	2.0
Home Affairs	1,123	1,270	1,249	1,349	16.2	13.1	11.2	8.0	3.0	3.2	3.0	3.0
Interest	8,055	9,407	9,407	10,800	18.5	16.8	16.8	14.8	21.2	23.8	22.5	24.0
IT and Telecom	251	799	741	935	-23.6	218.9	195.8	26.1	0.7	2.0	1.8	2.1
Others	1,084	1,133	1,081	1,205	17.9	4.5	-0.3	11.5	2.9	2.9	2.6	2.7
Planning and Statistics	38	57	62	63	18.3	52.4	65.4	1.0	0.1	0.1	0.1	0.1
Rural Development	2,288	2,063	2,433	2,382	6.8	-9.8	6.4	-2.1	6.0	5.2	5.8	5.3
Scientific Departments	278	306	256	322	25.7	10.1	-7.7	25.8	0.7	0.8	0.6	0.7
Social Welfare	406	518	465	551	8.1	27.6	14.6	18.4	1.1	1.3	1.1	1.2
Tax Administration	1,771	1,717	1,773	1,947	21.0	-3.1	0.1	9.8	4.7	4.4	4.2	4.3
of which transfer to GST compensation fund	1,108	1,200	1,300	1,450	4.2	8.3	17.3	11.5	2.9	3.0	3.1	3.2
Transfer to States	2,746	3,343	2,709	3,246	29.8	21.8	-1.3	19.8	7.2	8.5	6.5	7.2
Transport	3,322	3,519	3,905	5,170	53.2	5.9	17.5	32.4	8.8	8.9	9.3	11.5
Union Territories	565	588	690	611	18.7	4.0	22.2	-11.5	1.5	1.5	1.6	1.4
Urban Development	1,068	765	745	764	128.8	-28.4	-30.2	2.5	2.8	1.9	1.8	1.7
Grand Total	**37,938**	**39,449**	**41,872**	**45,031**	**8.1**	**4.0**	**10.4**	**7.5**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Budget Document, PhillipCapital India Research

Total Expenditure = Revenue + Capital + IEBR

Highest expenditure by the government is incurred towards interest payments, followed by food subsidy, transfer to states, railways, roads, defence and rural/agriculture/fertilizer and petroleum. For FY24, adding budgetary allocations and IEBR, capex growth is at 32%. NHAI has seen second year of shift from IEBR funding to budgetary capex. Switch to budgetary allocations from IEBR could imply higher chances of spending/funding and lesser burden on institutions.

Total department-wise expediture (revenue + capital + IEBR)

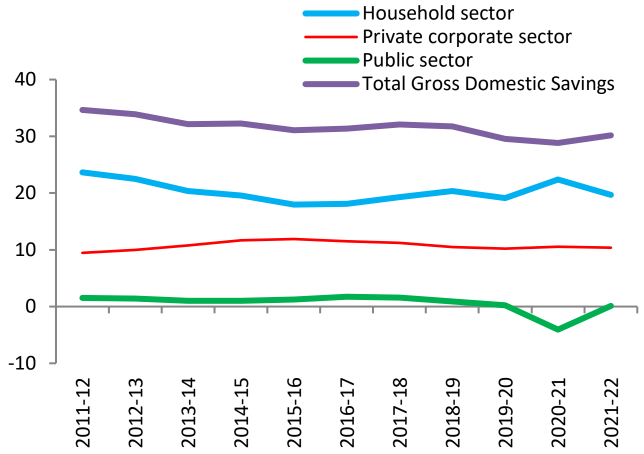
Rs Bn	FY22A				FY2eBE				FY23RE				FY24BE			
Ministry/ Department	**Rev**	**Capital**	**IEBR**	**Total**	**Rev**	**Capital**	**IEBR**	**Total**	**Rev**	**Capital**	**IEBR**	**Total**	**Rev**	**Capital**	**IEBR**	**Total**
Interest Payments	8055	...		**8055**	9407	...		**9407**	9407	...		**9407**	10800	...		**10800**
Food and Public Distribution	3017	26	612	**3655**	2139	20	877	**3037**	2943	20	553	**3516**	2054	2	1454	**3509**
Transfers to States	2520	225		**2746**	2224	1119		**3343**	1855	854		**2709**	1873	1374		**3246**
Railways	180	1173	734	**2086**	33	1371	1085	**2489**	32	1591	959	**2583**	13	2400	528	**2941**
Road Transport and Highways	102	1133	652	**1887**	114	1877	0	**1991**	107	2063	8	**2178**	118	2586	0	**2704**
Defence Services (Revenue)	2286	...		**2286**	2330	...		**2330**	2595	...		**2595**	2701	...		**2701**
Fertilisers	1537	1	5	**1543**	1053	0	6	**1059**	2253	...	9	**2261**	1751	0	12	**1763**
Capital Outlay on Defence Serv	0	1380		**1380**	0	1524		**1524**	0	1500		**1500**	0	1626		**1626**
Rural Development	1604	...	0	**1604**	1359	...	0	**1359**	1811	...	0	**1811**	1575	0	0	**1575**
Petroleum and Natural Gas	54	3	1067	**1124**	83	6	1114	**1203**	338	0	838	**1176**	55	355	1064	**1474**
Revenue	1119	0	0	**1119**	1212	0	0	**1212**	1312	0	0	**1312**	1462	1	0	**1463**
Defence Pensions	1168	...		**1168**	1197	...		**1197**	1534	...		**1534**	1382	...		**1382**
Police	994	72		**1066**	1072	105		**1177**	1102	89		**1191**	1159	118		**1278**
Agri., Coop and Farmers' Welfare	1145	0		**1145**	1240	0		**1240**	1102	1		**1103**	1155	0		**1155**
Telecommunications	285	33	72	**390**	304	542	3	**849**	446	372	55	**873**	359	617	66	**1042**
Housing and Urban Affairs	809	259	100	**1168**	492	273	179	**944**	509	237	194	**940**	504	260	170	**934**
Health and Family Welfare	787	31	5	**823**	774	56	1	**831**	728	36	1	**764**	809	53	1	**862**
Power	188	28	481	**697**	161	0	515	**675**	131	0	529	**660**	207	0	608	**815**
Drinking Water and Sanitation	663	...	0	**663**	672	...	0	**672**	600	...	0	**600**	772	0	0	**772**
Pensions	646	...		**646**	658	...		**658**	673	...		**673**	717	...		**717**
School Education and Literacy	468	...	0	**468**	634	...	0	**634**	591	...	0	**591**	688	0	0	**688**
New and Renewable Energy	40	26	159	**225**	69	0	286	**355**	70	0	275	**346**	102	0	378	**481**
Higher Education	335	0	0	**336**	408	0	0	**408**	408	0	0	**409**	441	0	0	**441**
Indirect Taxes	569	7		**576**	397	14		**411**	357	9		**367**	363	22		**385**
Atomic Energy	73	153	91	**317**	84	143	118	**345**	128	131	109	**369**	91	160	131	**381**
Jammu & Kashmir	347	...		**347**	356	...		**356**	445	...		**445**	356	...		**356**
Posts	189	9	0	**197**	199	9	0	**208**	222	15	0	**237**	244	14	0	**258**
Defence (Misc.)	105	68	29	**202**	121	80	28	**229**	139	80	28	**247**	138	88	31	**257**
Women and Child Development	217	...		**217**	252	0		**252**	239	0		**239**	254	0		**254**
Micro, Small and Medium Enterprises	148	2	0	**150**	209	5	3	**217**	152	5	2	**159**	215	6	3	**224**
Coal	6	...	197	**202**	4	...	214	**218**	1	...	210	**211**	2	0	210	**212**
Water Resources, develop	170	2	0	**172**	185	4	0	**190**	137	3	0	**140**	197	4	0	**201**
External Affairs	133	9		**141**	158	14		**173**	158	12		**170**	165	15		**181**
Electronics and Information Technology	78	4		**81**	139	4		**143**	114	3		**117**	162	4		**165**
Social Justice and Empowerment	73	1	5	**79**	117	2	0	**119**	115	1	5	**121**	127	1	6	**135**
Labour and Employment	240	0		**240**	168	0		**169**	161	0		**161**	132	0		**132**
Space	56	69	0	**125**	62	75	0	**137**	60	46	0	**105**	62	64	0	**125**
Tribal Affairs	62	...		**62**	84	1		**85**	73	0		**73**	124	0		**125**
Economic Affairs	45	77		**123**	61	84		**145**	68	49		**117**	63	46		**109**
Steel	0	...	101	**102**	0	...	132	**132**	1	...	116	**116**	1	0	103	**104**
Direct Taxes	75	2		**77**	89	4		**93**	88	7		**94**	83	16		**99**
Agricultural Research and Edu	84	...		**84**	85	...		**85**	87	...		**87**	95	0		**95**
Industrial Policy and Promotion	66	17		**83**	70	13		**83**	54	14		**67**	65	17		**82**
Science and Technology	51	1		**51**	59	1		**60**	49	0		**49**	78	1		**79**
Civil Aviation	50	669	0	**719**	106	1	46	**152**	93	1	42	**136**	30	1	34	**66**
Heavy Industry	10	1	3	**14**	32	1	3	**36**	32	0	3	**35**	61	0	3	**65**
Home Affairs	41	3		**44**	74	2		**76**	42	2		**44**	55	4		**59**
Development NE Region	20	7	0	**27**	21	7	0	**28**	20	7	0	**28**	18	41	0	**59**
Shipping	9	6	32	**47**	11	6	45	**62**	11	7	31	**49**	12	11	36	**59**
Indian Audit and Accounts	50	0		**50**	56	0		**56**	55	2		**56**	57	1		**58**
Scientific and Industrial Research	51	0	0	**51**	56	0	0	**56**	59	0	0	**59**	57	0	0	**57**
Statistics and Programme Implementation	27	0		**27**	54	0		**54**	52	0		**52**	54	0		**54**
Information and Broadcasting	37	0	2	**39**	40	0	2	**42**	42	0	4	**46**	47	0	4	**50**
Textiles	109	1		**111**	124	0		**124**	35	0		**36**	44	0		**44**
Others	817	429	30	**1277**	826	137	38	**1001**	740	122	39	**901**	859	101	36	**996**
Total	**32009**	**5929**	**4376**	**42314**	**31938**	**7502**	**4694**	**44135**	**34575**	**7281**	**4011**	**45867**	**35010**	**10010**	**4877**	**49897**

Source:Budget documents, PhillipCapital India Research

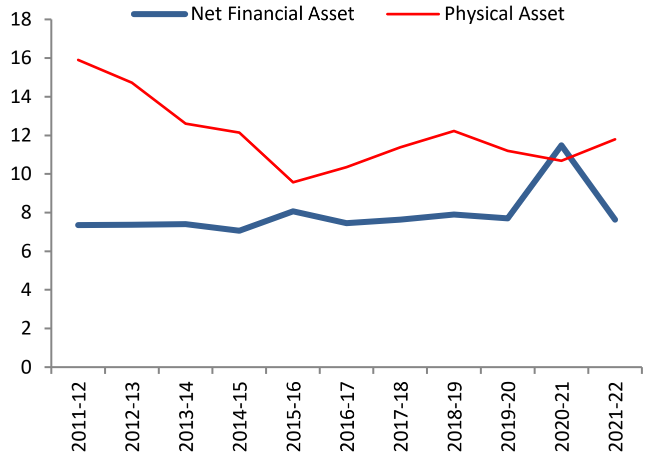
Savings – inched up led by corporates and HH

- Savings rate for FY22 increased to 30% vs. 29% in FY21 (up 24% yoy), led by higher corporate profits, decent household savings, and lower fiscal deficit.
- Household savings saw a softer 4% growth in FY22, so its share as % of GDP decreased to 20% from 22% in FY21 – due to a 21% decline in household financial savings, even as physical assets and gold and silver saw healthy growth. While financial savings have dipped in FY22 to 7.6% of GDP from 11.5% in FY21, in value terms, they were above pre-covid levels.
- Private corporate savings saw significant 16% growth after a weak average 3% growth in FY19-22. Public sector savings swung back into positive territory due to lower fiscal deficit.
- <u>The savings rate should rise for FY23 for all three segments – HH (household), corporate, and the public sector – and remain stable for FY24. Within household savings, both physical and financial savings should inch up.</u>

Savings and its break up (as % of GDP) – HH savings dip with weak financial savings



Physical and financial savings (% of GDP) – physical assets inched higher



Source: CSO, PhillipCapital India Research

Balance of payments: Merchandise trade to weaken; export potential to swing back in FY25

Global slowdown to weaken merchandise trade
We expect exports to decline by 14% in FY24 and rebound with 12% growth in FY25. Dismissible growth seen in exports in FY23 will be followed by significant weakness in FY24 exports due to recessionary pressures across advanced economies. Softening in world trade to put pressure on Indian exports opportunities. Benefits from PLI and FTAs will become more evident from FY25, as trade activity normalises. Imports have remained robust in FY23 due to domestic resilience in economic activity (FY23E: 14% growth). Imports are projected to decline by 15% in FY24 and register 10% growth in FY25. Both imports and exports value will be tad lower than FY23 levels in FY25 due to peak commodity prices in FY23.

Lower commodity prices and weak trade activity is estimated to lead to a 17% fall in trade deficit in FY24. Additionally, buoyancy in software services and remittances will support lowering of CAD from current levels. **We estimate FY23/24/25 CAD at 2.8%/1.2%/1.1%. Capital inflows are likely to decline in FY24, primarily due to weak external borrowing while NRI deposits and FDI will be nearly stable/will see slight growth**.

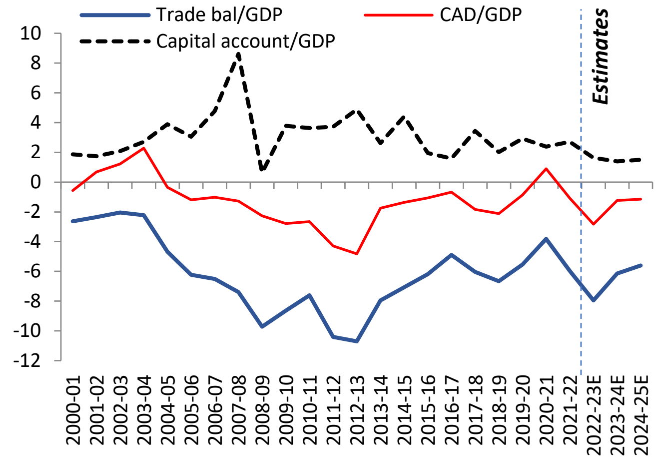
Due to Fed-rate tightening, DXY range of 100-110, lower India CAD, muted flows, we forecast USD-INR range at 80-84 for FY24. We expect appreciation in FY25, assuming better domestic economic health.

External sector account and estimates

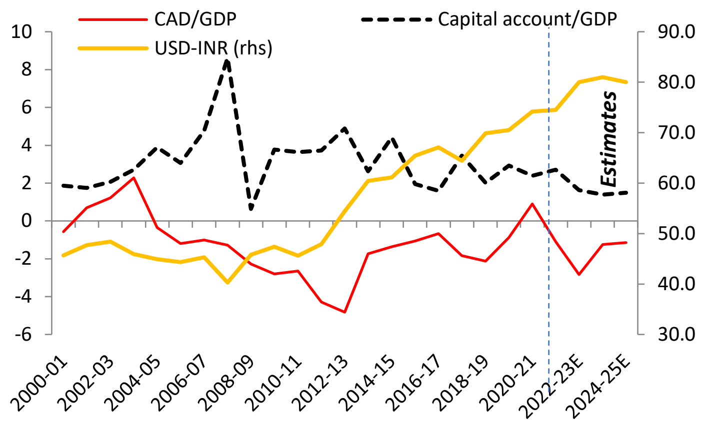
	USD Bn				YoY growth			% of GDP			
	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Exports	**429.2**	**433.5**	**372.8**	**417.5**	**1.0**	**-14.0**	**12.0**	**13.5**	**12.7**	**10.1**	**9.7**
Imports	**618.6**	**705.2**	**599.4**	**659.4**	**14.0**	**-15.0**	**10.0**	**19.5**	**20.7**	**16.3**	**15.3**
Oil Imports	164.6	212.1	171.5	185.0	28.9	-19.1	7.9	5.2	6.2	4.7	4.3
Non-oil imports	454.0	493.1	427.9	474.4	8.6	-13.2	10.9	14.3	14.4	11.6	11.0
Trade deficit	**-189.5**	**-271.8**	**-226.7**	**-241.9**	**43.4**	**-16.6**	**6.7**	**-6.0**	**-8.0**	**-6.1**	**-5.6**
Net Invisibles	**155.0**	**175.2**	**180.8**	**192.6**	**13.0**	**3.2**	**6.5**	**4.9**	**5.1**	**4.9**	**4.5**
Software services	109.5	122.7	127.6	134.0	12.0	4.0	5.0	3.4	3.6	3.5	3.1
Remittances	81.2	91.0	93.7	94.6	12.0	3.0	1.0	2.6	2.7	2.5	2.2
Investment income	-37.3	-40.0	-42.0	-37.0	7.3	5.0	-11.9	-1.2	-1.2	-1.1	-0.9
Current Account Surplus/Deficit	**-34.5**	**-96.6**	**-45.9**	**-49.3**	**180.4**	**-52.5**	**7.4**	**-1.1**	**-2.8**	**-1.2**	**-1.1**
Foreign investment	21.8	28.0	44.0	50.0	28.4	57.1	13.6	0.7	0.8	1.2	1.2
FDI	38.6	35.0	37.0	40.0	-9.3	5.7	8.1	1.2	1.0	1.0	0.9
FII	-16.8	-7.0	7.0	10.0	-58.3	-200.0	42.9	-0.5	-0.2	0.2	0.2
External borrowing	33.6	13.5	1.0	8.5	-59.8	-92.6	750.0	1.1	0.4	0.0	0.2
ECB	8.1	-5.0	-5.0	2.5	-	0.0	-150.0	0.3	-0.1	-0.1	0.1
Short-term trade credit	20.1	15.0	3.0	3.0	-25.4	-80.0	0.0	0.6	0.4	0.1	0.1
Banking Capital	6.7	13.0	5.0	5.0	94.9	-61.5	0.0	0.2	0.4	0.1	0.1
NRI deposits	3.2	5.0	5.0	0.0	54.6	0.0	-100.0	0.1	0.1	0.1	0.0
Capital Account	**85.8**	**55.5**	**51.0**	**64.5**	**-35.3**	**-8.1**	**26.5**	**2.7**	**1.6**	**1.4**	**1.5**

Source: Ministry of Commerce, RBI, PhillipCapital India Research

External sector indicators (% of GDP)

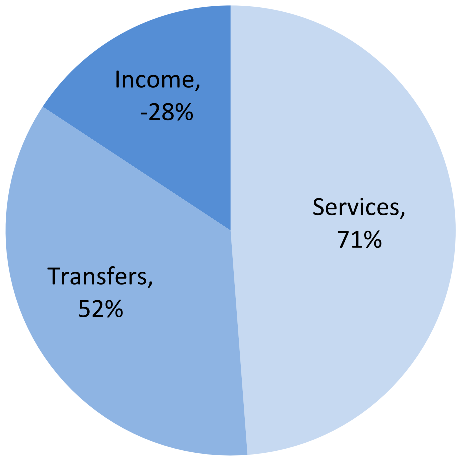


Currency response to external sector indicators

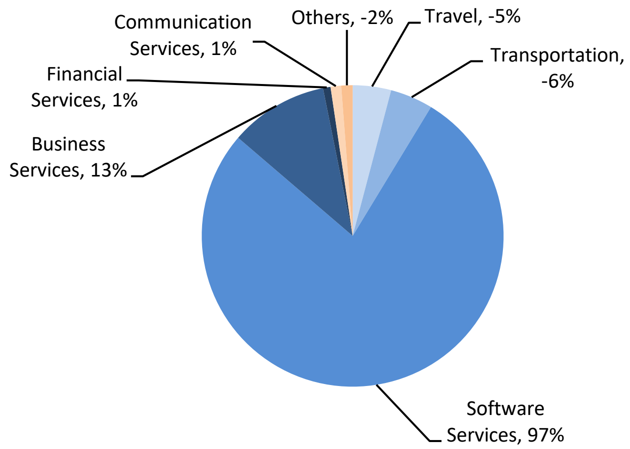


Source: Ministry of Commerce, RBI, PhillipCapital Research

Net invisibles break-up (FYTD23 September, % of total)

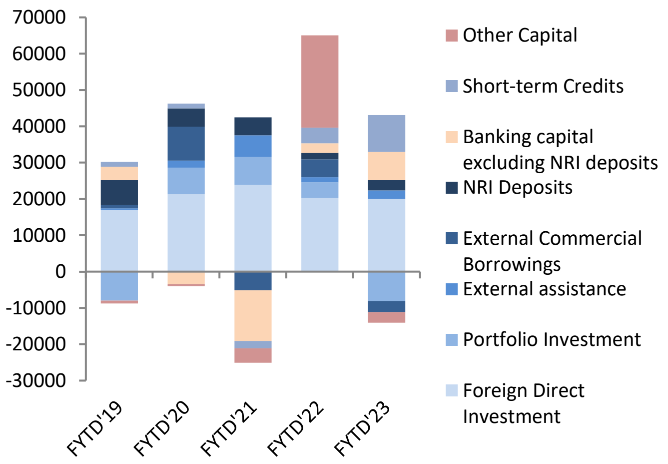


Break-up of services trade (under invisibles), FYTD 23

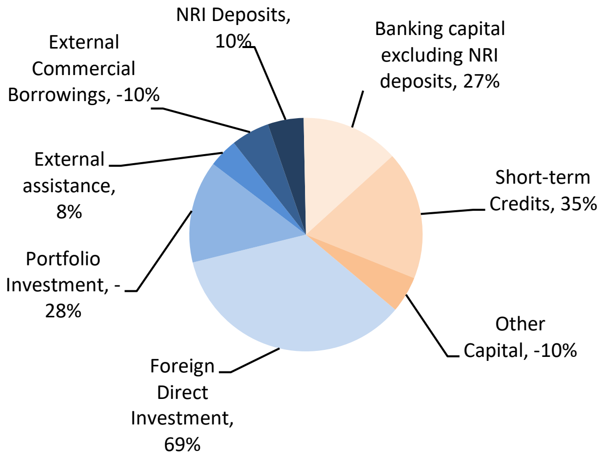


Source: RBI, PhillipCapital India Research

BoP capital flows for Apr-Sep for the respective financial year



Capital flows (FYTD23 September, % of total)



Source: RBI, PhillipCapital India Research

Top commodities by exports (FYTD, April to December 2022)

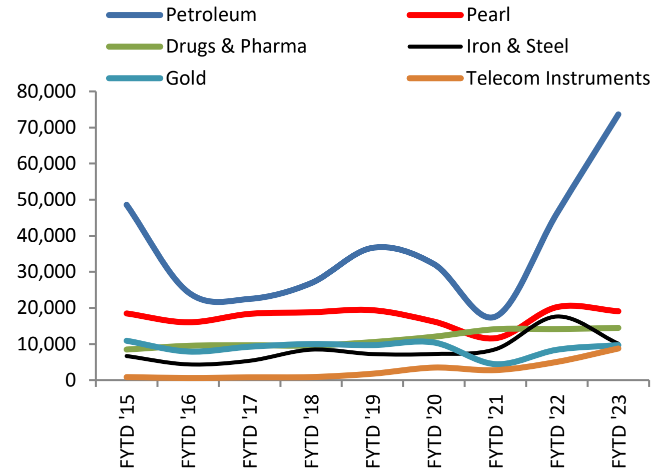
Exports: Continued to trend upwards with 10% yoy growth in FYTD'23 over the rebound of 52% in FYTD'22. War and associated global demand softness has impacted Indian exports' opportunity in the near-term.

Strong: Petroleum exports' share soared to 22% of total exports from 15% in the previous year with 59% yoy growth. Telecom instruments saw consistent strong growth in FY20-23, except for a covid-led dip in FY21; its share surged from less than 1% before FY19 to around 3% – with robust 74% growth in FYTD23. Products of iron & steel saw 17% growth followed by gold (15%) and electrical machinery (11%).

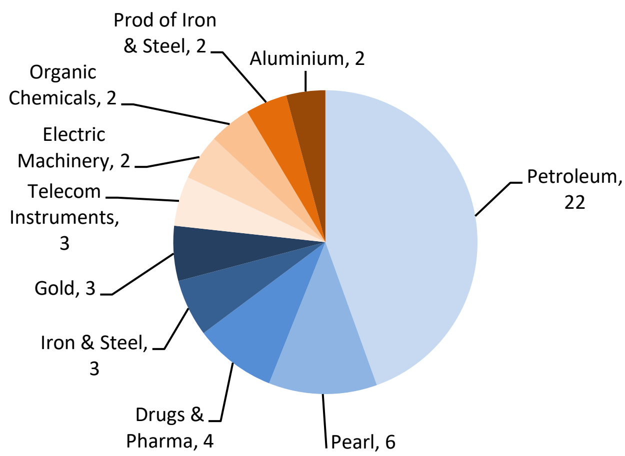
Weak: Iron & steel exports declined by 43% after 106% growth in the previous year driving their share lower to 3% from 6% in the previous year. Organic chemicals saw -10% contraction followed by aluminium (-8%) and pearls (-6%).

Stable: Drugs & pharma exports saw 2% growth yoy after remaining stable in the previous year; still above FYTD20 levels.

Top commodities by exports (YTD FY23, USD mn)



Top-10 exports commodities (YTD FY23, %)



Source: Ministry of Commerce, PhillipCapital India Research

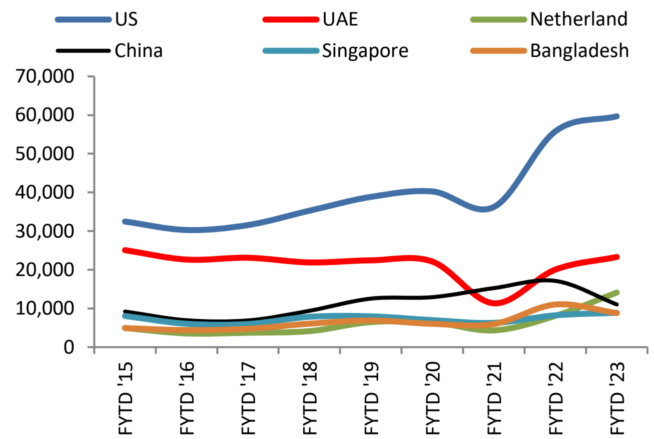
Top countries by exports (FYTD, April to December 2022)

Exports: Exports to top-10 countries have improved from the previous year, except to China and Bangladesh. US continued to be the leading exports partner with 18% share in total exports. Exports to UAE improved their share slightly, as FTA came in-force from May 2022. Netherlands became India's third-highest export partner, improving its share from less than 2% FYTD18 to 4%+ FYTD23.

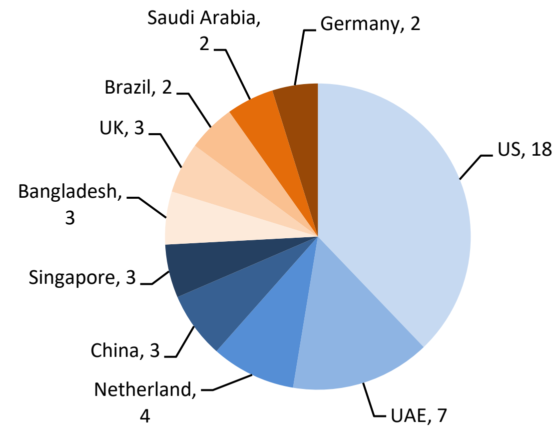
Rising trend: Exports to top-two partners US/UAE grew by 7%/16%, followed by exports to Netherlands that grew 74%. Improvement was also seen in exports to Brazil (66%), Saudi Arabia (20%), UK (10%), Germany (8%), and Singapore (8%).

Falling: Exports to China fell 36% and to Bangladesh by 20%.

Top countries by exports (YTD FY23, USD mn)



Top-10 exports countries (YTD FY23, %)



Source: Ministry of Commerce, PhillipCapital India Research

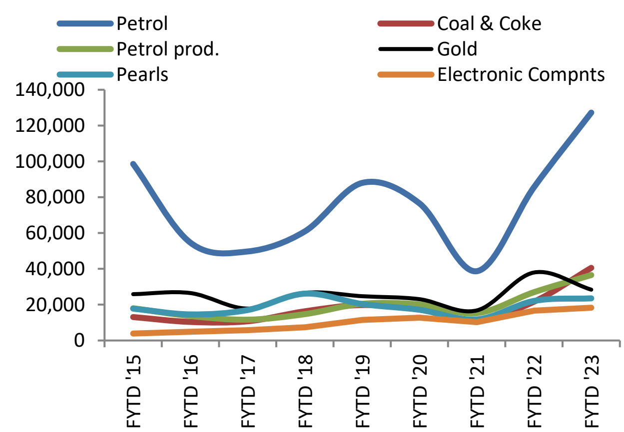
Top commodities by imports (FYTD, April to December 2022)

Imports: Imports have stayed relatively buoyant in the year, indicating sound domestic economic activity, with 25% growth FYTD23. Petroleum crude imports saw the highest share at 23%, followed by coal & coke (7%), petroleum products (7%), gold (5%), pearls (4%), and electronics components (3%).

