



#### Fish where the fishes are...

The global equity markets in 2023 played perfectly to our expectations. They turned out to be a "tale of two halves", with the first half remaining subdued while the second half showing resilience. The heartening part of 2023 was that the global economy avoided a recession despite geopolitical crises such as the Russia-Ukraine and Israel-Hamas wars, multi-decadal high global inflation, rising crude oil prices, peak US 10-year yield and consumption slowdown.

The template looks set as we enter 2024, with concerns over rate hikes by major central banks making way for fears of a global economic slow-down. The two pertinent questions for investors in the upcoming year will be surrounding growth and monetary policy. We would witness the effects of previous rate hikes trickling down the economy in the first half and a revival in consumption in the latter part of the year on the back of an actual reduction in key interest rates. 2024 is likely to be driven by the moment of truth of an economic slowdown and probably a recession in major developed economies. Also, the upcoming year would witness elections in many countries worldwide, leading to delays in capex-related fiscal spending. The hopes of rate cuts will likely see light at the end of the tunnel in the second half of 2024 as damage to economic growth becomes obvious.

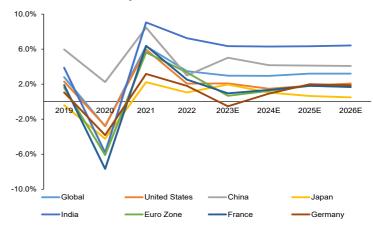
The world's largest economy had its fair share of ups and downs in 2023, with banking turmoil and debt ceiling crisis on the one hand and managing rate cut expectations on the other. The US Federal Reserve did an excellent job in anchoring expectations of an early rate cut, which could have been catastrophic in keeping the inflation trajectory lower. We expect inflation to cool further due to tighter credit conditions, a slowdown in rents, and decreasing prices for gasoline and used cars. Though 2024 could see some moderation in the US economic growth and inflation, we believe that the anticipated pivot by the US Federal Reserve and rate cuts in the second half of the year could act as a buffer for a sharp slowdown and a soft landing remain on cards.

In Europe, we expect the economic struggle to continue, with a sharp deceleration in credit growth, higher bankruptcy filings and continued bias of central banks towards policy tightening. We expect economies in the region to face the heat of increased economic uncertainty, with the diminishing ability of the governments to support economic growth with credit-financed stimulus packages due to significant public debt. The only solace for Europe would be an improved supply chain scenario and an easing energy crisis due to falling energy and commodity prices, which may prompt the central bank to consider an early rate cut.

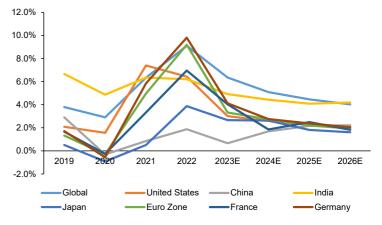
For China, the sluggish property market, weak consumer spending and slow external trade remains a drag on the economy. We expect some astute measures from the central bank to revive its property sector which constitutes about 20% of its GDP. With China falling prey to the over-reliance on its traditional manufacturing, we will not be surprised to see initiatives in newer avenues such as technology and financial services as it strives hard to build an economy on contemporary ideas and pillars. China's growth in 2024 will likely benefit from additional fiscal and monetary stimulus. Still, its struggle with the headwinds from the property market deleveraging and demographics remains structural.

With money having a high cost, we believe that an active approach in selecting the suitable asset class will be necessary. 2024 would provide investment opportunities across asset classes such as equity, gold and debt due to divergent macroeconomic outlooks for major economies such as the US, Europe and China. The upcoming year should be better for equities as the earnings potential of companies would improve on the back of lower capital costs. Moreover, we expect money supply and asset allocation to move towards equities from fixed income. The three factors to track that would create uncertainty include concerns surrounding growth, interest rates, and geopolitical events. In all senses, there is always a risk of "unknown unknowns." Market accidents cannot be ruled out, as high leverage in the global economy and higher interest rates for a prolonged period are perfect recipes for financial instability.