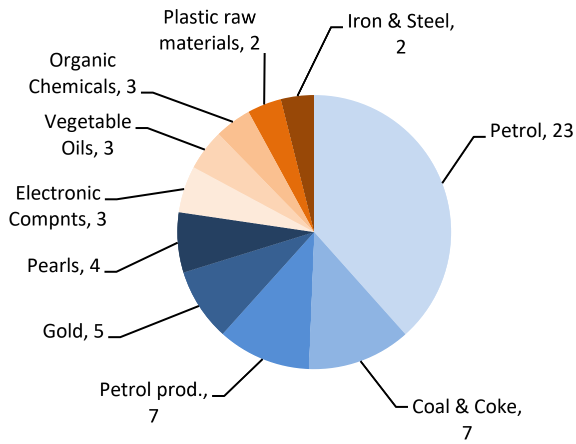
Strong: Crude oil imports increased 49%, coal & coke (87%), petroleum products (35%), iron & steel (45%), plastic raw materials (21%), electronic components (10%), vegetable oils (15%) and organic chemicals (9%).

Falling: Imports of telecom instruments saw 25% contraction from the previous year.

Top commodities by imports (YTD FY23, USD mn)



Top-10 imports commodities (YTD FY23, %)



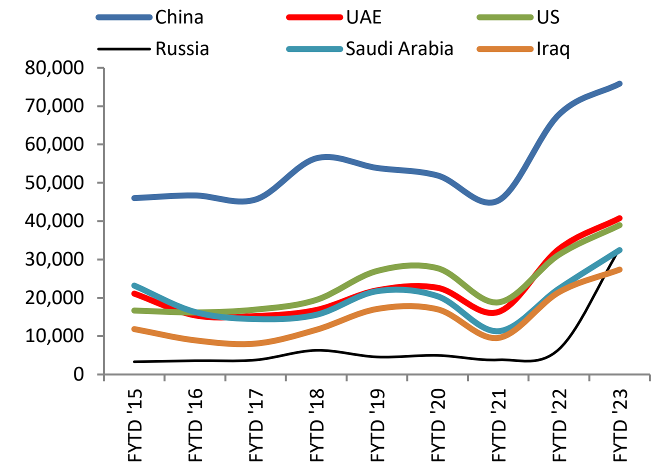
Source: Ministry of Commerce, PhillipCapital Research

Top countries by imports (FYTD, April to December 2022)

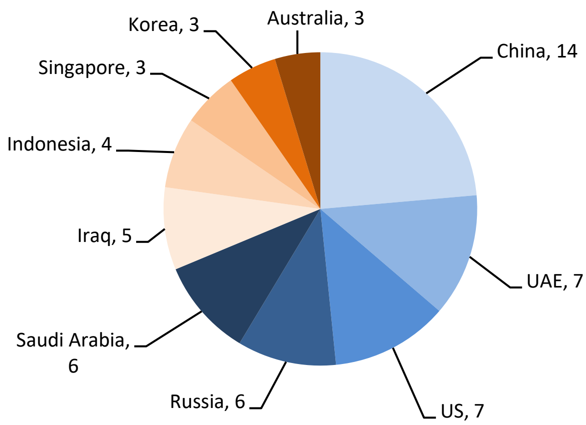
Imports: Imports saw growth from all the top-10 countries, with Russia emerging the fourth highest import partner due to India's oil imports after the Ukraine crisis. Russia's share in total imports surged to 6% in FYTD23 from 1.5% in the previous two years. China continues to be the major import partner with share falling to 14% from 17%/15% in FYTD21/22, followed by UAE (7%) and US (7%).

Strong: Imports from Russia saw a whopping 399% growth in the year due to cheaper oil supply by Russia. Imports also improved from China (12%), UAE (25%), US (25%), Saudi Arabia (45%), Iraq (28%) and Indonesia (84%).

Top countries by imports (YTD FY22, USD mn)



Top-10 import countries (YTD FY22, %)

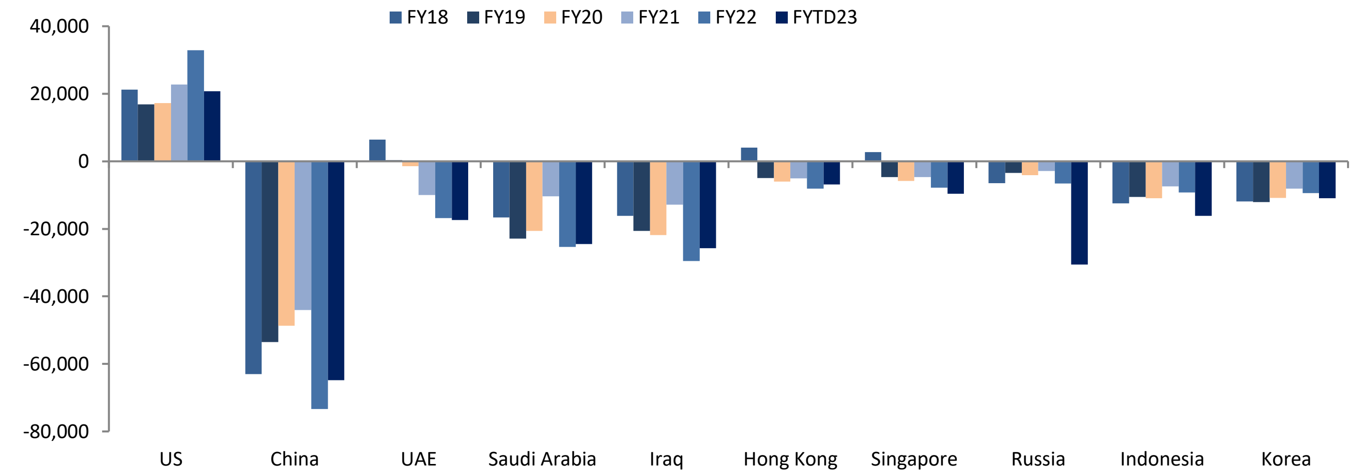


Source: Ministry of Commerce, PhillipCapital India Research

India's top trading partners: Barring USA, India's trade position was in deficit

- Surplus with USA saw softness at US$ 21bn in FYTD23 vs. US$ 33bn FYTD22.
- With the rest of its larger trading partners, India has a trade deficit – the highest was with China at US$ 65bn in FYTD23 followed by Russia, Iraq, Saudi Arabia, UAE (oil-led), Indonesia, and Korea.

Country-wise trade deficit

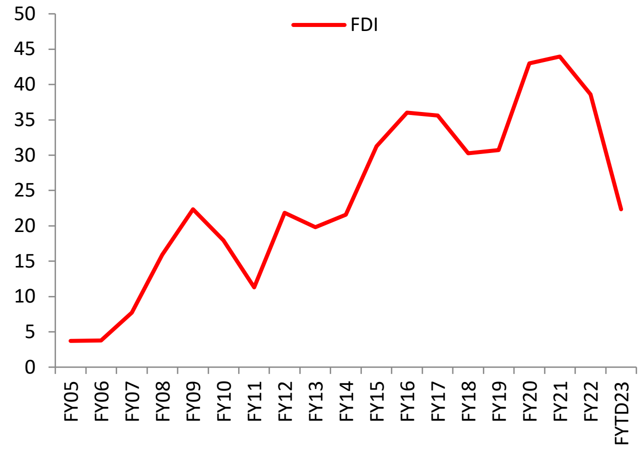


Source: Ministry of Commerce, PhillipCapital India Research

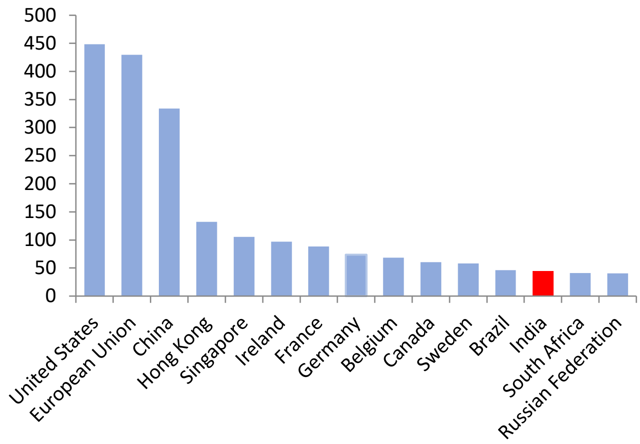
FDI – key driver for capex flows to India

- Overall, FDI flows to India have been rising over the years, but with some cyclical trends. Since FY15, India has received a cumulative FDI of US$ 312bn. FDI was relatively weak in FYTD23.
- India is the top FDI recipient in South Asia, and the thirteenth among the world economy as of 2021.
- According to RBI data, FDI inflows to India till December 2022 stood at US$ 22bn – a 10% decline in FYTD23 after the 40% contraction in the previous year, while they grew 5%/28%/33% in FYTD19/20/21.

Foreign direct investment, net inflows (USD bn)



Country-wise FDI, net inflows (USD bn, 2021)

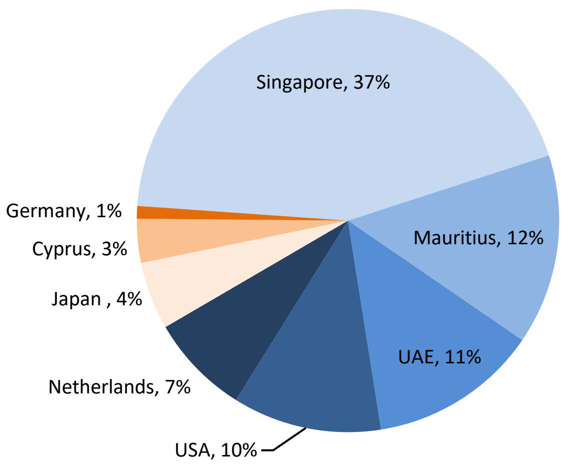


Source: RBI, WTO, PhillipCapital India Research

Country-wise FDI trends

- Singapore continues to be the top source of FDI since FY19. Mauritius holds the second position based on data until Q2FY23.
- Singapore's share in FDI was strong at 37% in FY23 vs. 27%/29% in FY21/22 while share from Mauritius lowered to 12% until Q2FY23 vs. 16% in FY22.
- Share of the US, which was second in FY22, dipped to fourth position – with c.10% share in FY23.
- Investments from UAE improved to US$ 3bn till Q2FY23 vs. US$ 1bn in FY22 – its position rising to #3 with 11% share.

FDI break-up as per countries (until Q2FY23, % of total)



Source: DPIIT, PhillipCapital Research

Country-wise FDI flows to India

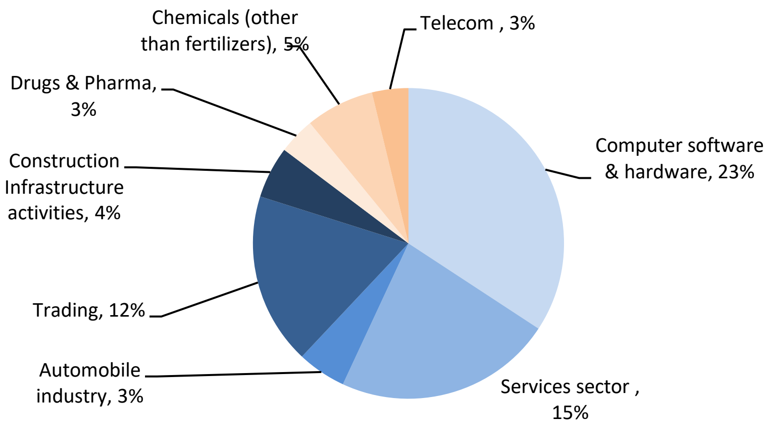
FDI	FY21	FY22	FYTD'23	FY21	FY22	FYTD'23
	USD Bn			% of total		
Singapore	17	16	10	29	27	37
Mauritius	6	9	3	9	16	12
UAE	4	1	3	7	2	11
USA	14	11	3	23	18	10
Netherlands	3	5	2	5	8	7
Japan	2	1	1	3	3	4
UK	2	2	1	3	3	3
Cyprus	0	0	1	1	0	3
Germany	1	1	0	1	1	1
Total	**60**	**59**	**27**	100	100	100

Source: DPIIT, PhillipCapital Research

Commodity-wise FDI trends

- The computer software & hardware sector received strong FDI over the years and continues to follow this trend in FYTD23, with 23% of total FDI.
- FDI in the services sector and trading also saw significant share in FYTD23 compared to the previous year.
- Automobile industry saw significant investments in FY22 with 12% share, which was weak at 3% in FYTD23.
- Construction infrastructure, which saw significant investments in FY21, saw weak inflow in FY22 and FYTD23.

Top sectors receiving foreign direct investment (until Q2FY23, % of total)



Source: DPIIT, PhillipCapital Research

Top sectors receiving foreign direct investment

FDI (USD bn)	FY21	FY22	FYTD'23	FY21	FY22	FYTD'23
	USD Bn			% of total		
Computer software & hardware	26	14	6	44	25	23
Services sector	5	7	4	3	12	15
Automobile industry	2	7	1	8	12	3
Trading	3	5	4	9	8	12
Construction Infrastructure activities	8	3	1	13	6	4
Drugs & Pharma	1	1	1	2	2	3
Chemicals (other than fertilizers)	1	1	1	9	2	5
Telecom	0	1	1	1	1	3
Power	0	0	0	1	0	0
Total	**60**	**59**	**27**	**100**	**100**	**100**

Source: DPIIT, PhillipCapital Research

Global Macros (IMF): Recession/soft-landing

IMF expects global growth to soften to 2.7% in 2023 due to recessionary fears in advanced economies, and improve gradually to 3.2% in 2024. It expects US to see 1% growth in 2023 and EU to see 0.7% due to monetary tightening and elevated interest rates (to keep inflation in check). Among emerging economies, India should be a bright spot with average 6.5% growth during 2023-27, while China's growth will be lower at an average 4.6%.

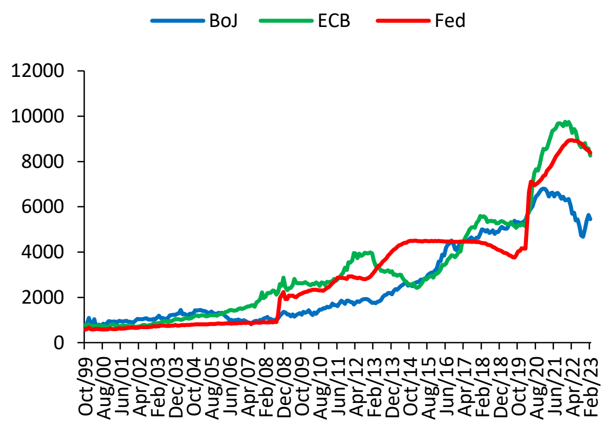
Cumulatively, RBI has increased the interest rate by 250bps, Fed by 450bps, ECB by 300bps, and BoE by 390bps in the current high-inflation period. In the US, after the series of rate hikes, economic activity still seems buoyant, with a slight ease in inflation. US inflation has gradually eased to 6.4% in January 2023 from 9.1% in June 2022. Similarly, EU also has seen inflation easing to 8.5% in February 2023 from 10.6% in October 2022. However, since these inflation rates are elevated compared to their targets, central banks will have to stay on the course of tightening and for a longer period, to bring down inflation closer to targets. We opine that additional tightening of 50bps+ from the prevailing rates that are already at higher levels, historically, creates risks of slowdown/recession in these economies.

Central banks have also reduced their balance sheets to curtail excess liquidity. Fed and ECB continue to scale down their balance sheet to support their monetary policy stance of taming inflation. Fed balance sheet has reduced to US$ 8.4tn in February 2023 from the highs of US$ 8.9tn in April 2022 while ECB assets have fallen to US$ 8.3tn from US$ 9.8tn in December 2021.

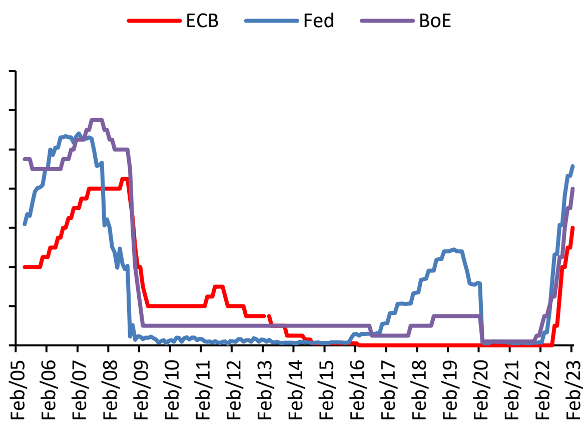
Rate hike trends by global central banks

Central Banks	Start	End	Low	Current Rate	Hike (Bps)	Number of hikes	Months
RBI	May-22	Feb-23	4%	6.5%	250	6	9
Fed	Mar-22	Feb-23	0%-0.25%	4.50%-4.75%	450	8	11
ECB	Jul-22	Feb-23	0%	3%	300	5	8
BoE	Dec-21	Feb-23	0.1%	4%	390	10	14

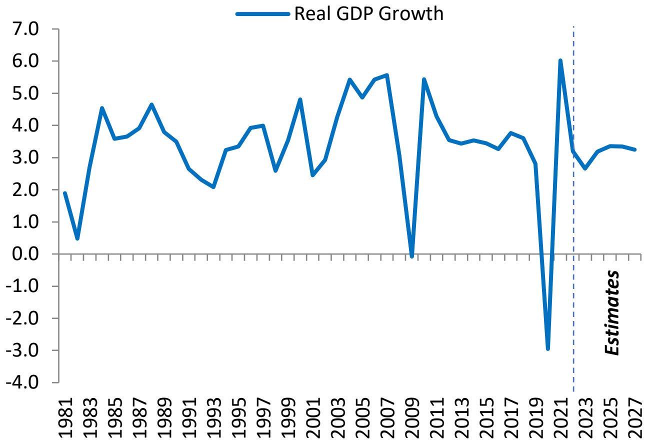
Central banks' balance sheet (USD bn)



Central banks' policy rate (%)

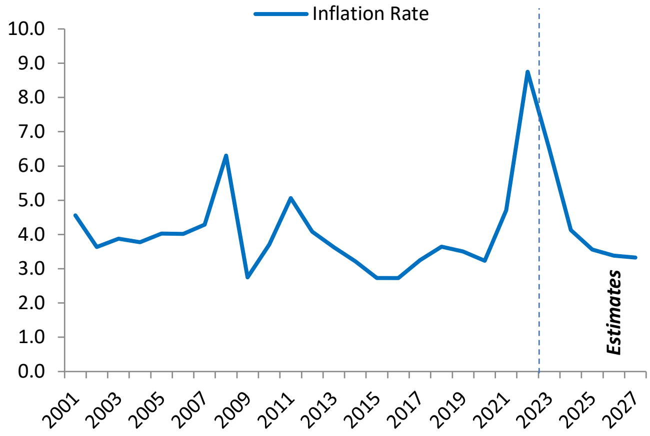


World GDP, yoy growth (%)



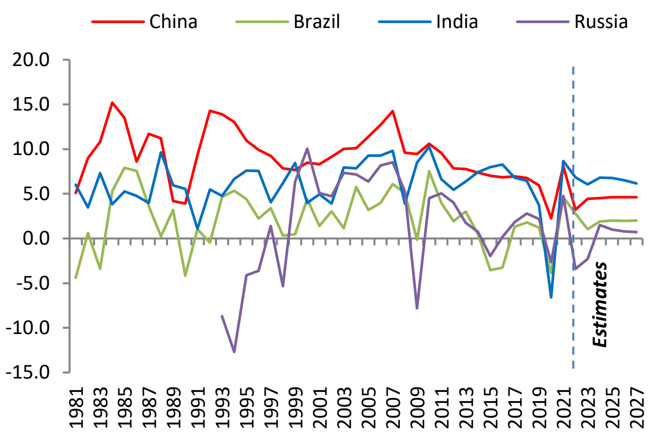
World GDP growth to slow to 2.7% in 2023, as economies face monetary tightening pressures. It should bounce back to 3.2% in 2024. Growth will then average at 3.3% during 2025-27.

World inflation rate, yoy growth (%)



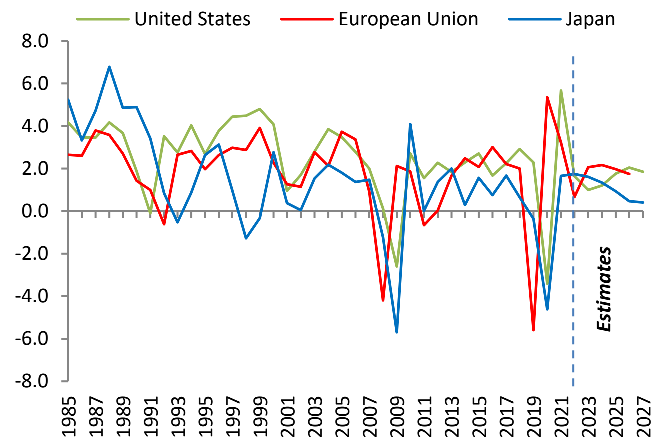
Significant inflationary pressure of 2022 should moderate in 2023, but will still remain above most economies' inflation targets. It will gradually moderate to 4.1% in 2024 and average at 3.4% in 2025-27.

Emerging economies' GDP, yoy growth (%) – India to be a bright spot



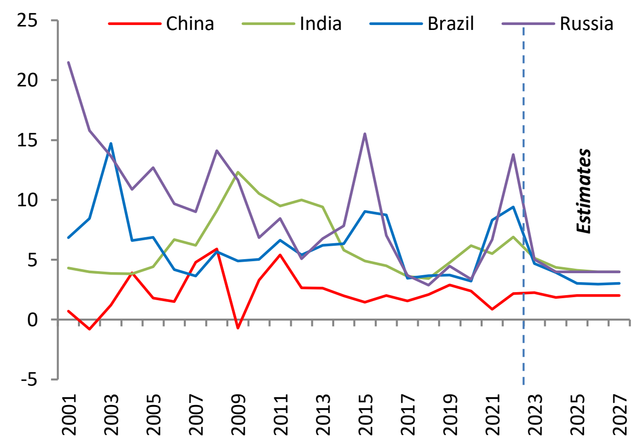
India's GDP should see strongest growth at 6.1%/6.8% in 2023/24, and then average at 6.5% during 2025-27. China's growth will be slower at average 4.6% during 2023-27. Brazil's will be subdued at 1.8%. Russia's GDP should contract by 2% and then average at 1% in 2024-27.

Developed economies' GDP, yoy growth (%)

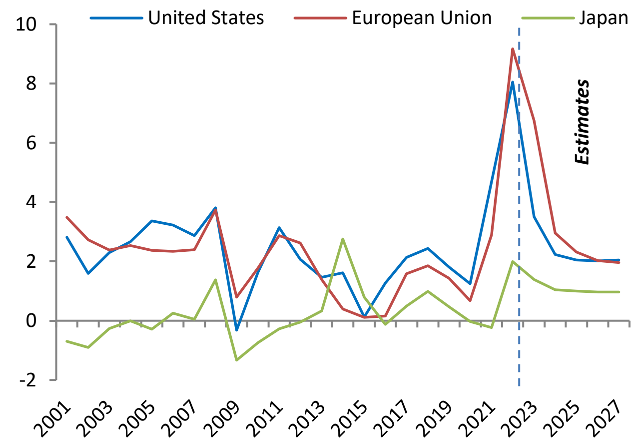


US/EU to see significantly lower growth in 2023 at 1% and 0.7% respectively due to tight monetary conditions and global slowdown. Growth in the US/EU to rebound to 1.2%/2.1% in 2024 and average at 1.9%/2.0% in 2025-27. Japan's growth to moderate to 0.4% in 2027 from 1.6% in 2023.

Inflation rate, yoy growth (%)



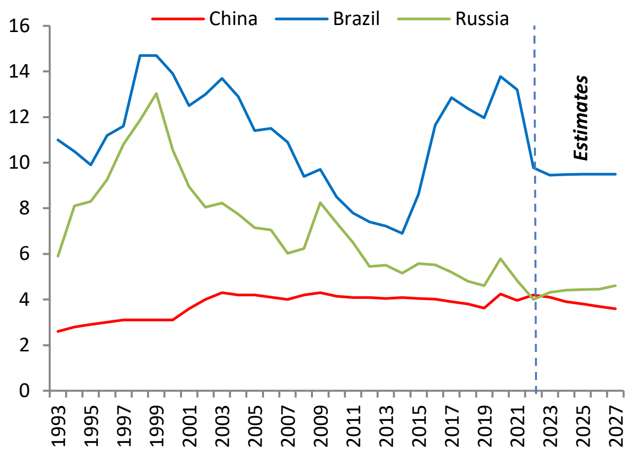
Inflation rate, yoy growth (%)



India's inflation should fall back within the RBI's tolerance band in 2023 and then move closer to the target 4% in 2024. Inflation in Brazil, Russia, and China also expected to cool down over the years.

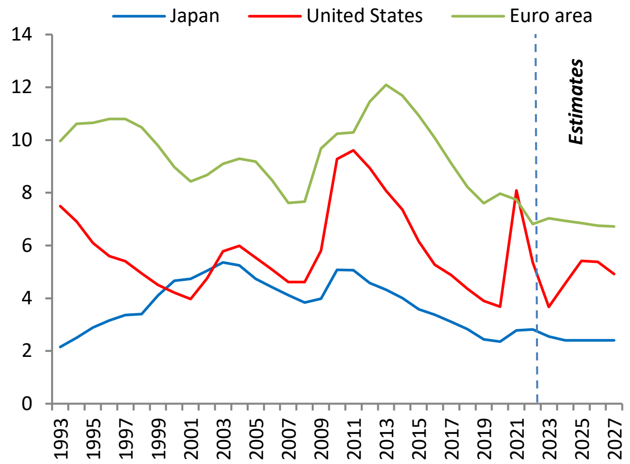
US inflation to moderate in 2023 and fall closer to target by 2024 while EU inflation should cool, but remain elevated in 2023/24 and move closer to target in 2025. Inflation in Japan to moderate to 1.4% in 2023 and be stable at 1% through 2027.

Unemployment rate, yoy growth (%)



Unemployment rate in China to gradually decline over 2023-37 while Brazil will see stable 9.5% unemployment rate. Russia to see it slightly moving up to 4.6% in 2027 from 4.3% in 2023.

Unemployment rate, yoy growth (%)



US unemployment levels should inch up to 4.6% in 2023 and 5.4% in 2024/25 and then gradually decline to 4.7% in 2027 while Euro area to see rate falling to 6.7% in 2027 from 7% in 2023. Japan to see stable 2.4% unemployment rate during 2023-27.

Source: IMF, PhillipCapital India Research

IMF global macro indicators

Subject Descriptor	Units	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Gross domestic product, constant prices	% Chg	3.3	3.8	3.6	2.8	-3.0	6.0	3.2	2.7	3.2	3.4	3.3	3.2
Gross domestic product, current prices	US $ Bn	76211	81036	86210	87654	85441	97076	101561	106182	111882	118043	124648	131631
Investment	% of GDP	25.4	25.9	26.5	26.5	26.5	27.1	28.0	27.8	27.8	27.9	28.0	28.1
Gross national savings	% of GDP	26.0	26.7	27.0	27.0	27.1	28.4	28.9	28.8	28.8	28.8	28.8	28.8
Inflation, average consumer prices	% change	2.7	3.3	3.6	3.5	3.2	4.7	8.8	6.5	4.1	3.6	3.4	3.3
Trade volume of goods and services	% Chg	2.3	5.7	4.1	0.9	-7.8	10.1	4.3	2.5	3.7	3.7	3.6	3.5
Volume of imports of goods and services	% Chg	2.2	5.8	4.3	0.9	-8.2	10.3	4.7	2.4	3.5	3.7	3.7	3.6
Volume of exports of goods and services	% Chg	2.3	5.5	3.8	1.0	-7.4	9.8	3.9	2.6	3.8	3.7	3.6	3.4
Commodity Price Index includes both Fuel and Non-Fuel Price Indices	Index, 2016=100	100.0	113.3	126.2	116.9	105.9	161.3	227.2	225.3	205.3	191.1	184.8	181.1
Crude Oil (petroleum), simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh, US$ per barrel	U.S. dollars	43.2	52.9	66.2	61.2	41.8	69.4	98.2	85.5	80.2	76.2	73.3	71.0
Commodity Food and Beverage Price Index includes Food and Beverage Price Indices	Index, 2016=100	100.0	103.2	101.3	98.0	99.7	125.6	143.6	135.5	132.8	130.4	130.2	129.8
Commodity Metals Price Index includes Copper, Aluminium, Iron Ore, Tin, Nickel, Zinc, Lead, and Uranium Price Indices	Index, 2016=100	100.0	122.2	130.3	135.3	140.0	205.4	194.2	170.8	170.5	170.3	170.6	171.1

Source: IMF, PhillipCapital India Research

FY24-25 equity outlook – near-term tepid; long-term positive; Union elections will propel momentum

For reasons well known, markets should be weak/range-bound in the near/medium term **(we have been negative on equities near-peak (Nifty 18.2k), reiterated again last week (Nifty 17.7k), from a short-medium perspective; for reports Click here; Click here)**. Higher base of the last two years, weak demand, higher rates, and no near-term positive triggers will be a constraint to equities for the next few months. Economic softness and the impact of higher rates is partly (not fully) factored in at current levels. As clarity emerges on domestic inflation and policy tightening, global slowdown and the monetary policy stance, equity markets will be guided accordingly. As mentioned, we expect slackness to prevail in domestic equities in the near-term, assuming decent DII flows and mixed FII flows. In case, Fed and RBI calls out for a pause in interest rates at the current level, equities will respond positively.

Nifty touched a peak of 18,660 mid-December 2022 and corrected by 8% till March 2023. The broader indices have fallen more sharply – Nifty Next-50 (15%), Nifty 200/500/Midcap/Smallcap (8-10%). This correction has been led by energy (18%), metals (18%), pharma (14%), commodities (11%), consumption (10%), financial services/banks (9%/10%), Services (12%), and MNCs (8%); automobiles, FMCG, and IT have been largely stable in this period.

In Q3/Q4 FY24, after-market consolidation and likely stability of inflation and interest rates (domestically as well as globally), the following factors should drive markets higher – expectations of Union Election outcome favouring the BJP, bottoming out of growth trajectory, positive future growth trajectory for India, return of FII flows.

Earnings contracted substantially in FY23 for metals and cement, resulting in PAT growth of 5% for PC-U. Due to a favourable base, FY24 earnings growth should be 25% and 14% for FY25. We estimate revenue growth for FY24/25 at 11.3%/10.8% vs. 19% in FY22-23. Automobiles, consumer electricals, banks, capital goods, FMCG, and retail should deliver strong earnings growth in FY24.

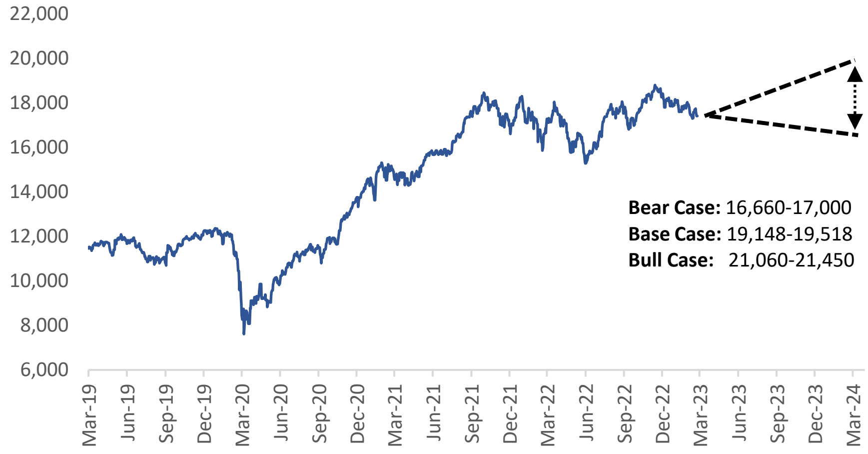
Our Nifty forecast: For next 12 months (March 2024)
Bear Case: 16,660-17,000 (FY25 EPS: 980-1000, valuing at 17x)
Base Case: 19,148-19,518 (FY25 EPS: 1035-1055, valuing at 18.5x)
Bull Case: 21,060-21,450 (FY25 EPS: 1080-1100, valuing at 19.5x)

We estimate FY23/24/25 Nifty EPS growth at 5%/18%/15% (details below)

To note, we base our bull-case scenario on our current FY25 Nifty EPS forecast at Rs 1,092. Applying a 6% discount to FY25 earnings estimates and valuing at 18.0-18.5x, we arrive at the base-case scenario. We expect Nifty at 18,500-19,500 by March-September 2024, an upside of 9-15%. We see a likelihood of higher returns (19,500-20,000) post elections, assuming a strong outcome. In case the economic slowdown worsens, the forecasted Nifty range will stand at 16,500-17,500 (for FY24).

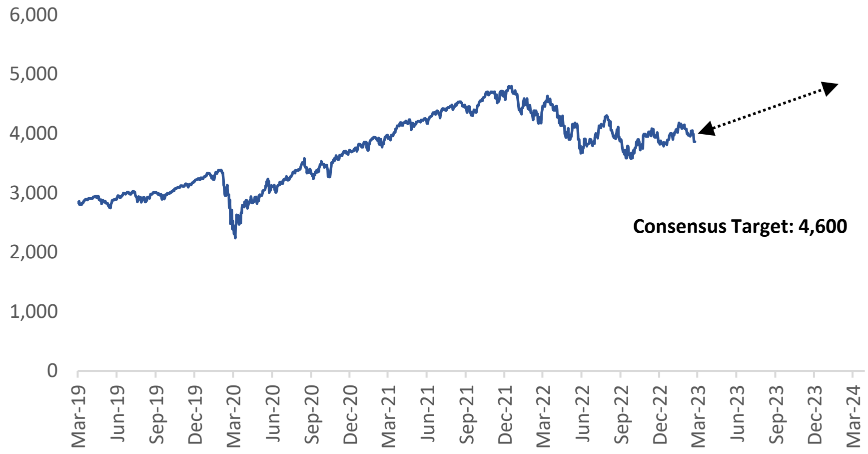
Our previous forecasts and how we performed? In our FY21 Annual Report (Click here), we expected FY23 EPS to be Rs 780-800 vs. consensus at 850; current FY23 EPS is 803. In our FY22 Annual Report (Click here), we expected FY24 EPS to be Rs 930-950 vs. consensus at 990; current FY24E EPS is Rs 951. **Our EPS forecasts for FY23-24 have proven right so far.**

PC Nifty Forecast: For next 12 months



Source: PhillipCapital India Research

BBG S&P 500 forecast: For next 12 months

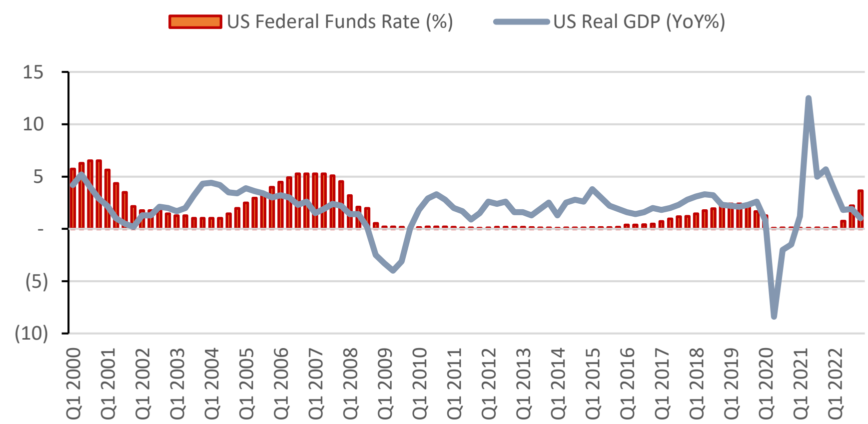


Source: Bloomberg, PhillipCapital India Research

Fed policy, FII flows, Macros and Equities

Fed funds rates were at 5.5-6.5% in January 2000. Pre-GFC, the rate was 5.25%. After the anticipated rate hikes to 5.5%+, **interest rates in the US will be at a two-decade high. In 2000, rate hikes above 5% resulted in sharp fall in the US GDP.**

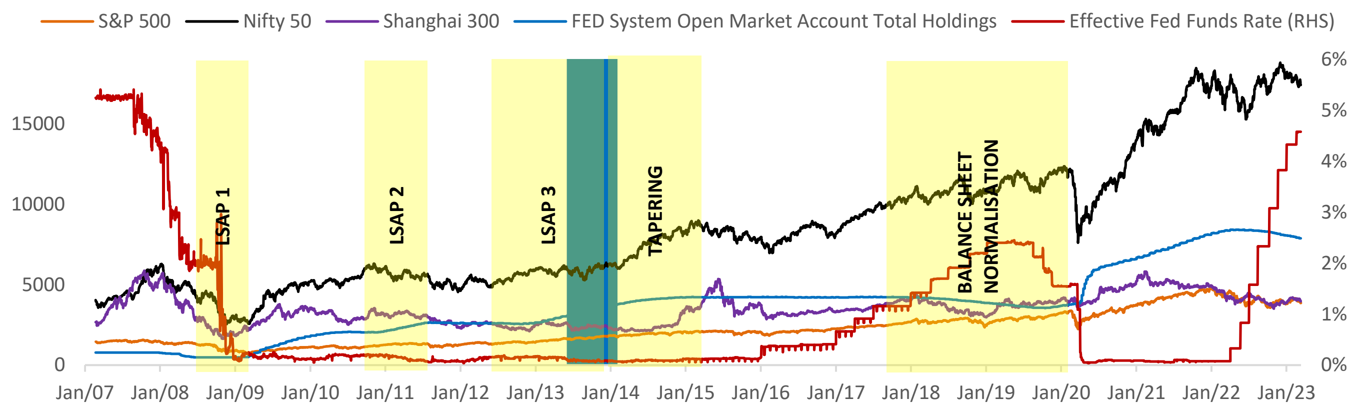
US Fed Funds vs. US real GDP: High fed rates poses GDP risks



Source: Bloomberg, PhillipCapital India Research

During the last leg of policy normalisation, after GFC, the US S&P index stagnated/was volatile for two-years until rate reduction started. However, the Indian markets trended higher. We expect a similar trend for India in 2HFY24, where we could partly decouple – with a greater focus on Indian long-term fundamentals.

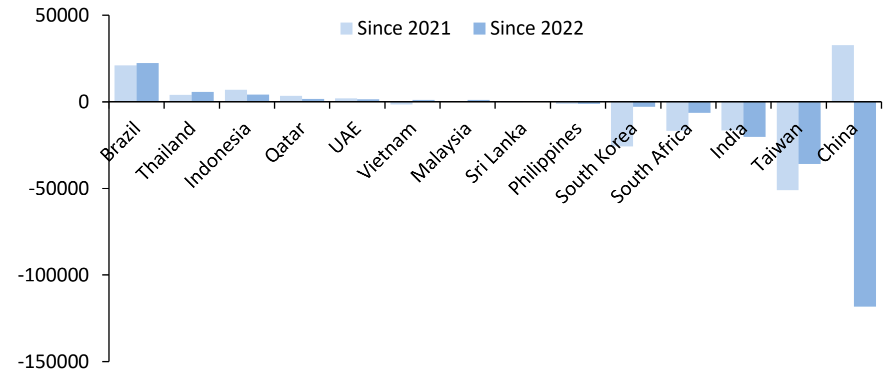
Global major indices vs. fed funds: India to ride its own long-term growth story



Source: Bloomberg, PhillipCapital India Research

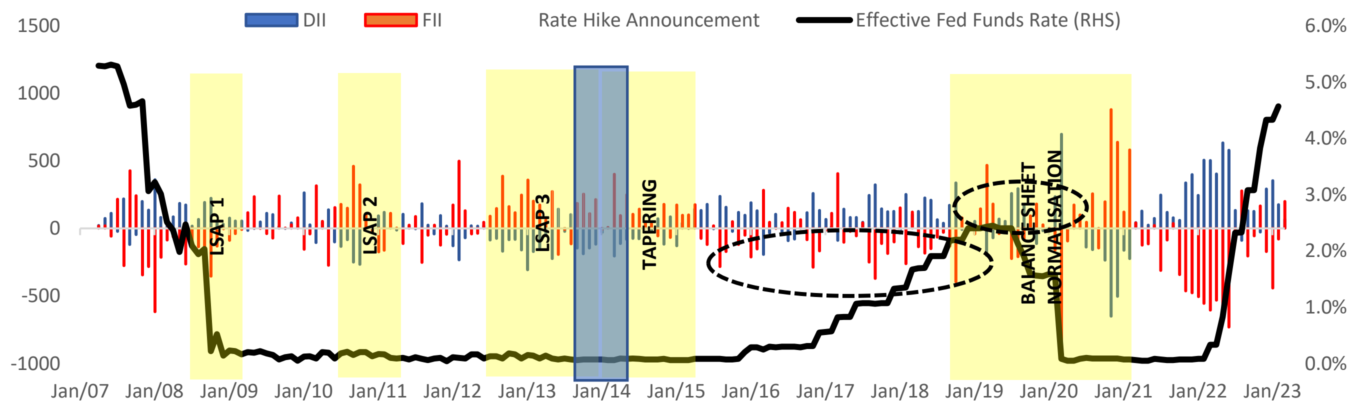
Post covid, since 2021, China has attracted highest FII flows followed by Brazil; Thailand, Indonesia, and Qatar; India saw highest outflows after Taiwan. Due to Fed/ECB tightening, outflows worsened in 2022 – China saw massive outflows along with all other economies. Post Tapering (from 2015 to 2018), FIIs became net sellers in India, were cautious till 1H2019 during the stagnation of interest rates and turned positive as interest rates started to fall.

FII flows in EMs (in USD mn)



Source: Bloomberg, PhillipCapital India Research

FIIS flows (in USD mn) vs. Fed funds rate: FIIs turned positive during rate stagnation and rate cut



Source: Bloomberg, PhillipCapital India Research

Earnings – Strong expectations for FY24-25 with downside risks

Nifty earnings: Our Nifty EPS estimate for FY23/24/25 is at Rs 803/951/1092 vs. Rs 726/526 in FY22/21; growth of 11%/18%/15%. Highest incremental EPS contribution in FY24 is from Financials/Oil & Gas/IT at 38%/15%/13%. FY24 EPS yoy growth will be higher for automobile (at 83%, led by Tata Motors and Maruti), telecom (at 63%, Bharti), industrials (at 26%, L&T and Adani Ports), cement (at 24%, UltraTech Cement), metals & mining (at 22%, JSW Steel and Tata Steel) and oil & gas (at 18%, BPCL) among others. For FY25, highest EPS growth is likely in telecom, automobile, cement, industrial and financials at 45%/44%/24%/17%/14%.

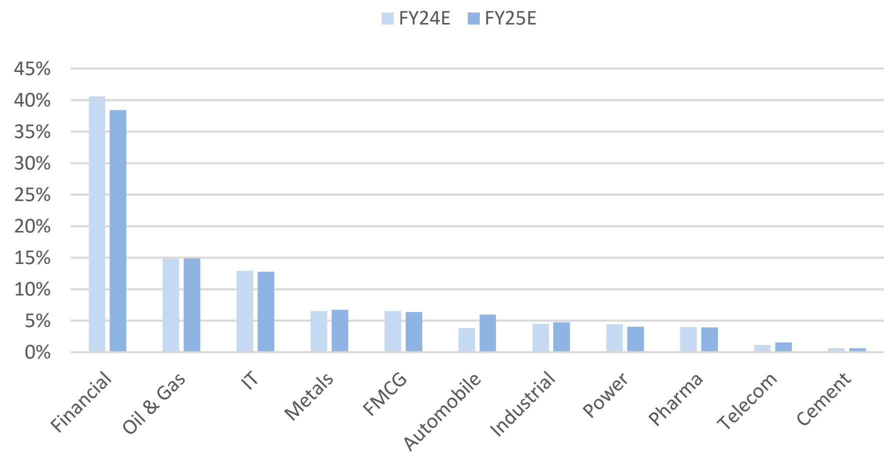
Higher interest rates and tight liquidity conditions along with geo-political factors, risk analyst estimates for FY24-FY25. We expect 5-10% cut in FY24-FY25 estimates.

Nifty: Sector-wise EPS additions

	EPS			EPS addition			EPS growth (%)			EPS contribution		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Automobile	31	57	81	21	26	25	223%	83%	44%	4%	6%	7%
Cement	5	6	8	-1	1	1	-23%	24%	24%	1%	1%	1%
Financial	326	365	417	82	39	52	34%	12%	14%	41%	38%	38%
FMCG	52	61	68	9	8	8	22%	16%	13%	7%	6%	6%
Industrial	36	45	53	5	9	8	17%	25%	17%	4%	5%	5%
IT	104	121	135	8	17	14	8%	17%	11%	13%	13%	12%
Metals	53	64	72	-58	12	8	-53%	22%	12%	7%	7%	7%
Oil & Gas	119	141	152	4	22	11	3%	18%	8%	15%	15%	14%
Pharma	32	37	42	3	5	4	9%	16%	12%	4%	4%	4%
Power	36	39	43	-1	3	4	-4%	8%	12%	4%	4%	4%
Telecom	9	15	21	5	6	7	122%	63%	45%	1%	2%	2%
	803	**951**	**1092**	**76**	**148**	**141**	**11%**	**18%**	**15%**			

Source: PhillipCapital India Research

EPS contribution



Source: PhillipCapital India Research

Nifty: Sector-wise revenue growth, EBITDA growth, earnings growth, EBITDA margin and PAT margin

	Revenue growth (%yoy)			EBITDA growth (%yoy)			PAT growth (%yoy)			EBITDA margin (%)			PAT margin (%)		
Sector	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Automobile	26%	18%	15%	33%	42%	33%	333%	91%	47%	11%	13%	15%	4%	6%	8%
Cements	7%	16%	12%	-4%	16%	16%	-23%	24%	24%	20%	20%	20%	10%	10%	12%
Financials	16%	16%	12%	18%	23%	8%	36%	22%	7%	49%	52%	51%	31%	32%	31%
FMCG	19%	11%	11%	21%	15%	12%	21%	15%	12%	23%	24%	25%	17%	18%	18%
Industrials	21%	3%	12%	15%	10%	14%	20%	22%	17%	18%	19%	20%	9%	10%	11%
IT	18%	10%	10%	10%	14%	9%	7%	16%	11%	23%	24%	24%	16%	17%	17%
Metals & Mining	15%	-3%	5%	-26%	9%	11%	-43%	18%	12%	14%	15%	16%	6%	7%	8%
Oil & Gas	31%	0%	2%	16%	16%	7%	3%	16%	7%	12%	14%	14%	6%	7%	7%
Pharma	12%	11%	10%	10%	14%	13%	38%	15%	12%	23%	24%	25%	14%	14%	14%
Power	20%	6%	9%	12%	6%	7%	-3%	7%	8%	41%	41%	40%	16%	16%	16%
Telecom	20%	13%	12%	24%	15%	13%	124%	63%	50%	51%	52%	53%	7%	10%	13%
Total	**22%**	**6%**	**8%**	**10%**	**17%**	**11%**	**11%**	**22%**	**12%**	**20%**	**23%**	**23%**	**11%**	**12%**	**13%**
Total Ex-Oil & Gas	**18%**	**9%**	**10%**	**9%**	**18%**	**12%**	**13%**	**23%**	**14%**	**25%**	**27%**	**27%**	**13%**	**15%**	**15%**

Source: PhillipCapital India Research

Revenue growth for Nifty for FY23/24/25 is at 22%/6%/8%; Nifty ex-oil & gas at 18%/9%/10%. FY23 revenue growth will be led by oil & gas (31%), followed by automobiles (26%), industrial (21%), power (20%), telecom (20%), and FMCG (19%). FY24/25 revenue growth will be led by automobiles (18%/15%), followed by cement (16%/12%), financials (16%/12%) and telecom (13%/12%). Comparing FY25 with FY23 – Nifty revenue growth will be 14%, ex-oil & gas at 21%.

EBITDA and PAT growth – We estimate Nifty EBITDA growth for FY23/24/25 at 10%/17%/11%; Nifty ex-oil & gas at 9%/18%/12%. Comparing FY25 with FY23, growth is stupendous for automobiles (151%), telecom (62%) and financials (62%); growth for the, rest of the sectors is strong at 25-50%. We estimate Nifty PAT growth for FY23/24/25 at 11%/22%/12%; Nifty ex-oil & gas is at 13%/23%/14%. Comparing FY25 with FY23, growth is stupendous for Automobiles, telecom, financials and pharma.

EBITDA and PAT margins – **EBITDA margins** to expand consistently; EBITDA margins for FY23/24/25 will be 20.4%/22.6%/23.3%. **PAT margins** to continue to expand to highs from 10.7% in FY23 to 12.8% in FY25. Margin expansion will be driven majorly by automobiles, financials, industrials, metals, oil & gas and telecom.

2-year CAGR (FY23-25)

At a revenue level, majority of the sectors should report double-digit two-year CAGR. Highest growth will be for automobiles (17%), cement (14%), financials (14%), telecom (12%), pharma (11%) and FMCG (11%).

At an EBITDA level, Automobile, cement, financials, FMCG and telecom are top sectors with two-year CAGRs at 37%/16%/16%/14%/14%.

At an earnings level, CAGR should be the highest for automobiles (68%), followed by telecom (at 56%), cement (24%) and industrials (19%). Top companies in each of these sectors are:

- **Automobiles**: Tata Motors
- **Telecom**: Bharti Airtel
- **Cement**: UltraTech Cement
- **Industrials**: L&T

PC Universe:

Sales is expected to grow by 16%/11%/11% in FY23/24/25, **EBITDA** by 2%/21%/12% and **earnings** by 5%/25%/14%. Ex-financials, sales to grow 16%/10%/10% in FY23/24/25, EBITDA by -6%/20%/15% and earnings by -10%/28%/18%. **For FY23-25, two-year CAGR in revenue/EBITDA/earnings of the companies will be 11%/16%/19%.** Ex-financials, two-year CAGR in revenue/EBITDA/earnings will be 10%/17%/23%.

EBITDA and PAT margins – For FY23/24/25, EBITDA margins will be 22.3%/24.1%/24.4% and ex-financials, margins will be 16.8%/18.4%/19.0%. For FY23/24/25, PAT margins will be 12.7%/14.3%/14.7% and ex-financials, margins will be 9.1%/10.6%/11.3%. Margin expansion will be driven majorly by automobiles, banks, IT and metals.

2-year CAGR (FY23-25)

At the revenue level, retail, automobiles, banks, infrastructure, speciality chemicals and consumer electricals are top sectors with two-year CAGR at 20%/ 16%/ 16%/ 15%/ 15%/15%. For FY24/25, revenue growth will be higher for retail (21%/20%), automobile (17%/15%), consumer electricals (17%/14%) and banks (17%/14%).

At an EBITDA level, automobiles, retail, consumer electricals, cement and speciality chemicals are top sectors with two-year CAGR at 36%/ 25%/ 25%/ 25%/ 23%. For FY23, retail (59%), automobiles (31%), capital goods (20%), agri input (19%), banks (18%) and FMCG (18%) will report highest EBITDA yoy growth. For FY24/FY25, EBITDA growth will be higher for automobile (41%/31%), consumer electricals (32%/19%) and cement (30%/20%).

At an earnings level, CAGR is estimated to be highest for automobile (at 63%), followed by cement (35%), retail (29%) and consumer electricals (28%). Top companies in each of these sectors are:

- **Automobile**: Ashok Leyland, Ceat, Bharat Forge, Endurance Tech, and Escorts.
- **Cement**: Mangalam Cement, Heidelberg Cement, ACC, and Shree Cement.
- **Retail**: ABFRL, V-Mart, and Trent.
- **Consumer Electricals**: PG Electroplast, Orient Electricals, V-Guard, and Voltas.

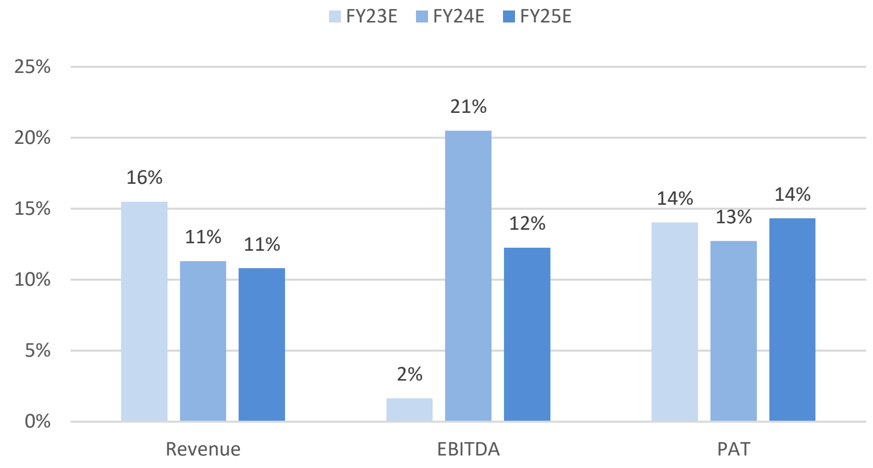
For FY24/25, contribution to earnings, banks (on a pre-provision basis) (30%/30%), IT (17%/17%), metals (10%/10%) and discretionary (10%/12%) will be the top contributors.

PC Universe: Sector-wise revenue growth, EBITDA growth, earnings growth, EBITDA margin, and PAT margin

	Revenue growth (%yoy)			EBITDA growth (%yoy)			PAT growth (%yoy)			EBITDA margin (%)			PAT margin (%)		
Sector	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Discretionary	27%	17%	15%	31%	39%	29%	116%	73%	40%	11%	13%	14%	4%	7%	8%
Automobiles	27%	17%	15%	31%	41%	31%	167%	84%	44%	11%	13%	15%	4%	7%	8%
Retail	47%	21%	20%	59%	26%	25%	93%	28%	30%	12%	12%	13%	5%	6%	6%
Consumer Electricals	20%	16%	14%	10%	33%	19%	9%	38%	21%	9%	10%	11%	6%	7%	8%
Ceramics	17%	15%	13%	-8%	34%	17%	-17%	49%	21%	11%	13%	13%	6%	8%	8%
FMCG	17%	11%	11%	18%	16%	13%	17%	16%	13%	23%	24%	24%	16%	17%	17%
Financials	16%	16%	12%	18%	20%	9%	38%	21%	7%	48%	50%	48%	30%	31%	30%
Banks	22%	17%	14%	18%	21%	15%	42%	21%	14%	70%	72%	73%	42%	43%	43%
NBFC	8%	15%	10%	16%	20%	-16%	25%	22%	-15%	21%	22%	17%	15%	16%	12%
Metals	4%	1%	5%	-38%	16%	8%	-59%	36%	14%	15%	17%	18%	6%	7%	8%
Pipes	28%	20%	3%	18%	37%	0%	6%	59%	2%	10%	12%	11%	5%	7%	7%
Capital Goods	17%	17%	14%	20%	23%	16%	27%	26%	20%	13%	14%	14%	7%	8%	8%
Cement	6%	14%	10%	-21%	30%	20%	-40%	42%	29%	15%	18%	19%	7%	8%	10%
IT Services	19%	11%	10%	11%	14%	10%	8%	17%	11%	23%	23%	23%	15%	16%	16%
Pharma	8%	15%	10%	2%	25%	12%	20%	24%	14%	22%	24%	24%	13%	14%	15%
Infrastructure	17%	16%	14%	15%	17%	16%	17%	20%	18%	13%	13%	14%	8%	8%	8%
Logistics	13%	7%	12%	4%	16%	19%	-6%	22%	23%	11%	12%	13%	6%	7%	7%
Agri Input	38%	-3%	10%	19%	10%	19%	24%	15%	18%	16%	18%	19%	8%	9%	10%
Sp Chemicals	12%	14%	17%	7%	24%	22%	-9%	22%	24%	20%	22%	23%	12%	13%	14%
Power Finance Companies	-4%	3%	10%	-9%	15%	10%	9%	11%	11%	87%	97%	96%	69%	74%	75%
Total	**16%**	**11%**	**11%**	**2%**	**21%**	**12%**	**5%**	**25%**	**14%**	**22%**	**24%**	**24%**	**13%**	**14%**	**15%**

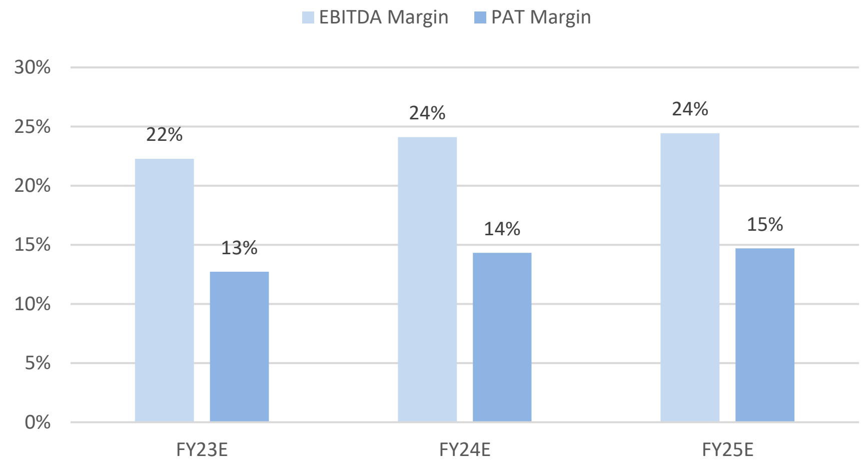
Source: PhillipCapital India Research

PC universe: FY23E vs. FY24E vs. FY25E growth (% yoy)