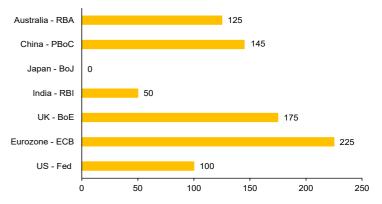
#### **GDP Growth - Major Economies**



#### **CPI - Major Economies**



#### Interest Rate Movement (bps) (Dec'23 v/s Dec'22)



Source: IMF, Central Banks, Bloomberg, BP Equities

# **Indian Market Outlook - 2024**



### On your marks, get set, go!

Indian markets turned out to be the blue-eyed boy of the world in 2023 by clocking the fastest economic growth amongst the major global economies driven by multidimensional and multisectoral government initiatives. 2023 was a year to remember in the Indian equity market history, with Nifty 50 scaling 21,800 levels and marking the eighth consecutive year of positive returns, while Sensex moved above the 72,000 mark. Real estate, CPSE, automobiles and pharmaceuticals were the top-performing sectors during the year.

India would continue its outperformance due to strong economic growth and improving corporate earnings trajectory. Market sentiment is likely to be positive in 2024, supported by strong FII and DII inflows, lower inflation trajectory, improving macros, rate cut hopes, expected Foreign Trade Agreements with the UK and Oman along with a strong probability of the incumbent government returning to power in the national general elections. Structurally, India's growth story is a multi-decadal play due to the availability of a large working population, low private debt to GDP ratio, high services exports, strong consumption trends, pathbreaking reformist agenda, pro-investment stance and the growing digital ecosystem, which acts as a catalyst in improving efficiencies, competitiveness and governance.

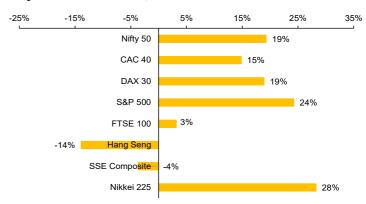
We expect strong liquidity to keep Indian equity markets supported, with FIIs likely to be back with a vengeance as the country offers a well-rounded play compared to other emerging economies like China and Taiwan. This trend has already started manifesting in the last few months of 2023. It should crystallize further in 2024 as India is looked upon more as a structural rather than a cyclical play. The FII flows will be equally supported by the strong participation of domestic investors, especially retail money, alongside increased participation by insurers and pension providers. The increasing financialization of savings is evident from the SIP inflows, which have consistently remained above the Rs. 15,000 crores mark since July 2023, with November 2023 inflows at Rs. 17,073 crores.

The accelerated pace of reforms across a broad spectrum, including fiscal, digital, physical infrastructure and social inclusion, has enhanced the global competitiveness and ease of doing business in India. This is vastly evidenced by the increasing stature of India as a manufacturing hub, with India playing on the front foot to latch on to the China+1 and Europe+1 themes. Government initiatives such as competitive direct tax rates, simplified indirect tax regime, incentives under Production Linked Incentives (PLI), better quality of infrastructure, access to renewable energy and other factors have played a vital role in creating a sustainable manufacturing hub in India. Many themes such as semiconductors, electric vehicles, new energy-related products like solar panels, advanced chemical cell batteries, green hydrogen, electrolyzers and drones are still in nascency and offer good headroom for growth.

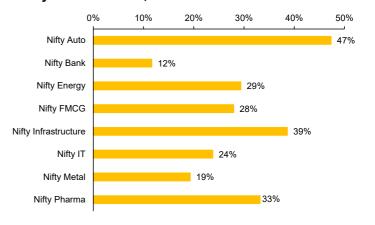
From a policy perspective, we expect the RBI to continue its proactiveness and hawkish monetary policy stance in the near future as it looks persistent in bringing down inflation to around 4%, which is the mid-point of its target inflation band of 2-6%. The RBI would be focused on liquidity management in the first half, while it may start considering rate cuts in the second half. The prudent macroeconomic management focused on stable exchange rates, predictable policies, and proactive de-risking of the economy would aid India in sustaining high levels of growth over an extended period. The only hindrances that could delay the expectation of rate cuts include food prices, which have shown transient spikes in the past, and global energy prices.