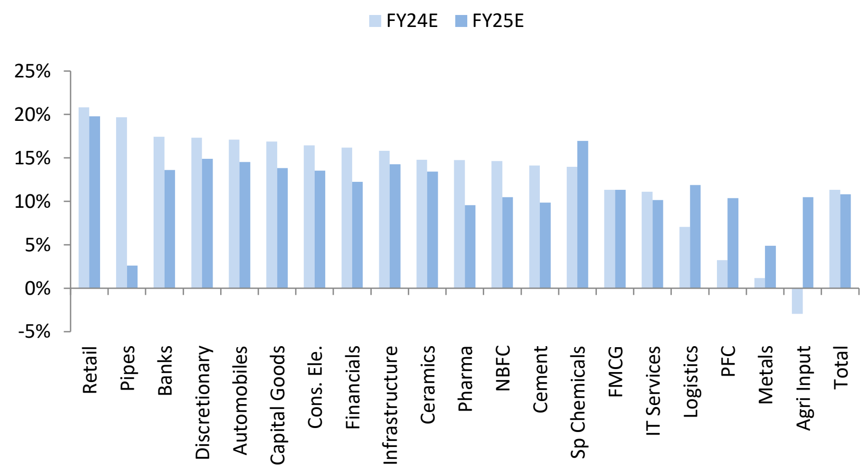
Source: PhillipCapital India Research

PC universe: FY23E vs. FY24E vs. FY25E EBITDA and PAT margins (% yoy)



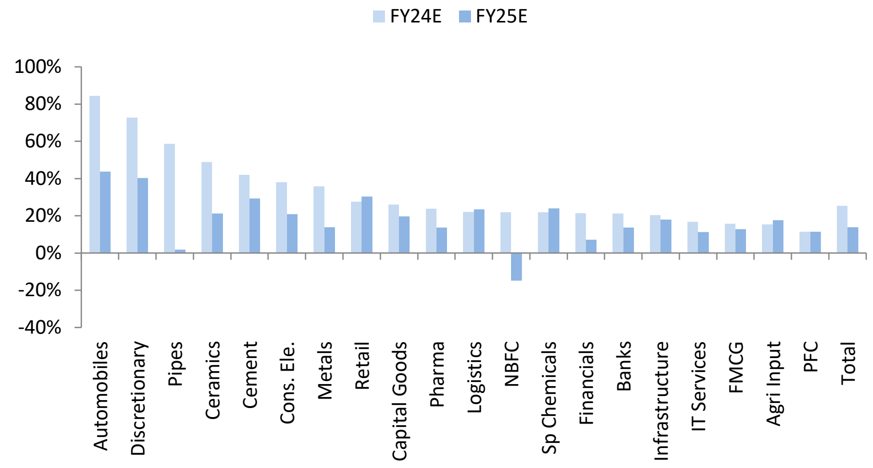
Source: PhillipCapital India Research

PC universe: Sectoral revenue growth (% yoy)



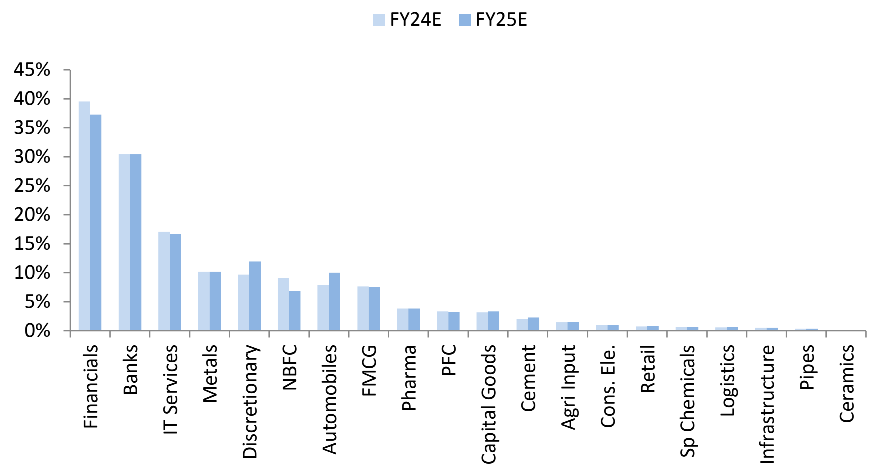
Source: PhillipCapital India Research

PC universe: Sectoral earnings growth (% yoy)



Source: PhillipCapital India Research

PC universe: Earnings contribution (% yoy)

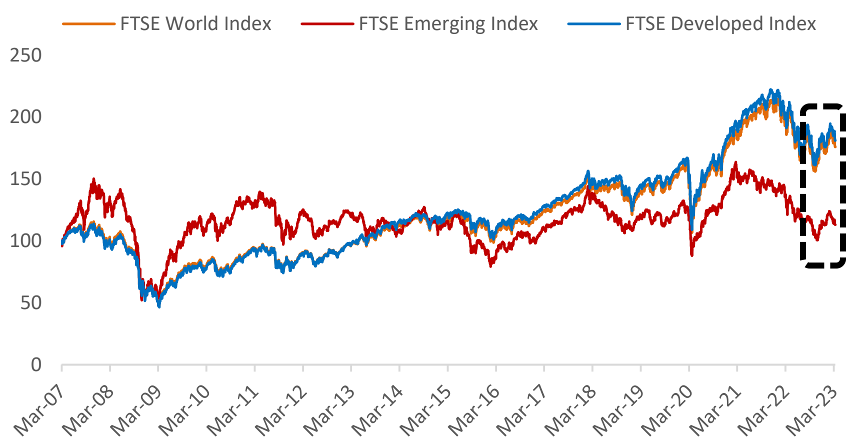


Source: PhillipCapital India Research

Global and Indian equities – dragged by macros; India – the lone outperformer, can it risk short-term performance?

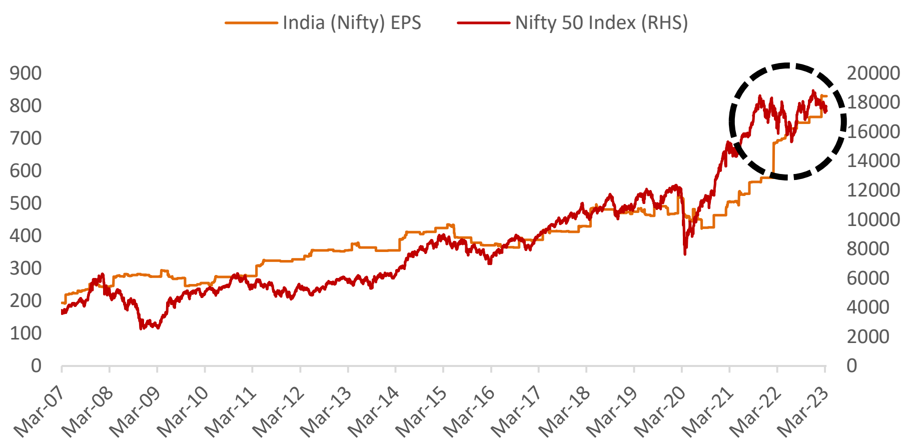
The Indian Market (Nifty Index) corrected to 15,300 levels (in June 2022) from 18,450 levels (in October 2021) on higher valuations, global turmoil, rising commodity prices and central bank rate tightening. For two years, the market traded in the 16,000-18,500 range, before breaking its all-time high. Overall, during this duration, markets corrected 17% and recovered 12% from bottom. Global markets (EM/DM Index) also corrected for around a year till October 2022 (EMs correction started around mid-2021). The FTSE World/ Developed Market was down around 30% from its peak in 2021; Emerging Market Index corrected by around 40%. Post correction, FTSE World/ Developed markets have recovered 5% from the bottom (in Oct 2022).

FTSE Indices – a year of correction; recovery has begun



Source: Bloomberg, PhillipCapital India Research

Indian markets – consolidating and at higher valuation



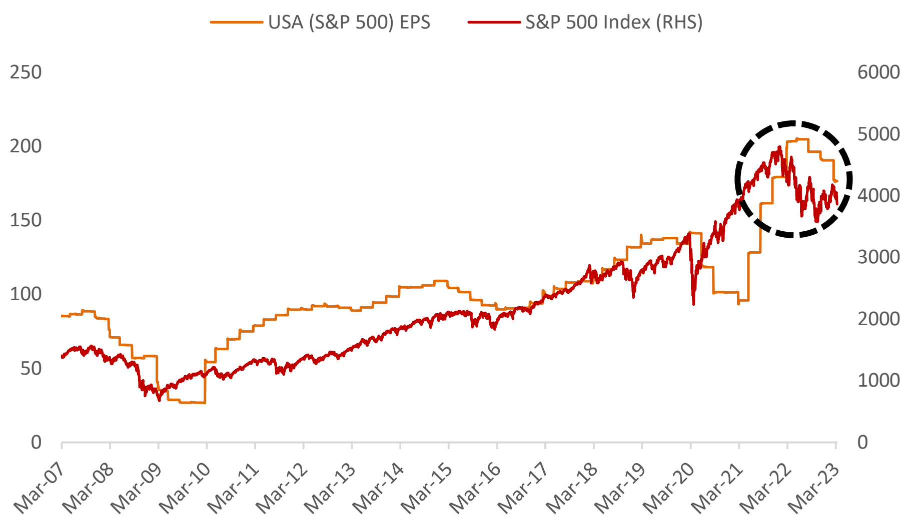
Source: Bloomberg, PhillipCapital India Research

The higher base of the last two years, weak demand, higher rates, and no near-term positive triggers, along with global uncertainties, will continue to put pressure on Indian equities. We expect slackness to prevail in domestic equities in the near-term, assuming decent DII flows and mixed FII flows. Currently, the market is consolidating despite consistent EPS growth; this is positive for Indian markets in the long term. In Q3/Q4 FY24, post market consolidation, the following factors should drive markets higher – stability of inflation and interest rates, expectation of a solid union election outcome favouring the BJP, bottoming out of the growth trajectory, positive future growth trajectory for India, and return of FII flows.

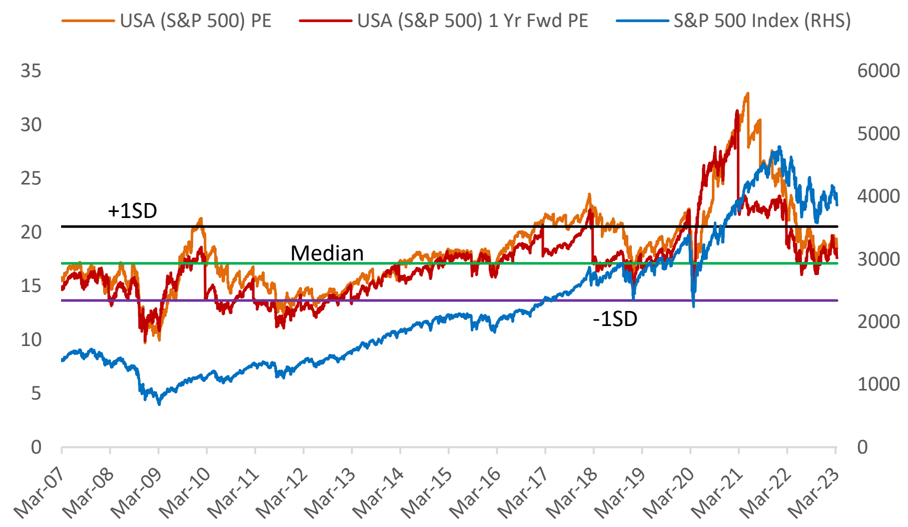
Global Equities – tight liquidity is a key medium-term negative

The US markets have seen a massive correction due to economic slowdown, a recessionary environment, and CBs' hawkish stances. The S&P 500 Index corrected 25% (from January 2022 to October 2022) and bounced 7% to-date on slowing Fed rate hikes. S&P corporate earnings have been cut by 12% from their peak (in the last 9 months). Tighter rates and liquidity further risk corporate earnings and recessionary fears in 2023. These factors have led to a range-bound S&P index since mid-2022. The Index is currently trading at 17.5x one-year forward PE – slightly above 15-year median levels.

US growth concern - declining EPS growth rate (unlike India)



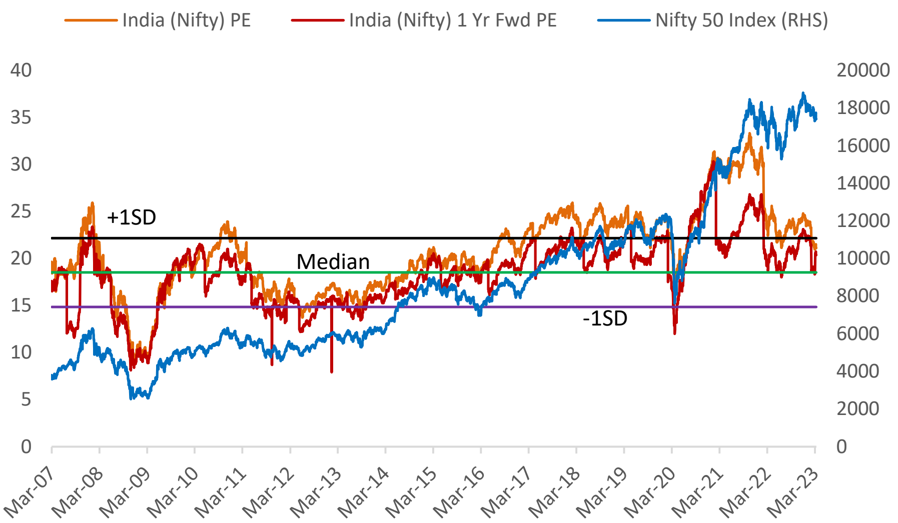
Source: Bloomberg, PhillipCapital India Research



Source: Bloomberg, PhillipCapital India Research

In the past two years, we have seen a massive correction in the Chinese markets. The markets corrected 37% from February 2021 to October 2022. The recent rally of 17% was an outcome of the end of covid restrictions, cheap valuations, and supportive economic policies, which turned investor sentiment positive. Other EMs like Indonesia and Brazil have also been range-bound in the last one year. As compared to EMs and China, the Indian economy is likely to record strong growth in FY24-25, so we expect the Indian market's performance to be strong in the next few years. While China is attractively placed on valuations (below median), its growth scenario isn't as buoyant.

EMs at attractive valuations – China to benefit the most



Source: Bloomberg, PhillipCapital India Research

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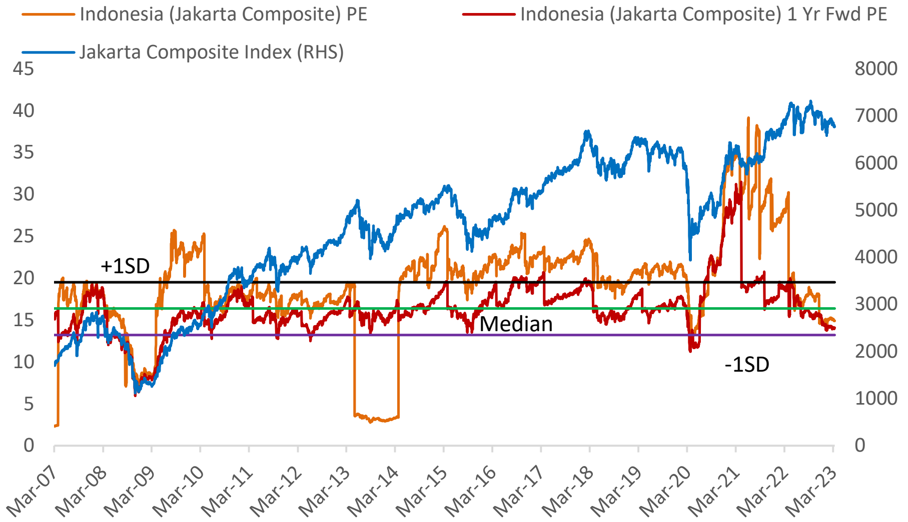
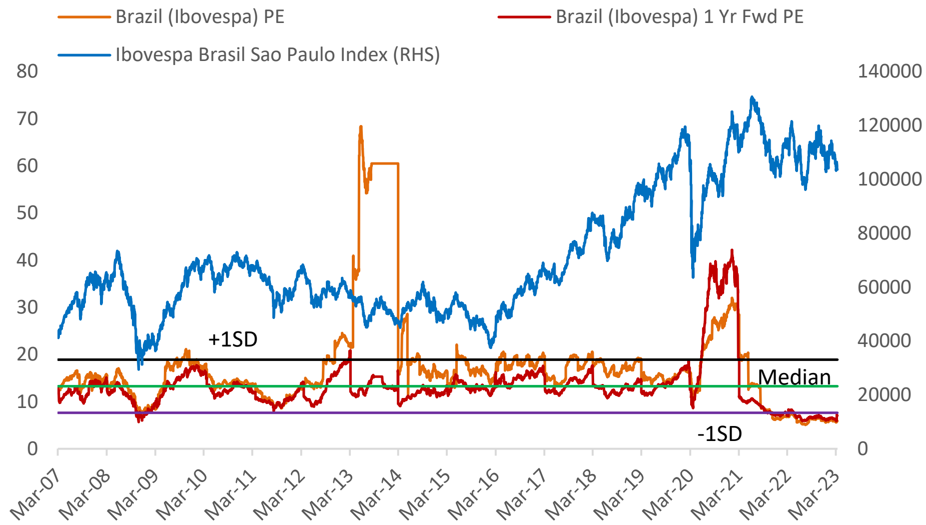
EMs at attractive valuations – China to benefit the most



Source: Bloomberg, PhillipCapital India Research

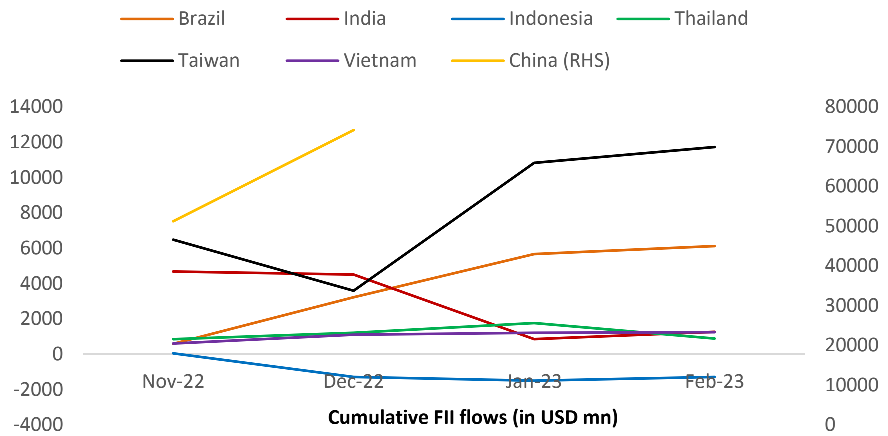


Source: Bloomberg, PhillipCapital India Research

FII flows & equities (Since 2021) – EMs with attractive valuations attracted FII flows, India lagged

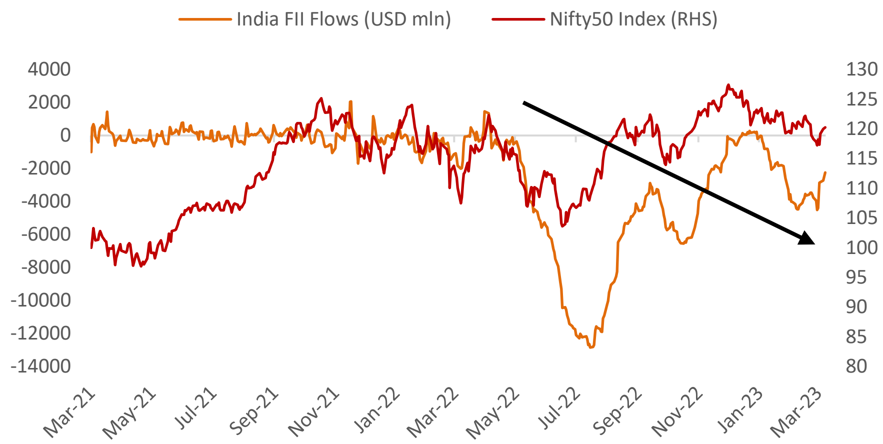
FIIs started investing in a majority of the EMs towards the end of 2020, which lasted for around six months (until April 2021). After stagnating for the next one year (until April 2022), FII activity picked up. <u>However, India wasn't the big beneficiary of these flows</u>. Our observation is that FIIs routed funds to other EMs due to their attractive valuations. However, most EMs didn't see high returns, despite higher FII flows (from April 2022 to date, Brazil/Thailand/Indonesia markets are up 2.9%/ 2.1%/ 1.1% while India is down 4.1%). For the latest four months, strong FII flows have continued in EMs (excluding India), with the highest concentration in China (data lag of two months).

Strong FIIs buying in EMs – China is the latest hotspot

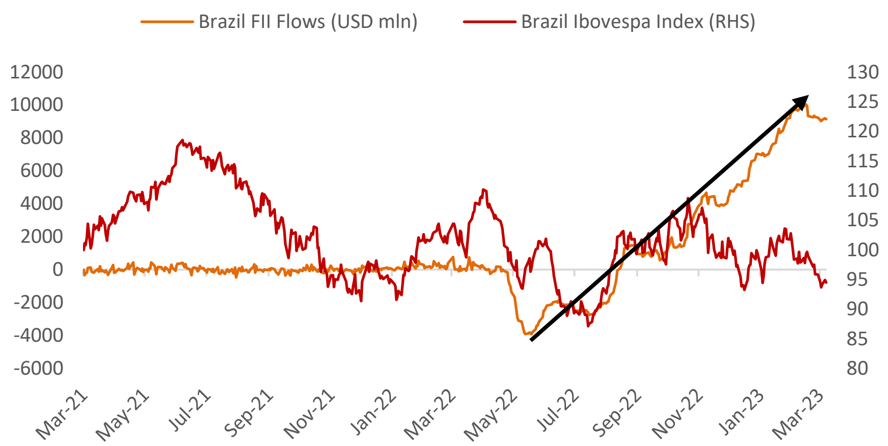


Source: Bloomberg, PhillipCapital India Research

FII flows (in USD mn, cumulative since February 2021) and major EM country index

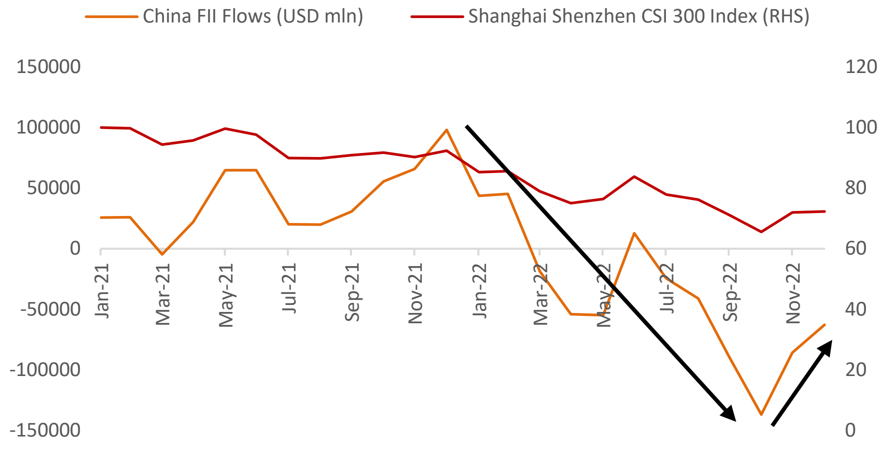


Source: Bloomberg, PhillipCapital India Research

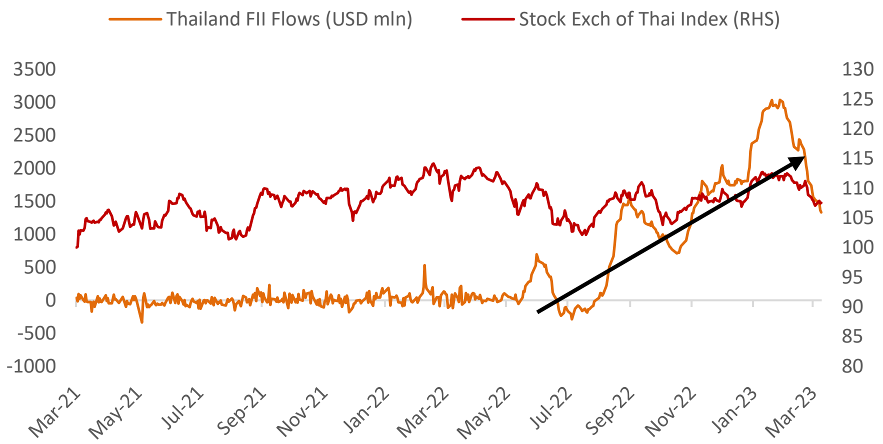


Source: Bloomberg, PhillipCapital India Research

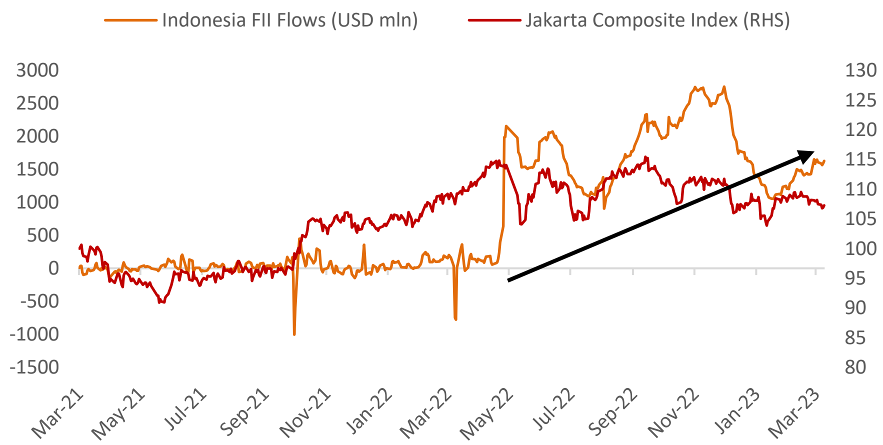
FII flows (in USD mn, cumulative since February 2021) and major EM country index



Source: Bloomberg, PhillipCapital India Research



Source: Bloomberg, PhillipCapital India Research



Source: Bloomberg, PhillipCapital India Research

Equity and FII performance – when the Fed's rate-tightening cycle was near its peak, post GFC normalisation

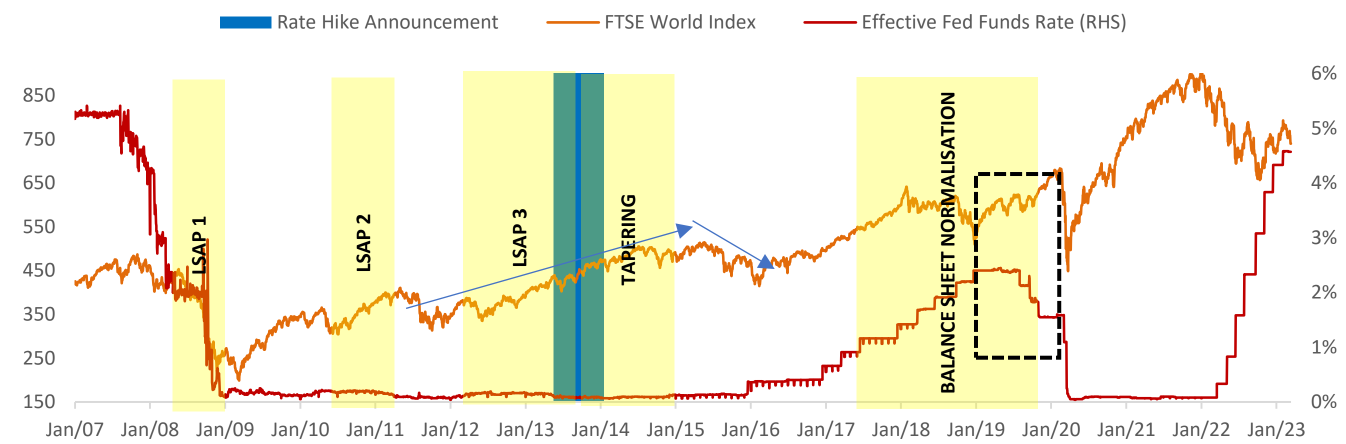
Here, we look at the equity market response around the time when the Fed's rate tightening was near its peak in January 2019. The Fed hiked rates by 25bps each in June 2018, September 2018, and December 2018 – which was the last rate hike in the post-GFC policy-normalisation cycle.

Near the end of rate-hike cycle, the market remained volatile. From June 2018 (second-last rate hike) to January 2019, the World/ Developed/ Emerging Index corrected by 6%/6%/3%; S&P 500 / Nifty was down by 4% / 5%. During this 6-month period, FIIs sold around US$ 4bn in the Indian markets.

After the Fed rates peaked post tapering (January 2019), the market rallied – during this period of stable (but peak) rates. The World/ Developed/ Emerging Index was up by 14%/14%/3%; S&P 500 / Nifty was up by 19% / 10%. During this period, FIIs became net buyers across geographies. FIIs bought US$ 16bn in India.

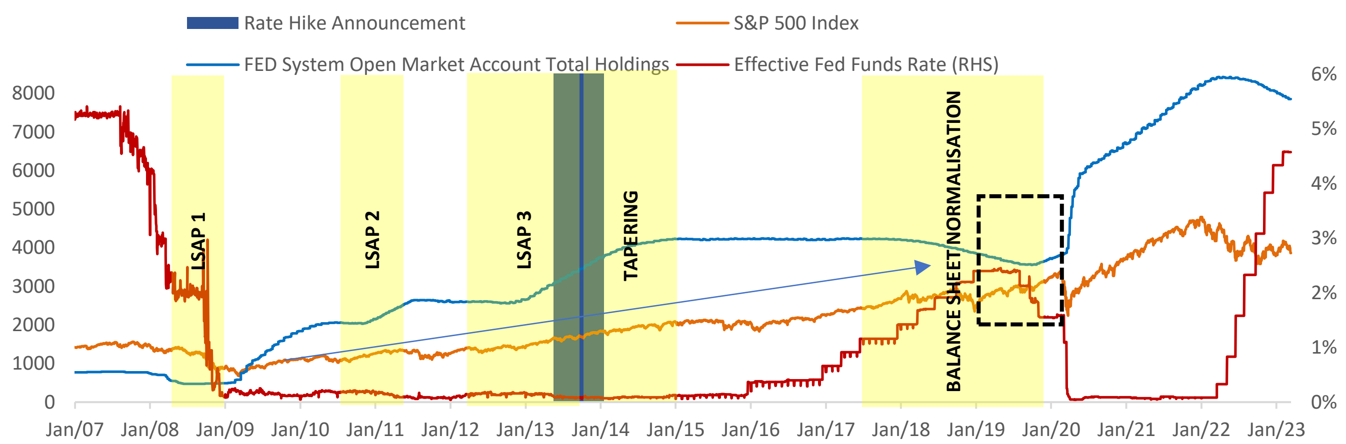
The differentiating factor this time is that rate tightening has been swift and larger. The US Fed rate of near 5.5% for a prolonged period is bound to cause economic and financial damage. We believe that equity markets are yet to fully factor in the likely economic damage from elevated interest rates.

FTSE World Index and Fed funds rate (%)



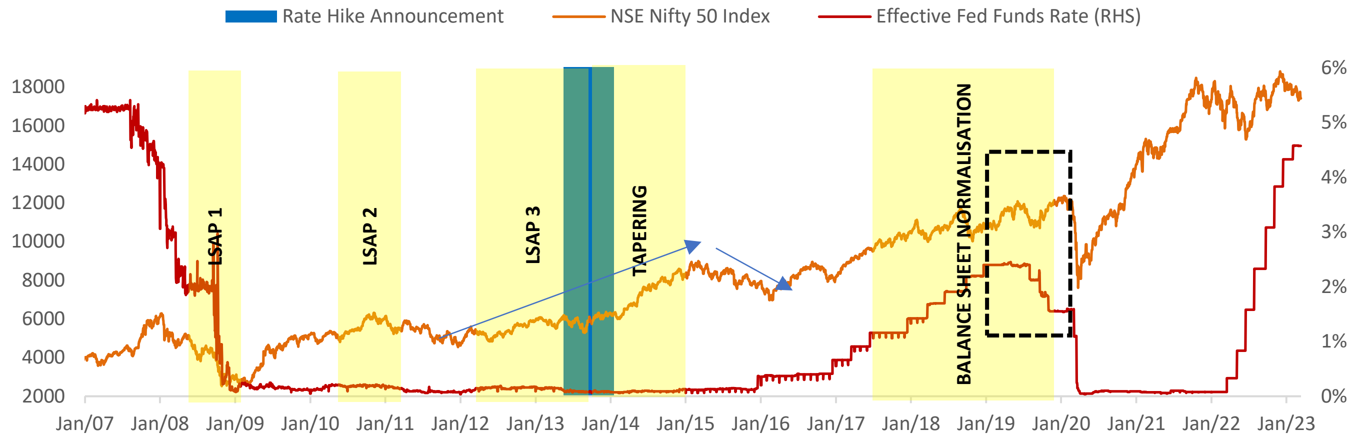
Source: Bloomberg, PhillipCapital India Research

S&P 500 Index, US balance sheet (USD bn) and Fed funds rate (%)



Source: St Louis Fed, Bloomberg, PhillipCapital India Research

NSE Nifty 50 Index and Fed funds rate (%)

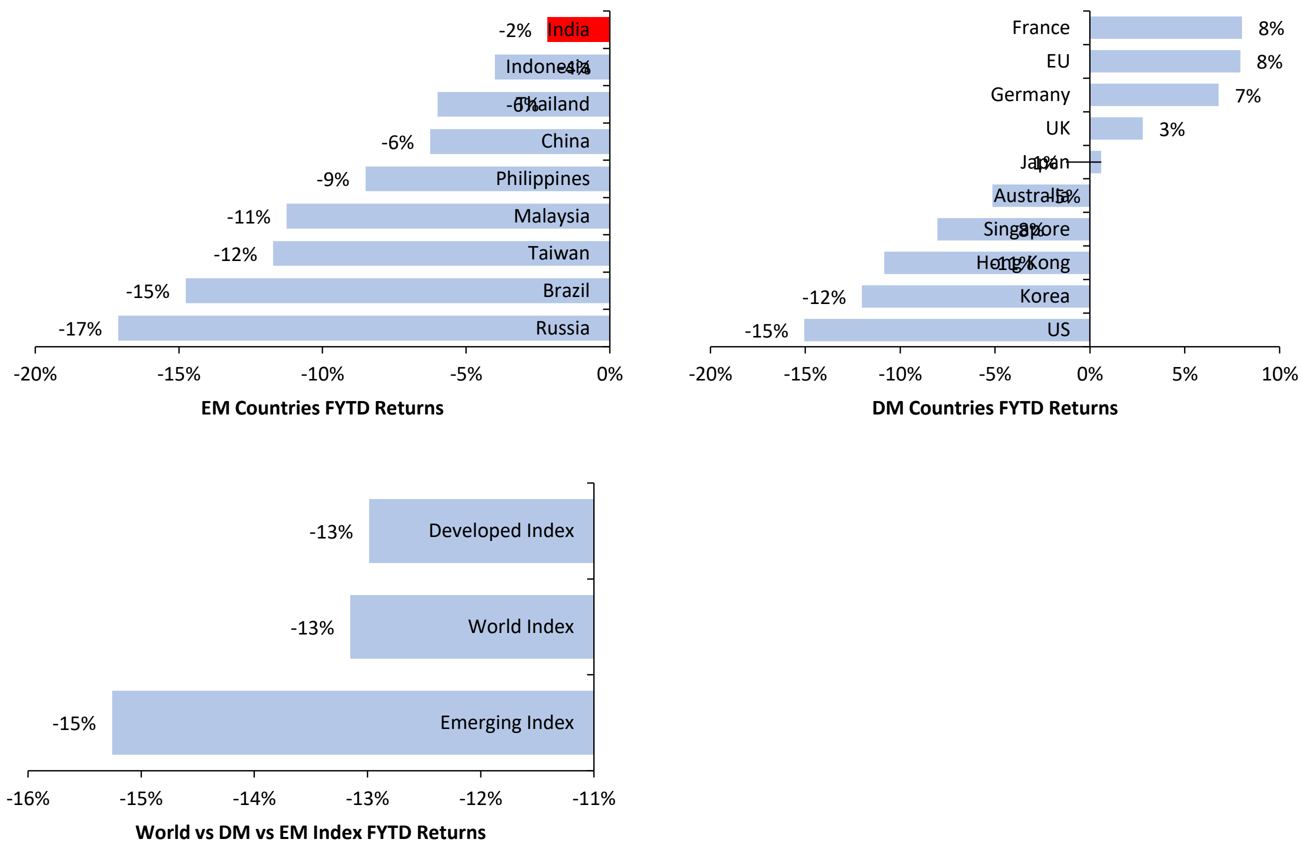


Source: St Louis Fed, Bloomberg, PhillipCapital India Research

Recent equity performance – only India performed better than other EMs

Considering all major countries' equity returns within emerging markets and developed markets, FYTD23 return of DM and EM countries was negative; DMs performed better than EM countries. India saw -2% returns FYTD, whereas other major EM countries gave more negative returns; among major DM countries, only European countries reported positive returns.

FYTD23 returns of EM and DM equities



Source: Bloomberg, PhillipCapital India Research

PhillipCapital Model Portfolio

PC-India	Previous	Latest
ICICI Bank	4.75	4.75
L&T	4.50	4.75
HDFC Bank	4.50	4.25
Ultratech	3.60	3.60
Reliance (NR)	3.50	3.50
HDFC Ltd	3.00	2.75
Maruti	2.50	2.50
Infosys	2.00	2.00
HUL	1.25	1.50
TCS	1.50	1.00
Titan	0.50	0.00
Asian Paints	0.50	0.00
TOTAL	**32.10**	**30.60**
Cash	**6.15**	**9.90**
TOTAL	**100.00**	**100.00**

PC-Alpha	Previous	Latest
Axis Bank	3.00	3.00
Siemens	2.50	3.00
SBI	2.75	2.75
HAL	2.00	2.50
BEL	2.50	2.25
Praj Industries	2.00	2.00
Bharat Forge	2.00	2.00
Bajaj electricals	1.50	1.50
M&M	1.50	1.50
Finolex Cables	0.00	1.50
Thermax	0.00	1.50
SAIL	0.00	1.50
Jindal Saw	2.00	1.00
Tata Motors	1.00	1.00
LTI Mindtree	1.00	1.00
Trent	1.00	1.00
Tata Steel	1.00	1.00
Havells	1.00	1.00
Hindalco	1.00	1.00
Godawari Power Ispat (NR)	1.00	1.00
Shree Cement	0.00	1.00
Orient electric	0.00	1.00
SBI Insurance	1.50	0.00
JK Cement	1.00	0.00
VRL Logistics	1.00	0.00
Mahindra Logistics	1.00	0.00
GDL	0.50	0.00
Ashok Leyland	0.50	0.00
Sanghi industries	0.50	0.00
Page Industries	0.50	0.00
	35.25	**35.00**

PC-Others/Not rated	Previous	Latest
Bajaj Finance	3.00	3.00
United Breweries (NR)	2.00	2.00
PG Electroplast	2.00	2.00
Bharti	1.50	2.00
ITC	1.50	1.50
Indigo (NR)	1.50	1.50
Britannia	1.50	1.50
Ambuja Cement	0.00	1.50
ACC	2.00	1.00
Dixon (NR)	1.00	1.00
InfoEdge (NR)	1.00	1.00
PVR (NR)	1.00	1.00
Dmart	1.00	1.00
VIP (NR)	1.00	1.00
Divi's Labs	1.00	1.00
SRF	1.00	1.00
ABB	1.00	1.00
Camlin Finesciences	0.50	0.50
Bluedart (NR)	1.00	0.00
Godrej Prop (NR)	1.00	0.00
Adani Enterprises (NR)	1.00	0.00
	26.50	**24.50**

Source: PhillipCapital India.

The model portfolio is not advice or recommendation or a suggestion for buying or selling securities as shown. It is only an indicative portfolio to show how a portfolio can be built. Please consult an expert to build your portfolio.

Adjustments made
Key weight reduction: HDFC Bank, HDFC Ltd, TCS, BEL, Jindal Saw, ACC.
Key weight increase: L&T, HUL, Siemens, HAL, Bharti.
Stocks added: SAIL, Orient electric, Shree Cement, Finolex Cables, Ambuja Cement.
Stocks dropped from portfolio: Titan, Asian Paints, JK Cement, SBI Insurance, Sanghi industries, GDL, VRL Logistics, Page Industries, Ashok Leyland, Mahindra Logistics, Bluedart (NR), Godrej Prop (NR), Adani Enterprises (NR).

Source: PhillipCapital India Research

PhillipCapital Model Portfolio Returns and Alpha against key Indices

Nifty Index	Cumulative since Aug'20	Cumulative Alpha since Aug'20
Nifty 50		9.8%
Nifty 100		10.6%
Nifty 200		7.3%
Portfolio Return	**67.7%**	

PhillipCapital: Sector outlook and top picks

AGRI INPUTS

Sector outlook: Near-term: Neutral; Long-term: Positive
FY24-25 perspective:

- Agri inputs demand should pick up in FY24 with reduction in RM prices, decline in inventory built up, and normal monsoons.
- The year could see good push in exports with strong demand and also due to c.US$ 4bn molecules going patent.
- Agrochemicals: We have a BUY on UPL, supported by reduction in net debt below US$ 2bn, strong domestic and exports performance, and backward integration of key molecules to support margins.
- FY24 is expected to be year wherein the volume contribution will be significant with margin expansion.
- Fertilisers: In FY24, there will be a reduction in subsidy (less than Rs 2tn) and MRP, but a reduction in key RM prices will reduce margin pressure.
- In this sector, we have a BUY on Coromandel, supported by backward integration in sulphuric acid, debottlenecking in phosphoric acid, reduce dependence on Mancozeb, and strong market share in key regions.

Top picks: Coromandel and UPL

AUTOMOBILES

Sector outlook: Near-term: Positive; Long-term: Positive
FY24-25 perspective:

- PV demand will remain strong driven by recent launches and high waiting periods.
- 2W outlook is a little weak due to high acquisition costs, though the premium segment should fare better. The focus is now more on EVs with all the mass market players having launched their EV products.
- CV demand should remain buoyant with favourable factors including government focus on infra, high industrial production, high utilisation rates supported by freight rates.
- The tractor segment would be a little subdued on the base of historically high volumes with agri commodity prices also easing.
- Margins should improve, aided by correction in RM prices and greater assimilation of price hikes taken in FY23 combined with greater operating leverage.

Top picks: M&M, Maruti Suzuki, and Tata Motors

BANKING

Sector outlook: Near-term: Positive; Long-term: Positive
FY24-25 perspective:

- Credit growth should remain higher than nominal GDP growth, as infra-led demand kicks in.
- After strong NIM performance and limited head room to improve credit deposit ratio, margin should remain under pressure as deposit costs start hitting.
- Asset quality to remain benign, considering the favourable corporate NPA cycle and strong retail consumer base (post covid-related clean up).
- Banks are well poised to deliver mid teen earnings growth and deliver superior return ratios.

Top picks: ICICI Bank, HDFC Bank, and Axis Bank

CAPITAL GOODS

Sector outlook: Near-term: Positive; Long-term: Positive

FY24-25 perspective:

- PLI schemes initiated by the government are likely to incentivize private players, both domestic and foreign, to set up manufacturing facilities in an environment of improving demand conditions. Major private capex investments are likely in energy transformation, emerging tech, healthcare, logistics, industrial parks, data centres, etc. which augurs well for the capital goods sector.
- We believe this sector's companies would benefit from the record budgeted outlay for the Indian Railways, which should provide the necessary impetus to programs like the dedicated freight corridor, high-speed rail, rapid rail transport, etc. We also expect increased traction for railway modernization projects like Vande-Bharat Trains, locomotive upgrades, station re-development, and electrification and track upgradation.
- Target of setting up 10-20 GW of large green energy capacity comprising of solar and wind parks, which will drive demand for grid-integration products like HVDC, STATCOM, substations, etc.
- We think electronics, data center, warehouse & logistics, energy transition, and F&B projects will drive short-cycle ordering while transportation infra, power T&D, renewable, water, and defence projects will drive large-cycle ordering in FY24.
- Correction in raw material prices from peak levels, reduction in freight costs, higher capacity utilization, and better operating leverage will aid in margin expansion for the sector.

Top picks: L&T, Siemens, Thermax, HAL and Bharat Electronics

CEMENT

Sector outlook: Near-term: Cautiously Positive Long-term: Positive

FY24-25 perspective:

- Cement demand is likely to grow at a CAGR of 7% over FY23-25.
- FY24 is likely to see a surge in demand (H1FY24 led by pre-election era).
- Pricing is currently muted, but despite this, the profitability of the sector is likely to improve driven by:
    - Reduction in fuel prices.
    - Accelerated work on improving supply-chain efficiencies and ground practices.
- Utilisations are likely to remain subdued (less than 70% pan-India).
- Incremental capex announcements may not be great, especially organic. Inorganic moves not ruled out.

Top picks: UltraTech Cement, Shree Cement and JK Lakshmi Cement

CONSUMER ELECTRICALS/DURABLES

Sector outlook: Near-term: Positive; Long-term: Positive

FY24-25 perspective short term:

- Expect upcoming summer season to be buoyant, brands with improved product offerings, strengthened distribution and own manufacturing should see market-share gains.
- Expect some headwinds in the short term such as raw material volatility, increased competitive intensity and normalised spending from the brands side to restrict margin expansion.
- Brands will focus on higher volumes to gain market share and enhance cost optimization, which will help in increasing operating leverage and save EBITDA margins.
- With a covid-free summer season, volumes will rise, mainly because of strong brand recall, distribution, and positioning (pricing).

Medium to long term:

- Long-term demand drivers for AC sales, AC PLI on components, continuously strengthening market-leadership position (strong brand recall) will help.
- Share of unorganised players will shrink with change in star rating; we see strong recovery in B2C demand and improvement in real-estate demand to help.

Tiles industry

- We see strong pick-up in volumes for the industry and leading domestic brands to see an increase in market share based on improving exports demand, recovery in tier 2/3/4 cities, improvement in domestic construction activity, and lower interest rates.
- With strong pricing and improvement in product mix, companies will see better in margins.
- Companies will benefit from a pick-up in domestic construction activity, increasing touch points, and improving product offerings.
- With softening of freight prices, exports from Morbi are likely to see a pick up. Gas cost has more or less stabilised, price gap between natural gas and alternative fuels like propane has narrowed.
- Domestic brands are gaining market share based on strong industry tailwinds, and they have improved collections and their working-capital cycles.

Top picks: Orient Electric, Finolex Cables, PG Electroplast, and Century Ply

FMCG

Staples - Sector outlook: Near-term: Highly Positive; Long-term: Positive
Discretionary - Sector outlook: Near-term: Negative; Long-term: Positive
FY24-25 perspective:

- Most staples will see decent recovery in operating profits (15% EPS CAGR over FY23-25) as : (1) volume growth gets a leg- up on back of upswing in rural economy, favourable base, and up-tick in fiscal spending ahead of central elections in 2024, (2) worst of RM inflation is behind us; moreover consumer companies have taken calibrated price hikes which largely negate RM pressure to a large extent, (3) companies re-focus on premiumization / NPD, as India reverts to normalcy after two years of pandemic pain, and (4) there is reduction in competitive intensity, as start-up/D2C companies face funding winter and mainstream companies focus on profitability.
- However, from a two-year perspective, consumer staples stocks look attractive on valuations (on average, they are trading near five-year average PE), decent dividend yield (1.5-1.8%), and prospects of economic recovery. Key risk: If El-nino fructifies in FY24, our thesis on staples might not hold and it will impact the overall demand.
- **Paint sector:** We expect multiple de-rating for the paint sector to play out in medium term as launch date of Grasim comes near; although structural moats remain intact.
- **Consumer discretionary companies** (QSR and jewellery) is expected to slowdown in FY24 as discretionary consumption takes a hit because of: (1) High CPI inflation, (2) job layoffs / slowdown in hiring, (3) sharp increase in interest rates on home loans, (4) comeback of local /regional players, (5) exhaustion of covid-led savings impacting high-ticket purchase of paints / jewellery.

Top picks: HUL, Britannia, GCPL, and ITC

INFORMATION & TECHNOLOGY

Sector outlook: Near-term: Positive; Long-term: Positive
FY24-25 perspective:

- We believe revenue growth rates will see moderation in FY24 after the very strong acceleration that we saw in the last two years due to accelerated digital adoption. Moderation is led by slowing discretionary spending, aggravated by a difficult macro environment. Factors such as recession, fears in the US & EU, persistent high inflation in developed markets, Russia-Ukraine War, etc. are clouding the near-term outlook for the sector. Despite macro volatility, revenue growth performance and deal wins were strong in Q3.

- Long-term demand for IT services remains strong. As per Gartner, while the global IT services market saw 3.2% CAGR in the last decade, Indian IT exports saw 9.7% (Nasscom). Over the next five years, Gartner expects global IT services spending CAGR at 9%. Indian IT companies are expected to maintain outperformance gap gaining market share from global peers, which should result in double-digit growth for the industry for the next few years. Other bottom-up indicators remain positive – as highlighted by ISG deal wins and guidance, ACN's outsourcing growth (report here), strong TCVs (report here) – underpinning our positive stance.
- Deal-win TCVs (total contract values) were robust in Q3, even in a challenging macro environment, with strong yoy growth rates (10-67%, ex of TCS) and stable-to-improving book-to-bill ratios. Pipeline commentaries across the board remain healthy. Robust TCVs and healthy pipelines provide good visibility for FY24 growth rates.
- Margins should continue to expand in FY24 on levers like: (1) freshers billability, (2) moderating attrition, (3) operational efficiencies (utilization, offshoring, automation, lower sub con), and (4) select pricing improvement. We are building in 30-120bps expansion across our coverage (ex LTTS) for FY24.
- We are forecasting high-single-digit growth in tier-1 and low-to-mid double-digit growth in tier-2 (including LTIMindtree) for FY24. For FY25, we are forecasting low double-digit growth for select tiers 1sand mid-teens growth for tier 2 (including LTIMindtree). Valuations have come off from the peaks we saw last year, providing comfort.

Top picks: LTIMindtree, Infosys, TCS, Coforge, Persistent and Mphasis

INFRASTRUCTURE

Sector outlook: Near-term: Positive; Long-term: Positive

FY24-25 perspective:

- Huge order pipeline from various segments viz. Roads (NHAI, MoRTH), irrigation, water, etc. in FY24 will provide strong inflows, leading to robust execution in FY25.
- Monetisation deals of existing HAM & BOT assets, along with internal cash accruals, will further strengthen the balance sheet and provide growth capital for new projects.
- Margins should remain stable from here, but there is the risk of unforeseen events, which can raise the raw material prices impacting operating margins.
- The government's continued budgetary focus on infrastructure, along with the start of Bharatmala Phase – 2 (project cost US$ 36bn), will provide a strong order pipeline for all companies.

Top picks: PNC, HG Infra and NCC

INSURANCE & ASSET MANAGEMENT

Sector outlook: Near-term: Negative; Long-term: Positive

FY24-25 perspective:

- **Life Insurance**: Premium growth will moderate because of: (1) taxation on returns on high-ticket-size policy (impacting NPAR growth) and (2) higher interest rates, leading to increase in EMIs and shrinking disposable income. Protection growth may remain modest. Lower NPAR contribution and higher ULIP share may result in margin moderation, especially for IPRU Life and Max Life. VNB margins for SBI Life and HDFC Life should remain stable. We expect EV CAGR over FY22-25 for HDFC Life/IPRU Life/Max Life / SBI Life at 18%/13%/19%/19%.
- **Non-Life Insurance:** Premium growth should remain around high teens, driven by the health segment. The motor segment will continue to see highly competitive intensity. ICICI Lombard's combined ratio may remain elevated on investments towards retail health agency and technology.

- **Asset Management Companies:** Equity and SIP flows are likely to remain strong over the medium term, given strong growth in new SIP registration data. However, SEBI is studying AMCs and may tweak it downwards, leading to a decline in gross realisation for AMCs.

Top picks: SBI Life

LOGISTICS

Sector outlook: Near-term: Positive; Long-term: Positive

FY24-25 perspective:

- National logistics policy and PM GatiShakti National Master Plan is positive for development of the logistics sector in India. The government has established an institutional framework for implementing its vision.
- **Reduction in logistics cost by 2030:** (1) Promoting cost effective, environmentally sustainable modal mix, and improving efficiency. (2) Improvement in warehousing through promotion of standards, digitization and development of guideline for logistics parks. (3) Improvement in inventory management by promotion of digitalisation to facilitate tracking, improved predictability and visibility of replenishment orders, improvements in speed of transit. (4 Improved efficiency in regulatory matters to promote and support in the sector.
- Completion of Western DFCC will be positive for container rail players like Concor, Gateway Distriparks. The government is promoting rail transport as a greener and safer mode and is promoting new private terminals on the railway network.
- With increased compliance and data collection, e-invoicing under GST is benefiting organized pan-India operators to gain market share from unorganized small players.
- Increasing trend of logistics outsourcing in consumer, engineering, pharma, and other industries. It will benefit contract logistics business of TCI Ltd, Mahindra Logistics, etc.
- The container traffic in India is likely to increase to c.30mn TEU by 2030 from 16mn TEU and is likely to recover sharply from a low base of FY23.

Top picks: Gateway Distriparks, Concor, VRL and Mahindra Logisitcs

METALS

Sector outlook: Near-term: Positive; Long-term: Positive

FY24-25 perspective:

- We have divided our expectation on the metals sectors in two parts – 1HCY23 (part 1) will see demand weakness and steel mills will find it difficult to improve EBITDA/t on annual basis because recent prices hikes were only sufficient to pass on cost inflation.
- At the same time, interest rates are still increasing, albeit at a lower pace, which may peak by February/March, along with covid cases in China.
- Europe's recession and US' soft/hard landing concerns will continue to cloud the judgement of the user industry, keeping metal demand in balance.
- We expect China's demand to increase only from March–April, which will counterbalance potential recession fears in Europe.
- However, all these uncertainties and negative events should play out by April-May, and then metals are likely to see a solid bounce back in 2HCY23 (part 2).
- Interest rate reduction, recovery in the US/Europe, and low base in 1H, will help demand growth to be faster than supply resumption, allowing mills to expand margins.

Top picks: SAIL and Tata Steel

NBFC

Sector outlook: Near-term: Positive; Long-term: Positive

FY24-25 perspective:

- With covid, the choosing risk has become easier, as borrowers who didn't apply for moratorium or restructuring, naturally have predictable and steady cash flows. These customers can be levered a bit more for the same credit risk. Hence, we have seen average ticket sizes increase across asset classes. Also, more branches breaking even adds to loan growth.
- As BAF, MMFS, and CIFC cater to mass-affluent customers, their loan growth has been on an upswing since 1QFY22. CIFC and MMFS have c.70%+ of books at fixed rates, where 1/3rd of their books replenish every year, which leads to better rate transmission. BAF has 1/3rd of its book in mortgages, leading to good rate transmission, as housing finance borrowings are mostly on EBLR. This has led to strong pricing power for MMFS, CIFC, and BAF.
- Despite rate hike of 190bps since the rate increases, spreads have been largely stable, as borrowings on MCLR have a rate increase with a lag. During rate-increase cycles, assets get re-priced faster than liabilities. This leads to stable to increasing spreads.
- During covid, the cost of collections went up, and is now tapering. With increased business activity, opex is likely to inch up in ensuing quarters – with the restructuring book now mostly provided for by MMFS, CIFC, and BAF. Also, BAF, MMFS and CIFC were cautious in on-boarding borrowers during covid. Seasoning of this book will have lower-than-pre-covid credit costs. We believe credit cost is likely to taper secularly.
- With the above factors, we expect uptick in RoAs and RoEs in FY24 and FY25.

Top picks: BAF, CIFC and MMFS

PHARMACEUTICALS

Sector outlook: Near-term: Neutral; Long-term: Neutral

FY24-25 perspective:

- Formulations exports – the historical growth engine of Indian pharma – seems plagued by the following two factors: (1) irreversible effects of continued pricing pressure amid increased competition, and (2) enhanced regulatory compliance requirements leading to higher compliance costs and delays in product-launch opportunities.
- Domestic formulations (about 50% of Indian pharma) has sustained its steady growth (1.5x GDP) and continues to be a cash cow operation. But unfortunately, the dependence of large Indian peers on domestic formulations continues to be low – at about one-third.
- Future earnings growth in pharma space should come from cost-effective manufacturing, that too in APIs and intermediates (generics/NCEs), mainly led by CDMO opportunities from China+1 and cost advantages.
- From our coverage universe in pharmaceuticals DRREDDY/ZYDUSLIF will see earning CAGR of 20%/9% over FY22-25 and possess potential upside (31%/24%) at current market valuations (14x/16x FY25 P/E).

Top picks: Dr Reddy's and Zydus Lifesciences

RETAIL

Sector outlook: Near-term: Neutral; Long-term: Positive

FY24-25 perspective:

- Premium segment would continue to post steady growth while the mass segment recovers gradually from inflationary pressures on discretionary income.
- Topline growth will come primarily from offline network expansion (EBOs and MBOs) and building on omni-channel capabilities (back-end and front-end).
- Shift in consumption towards organised retail from unorganised, especially in lower tier towns, remains a huge tailwind for the industry.
- Return ratios of most companies should improve, given lean cost structure, reduction in debt, improving working capital and greater operating leverage.

Top picks: Trent and Shoppers Stop.

SPECIALTY CHEMICALS

Sector outlook: Near-term: Neutral; Long-term: Positive

FY24-25 perspective:

- Re-pricing of chemicals lower based on: (1) sharp correction in crude price as well as freight costs, (2) softening input/energy costs, and (3) uncertainty about the global economic slowdown, which has weakened the near-term growth outlook of the sector. However, lowering costs could gradually improve the sector's earnings efficiency.
- The long-term growth outlook remains unchanged and robust, based on a huge exports' opportunity led by India emerging as the chemicals manufacturing hub for the world, de-risking of the Chinese supply chain by the western world, and multiple trade agreements recently signed by the Indian government with Australia, Saudi, the UK, etc.
- Ongoing accelerated capex in building the chemicals-eco system and simultaneous integration of operations (forward/backward) by most players will drive rapid value growth over the medium/long term.
- We believe SRF's core chemicals business should deliver 41% earnings CAGR among large-cap peers, and Camlin is likely to deliver 60% earnings CAGR over FY22-25 among small-cap peers.

Top picks: SRF and Camlin Fine Sciences.