With markets reaching all-time highs, the euphoria should continue, and there is a limited downside in the near term. A possible victory for the BJP in general elections is slowly being reflected in the markets. Moreover, with the budget around the corner, we believe that the government would focus more on enhancing infrastructure and prudently managing the fiscal side of the economy before the nation goes for general elections in 2024. However, one needs to be selective and smart in terms of sector rotation, and a bottom-up approach is likely to work best. At the current juncture, large-cap space offers more comfort than mid- and small-cap space, and it would be prudent to wait for opportunities rather than chase high-growth stocks. The risks emanating from a global economic slowdown, crude price shocks, and geopolitical tensions still remain on the table and cannot be ruled out.

#### Nifty vs. Other Indices, YTD Performance



#### Nifty Sector Indices, YTD Performance



#### **India - Key Parameters**

Particulars	Data	Comments
GST Collection (Apr'23)	Rs.1.87 lakh cr.	Highest-ever revenue from GST
FII Flows (YTD)	Rs. 1.65 lakh cr.	Strong FII Inflow
GDP growth (Q2FY24)	7.60%	Highest among global peers
SIP Flows (Nov'23)	Rs.17,073 cr.	SIP at an all time high with highest no. of SIP accounts
GDP - 5th largest economy	\$ 3.7 trillion	India set to become world's 3rd largest economy by 2030
Active Demat Account	12 cr.	All time high

# **Indian Sector Outlook - 2024**



### **Automobiles**



### On the fast lane

The automobile sector in 2023 showcased a solid operating performance, driven by a focus on premiumization and favourable raw material costs. The EBITDA margins remained strong for domestic players, surpassing export-oriented counterparts due to overseas macroeconomic challenges. The Indian passenger vehicle market witnessed high single-digit volume growth, aided by SUV launches and competitive financing rates. Sustaining this momentum would be challenging in 2024, especially with the downturn in small car sales and impending retail price hikes affecting demand dynamics. Commercial vehicle sales are anticipated to continue their upward journey, led by superior HCV launches and demand for electric buses. The two-wheeler sales are anticipated to see further traction, supported by new launches, rural income revival, and increased exports. Looking ahead, expectations include softening raw material costs, effective pass-on of higher input costs, and a focus on profitability and premiumization by OEMs. The outlook for the automobile sector in 2024 suggests low to mid single-digit volume growth across most segments, with challenges in the small car segment. The aftermarket business is optimistic, driven by a gradual recovery this year and profitable growth in the next year. In conclusion, the automobile sector in 2024 faces a multifaceted landscape with challenges and strategic responses emphasizing adaptability, innovation, and a proactive approach to navigating the evolving automotive industry.

# **Banking**



### Baton passes from NIM expansion to credit growth



Banks performed more or less in line with expectations in 2023, and there were no major surprising results. As expected, banks faced the brunt of a high-interest rate environment, and NIMs were impacted due to the high cost of the funds in the second half of 2023. However, banks witnessed improved asset quality, and banks will continue focusing on strengthening their retail loan book as they generate higher yields. The rising interest rate environment that provided NIMs tailwinds for most banks is unlikely to continue in 2024. However, the positive part for the banking industry is the sustained credit growth, seen post-COVID, that will help banks to post improved profits. The credit growth will continue in 2024, mainly from retail and SME segments, due to the resilient domestic economy and an uptick in rural demand. With central elections in 2024, the increase in infrastructure spending will aid credit growth. Furthermore, with the domestic economy flourishing, the banking industry has a crucial role in strengthening the economy. With greater accessibility of banks, mainly due to digital platforms, banks can improve their operational efficiency and witness improvement in RoAs and RoEs with asset quality in check. Moreover, healthy balance sheets of banks and a proactive central bank provide ample room to absorb cyclical shocks in the banking system.

# **Capital Goods**



# Make hay while the sun shines



With the fortunes of the capital goods sector closely linked with economic growth, we believe that the central government has been at the forefront in reviving capital expenditure in the past five years, with the FY24 outlay rising to a record 3.3% of GDP from 2.7% prior. Together with the public sector entities, the total capex expenditure stands to rise above Rs. 15 trillion in FY24. We expect healthy balance sheets of the private sector to help them participate in the capex cycle, with the ball set rolling by fiscal incentives like the Production Linked Scheme (PLI), sector-specific programs (semiconductors) and green transition plans. With the capital goods sector benefitting from the tailwinds of a strong economy, companies excelling in execution and securing more orders will sustain their valuations. The resurgence of manufacturing, public-led infrastructure investment and global supply-chain diversification create multiple investment opportunities. The capital goods stocks should continue to perform well in the short-to-medium term on the back of solid revenue visibility from the end-user sectors such as power, defence, railways and roads. The capital goods sector will also likely benefit from a strong order book, good execution track record, right product mix and revival in export markets. The multinational companies in this space have the added advantage of good corporate governance, strong technical know-how from the parent company and better geographic reach. With the 2024 general elections around the corner, we may witness traction in capital goods stocks in the future.

# **Chemicals**



## Sunrise on the horizon



The chemical sector saw agony in recent quarters across all segments, except agrochemicals, which were mostly mixed, severely impacted by demand weakness in export markets and pricing pressure. We expect 2024 to be better than the previous year on broader demand normalization due to the current pace of recovery. Many chemical players are witnessing exhaustion in high-cost inventories and expect stabilizing raw material & operational costs to start reflecting in their financial performance. Given the changing landscape and increasing reliance on India by international customers, we anticipate rapid growth in the chemical sector over the coming period as conditions stabilize. We expect this reset to play out in 2024 before clarity emerges on the new inventory normal, with a synchronized demand recovery. The aggregate sector capex of Rs. ~15,000+ crores on multiple projects is on track and is anticipated to be operational in the upcoming quarters. Despite the near-term headwinds, none of the chemical companies has toned down their capex plans, which signifies long-term growth visibility for the sector. However, agrochemicals have reported mixed results, with few players drastically affected by dry spells and irregular rainfall, impacting insecticide and herbicide sales in specific geographies. The short-term outlook for this space is weak due to sluggish demand in the B2B sector, as distributors prefer to keep low inventories led by volatile international commodity prices and higher interest rates.

# **Indian Sector Outlook - 2024**



### **FMCG**



# A perfect recipe in the making



In 2023, companies stopped taking price hikes and some categories witnessed price cuts due to higher local competition and tepid rural demand, thereby impacting revenue and volume growth. However, moderating commodity prices aided gross margins. Still, it was not reflected in EBITDA margins due to higher competitive intensity and increased A&P spending. The FMCG sector has the potential to surprise on the upside in 2024, especially if the next monsoon season pans out well and the nascent rural recovery takes shape moving forward. Considering general elections in May/June 2024, the government may announce new measures in the interim budget, which would be targeted towards providing additional disposable income to the rural masses and could help boost the lagging rural consumption. The recent supportive management commentary, the growing premiumization trend, intact urban demand, benign commodity prices, new product offerings and the move towards product adjacencies keep us optimistic in this space. With a strong balance sheet and cash flows of FMCG companies, the sector is poised for growth if hard data for rural recovery obliges.

# **Information Technology**



### Saga continues - touch me or touch me not



2023 posed challenges for IT firms, with economic uncertainty, shifting spending priorities, in-house hiring excesses, and prolonged sales cycles impacting revenue growth. The upcoming year will likely see the IT sector focusing on expanding margins amid weak demand. With supply challenges addressed, firms plan to optimize utilization, pyramid structures, and optimize employee costs. Any meaningful margin expansion will depend on substantial growth pickup, especially in the US and Europe. We anticipate traction in the second half of 2024, propelled by mega deal signings and recovery in discretionary spending, especially in financial services and hitech segments. In summary, the outlook for the IT sector in 2024 is cautiously optimistic, marked by a strategic focus on margin expansion, ongoing investments in transformative technologies, and a resilient response to emerging challenges. We sense that the first half of 2024 will see more pain in the IT sector as the US and European economies slow down and new deal wins become scarce, while the second half of the year will provide more clarity regarding revenue visibility as rate cuts start taking shape.