PhillipCapital: All top picks

UltraTech Cement, Shree Cement, JK Lakshmi Cement, BAF, CIFC, MMFS, ICICI Bank, HDFC Bank, Axis Bank, SRF, Camlin Fine Sciences, Dr Reddy's, Zydus Lifesciences, Coromandel, UPL, SBI Life, HUL, Britannia, GCPL, ITC, L&T, Siemens, Thermax, HAL, Bharat Electronics, LTIMindtree, Infosys, TCS, Coforge, Persistent, Mphasis, Orient Electric, Finolex Cables, PG Electroplast, Century Ply, PNC, HG Infra, NCC, Gateway Distriparks, Concor, VRL, Mahindra Logistics, M&M, Maruti Suzuki, Tata Motors, SAIL, Tata Steel, Trent and Shoppers Stop.

PC universe: Sector-wise top picks

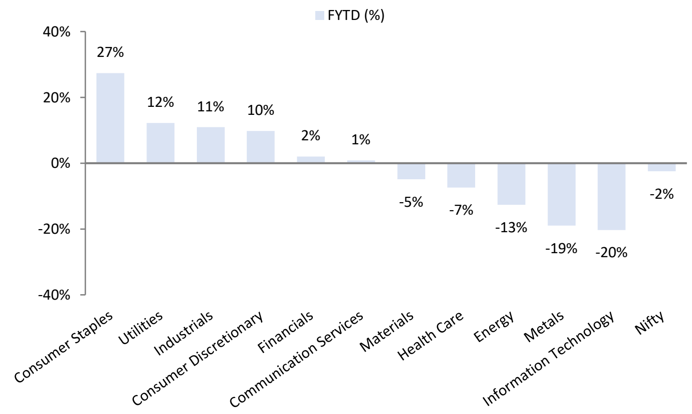
Company	Mcap Categorization	CMP	Reco	TGT	Upside (%)	Mcap (Rs bn)	Sales (Rs Mn) FY23E	Sales (Rs Mn) FY24E	Sales (Rs Mn) FY25E	EBITDA (Rs Mn) FY23E	EBITDA (Rs Mn) FY24E	EBITDA (Rs Mn) FY25E	PAT (Rs Mn) FY23E	PAT (Rs Mn) FY24E	PAT (Rs Mn) FY25E	P/E FY23E	P/E FY24E	P/E FY25E	P/B FY23E	P/B FY24E	P/B FY25E
Agri Input																					
UPL Ltd	Large Cap	709	BUY	919	30	532	5,39,641	5,80,114	6,46,389	1,19,261	1,31,106	1,51,901	49,331	55,410	61,564	11	10	9	2	2	2
Coromandel International	Mid Cap	915	BUY	1097	20	269	3,01,793	2,65,348	2,81,009	29,548	31,856	35,129	20,670	23,166	25,552	13	11	10	3	2	2
Automobiles																					
Maruti Suzuki	Large Cap	8,540	BUY	12500	46	2,580	11,19,051	13,13,764	14,81,673	1,11,442	1,55,241	1,87,860	77,963	1,14,262	1,41,591	34	23	19	4	4	3
Tata Motors	Large Cap	435	BUY	510	17	1,557	34,01,170	40,99,295	48,22,776	3,27,400	5,25,797	7,62,004	(3,405)	1,42,052	3,02,228	-	11	5	4	3	2
Mahindra & Mahindra	Large Cap	1,228	BUY	1535	25	1,527	8,42,140	9,92,203	11,19,406	1,04,772	1,27,524	1,46,938	67,955	95,442	1,11,006	24	17	15	3	3	2
Banking																					
Axis Bank	Large Cap	851	BUY	1090	28	2,617	4,29,784	4,73,875	5,35,400	3,06,665	3,45,422	3,95,804	2,06,553	2,27,805	2,52,120	13	12	11	2	2	2
ICICI Bank	Large Cap	842	BUY	1110	32	5,876	6,15,528	6,89,604	7,80,095	4,92,760	5,46,309	6,13,009	3,18,822	3,61,131	4,07,152	19	17	15	3	3	2
HDFC Bank	Large Cap	1,591	BUY	1900	19	8,874	8,56,650	12,50,275	14,97,345	7,03,887	11,20,170	13,52,118	4,39,569	6,63,114	7,99,486	20	18	15	3	3	2
Capital Goods																					
Larsen & Toubro	Large Cap	2,158	BUY	2393	11	3,033	18,42,660	20,96,779	23,53,068	2,11,690	2,56,665	2,92,189	1,06,938	1,38,100	1,62,563	28	21	18	3	3	3
Bharat Electronics	Large Cap	95	BUY	130	37	693	1,80,119	2,09,584	2,39,298	41,245	48,952	56,888	30,518	36,452	43,092	22	19	16	5	4	4
Thermax	Mid Cap	2,188	BUY	2677	22	261	81,264	91,035	1,01,690	5,952	7,768	10,172	4,406	6,110	8,176	58	42	31	7	6	5
Cummins India	Mid Cap	1,663	BUY	1813	9	461	75,290	84,747	94,841	12,161	14,377	16,921	10,721	12,856	15,105	40	34	29	8	7	7
Cement																					
UltraTech Cement	Large Cap	7,220	BUY	9200	27	2,084	5,61,964	6,52,059	7,27,592	1,10,478	1,28,190	1,48,633	55,187	68,186	84,630	36	29	23	4	3	3
Shree Cement	Large Cap	25,659	BUY	28500	11	926	1,68,554	1,90,348	2,20,387	30,550	38,690	49,354	14,926	22,417	30,643	60	40	29	5	4	4
JK Lakshmi Cement	Small Cap	685	BUY	1000	46	81	56,205	64,509	67,709	9,310	11,447	13,373	4,122	5,344	6,801	18	14	11	3	2	2
Consumer Electricals/Durable																					
Orient Electric Ltd		Small Cap	271	BUY	358	32	58	26,536	30,638	34,495	1,764	2,716	3,354	929	1,652	2,173	60	34	26	10	9
Finolex Cables Ltd	Small Cap	792	BUY	865	9	121	45,516	52,488	59,445	5,000	6,251	7,462	4,704	5,675	6,616	23	19	16	3	3	2
PG Electroplast Ltd	Small Cap	1,423	BUY	1816	28	32	19,984	26,922	32,306	1,362	1,879	2,356	613	1,180	1,542	39	20	15	7	6	4
Century Plyboards India Ltd	Small Cap	507	BUY	653	29	113	35,676	41,396	46,756	5,510	6,634	7,472	3,735	4,368	4,843	31	26	24	6	5	4
FMCG																					
Hindustan Unilever Ltd	Large Cap	2,459	BUY	3100	26	5,778	5,86,666	6,46,741	7,12,967	1,37,280	1,55,257	1,72,053	97,838	1,10,426	1,21,905	59	53	48	12	11	11
Godrej Consumer Products	Large Cap	909	BUY	1075	18	930	1,32,950	1,48,312	1,65,553	25,194	30,522	35,165	18,458	21,963	24,741	51	42	38	7	7	6
Britannia Industries	Large Cap	4,317	BUY	5400	25	1,040	1,62,358	1,81,289	2,02,825	27,614	31,611	36,012	18,987	22,277	25,876	58	49	43	35	30	25
ITC Ltd	Large Cap	388	BUY	475	22	4,819	7,06,809	7,78,327	8,61,418	2,40,475	2,78,599	3,11,349	1,86,420	2,15,277	2,41,296	25	22	19	7	7	6
IT Services																					
Infosys Ltd	Large Cap	1,471	BUY	1960	33	6,101	14,81,098	16,51,409	18,41,008	3,56,735	4,11,192	4,59,688	2,48,223	2,94,814	3,29,453	25	21	19	9	7	6
Tata Consultancy Services	Large Cap	3,326	BUY	4000	20	12,170	22,54,930	24,85,696	27,22,569	5,95,390	6,78,764	7,37,878	4,22,709	4,91,721	5,42,286	29	25	22	14	11	9
Mphasis Ltd	Mid Cap	2,048	BUY	2630	28	386	1,39,682	1,54,221	1,74,011	24,564	27,698	30,758	16,519	19,088	21,496	24	20	18	5	5	4
Persistent Systems	Mid Cap	4,731	BUY	5710	21	362	83,279	98,300	1,14,034	15,217	18,051	21,296	9,433	12,100	14,551	38	30	25	9	8	6
Coforge Ltd	Mid Cap	4,144	BUY	5160	25	253	80,044	94,463	1,08,635	14,108	17,459	20,058	8,401	10,702	12,589	32	25	21	8	7	6
LTIMindtree Ltd	Large Cap	4,636	BUY	5640	22	1,372	3,33,282	3,79,654	4,25,827	60,793	73,091	82,126	44,403	53,812	61,824	28	23	20	9	7	6
Infrastructure																					
PNC Infratech Ltd	Small Cap	293	BUY	460	57	75	69,767	79,765	91,729	9,285	10,768	12,383	5,911	7,018	8,148	14	12	10	2	2	1
NCC Ltd	Small Cap	99	BUY	128	30	62	1,30,083	1,56,100	1,79,515	13,138	16,703	19,388	5,624	8,115	9,868	10	7	6	1	1	1
HG Infra Engineering Ltd	Small Cap	791	BUY	960	21	52	44,828	53,794	61,863	7,150	8,499	9,774	4,181	5,037	5,959	11	9	8	3	2	2

Company	Mcap categorization	CMP	Reco	TGT	Upside (%)	Mcap (Rs bn)	Sales (Rs Mn)			EBITDA (Rs Mn)			PAT (Rs Mn)			P/E			P/B		
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Insurance & AMC																					
SBI Life Insurance	Large Cap	1,099	BUY	1550	41	1,100	8,61,096	10,18,685	12,21,585	20,150	24,766	15,352	20,150	24,766	15,352	59	52	46	8	7	6
Logistics																					
Container Corporation	Mid Cap	587	BUY	890	52	358	81,978	99,900	1,20,977	18,102	22,957	30,400	11,262	14,740	20,205	38	29	21	3	3	3
VRL Logistics Ltd	Small Cap	578	BUY	755	31	51	28,171	32,398	38,866	4,374	5,322	6,478	1,643	2,383	3,150	28	19	15	5	5	4
Gateway Distriparks Ltd	Small Cap	64	BUY	102	60	32	14,065	16,273	18,358	3,682	4,459	5,094	2,179	2,385	2,880	15	14	11	2	2	1
Mahindra Logistics Limited	Small Cap	368	BUY	530	44	26	52,600	63,107	73,809	2,645	3,325	4,502	328	569	1,090	100	58	30	4	4	4
Metals																					
Tata Steel	Large Cap	108	NEU	106	-2	1,318	23,26,757	22,41,832	23,59,014	3,01,945	3,11,641	3,53,100	79,464	1,19,541	1,45,901	17	11	9	1	1	1
Steel Authority of India	Mid Cap	88	BUY	105	20	362	10,32,054	10,57,775	10,95,855	81,475	1,24,818	1,36,040	18,413	52,452	62,191	19	7	6	1	1	1
NBFC																					
Bajaj Finance	Large Cap	5,853	BUY	8500	45	3,544	2,27,206	2,77,215	3,47,264	1,85,491	2,27,307	2,88,087	1,14,286	1,37,848	1,78,180	33	27	21	7	6	5
Cholamandalam Finance	Large Cap	753	BUY	860	14	619	64,284	82,659	1,00,578	44,694	56,871	67,617	25,575	32,812	40,793	24	19	15	4	4	3
M&M Financial Services	Mid Cap	244	BUY	330	35	302	61,560	73,178	88,166	38,647	45,616	55,159	19,902	24,550	30,306	16	13	10	2	2	1
Pharma																					
Zydus Lifesciences Ltd	Mid Cap	476	BUY	530	11	482	1,67,646	1,76,386	1,88,802	33,529	39,158	42,858	20,639	25,196	27,676	18	15	13	2	2	2
Dr Reddys Laboratories	Large Cap	4,403	BUY	5500	25	733	2,41,373	2,67,344	2,85,920	61,550	71,916	76,912	37,604	44,869	49,941	20	17	15	3	3	2
Retail																					
Trent Ltd	Large Cap	1,331	BUY	1525	15	473	81,442	1,03,308	1,23,460	11,153	15,136	18,842	3,959	5,680	7,310	111	77	60	17	14	12
Shoppers Stop	Small Cap	641	BUY	956	49	70	41,114	47,082	52,716	6,955	8,131	9,168	1,097	1,406	1,683	65	50	42	34	21	14
Sp. Chemicals																					
SRF Ltd	Large Cap	2,289	BUY	3150	38	679	1,43,806	1,68,250	2,00,636	35,233	43,745	53,169	21,730	26,714	32,860	30	24	20	6	5	4
Camlin Fine Sciences	Small Cap	144	BUY	230	60	23	17,043	21,999	25,550	2,267	3,630	4,599	871	1,695	2,255	26	14	10	2	2	2

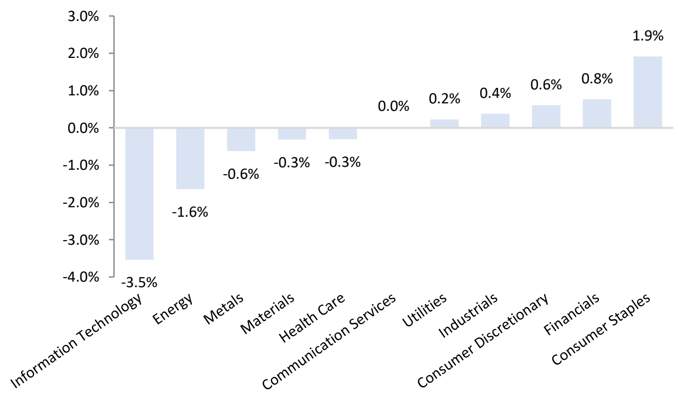
Source: PhillipCapital India Research, Bloomberg

In FYTD23, we have seen highest returns in consumer staples, financials, consumer discretionary, industrials, and utilities indices; IT, metals and energy performed the worst. In sectoral indices, NSE FMCG, auto and banks have been the best performers; realty, energy, IT and pharma have been the worst.

Nifty: FYTD sectoral returns

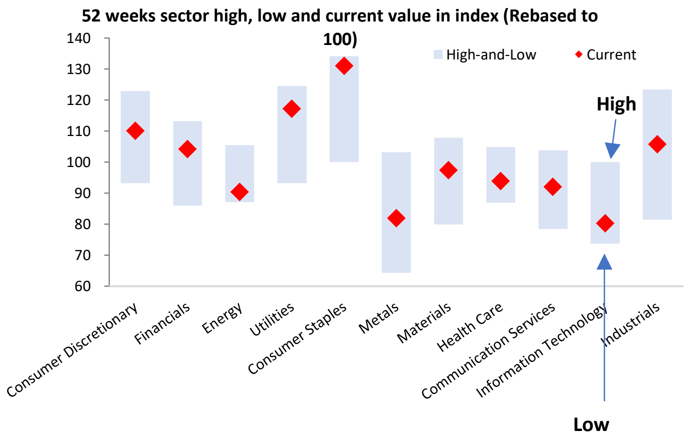


Nifty: Sectoral contribution to FYTD growth

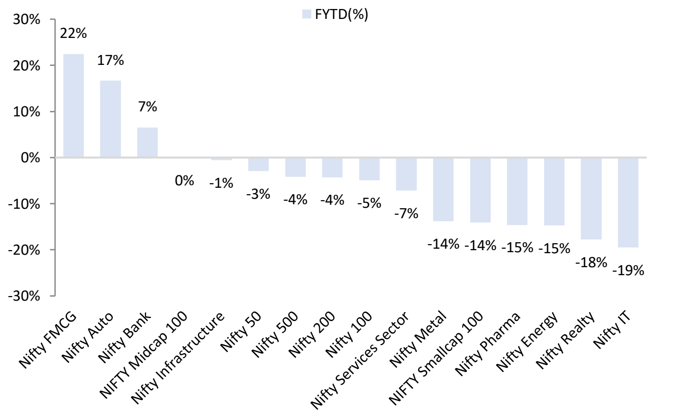


Source: PhillipCapital India Research, Bloomberg

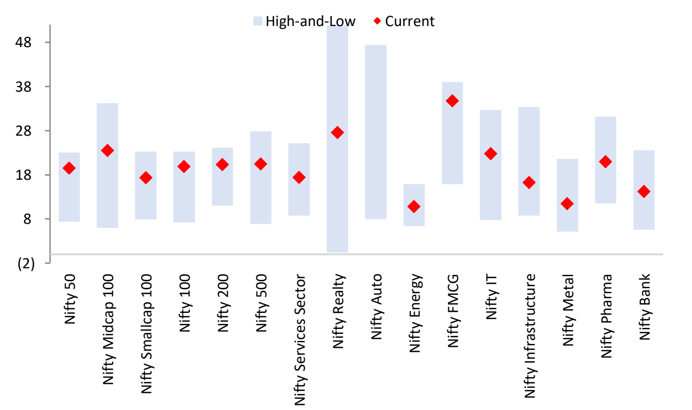
Nifty FYTD, sector-wise high, low, and current value



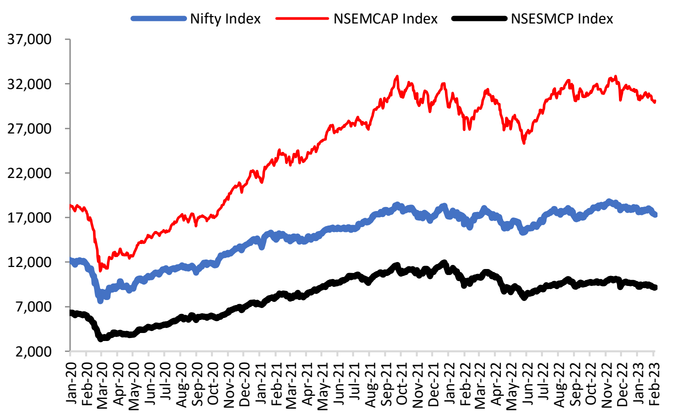
Sectoral indices returns



Long-term: One-year rolling forward PE - high, low and current



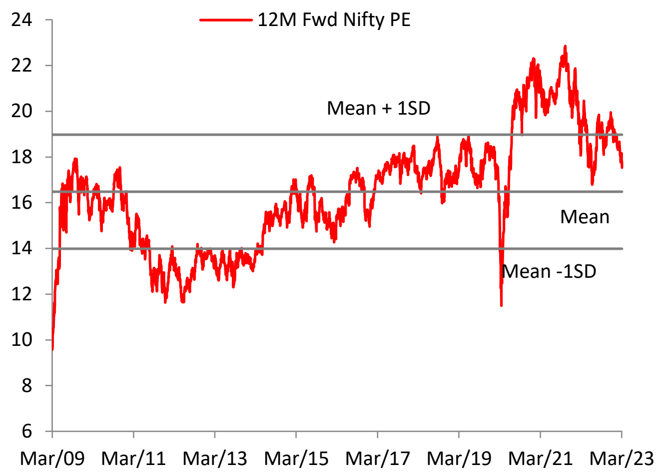
Nifty 50, Nifty Midcap 100, and Nifty Smallcap 100

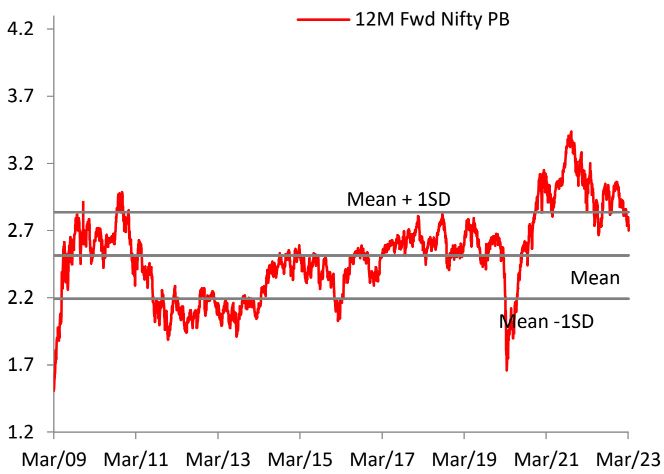


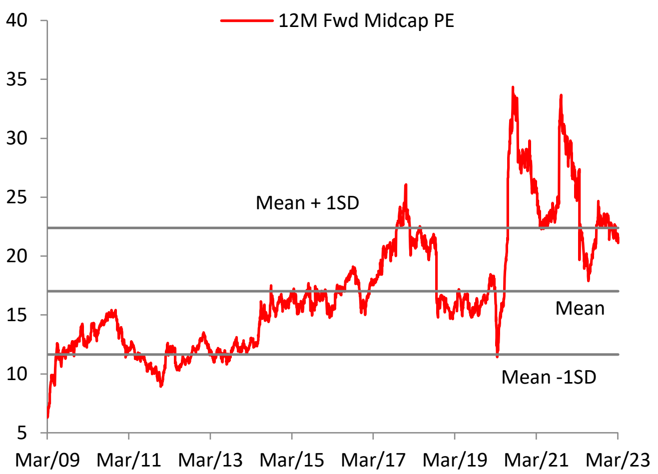
Source: PhillipCapital India Research, Bloomberg

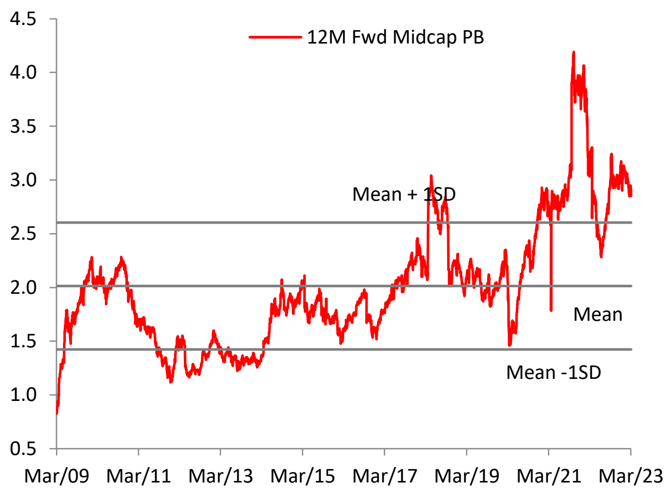
<u>Nifty indices:</u> Nifty/ MidCap/ Small Cap indices are trading below +1SD at 12M forward PE. Mid and Small Cap are trading above +1SD at 12M forward PB.

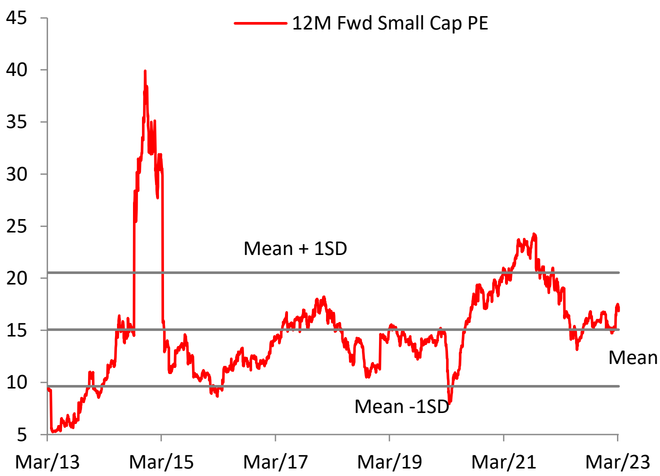
Nifty valuation charts

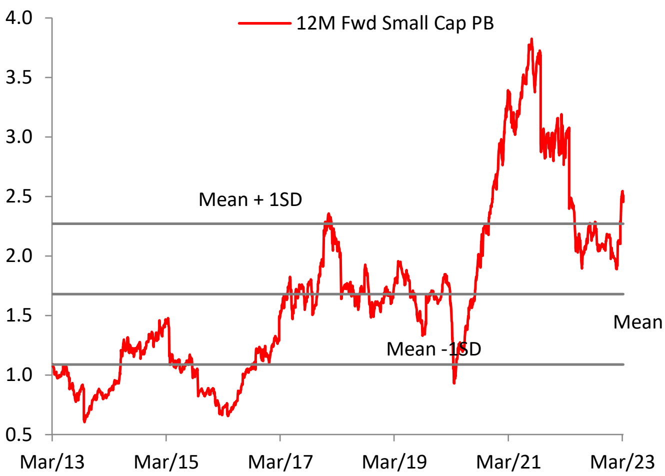










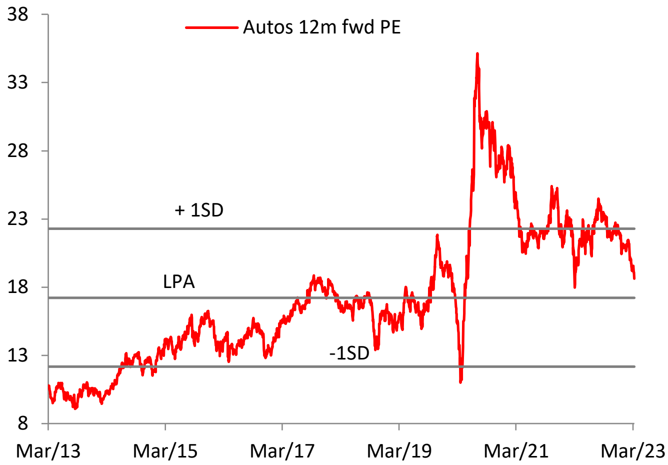


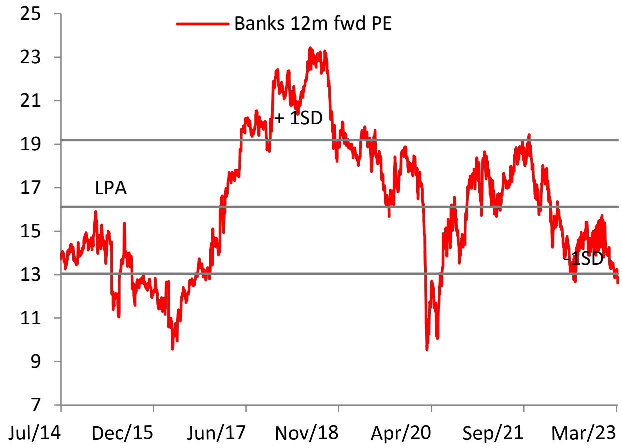
Source: Bloomberg, PhillipCapital India Research

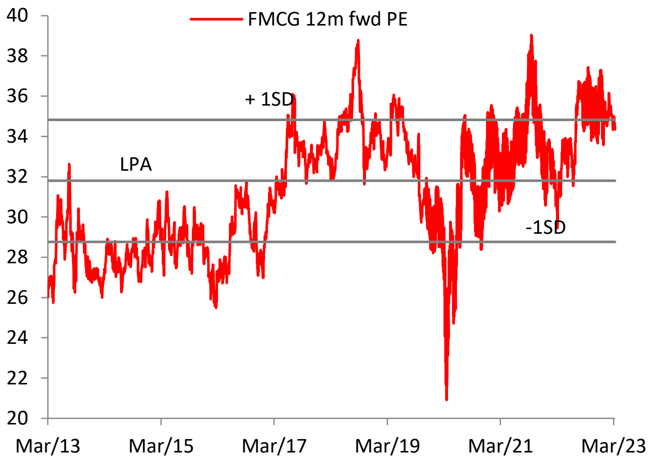
NSE sector indices:

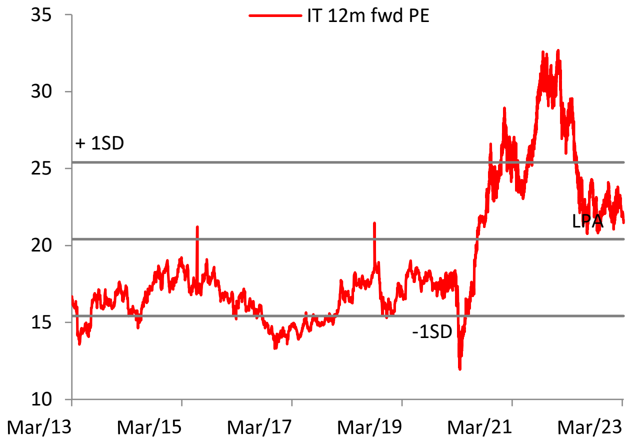
- Above +1SD: FMCG.
- Above LPA: Autos, IT, realty, metals, and energy.
- Above -1SD: Banks, pharma, PSU, infra, media, and service.

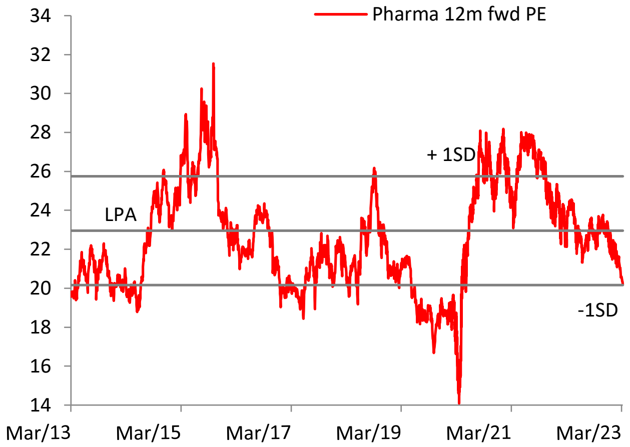
Sector valuation charts

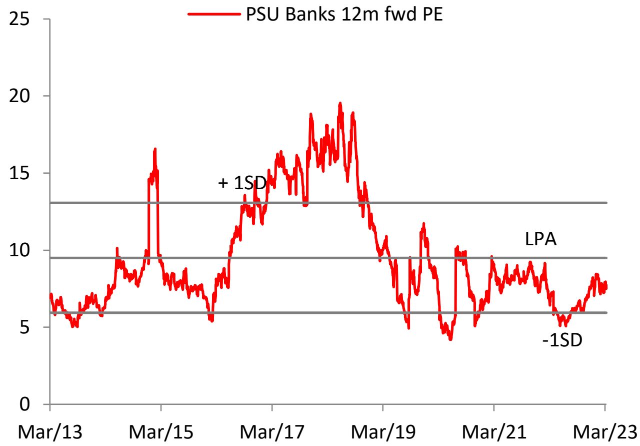






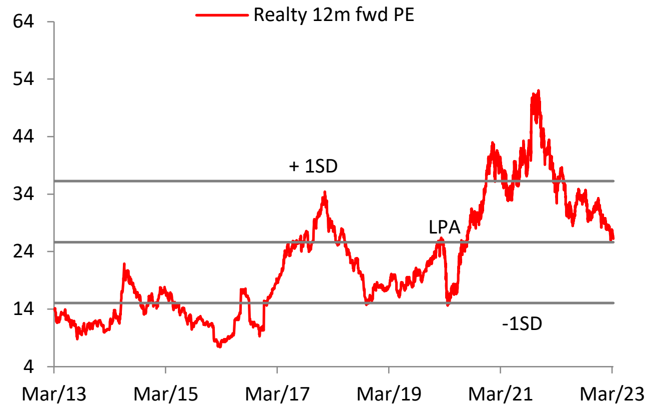


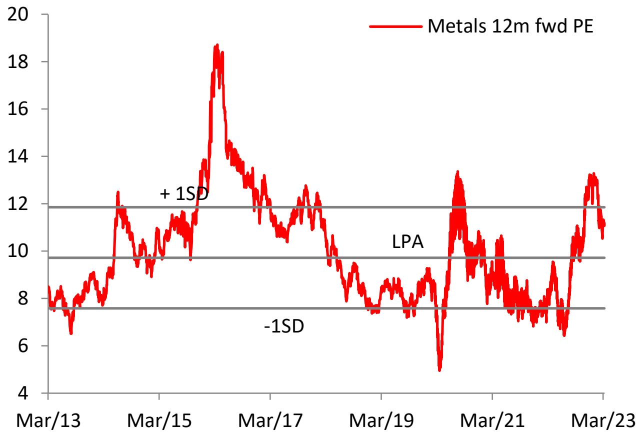


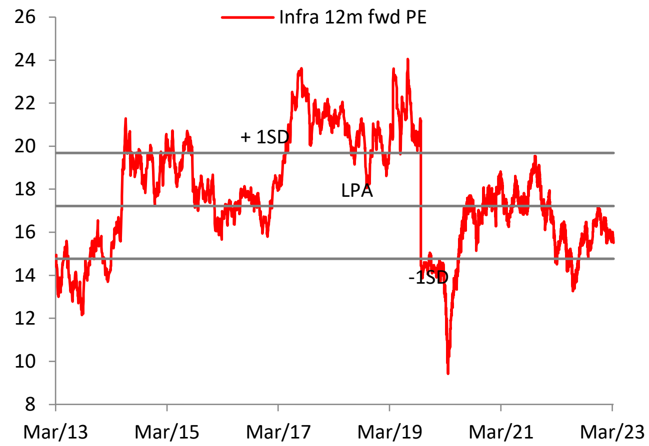


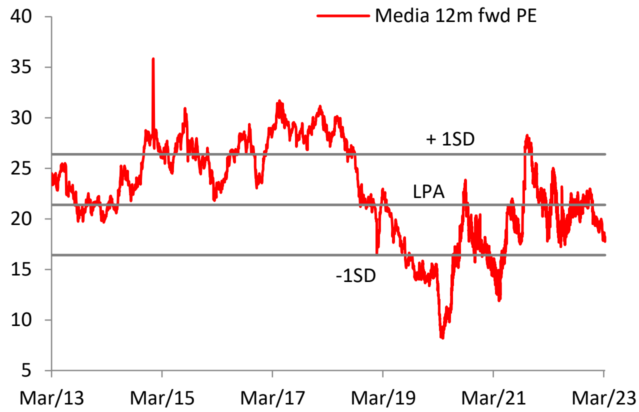
Source: Bloomberg, PhillipCapital India Research

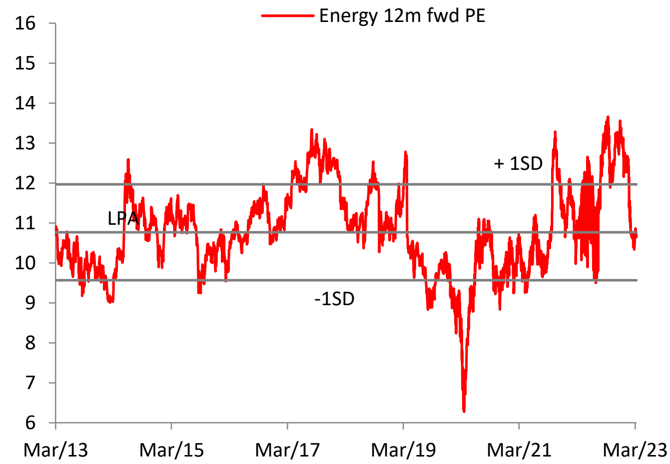
Sector valuation charts

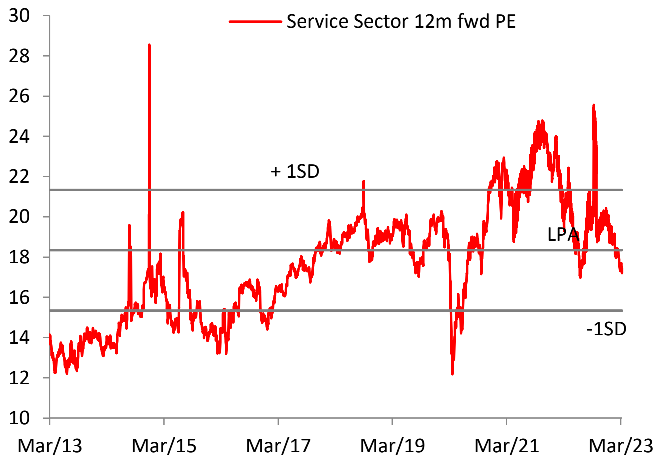












Source: Bloomberg, PhillipCapital India Research

Nifty valuations

Company	Sector	Mcap (Rs bn)	CMP	FYTD return	52 week High	PE						PB						Revenue growth (%yoy)			PAT growth (%yoy)		
						FY23E	FY24E	FY25E	Latest	Average	High	FY23E	FY24E	FY25E	Latest	Average	High	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Maruti Suzuki	Automobile	2,580	8,540	13%	9,769	35	25	21	69	19	38	5	4	4	5	3	6	34%	17%	13%	107%	47%	24%
Tata Motors	Automobile	1,557	435	0%	495	-	15	11	-	10	-	4	3	2	-	2	5	22%	21%	18%	-	-	113%
Bajaj Auto	Automobile	1,105	3,820	5%	4,132	19	17	15	18	17	23	4	4	4	4	5	9	13%	12%	13%	15%	12%	13%
Mahindra & Mahindra	Automobile	1,527	1,228	52%	1,397	23	18	17	23	14	24	4	3	3	3	2	5	47%	18%	13%	38%	40%	16%
Hero MotoCorp	Automobile	485	2,429	6%	2,939	18	14	13	22	16	23	3	3	3	3	5	7	15%	8%	10%	15%	13%	22%
Eicher Motors	Automobile	851	3,112	27%	3,890	32	25	22	53	24	47	6	5	4	7	5	15	37%	16%	13%	58%	24%	19%
UltraTech Cement	Cements	2,084	7,220	9%	7,492	41	29	24	29	23	38	4	4	3	4	3	9	7%	16%	12%	-23%	24%	24%
HDFC Bank	Financials	8,875	1,591	8%	1,722	21	18	15	21	21	37	3	3	2	-	4	6	28%	11%	14%	22%	7%	13%
Kotak Mahindra Bank	Financials	3,370	1,696	-3%	1,998	27	24	20	25	25	45	4	3	3	4	3	8	30%	10%	13%	59%	10%	11%
Axis Bank	Financials	2,617	851	12%	970	13	12	10	13	14	24	2	2	1	2	2	3	16%	10%	14%	53%	12%	13%
Indusind Bank	Financials	890	1,147	23%	1,276	12	10	8	13	15	37	2	1	1	2	2	5	19%	11%	9%	52%	12%	10%
State Bank of India	Financials	4,882	547	11%	630	9	8	7	10	10	19	1	1	1	1	1	2	30%	12%	13%	37%	13%	13%
ICICI Bank	Financials	5,877	842	15%	958	19	17	15	19	15	29	3	3	2	3	2	3	7%	-2%	9%	49%	25%	18%
Bajaj Finserv	Financials	2,115	1,328	-22%	1,846	32	26	23	50	21	47	5	3	2	6	3	7	31%	25%	27%	63%	21%	29%
Bajaj Finance	Financials	3,543	5,853	-19%	7,778	35	28	23	55	34	55	7	6	5	9	7	10	12%	9%	-	13%	14%	-
HDFC Limited	Financials	4,771	2,607	9%	2,934	31	27	24	21	22	34	4	3	3	3	4	7	10%	15%	13%	36%	145%	5%
HDFCLIFE	Financials	1,050	489	-9%	621	64	54	45	78	71	96	6	6	5	7	13	17	5%	18%	20%	-5%	8%	4%
SBILIFE	Financials	1,100	1,099	-2%	1,340	63	54	48	72	51	72	9	8	7	9	8	11	18%	10%	11%	24%	15%	12%
ITC	FMCG	4,818	388	55%	394	25	23	21	31	23	33	7	7	7	8	6	11	17%	10%	10%	11%	13%	10%
Hindustan Unilever	FMCG	5,777	2,459	20%	2,742	59	50	44	66	38	67	11	11	11	12	25	48	18%	11%	11%	28%	21%	14%
Asian Paints	FMCG	2,712	2,827	-8%	3,590	68	55	48	90	35	85	17	15	13	20	11	22	37%	12%	13%	23%	16%	15%
Titan	FMCG	2,097	2,362	-7%	2,791	67	57	47	103	32	100	19	15	12	24	10	23	16%	12%	12%	25%	17%	16%
Britannia	FMCG	1,040	4,317	35%	4,680	56	49	43	72	34	62	33	27	22	43	14	30	15%	12%	11%	11%	14%	14%
Nestle	FMCG	1,784	18,500	6%	21,053	63	54	50	77	43	84	64	55	45	75	25	29	10%	11%	11%	86%	9%	18%
Tata Consumer Product Limited	FMCG	655	705	-9%	861	60	48	41	72	18	65	4	4	4	4	2	5	15%	18%	14%	23%	29%	18%
L&T	Industrials	3,033	2,158	22%	2,298	29	23	19	36	21	44	3	3	3	4	3	13	58%	18%	14%	34%	22%	18%
Adani Ports & SEZ	Industrials	1,502	695	-10%	988	18	15	13	28	20	89	3	2	2	-	4	13	24%	-19%	9%	8%	12%	13%
Grasim	Industrials	1,050	1,595	-4%	1,840	44	43	38	15	9	66	2	2	2	1	1	2	18%	10%	10%	10%	16%	10%
TCS	IT	12,166	3,326	-11%	3,759	30	27	24	32	20	35	13	12	10	12	7	14	22%	11%	11%	12%	19%	12%
Infosys	IT	6,101	1,471	-23%	1,924	27	23	21	28	18	32	9	8	7	9	5	10	15%	10%	9%	-6%	19%	10%
Wipro	IT	2,131	389	-34%	616	19	17	15	20	15	30	3	3	3	3	3	8	18%	11%	10%	8%	11%	11%
HCL Tech	IT	3,025	1,115	-4%	1,215	20	18	16	21	15	25	5	4	4	5	3	5	20%	9%	9%	-8%	13%	13%
Tech Mahindra	IT	1,032	1,059	-29%	1,526	19	17	15	20	14	35	4	3	3	-	3	15	60%	-21%	12%	323%	42%	42%
Adani Enterprises	Metals & Mining	2,164	1,899	-6%	4,190	62	44	31	247	3	183	5	4	4	9	0	13	33%	-3%	3%	66%	-23%	-6%
Coal India	Metals & Mining	1,382	224	23%	263	5	6	6	8	11	18	2	2	2	3	4	9	-4%	-4%	5%	-79%	50%	22%
Tata Steel	Metals & Mining	1,318	108	-17%	139	12	10	8	3	8	257	1	1	1	1	1	3	14%	7%	10%	-84%	302%	29%
JSW Steel	Metals & Mining	1,632	675	-8%	790	41	13	10	9	10	24	3	2	2	3	1	3	14%	1%	-2%	-35%	8%	3%
Hindalco	Metals & Mining	907	403	-29%	636	9	9	8	7	9	24	1	1	1	1	1	2	14%	1%	-2%	-35%	8%	3%
Reliance Industries	Oil & Gas	15,697	2,320	-12%	2,856	23	19	18	26	14	29	2	2	2	2	2	5	29%	5%	6%	17%	17%	11%
ONGC	Oil & Gas	1,954	155	-5%	181	4	4	5	4	9	14	1	1	1	1	1	3	39%	-6%	-2%	-86%	427%	21%
BPCL	Oil & Gas	707	326	-9%	399	-	8	8	6	10	18	1	1	1	1	1	3	15%	17%	16%	-18%	43%	35%
Apollo Hospitals	Pharma	621	4,320	-4%	5,017	72	53	39	63	34	124	10	9	8	12	4	13	13%	11%	7%	21%	19%	11%
Dr Reddy's Labs	Pharma	733	4,403	2%	4,646	19	18	16	32	20	46	3	3	2	4	4	5	17%	7%	11%	36%	12%	11%
UPL Ltd	Pharma	532	709	-8%	848	12	10	9	16	12	19	2	2	2	2	2	5	13%	12%	8%	159%	7%	5%
Sun Pharma	Pharma	2,282	951	4%	1,072	28	24	21	73	23	33	4	4	3	5	4	8	6%	17%	9%	23%	33%	11%
Cipla Ltd	Pharma	710	881	-13%	1,185	27	22	19	33	22	33	4	3	3	4	3	5	-14%	7%	15%	-41%	11%	31%
Divi's Labs	Pharma	739	2,784	-37%	4,641	40	37	31	26	22	50	6	5	5	6	5	13	-14%	7%	15%	-41%	11%	31%
NTPC	Power	1,747	180	33%	183	10	9	8	10	12	28	1	1	1	1	1	4	23%	7%	10%	6%	12%	10%
Power Grid	Power	1,580	227	4%	248	10	10	9	9	10	18	2	2	2	2	2	2	11%	4%	4%	-12%	2%	6%
Bharti Airtel	Telecom	4,442	770	2%	877	49	30	21	59	23	5,821	6	5	4	6	2	9	20%	13%	12%	124%	63%	50%

Source: PhillipCapital India Research, Bloomberg

PC universe valuation tables

Company	Sector	Mcap Categorization	CMP	Reco	TGT	Upside (%)	Mcap (R bn)	P/E (x) FY23E	P/E (x) FY24E	P/E (x) FY25E	P/E (x) Latest	P/E (x) Avg	P/E (x) High	P/BV (x) FY23E	P/BV (x) FY24E	P/BV (x) FY25E	P/BV (x) Latest	P/BV (x) Avg	P/BV (x) High	Revenue (%yoy) FY23E	Revenue (%yoy) FY24E	Revenue (%yoy) FY25E	EBITDA (%yoy) FY23E	EBITDA (%yoy) FY24E	EBITDA (%yoy) FY25E	PAT (%yoy) FY23E	PAT (%yoy) FY24E	PAT (%yoy) FY25E
UPL Ltd	Agriculture	Large Cap	709	BUY	919	30	532	11.0	9.7	8.8	15	13	19	2.2	1.8	1.5	2	2	5	17%	7%	11%	17%	10%	16%	36%	12%	11%
Coromandel International	Agriculture	Mid Cap	915	BUY	1097	20	269	12.7	11.3	10.3	18	15	22	3.1	2.5	2.0	4	3	5	58%	-12%	6%	37%	8%	10%	35%	12%	10%
PI Industries Ltd	Agriculture	Large Cap	3,094	NEU	3381	9	469	41.0	32.9	26.4	56	27	53	6.4	5.3	4.4	8	6	8	23%	18%	18%	32%	24%	23%	37%	25%	25%
Chambal Fertilisers	Agriculture	Small Cap	287	BUY	361	26	120	10.2	8.3	5.7	8	8	14	1.5	1.2	1.0	2	1	3	81%	-17%	11%	2%	6%	44%	-20%	24%	45%
HDFC AMC	AMCs	Mid Cap	1,756	BUY	2300	31	375	26.5	23.5	20.5	27	35	57	6.2	5.7	5.2	7	11	22	4%	14%	14%	2%	15%	17%	4%	17%	16%
Nippon Life AMC	AMCs	Mid Cap	225	BUY	340	51	140	19.4	17.1	15.1	19	26	44	4.0	3.8	3.6	4	6	10	1%	10%	10%	2%	10%	10%	0%	11%	10%
Maruti Suzuki	Automobiles	Large Cap	8,540	BUY	12500	46	2,580	34.0	23.2	18.7	66	24	38	4.5	3.9	3.4	5	4	6	34%	17%	13%	97%	39%	21%	107%	47%	24%
Bajaj Auto	Automobiles	Large Cap	3,820	BUY	4330	13	1,105	18.7	16.8	14.8	18	17	23	3.5	3.1	2.7	4	4	6	13%	12%	13%	26%	13%	14%	15%	12%	13%
Mahindra & Mahindra	Automobiles	Large Cap	1,228	BUY	1535	25	1,527	23.9	17.0	14.6	21	16	24	3.3	2.8	2.4	3	2	4	47%	18%	13%	49%	22%	15%	38%	40%	16%
Hero MotoCorp	Automobiles	Large Cap	2,429	NEU	2650	9	485	24.9	22.0	18.0	21	16	23	2.9	2.8	2.5	3	4	7	15%	8%	10%	18%	12%	20%	15%	13%	22%
Tata Motors	Automobiles	Large Cap	435	BUY	510	17	1,557	-	11.3	5.3	–	10	–	3.6	2.8	1.9	–	2	4	22%	21%	18%	18%	61%	45%	-	-	113%
Ashok Leyland	Automobiles	Mid Cap	145	NEU	155	7	426	42.6	20.1	13.5	–	27	–	5.3	4.4	3.4	6	5	5	59%	15%	13%	152%	59%	37%	88%	112%	50%
Bharat Forge	Automobiles	Mid Cap	822	BUY	1055	28	383	50.4	28.2	20.2	35	25	63	5.5	4.6	3.8	6	5	8	22%	13%	11%	-7%	45%	28%	-25%	79%	39%
Escorts Kubota Ltd	Automobiles	Mid Cap	1,953	NEU	1845	-6	258	45.2	28.3	23.1	26	15	30	3.1	2.8	2.5	3	2	4	17%	11%	10%	-20%	51%	24%	-24%	60%	22%
Ceat Ltd	Automobiles	Small Cap	1,437	NEU	1610	12	58	40.2	17.1	12.7	82	13	25	1.7	1.6	1.4	2	1	3	22%	4%	8%	24%	39%	19%	91%	135%	34%
Eicher Motors	Automobiles	Large Cap	3,112	BUY	3870	24	851	34.7	28.0	23.4	51	29	47	6.9	5.9	5.0	7	6	15	37%	16%	13%	57%	20%	16%	58%	24%	19%
TVS Motor	Automobiles	Mid Cap	1,071	BUY	1220	14	509	33.6	23.9	19.8	67	24	45	8.8	7.1	5.7	12	6	12	28%	16%	10%	38%	30%	17%	64%	40%	21%
Apollo Tyres	Automobiles	Mid Cap	311	NEU	320	3	198	21.8	14.8	12.7	31	11	25	1.6	1.5	1.3	2	1	2	17%	7%	7%	23%	20%	8%	54%	48%	16%
Endurance Technologies	Automobiles	Mid Cap	1,239	BUY	1630	32	174	38.9	22.8	18.4	38	28	42	4.1	3.6	3.0	4	5	9	17%	14%	12%	9%	49%	20%	3%	70%	24%
Sona BLW	Automobiles	Mid Cap	442	BUY	520	18	259	66.6	45.7	34.7	71	66	99	11.6	9.6	7.9	13	13	22	25%	28%	26%	22%	36%	26%	9%	46%	32%
Balkrishna Industries Ltd	Automobiles	Mid Cap	1,982	BUY	2375	20	383	30.0	22.5	18.9	27	18	35	5.0	4.3	3.6	6	3	7	21%	0%	9%	-8%	30%	18%	-7%	33%	19%
HDFC Bank	Banking	Large Cap	1,591	BUY	1900	19	8,874	20.1	17.9	14.8	20	21	37	3.2	2.5	2.2	–	3	4	19%	46%	20%	10%	59%	21%	19%	51%	21%
Kotak Mahindra Bank	Banking	Large Cap	1,696	BUY	2100	24	3,369	32.7	30.5	27.1	24	27	41	4.2	3.7	3.3	4	4	5	28%	11%	14%	20%	15%	16%	22%	7%	13%
ICICI Bank	Banking	Large Cap	842	BUY	1110	32	5,876	18.7	16.6	14.7	19	14	24	3.1	2.7	2.3	3	2	3	30%	12%	13%	26%	11%	12%	37%	13%	13%
State Bank of India	Banking	Large Cap	547	BUY	730	33	4,882	9.7	8.7	7.9	10	10	19	1.6	1.4	1.2	1	1	2	19%	11%	9%	25%	10%	9%	52%	12%	10%
Bank of Baroda	Banking	Large Cap	167	NEU	160	-4	861	6.1	5.5	5.3	7	6	11	0.9	0.8	0.7	1	1	1	26%	11%	13%	18%	7%	13%	86%	11%	4%
Axis Bank	Banking	Large Cap	851	BUY	1090	28	2,617	12.7	12.2	11.0	13	15	24	2.1	1.7	1.5	2	2	3	30%	10%	13%	24%	13%	15%	59%	10%	11%
DCB Bank	Banking	Small Cap	113	BUY	140	24	35	8.1	6.4	5.6	8	8	15	0.8	0.7	0.6	1	1	2	22%	13%	14%	-7%	24%	19%	50%	27%	14%
Indian Bank	Banking	Mid Cap	278	BUY	335	21	346	6.1	5.2	4.7	8	–	–	0.8	0.7	0.6	1	–	–	21%	4%	11%	21%	-4%	9%	36%	17%	11%
Bandhan Bank	Banking	Mid Cap	224	BUY	330	47	361	11.6	8.8	7.4	287	14	30	1.8	1.5	1.3	2	2	6	11%	14%	16%	-11%	14%	14%	-	33%	18%
Indusind Bank	Banking	Large Cap	1,147	BUY	1400	22	890	11.4	10.3	9.1	13	13	23	1.5	1.4	1.2	2	2	4	16%	10%	14%	9%	11%	16%	53%	12%	13%
HDFC Ltd	Banking	Large Cap	2,607	BUY	3100	19	4,774	30.3	26.9	-	21	20	34	4.2	3.8	-	3	4	5	12%	9%	-	12%	13%	-	13%	14%	-
Kajaria Ceramics Ltd	Building Materials	Mid Cap	1,073	NEU	1048	-2	171	51.7	37.4	31.4	45	29	48	7.3	6.5	5.7	8	6	9	17%	15%	14%	-6%	30%	16%	-12%	38%	19%
Somany Ceramics Ltd	Building Materials	Small Cap	536	BUY	751	40	23	39.5	18.6	14.4	26	21	45	2.9	2.6	2.2	3	3	6	16%	14%	12%	-16%	48%	19%	-38%	112%	29%
Century Plyboards India Ltd	Building Materials	Small Cap	507	BUY	653	29	113	30.6	26.1	23.6	36	23	44	5.9	4.8	4.0	7	6	9	18%	16%	13%	4%	20%	13%	19%	17%	11%
ABB India	Capital Goods	Large Cap	3,368	NEU	3220	-4	714	64.4	71.6	59.6	70	68	90	13.3	11.5	9.9	14	7	14	24%	17%	15%	73%	20%	19%	96%	-10%	20%
GE T&D India	Capital Goods	Small Cap	116	NEU	133	15	30	104.7	60.4	20.7	–	26	32	2.5	2.4	2.2	3	–	–	-9%	10%	23%	-193%	41%	96%	-158%	73%	191%
Kalpataru Power	Capital Goods	Small Cap	581	BUY	625	8	94	16.6	11.5	9.3	16	12	27	1.9	1.7	1.5	2	1	2	13%	20%	14%	17%	27%	18%	-12%	45%	23%
KEC International	Capital Goods	Small Cap	461	NEU	485	5	118	35.5	16.7	12.6	36	14	21	3.1	2.7	2.3	3	2	5	20%	12%	10%	7%	63%	22%	-5%	113%	32%
Larsen & Toubro	Capital Goods	Large Cap	2,158	BUY	2393	11	3,033	27.8	21.5	18.3	35	21	31	3.4	3.0	2.7	4	3	4	18%	14%	12%	16%	21%	14%	23%	29%	18%
Siemens India	Capital Goods	Large Cap	3,287	BUY	3692	12	1,171	61.9	50.1	40.7	93	48	64	8.7	7.7	6.7	10	6	9	17%	18%	19%	36%	20%	22%	17%	23%	23%
Cummins India	Capital Goods	Mid Cap	1,663	BUY	1813	9	461	40.4	34.0	29.0	49	27	39	8.1	7.4	6.7	9	5	8	25%	13%	12%	37%	18%	18%	21%	20%	17%
Thermax	Capital Goods	Mid Cap	2,188	BUY	2677	22	261	58.1	41.9	31.3	79	31	57	6.7	6.0	5.2	7	4	7	34%	12%	12%	41%	31%	31%	41%	39%	34%
Bharat Electronics	Capital Goods	Large Cap	95	BUY	130	37	693	22.3	18.7	15.8	29	18	28	5.1	4.4	3.8	6	3	6	20%	16%	14%	25%	19%	16%	30%	19%	18%