### **Pharmaceuticals**



# Ailment getting cured



The pharmaceutical sector has seen improvement in recent quarters due to improved performance in the US generics market, robust performance in branded markets, moderation in raw material costs, and market share gains in recently launched products. All these factors have recently contributed to the strong earnings of domestic pharma companies. As we advance, many domestic-focused companies are expected to generate midteen growth in 2024 amid a focus on new product launches, pick-up in volume growth and improved demand for generics and branded products. Pharma companies have increased their chronic presence, focused on new product launches, and entered into new therapies to take advantage. API companies are undergoing capex, which will aid top-line growth. A healthy product mix and softened input costs will help sustain 20-30% operating margins in 2024. We expect domestic-focused players to report high single-digit growth driven by deferred acute demand, an uptick in the chronic segment, higher MR productivity, new product launches, and the expectation of a healthy flu season. We expect pharma companies, with a focus on US business, to grow strongly due to the normalization of base business prices, field force expansion, continuous acceleration of gRevlimid, and the introduction of new products (gSpiriva, gPrezista) despite pricing challenges, intense competition, and stricter regulatory compliance requirements.

# **Telecommunications**



# Two big boys continue to dominate



The telecom sector is witnessing unprecedented growth in data due to the expansive reach of 4G and 5G networks, which has propelled the average data usage to above 17 GB per month per subscriber. With the panIndia 5G rollout slated to be completed by FY24, the focus will likely shift towards 5G monetization. We expect ARPU to improve led by increasing tariffs, 2G to 4G migrations, prepaid to postpaid conversions and rising
data monetization. As the earlier hikes get absorbed, we expect telecom operators to raise tariffs, further improving the growing ARPUs and profitability. The leaders (Reliance Jio and Bharti Airtel) would continue to gain
market share in terms of active subscriber base at the cost of Vodafone-Idea. However, the ongoing consolidation of dual SIM cards in the market and upgrading customers to 5G and 4G from 2G would keep the overall
industry subscriber growth flat. The telecom operators will likely focus on premiumization, rolling out bundled offerings and further deepening FTTH take-up to enhance customer stickiness. Other sector initiatives to keep
an eye on include a growing satellite communications ecosystem, the second round of 5G spectrum auctions, a rating framework for digital connectivity, and the enactment of the new Telecom Bill, which will be vital in determining the industry's growth trajectory in the coming period. With the sector slowly moving towards a duopoly structure, we advise investors to take exposure to Reliance and Bharti Airtel to play the growing telecom
space in India.

# OUR TOP5 NEW YEAR PICKS FOR 2024

	Buying Range	Target Price
GAIL (India) Ltd.	₹158 - ₹162	₹194
Grasim Industries Ltd.	₹2,100 - ₹2,143	₹2,524
HDFC Bank Ltd.	₹1,673 - ₹1,709	₹2,012
PVR Inox Ltd.	₹1,623 - ₹1,659	₹1,985
UPL Ltd.	₹569 - ₹587	₹695

# **GAIL** (India) Ltd.

BUY



#### **Sector: Gas Transmission**

#### **Company Background**

Incorporated in 1984, GAIL, a Government of India undertaking, is an integrated natural gas company in India. It owns over 13,500 km of natural gas pipelines, over 2,300 km of LPG pipelines, six LPG gas-processing units, and a petrochemical facility. It also has a joint-venture interest in Petronet LNG Ltd., Ratnagiri Gas and Power Pvt. Ltd., and is in the CGD business in several cities. GAIL has wholly owned subsidiaries in Singapore and the US for expanding its presence outside India in the segments of LNG, petrochemical trading, and shale gas assets. With a vision towards enabling clean energy access to the nation, the company provided more than 10 lakh domestic PNG connections and added more than 350 new CNG stations during the year along with its subsidiaries and JV companies.

#### **Investment Rationale**

#### Market leader in the natural gas transmission business

GAIL is the market leader in the transmission of natural gas in the country, with around 15,413 km of pipeline network (i.e., around 70% of the country's pipeline) as on September 30, 2023, and a natural gas handling capacity of 206 million metric standard cubic meter per day (MMSCMD). Furthermore, pipelines of around 6,000 km are under construction. Besides, the company earns stable cash flows from its natural gas transmission business. Besides having a dominant position in the transmission of natural gas and LPG, GAIL has a diversified revenue stream with an established presence in various other business segments, like city gas distribution (CGD), petrochemicals, liquid hydrocarbons, exploration and production (E&P), and telecom.