Company	Sector	Mcap Categorization	CMP	Reco	TGT	Upside (%)	Mcap (R bn)	P/E (x)						P/BV (x)						Revenue (%yoy)			EBITDA (%yoy)			PAT (%yoy)		
								FY23E	FY24E	FY25E	Latest	Avg	High	FY23E	FY24E	FY25E	Latest	Avg	High	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
ACC Ltd	Cement	Mid Cap	1,843	BUY	2600	41	346	46.0	26.5	22.0	53	22	37	2.1	2.0	1.9	2	3	4	4%	11%	7%	-47%	66%	28%	-61%	74%	20%
Ambuja Cements	Cement	Large Cap	377	BUY	410	9	749	41.0	28.3	22.7	39	22	40	2.1	2.1	2.0	2	2	4	4%	14%	3%	-40%	45%	16%	-44%	45%	25%
UltraTech Cement	Cement	Large Cap	7,220	BUY	9200	27	2,084	35.8	29.0	23.4	29	27	38	3.8	3.5	3.1	4	3	5	7%	16%	12%	-4%	16%	16%	-23%	24%	24%
Shree Cement	Cement	Large Cap	25,659	BUY	28500	11	926	60.2	40.1	29.3	40	35	64	4.9	4.4	3.9	5	5	7	12%	13%	16%	-18%	27%	28%	-36%	50%	37%
Dalmia Bharat	Cement	Mid Cap	1,803	BUY	2250	25	338	87.0	119.1	61.2	30	32	217	2.1	2.1	2.0	2	2	3	14%	11%	11%	-12%	20%	19%	-65%	-27%	95%
JK Cement Ltd	Cement	Mid Cap	2,795	BUY	3300	18	216	59.0	35.2	32.3	31	18	33	4.7	4.3	3.9	5	3	6	-4%	9%	10%	-18%	41%	3%	-47%	68%	9%
JK Lakshmi Cement	Cement	Small Cap	685	BUY	1000	46	81	17.8	13.7	10.8	17	18	38	2.8	2.4	2.1	3	2	4	4%	15%	5%	-2%	23%	17%	-14%	30%	27%
The India Cements Ltd	Cement	Small Cap	196	NEU	200	2	61	-	104.9	19.9	77	15	51	1.0	1.1	1.0	1	1	2	7%	8%	8%	-106%	-	65%	-511%	-118%	426%
HeidelbergCement India Ltd	Cement	Small Cap	170	BUY	225	32	39	41.9	20.2	12.5	15	17	20	2.3	2.1	1.8	2	2	3	-2%	22%	17%	-46%	72%	42%	-60%	107%	62%
Mangalam Cement	Cement	Small Cap	260	BUY	475	83	7	19.3	8.9	5.3	9	–	–	0.9	0.8	0.7	1	–	–	1%	16%	17%	-23%	45%	37%	-37%	117%	68%
Sanghi Industries	Cement	Small Cap	60	NEU	60	0	15	-	-	17.2	37	5	7	1.2	1.2	1.1	1	0	0	-11%	57%	31%	-99%	-	87%	-744%	-86%	-378%
Star Cement	Cement	Small Cap	111	BUY	135	22	45	19.7	22.5	40.7	18	13	22	1.9	1.8	1.8	2	2	4	16%	12%	13%	24%	11%	18%	-16%	-13%	-45%
Polycab India Ltd	Electricals	Mid Cap	2,949	BUY	3328	13	442	33.7	29.1	25.1	38	23	38	6.7	5.7	4.8	–	4	7	16%	13%	12%	43%	14%	15%	48%	16%	16%
V-Guard Industries Ltd	Electricals	Small Cap	246	BUY	314	27	106	56.3	34.7	27.4	47	38	47	6.7	5.9	5.0	8	7	10	15%	25%	13%	-9%	62%	21%	-17%	62%	26%
Bajaj Electricals	Electricals	Small Cap	1,090	BUY	1407	29	125	54.7	35.9	29.0	97	36	58	6.6	5.7	4.8	7	6	8	10%	14%	12%	54%	37%	19%	96%	53%	24%
Finolex Cables Ltd	Electricals	Small Cap	792	BUY	865	9	121	22.9	18.9	16.3	20	14	22	3.0	2.6	2.3	3	3	4	21%	15%	13%	20%	25%	19%	16%	21%	17%
KEI Industries Ltd	Electricals	Small Cap	1,651	BUY	1761	7	149	29.6	22.9	19.2	40	15	28	5.7	4.7	3.9	7	4	5	21%	18%	15%	17%	27%	17%	24%	29%	20%
Havells India Ltd	Electricals	Large Cap	1,213	BUY	1408	16	760	70.5	46.5	38.7	63	41	70	11.6	10.2	8.7	13	8	15	22%	18%	15%	-10%	48%	19%	-10%	52%	20%
Voltas Ltd	Electricals	Mid Cap	890	NEU	893	0	294	69.0	46.4	36.3	58	28	58	5.3	4.8	4.4	5	4	8	19%	15%	13%	-13%	47%	27%	-19%	49%	28%
Johnson Control Hitachi AC	Electricals	Small Cap	1,185	NEU	1656	40	32	532.4	46.7	43.3	201	53	85	4.4	3.9	3.5	4	7	9	23%	13%	9%	-12%	143%	13%	-46%	1041%	8%
Orient Electric Ltd	Electricals	Small Cap	271	BUY	358	32	58	60.0	33.8	25.7	45	38	50	9.8	8.7	7.4	11	11	14	8%	15%	13%	-24%	54%	24%	-27%	78%	31%
Blue Star Ltd	Electricals	Small Cap	1,525	BUY	1538	1	147	41.4	30.9	23.4	87	30	56	11.0	8.7	6.9	14	6	11	28%	19%	17%	41%	25%	24%	70%	34%	32%
PG Electroplast Ltd	Electricals	Small Cap	1,423	BUY	1816	28	32	39.0	20.3	15.5	79	25	34	7.2	5.6	4.3	10	5	7	82%	35%	20%	83%	38%	25%	64%	93%	31%
CG Consumer Electricals	Electricals	Mid Cap	297	NEU	344	16	189	42.7	31.7	26.6	32	35	52	5.3	4.8	4.2	8	12	21	25%	12%	10%	0%	21%	14%	-22%	35%	19%
REC	Financial	Mid Cap	122	BUY	200	64	322	2.7	2.5	2.3	3	5	6	0.5	0.5	0.4	1	0	0	-5%	0%	12%	-13%	9%	12%	8%	8%	11%
Power Finance Corporation	Financial	Mid Cap	167	BUY	200	20	442	3.4	3.0	2.7	3	4	7	0.6	0.5	0.4	1	1	1	3%	8%	8%	-4%	21%	9%	11%	15%	11%
LIC Housing Finance	Financial	Mid Cap	351	NEU	400	14	193	7.5	6.3	6.0	8	10	14	0.7	0.7	0.6	1	2	3	9%	2%	8%	8%	0%	7%	12%	19%	5%
Repco Home Finance	Financial	Small Cap	195	NEU	230	18	12	4.2	3.9	3.8	6	5	7	0.5	0.4	0.4	1	1	1	-5%	7%	7%	-11%	7%	6%	48%	8%	3%
Hindustan Unilever Ltd	FMCG	Large Cap	2,459	BUY	3100	26	5,778	59.4	52.6	47.7	59	49	67	11.6	11.3	11.0	–	34	48	17%	10%	10%	10%	13%	11%	11%	13%	10%
Marico Ltd	FMCG	Large Cap	496	NEU	460	-7	641	50.7	42.2	37.6	52	40	53	18.4	17.3	16.1	19	14	20	4%	12%	11%	8%	19%	11%	3%	20%	12%
Jubilant Foodworks	FMCG	Mid Cap	454	NEU	500	10	300	62.9	52.7	45.1	71	52	105	11.6	10.0	8.7	15	12	30	17%	17%	14%	8%	19%	14%	-2%	19%	17%
ITC Ltd	FMCG	Large Cap	388	BUY	475	22	4,819	25.0	21.7	19.3	31	24	33	7.2	6.7	6.2	8	6	11	20%	10%	11%	27%	16%	12%	24%	15%	12%
Godrej Consumer Products	FMCG	Large Cap	909	BUY	1075	18	930	50.6	42.5	37.7	52	38	55	7.3	6.6	6.1	8	8	13	9%	12%	12%	5%	21%	15%	4%	19%	13%
Nestle India	FMCG	Large Cap	18,500	BUY	22000	19	1,784	69.2	60.9	52.8	75	73	84	67.1	57.4	47.0	73	–	–	12%	11%	11%	14%	15%	17%	14%	14%	15%
Colgate Palmolive	FMCG	Mid Cap	1,493	SELL	1225	-18	406	39.0	35.6	33.0	38	38	46	23.1	23.5	23.8	23	–	–	2%	7%	7%	-4%	9%	7%	-6%	10%	8%
Asian Paints	FMCG	Large Cap	2,827	BUY	3200	13	2,712	68.4	56.5	49.6	89	47	85	16.8	14.5	12.7	20	13	22	18%	11%	11%	26%	20%	13%	28%	21%	14%
Emami	FMCG	Mid Cap	390	BUY	485	24	172	30.3	25.1	24.5	21	32	50	7.4	6.6	6.0	8	10	18	7%	11%	10%	-11%	14%	12%	-27%	21%	3%
Britannia Industries	FMCG	Large Cap	4,317	BUY	5400	25	1,040	58.0	49.5	42.6	68	44	62	35.0	29.7	25.0	41	15	30	16%	12%	12%	25%	14%	14%	25%	17%	16%
Bajaj Consumer Care	FMCG	Small Cap	162	NEU	149	-8	23	18.5	15.2	13.5	14	19	30	2.9	2.9	2.9	3	7	14	6%	10%	8%	-25%	26%	14%	-21%	21%	12%
Dabur India	FMCG	Large Cap	529	BUY	615	16	937	54.7	48.1	41.3	54	39	57	10.1	9.2	8.4	11	10	13	6%	11%	11%	-1%	14%	16%	3%	14%	16%
Agro Tech Foods	FMCG	Small Cap	890	NEU	900	1	22	120.5	71.5	50.7	82	36	68	4.5	4.3	4.0	5	4	5	-5%	10%	10%	-10%	38%	28%	-29%	69%	41%
Tata Consumer Products Ltd	FMCG	Large Cap	705	BUY	860	22	655	59.7	50.4	42.5	69	24	65	4.2	4.0	3.9	4	2	5	10%	11%	11%	6%	13%	15%	18%	18%	19%

Company	Sector	Mcap Categorization	CMP	Reco	TGT	Upside (%)	Mcap (R bn)	P/E (x)						P/BV (x)						Revenue (%yoy)			EBITDA (%yoy)			PAT (%yoy)		
								FY23E	FY24E	FY25E	Latest	Avg	High	FY23E	FY24E	FY25E	Latest	Avg	High	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
NCC Ltd	Infrastructure	Small Cap	99	BUY	128	30	62	10.1	7.0	5.7	12	13	37	0.9	0.8	0.7	1	1	2	31%	20%	15%	32%	27%	16%	15%	44%	22%
KNR Construction	Infrastructure	Small Cap	273	BUY	310	14	77	18.8	15.2	12.0	20	17	46	2.7	2.3	1.9	3	2	4	5%	16%	18%	-4%	19%	24%	3%	24%	27%
PNC Infratech Ltd	Infrastructure	Small Cap	293	BUY	460	57	75	14.4	12.1	10.5	13	16	28	1.8	1.6	1.3	2	2	3	11%	14%	15%	18%	16%	15%	32%	19%	16%
Adani Ports & SEZ	Infrastructure	Large Cap	695	BUY	950	37	1,502	26.4	18.5	-	33	18	28	2.5	2.1	-	–	3	6	15%	13%		21%	14%		38%	43%	
Ahluwalia Contracts	Infrastructure	Small Cap	475	BUY	570	20	32	15.9	12.0	9.9	21	14	23	2.6	2.1	1.8	3	2	3	15%	16%	15%	19%	29%	20%	28%	33%	21%
HG Infra Engineering Ltd	Infrastructure	Small Cap	791	BUY	960	21	52	10.7	8.9	7.5	14	9	17	2.6	2.0	1.6	4	2	3	24%	20%	15%	22%	19%	15%	23%	20%	18%
G R Infraprojects Ltd	Infrastructure	Small Cap	1,047	NEU	1290	23	101	14.0	13.9	12.7	12	15	21	2.0	1.7	1.5	2	3	4	7%	8%	10%	6%	1%	10%	10%	1%	10%
ICICI Lombard	Insurance	Large Cap	1,073	BUY	1550	44	527	30.7	25.3	21.6	41	37	46	5.0	4.4	3.8	6	7	9	15%	12%	21%	18%	26%	25%	31%	19%	23%
Ipru Life Insurance	Insurance	Large Cap	392	BUY	540	38	563	63.1	52.7	47.1	74	44	78	5.7	5.2	4.7	6	7	10	-1%	7%	11%	-7%	4%	1%	-7%	4%	1%
HDFC Life	Insurance	Large Cap	489	BUY	625	28	1,050	61.5	52.2	43.2	75	70	96	5.8	5.3	4.9	7	13	17	10%	15%	13%	36%	145%	5%	36%	145%	5%
Max Financial Services	Insurance	Mid Cap	673	BUY	900	34	232	51.7	45.2	39.4	92	33	89	12.7	4.9	7.7	6	5	28	12%	12%	11%	67%	121%	-22%	33%	84%	-12%
SBI Life Insurance	Insurance	Large Cap	1,099	BUY	1550	41	1,100	59.5	51.9	46.0	68	52	72	8.4	7.2	6.3	9	8	11	5%	18%	20%	4%	23%	-38%	4%	23%	-38%
Infosys Ltd	IT Services	Large Cap	1,471	BUY	1960	33	6,101	25.0	21.1	18.9	26	18	32	8.7	7.5	6.3	8	4	10	22%	11%	11%	13%	15%	12%	12%	19%	12%
Tata Consultancy Services	IT Services	Large Cap	3,326	BUY	4000	20	12,170	28.7	24.7	22.4	30	21	35	14.0	10.9	8.7	11	7	14	18%	10%	10%	12%	14%	9%	10%	16%	10%
Wipro	IT Services	Large Cap	389	NEU	410	6	2,132	18.9	15.8	14.4	19	15	30	2.8	2.5	2.2	3	3	6	15%	10%	9%	3%	14%	7%	-6%	19%	10%
LTIMindtree Ltd	IT Services	Large Cap	4,636	BUY	5640	22	1,372	28.5	23.5	20.4	32	20	50	8.9	7.5	6.2	9	6	13	28%	14%	12%	16%	20%	12%	12%	21%	15%
HCL Technologies	IT Services	Large Cap	1,115	NEU	1060	-5	3,026	20.0	18.0	16.2	21	14	25	4.6	4.4	4.0	5	3	5	18%	11%	10%	9%	9%	9%	8%	11%	11%
Tech Mahindra	IT Services	Large Cap	1,059	NEU	1110	5	1,032	17.8	15.8	14.0	18	15	26	3.8	3.7	3.5	–	3	5	20%	9%	9%	2%	16%	11%	-8%	13%	13%
Coforge Ltd	IT Services	Mid Cap	4,144	BUY	5160	25	253	31.6	24.8	21.1	32	14	45	8.3	6.8	5.5	8	3	11	24%	18%	15%	26%	24%	15%	27%	27%	18%
L&T Technology Services	IT Services	Mid Cap	3,656	NEU	3490	-5	386	30.1	27.4	23.9	34	23	57	8.3	7.1	6.0	8	6	13	22%	25%	11%	20%	18%	13%	22%	10%	15%
Cyient	IT Services	Small Cap	947	NEU	910	-4	105	18.1	15.5	13.6	20	14	24	3.3	3.0	2.7	3	2	4	31%	18%	10%	19%	21%	9%	4%	16%	14%
Persistent Systems	IT Services	Mid Cap	4,731	BUY	5710	21	362	38.0	29.6	24.6	52	15	48	9.2	7.7	6.4	11	3	10	46%	18%	16%	59%	19%	18%	37%	28%	20%
Mphasis Ltd	IT Services	Mid Cap	2,048	BUY	2630	28	386	23.5	20.3	18.1	27	14	41	4.9	4.5	4.2	6	3	9	17%	10%	13%	16%	13%	11%	15%	16%	13%
KPIT Technologies Ltd	IT Services	Mid Cap	819	NEU	680	-17	225	53.7	39.8	32.8	81	25	64	14.3	11.6	9.4	17	8	12	35%	27%	15%	39%	28%	16%	36%	35%	21%
Container Corporation	Logistics	Mid Cap	587	BUY	890	52	358	37.9	29.0	21.1	34	26	39	3.4	3.2	3.0	3	3	4	8%	22%	21%	5%	27%	32%	6%	31%	37%
Allcargo Logistics Ltd	Logistics	Small Cap	380	BUY	444	17	93	13.2	15.2	14.0	10	11	20	2.5	2.8	2.4	3	2	3	-9%	-10%	7%	-22%	-13%	5%	-31%	-13%	8%
Gateway Distriparks Ltd	Logistics	Small Cap	64	BUY	102	60	32	15.2	13.8	11.5	14	14	17	1.6	1.5	1.5	2	2	2	2%	16%	13%	0%	21%	14%	-3%	9%	21%
Navkar Corporation	Logistics	Small Cap	52	BUY	81	55	8	16.9	12.5	8.9	12	10	23	0.4	0.4	0.4	0	1	2	-31%	8%	17%	-42%	14%	28%	-28%	35%	40%
VRL Logistics Ltd	Logistics	Small Cap	578	BUY	755	31	51	28.1	19.4	14.6	32	23	49	5.0	4.9	3.8	8	5	16	18%	15%	20%	8%	22%	22%	3%	45%	32%
Praj Industries Ltd	Logistics	Small Cap	347	BUY	450	30	64	29.2	19.6	19.4	42	19	43	6.0	5.0	4.3	7	2	8	49%	16%	3%	55%	48%	0%	47%	49%	1%
Pennar Industries Ltd	Logistics	Small Cap	76	BUY	90	18	11	11.3	8.3	6.0	26	8	–	1.3	1.1	1.0	1	1	2	30%	14%	16%	28%	26%	24%	77%	35%	40%
KDDL	Logistics	Small Cap	1,067	BUY	1265	19	13	42.6	23.4	22.0	39	21	–	2.1	1.9	1.8	5	3	8	31%	19%	17%	52%	16%	16%	9%	82%	6%
Mahindra Logistics Limited	Logistics	Small Cap	368	BUY	530	44	26	100.0	57.6	30.5	71	36	59	4.4	4.1	3.7	4	5	9	29%	20%	17%	34%	26%	35%	-12%	73%	92%
Transport Corporation of India	Logistics	Small Cap	629	BUY	875	39	49	15.3	14.4	13.6	17	13	24	2.7	2.3	2.0	3	2	4	17%	14%	12%	6%	11%	6%	9%	6%	6%
Aegis Logistics	Logistics	Small Cap	382	SELL	295	-23	134	28.7	24.4	21.5	37	23	38	4.9	4.2	3.6	6	4	10	85%	5%	6%	42%	16%	11%	24%	18%	13%
Indo Count Industries	Logistics	Small Cap	134	BUY	200	49	27	14.8	9.2	7.4	7	10	31	1.5	1.3	1.2	2	2	6	8%	12%	12%	4%	14%	16%	-52%	62%	23%
Tata Steel	Metals	Large Cap	108	NEU	106	-2	1,318	17.1	11.3	9.3	3	9	257	1.1	1.0	0.9	1	1	2	-4%	-4%	5%	-51%	3%	13%	-79%	50%	22%
Jindal Steel & Power	Metals	Mid Cap	574	NEU	560	-2	585	11.1	8.4	6.0	7	10	–	1.4	1.2	1.0	2	1	1	-2%	6%	25%	-33%	18%	20%	-47%	32%	41%
Steel Authority of India	Metals	Mid Cap	88	BUY	105	20	362	18.6	6.5	5.5	3	9	–	0.6	0.6	0.5	1	1	1	0%	2%	4%	-62%	53%	9%	-85%	185%	19%
JSW Steel	Metals	Large Cap	675	SELL	650	-4	1,631	61.7	13.8	10.7	8	11	24	2.4	2.1	1.8	2	2	3	14%	7%	10%	-54%	69%	17%	-84%	302%	29%
NMDC Ltd	Metals	Mid Cap	114	NEU	130	14	334	7.9	7.6	7.0	4	6	12	1.7	1.5	1.4	1	1	2	-32%	4%	11%	-53%	5%	14%	-51%	4%	8%
Hindalco	Metals	Large Cap	403	BUY	505	25	907	10.4	9.6	9.4	6	9	14	1.1	1.0	0.9	1	1	2	14%	1%	-2%	-21%	4%	1%	-35%	8%	3%
Hindustan Zinc	Metals	Large Cap	307	SELL	315	3	1,296	11.0	11.3	11.1	13	12	20	6.3	6.1	5.9	4	4	5	8%	2%	2%	8%	-2%	2%	12%	-3%	2%
National Aluminium	Metals	Small Cap	82	BUY	90	10	151	12.1	9.9	11.4	5	9	90	1.1	1.0	0.9	1	1	2	-1%	-3%	-5%	-52%	22%	-8%	-57%	22%	-14%
Vedanta Ltd	Metals	Large Cap	277	NEU	310	12	1,031	11.6	10.8	11.6	7	8	16	2.7	3.2	3.1	–	1	3	8%	-3%	-1%	-21%	7%	-2%	-41%	-4%	-7%
Jindal Stainless Ltd	Metals	Small Cap	314	BUY	300	-4	165	12.5	8.6	6.0	8	7	149	2.3	1.9	1.5	3	1	2	9%	17%	27%	-31%	36%	32%	-40%	46%	43%
Ratnamani Metals and Tubes	Metals	Small Cap	2,192	BUY	2630	20	154	31.9	27.3	24.2	48	19	33	5.9	5.2	4.6	7	3	6	26%	13%	9%	28%	16%	12%	31%	17%	13%
Welspun Corp	Metals	Small Cap	213	BUY	275	29	56	30.6	7.0	7.6	13	10	43	1.1	1.0	0.9	1	1	2	27%	52%	0%	-20%	232%	-3%	-64%	336%	-8%
Jindal Saw	Metals	Small Cap	173	BUY	175	1	55	6.2	3.7	3.2	13	5	23	0.6	0.6	0.5	1	0	1	29%	11%	3%	8%	22%	-2%	3%	77%	15%
Maharashtra Seamless	Metals	Small Cap	363	BUY	450	24	49	5.6	5.5	5.9	13	9	22	0.9	0.8	0.7	1	1	1	29%	3%	3%	62%	1%	0%	69%	3%	-8%

Company	Sector	Mcap Categorization	CMP	Reco	TGT	Upside (%)	Mcap (R bn)	P/E (x)						P/BV (x)						Revenue (%yoy)			EBITDA (%yoy)			PAT (%yoy)		
								FY23E	FY24E	FY25E	Latest	Avg	High	FY23E	FY24E	FY25E	Latest	Avg	High	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Shriram Finance Ltd	NBFC	Mid Cap	1,269	BUY	1500	18	475	6.9	5.9	4.9	12	10	16	1.1	0.9	0.8	1	2	3	22%	11%	17%	27%	12%	20%	72%	17%	21%
Cholamandalam Finance	NBFC	Large Cap	753	BUY	860	14	619	24.5	19.1	15.4	29	17	24	4.5	3.7	3.0	5	3	5	22%	29%	22%	19%	27%	19%	19%	28%	24%
M&M Financial Services	NBFC	Mid Cap	244	BUY	330	35	302	15.7	12.7	10.3	26	13	21	1.8	1.7	1.5	2	2	3	11%	19%	20%	4%	18%	21%	101%	23%	23%
Muthoot Finance	NBFC	Mid Cap	935	NEU	1120	20	375	11.3	8.7	7.9	10	11	16	1.8	1.6	1.3	2	2	4	-9%	27%	12%	-15%	31%	10%	-14%	31%	9%
Bajaj Finance	NBFC	Large Cap	5,853	BUY	8500	45	3,544	32.8	27.2	21.1	50	35	55	7.1	5.9	4.8	8	7	10	30%	22%	25%	30%	23%	27%	63%	21%	29%
Manappuram Finance	NBFC	Small Cap	114	BUY	150	32	97	6.7	5.4	5.1	7	8	16	1.0	0.9	0.8	1	2	3	5%	20%	9%	-2%	24%	4%	-1%	25%	6%
Aurobindo Pharma	Pharmaceuticals	Mid Cap	452	BUY	640	42	265	15.3	12.9	11.7	10	14	22	1.0	0.9	0.9	1	2	6	3%	9%	7%	-16%	16%	11%	-26%	19%	10%
Zydus Lifesciences Ltd	Pharmaceuticals	Mid Cap	476	BUY	530	11	482	18.1	14.8	13.5	22	20	31	2.5	2.2	2.0	3	4	7	10%	5%	7%	0%	17%	9%	-54%	22%	10%
Cipla	Pharmaceuticals	Large Cap	881	NEU	1130	28	711	25.6	19.3	17.3	28	24	33	3.2	2.8	2.4	3	3	5	6%	17%	9%	9%	27%	10%	23%	33%	11%
Divis Laboratories	Pharmaceuticals	Large Cap	2,784	BUY	2900	4	739	56.4	50.7	38.8	25	25	50	5.8	5.2	4.5	6	6	12	-14%	7%	15%	-38%	14%	29%	-41%	11%	31%
Dr Reddys Laboratories	Pharmaceuticals	Large Cap	4,403	BUY	5500	25	733	19.7	16.5	14.9	31	21	30	3.5	2.9	2.5	4	4	5	13%	11%	7%	26%	17%	7%	21%	19%	11%
IPCA Laboratories	Pharmaceuticals	Mid Cap	800	NEU	880	10	203	38.0	23.0	18.5	23	21	32	3.5	3.0	2.6	4	3	6	8%	14%	14%	-21%	46%	21%	-33%	66%	24%
Lupin	Pharmaceuticals	Mid Cap	656	NEU	640	-2	298	94.2	25.8	20.2	–	24	34	2.4	2.3	2.1	2	3	8	-2%	11%	9%	-25%	78%	18%	-123%	265%	27%
Sun Pharma	Pharmaceuticals	Large Cap	951	NEU	1000	5	2,282	28.8	27.0	25.6	70	24	33	4.1	3.6	3.2	5	4	8	13%	12%	8%	15%	9%	8%	159%	7%	5%
Biocon	Pharmaceuticals	Mid Cap	223	BUY	350	57	268	39.8	18.8	12.5	69	30	65	1.7	1.1	0.8	–	4	7	35%	68%	18%	29%	101%	19%	4%	112%	50%
Westlife Developement Ltd	Retail	Small Cap	670	BUY	890	33	104	71.5	80.1	64.8	–	176	–	10.7	9.4	8.2	23	9	19	49%	16%	19%	114%	0%	16%	—	-11%	24%
Titan Company	Retail	Large Cap	2,362	BUY	2700	14	2,097	64.2	55.4	48.2	96	48	100	18.2	14.9	12.3	23	11	23	37%	12%	13%	43%	15%	14%	23%	16%	15%
Devyani International Ltd	Retail	Mid Cap	151	NEU	165	9	182	58.5	46.3	35.2	114	75	317	17.8	12.8	9.3	26	21	36	41%	32%	22%	89%	36%	25%	266%	26%	31%
Sapphire Foods India Ltd	Retail	Small Cap	1,213	BUY	1600	32	77	50.5	40.7	29.9	156	63	450	6.7	5.7	4.8	8	7	9	32%	25%	19%	55%	29%	26%	230%	24%	36%
Aditya Birla Fashion & Retail	Retail	Mid Cap	235	BUY	333	42	223	254.8	64.8	44.2	–	90	–	6.0	4.2	3.8	8	8	11	54%	17%	16%	46%	35%	23%	-186%	320%	47%
Shoppers Stop	Retail	Small Cap	641	BUY	956	49	70	64.5	50.3	42.0	–	64	–	33.6	20.7	14.2	92	6	78	67%	15%	12%	160%	17%	13%	-227%	28%	20%
Trent Ltd	Retail	Large Cap	1,331	BUY	1525	15	473	111.0	77.4	60.1	447	57	–	17.0	14.5	12.2	20	7	18	69%	27%	20%	94%	36%	24%	274%	43%	29%
Avenue Supermarts	Retail	Large Cap	3,383	NEU	3654	8	2,191	97.0	79.4	60.7	147	84	167	13.7	11.6	9.6	16	14	23	27%	23%	22%	51%	24%	30%	61%	16%	31%
Page Industries	Retail	Large Cap	36,862	NEU	39117	6	411	62.7	54.5	43.7	77	81	92	32.6	25.9	20.2	38	–	–	33%	11%	19%	27%	16%	23%	26%	15%	25%
Bata India	Retail	Mid Cap	1,417	BUY	1852	31	182	61.7	43.9	36.4	177	38	107	12.9	10.6	8.6	10	7	14	45%	15%	12%	88%	24%	15%	205%	40%	21%
V-Mart Retail	Retail	Small Cap	2,380	NEU	2976	25	47	172.3	95.2	49.7	403	58	77	5.5	5.2	4.8	6	6	8	52%	26%	23%	55%	22%	30%	160%	81%	91%
Aarti Industries	Specialty Chemicals	Mid Cap	533	BUY	750	41	193	34.8	34.0	25.2	15	19	42	3.5	3.2	2.8	3	4	7	-1%	7%	14%	-14%	15%	27%	-57%	2%	35%
Atul Ltd	Specialty Chemicals	Mid Cap	6,999	NEU	7500	7	207	37.8	29.6	25.1	34	20	39	4.3	3.5	2.9	5	4	7	12%	10%	14%	-2%	28%	18%	-4%	27%	18%
Camlin Fine Sciences	Specialty Chemicals	Small Cap	144	BUY	230	60	23	26.5	13.6	10.2	31	15	53	2.3	1.9	1.6	3	2	5	21%	29%	16%	48%	60%	27%	44%	95%	33%
SRF Ltd	Specialty Chemicals	Large Cap	2,289	BUY	3150	38	679	29.8	24.2	19.7	36	17	45	6.2	5.0	4.1	8	3	8	16%	17%	19%	14%	24%	22%	15%	23%	23%
Vinati Organics Ltd	Specialty Chemicals	Mid Cap	1,842	BUY	2200	19	189	45.4	37.2	30.4	43	42	53	8.7	7.0	5.7	–	9	11	28%	17%	20%	34%	20%	22%	28%	22%	22%

Source: PhillipCapital India Research, Bloomberg

Glossary of abbreviations in this note

2W	Two-Wheeler
CD	Certificates of Deposit
CIC	Currency in Circulation
CP	Commercial Paper
CPI	Consumer Price Index
CSO	Central Statistics Office
CV	Commercial Vehicle
GDP	Gross Domestic Product
GNPA	Gross Non-Performing Assets
GVA	Gross Value Added
IIP	Index of Industrial Production
LAF	Liquidity Adjustment Facility
M3	Money supply- Broad money
MCLR	Marginal Cost of Funds Based Landing Rate
MPC	Monetary Policy Committee
MSME	Micro, Small & Medium Enterprises
NII	Net Interest Income
NIM	Net Interest Margin
NNPA	Net Non-Performing Assets
OMC	Oil Marketing Companies
PCR	Provision Coverage Ratio
PFCE	Private Final Consumption Expenditure
PMI	Purchasing Managers' Index
PPP	Purchasing Power Parity
PV	Passenger vehicles
SSSG	Same Store Sales Growth
WPI	Wholesale Price Index
MNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MeITY	Ministry of Electronics and Information Technology
FCI	Food Corporation of India
FTA	Free Trade Agreement
PLI	Production Linked Incentive
PPOP	Pre-Provision Operating Profit
FII	Foreign Institutional Investors
DII	Domestic Institutional Investors
EBO	Exclusive Brand Outlets
MBO	Multiple Brand Outlets
CDMO	Contract Development and Manufacturing Organization

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	>= +10%	Target price is equal to or more than 10% of current market price
NEUTRAL	-10% > to < +10%	Target price is less than +10% but more than -10%
SELL	<= -10%	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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