#### Downstream integration benefits from the presence in petrochemicals and LPG

To diversify its revenue streams and utilize its ability to source natural gas efficiently, GAIL has also diversified into downstream sectors i.e. manufacturing of petrochemicals and liquefied petroleum gas (LPG). The LPG segment has been aiding profitability and maintaining healthy segmental contribution. The petrochemical segment's profitability has fluctuated over the years owing to the volatility in polymer realizations and raw material prices. Going forward, with the commissioning of polypropylene projects by GAIL, the downstream integration will further improve.

#### Valuation and Outlook

GAIL is the market leader in the transmission of natural gas in the country with over 15,500 km of pipeline network. GAIL is exploring possibilities for expanding its footprint in the renewable energy sector. The company's management remains positive on the improvement in overall operational performance in the long term buoyed by better demand, and margins aided by ongoing capex on transmission pipelines. On the valuation front, we value the stock at a PE of 13x FY25E earnings to arrive at a target price of Rs.194 per share and have a Buy rating on the stock.

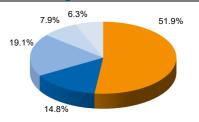
Key Financials					
YE March (Rs. in mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	573,719	927,698	1,456,683	1,329,645	1,311,732
Growth (Y-oY)	(20.9%)	61.7%	57.0%	(8.7%)	(1.3%)
EBIDTA	72,438	116,867	73,731	116,867	131,858
Growth (Y-oY)	(18.0%)	61.3%	(36.9%)	58.5%	12.8%
Net Profit	61,364	122,561	56,160	86,784	98,236
Growth (Y-oY)	(34.9%)	99.7%	(54.2%)	54.5%	13.2%
Diluted EPS	9.3	18.6	8.5	13.2	14.9
Growth (Y-oY)	(34.9%)	99.7%	(54.2%)	54.5%	13.2%
	Key R	atios			
EBIDTA (%)	12.6%	7.9%	5.1%	8.8%	10.1%
NPM (%)	10.7%	13.2%	3.9%	6.5%	7.5%
RoE (%)	13.2%	22.0%	10.1%	13.4%	13.9%
RoCE (%)	13.9%	12.0%	11.5%	8.0%	8.3%
Valuation Ratios					
P/E (x)	17.4x	8.7x	19.0x	12.3x	10.9x
EV/EBITDA	15.3x	15.0x	15.6x	16.0x	14.6x
P/BV (x)	2.3x	1.9x	1.9x	1.6x	1.5x
Market Cap. / Sales (x)	1.9x	1.1x	0.7x	0.8x	0.8x

#### Stock

Recommendation	Buy at CMP and add on dips
Buying Range (Rs.)	158-162
Target price (Rs.)	194
Investment Horizon	Till next new year
NSE Symbol	GAIL
BSE Code	531255
Bloomberg	GAIL IN
Reuters	GAIL.BO
Key Data	
Nifty	21,731
52WeekH/L(Rs.)	91/65
O/s Shares (Mn)	6,575
Market Cap (Rs. bn)	1,061
Face Value (Rs.)	10
Average volume	

3 months	19,674,990
6 months	17,920,720
1 vear	15.717.680

#### **Share Holding Pattern**



■ Promoters ■ FII ■ DII ■ Government ■ Public

#### **Relative Price Chart**



Source: Company, BP Equities Research

# **Grasim Industries Ltd.**

# **BUY**



#### **Sector: Cement & Cement Products**

#### **Company Background**

Grasim Industries Ltd. is a leading global producer of Viscose, Diversified Chemicals, Linen Yarn, and Fabrics in India. Being one of the group companies of the Aditya Birla Group, the company also has a presence in the cement sector, financial services sector, and renewable energy solutions through its subsidiaries Ultratech Cement, Aditya Birla Capital, and Aditya Birla Renewables. The company recently through its brand name 'Birla Opus' forayed into the paint business and will be setting up six plants manufacturing decorative paints across pan-India locations. Leveraging the Group synergies, Grasim has also launched "Birla Pivot", the B2B online marketplace for building materials.

#### **Investment Rationale**

#### A significant step by entering into the paints business through "Birla Opus"

Apart from the viscose and chemical business, the company is looking forward to venturing into a new business segment of Decorative Paints in the latter half of FY24. This move is reflected in the company's major capex plans of Rs 10,000 crore spanning over 2024 where the majority of such capex is planned for the new paints business. The consent to operate three out of the six paint plants has been received by the company which will be operational by Q4FY24. This indicates the preparedness of the company to foray into the new business segment in the coming period.

#### Outlook for one of its major subsidiaries, Ultratech Cement, is positive going ahead

The company is a majority shareholder and parent entity of Ultratech Cement Ltd. and a positive outlook for the cement sector in the coming period is likely to benefit the company. This will also help Grasim in improving its consolidated revenue and margins, thereby enhancing its performance. The decrease in the overall pet coke prices and reduction in diesel prices will also contribute to improving EBITDA margins for Ultratech Cement, as these elements form major power and freight costs for the company. Along with increasing residential and government infrastructure demand, cement prices maturing over the coming period and reducing costs, Ultratech Cement is expected to deliver better margins in the coming quarters.

#### **Valuations and Outlook**

During the quarter ended September 2023, the standalone EBITDA for VSF business dipped by 38% (YoY) and 12% (QoQ), owing to weaker VSF prices. However, the VSF volumes were up by 13% (QoQ) and 21% (YoY). Also, the blending costs per ton were down 5% QoQ. Given the recovery in VSF and caustic soda prices by 8% and 20%, respectively, from the July-August bottom levels, the margins from the VSF and chemical segments can be seen intact or improving to 13.5% and 14.5%, respectively. Considering this factor along with the company's foray into new business segments and positive outlook toward Ultratech Cement, we recommend a Buy rating for this stock. **On the valuation front, we value the stock at the P/E of 12x FY25E earnings to arrive at a target price of Rs. 2,524 per share.** 

Key Financials					
YE March (Rs. in mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	764,040	957,010	1,176,270	1,310,802	1,456,790
Growth (Y-oY)	11.9%	25.3%	22.9%	11.4%	11.1%
BIDTA	197,650	220,800	253,230	270,090	305,926
Growth (Y-oY)	13.3%	11.7%	14.7%	6.7%	13.3%
let Profit	69,870	112,060	110,780	104,864	138,395
Growth (Y-oY)	5.2%	60.4%	(1.1%)	(5.3%)	32.0%
Diluted EPS	65.4	114.7	103.7	159.4	210.3
Growth (Y-oY)	(2.5%)	75.3%	(9.6%)	53.7%	32.0%
	Key R	atios			
BIDTA (%)	25.9%	23.1%	21.5%	20.6%	21.0%
IPM (%)	9.1%	11.7%	9.4%	8.0%	9.5%
RoE (%)	10.7%	14.8%	14.1%	12.1%	14.5%
RoCE (%)	13.7%	14.7%	13.9%	27.4%	28.4%
Valuation Ratios					
P/E (x)	32.6x	18.6x	20.6x	13.4x	10.1x
EV/EBITDA	10.8x	9.6x	9.5x	5.4x	4.8x
P/BV (x)	2.1x	1.9x	1.8x	1.6x	1.5x
Market Cap. / Sales (x)	1.8x	1.5x	1.2x	1.1x	1.0x

#### Stock

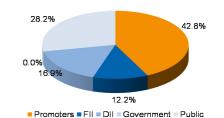
Recommendation	Buy at CMP and add on dips
Buying Range (Rs.)	2,100-2,143
Target price (Rs.)	2,524
Investment Horizon	Till next new year
NSE Symbol	GRASIM
BSE code	500300
Bloomberg	GRASIM IN
Reuters	GRAS.BO
Key Data	
Nifty	21,731
52WeekH/L(Rs.)	2,148 / 1,527
O/s Shares (mn)	658
Market Cap (Rs. bn)	1,397

# Face Value (Rs.) Average volume

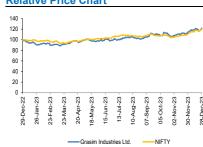
3 months	600,220
6 months	641,860
1 year	623,430

2

#### **Share Holding Pattern (%)**



#### **Relative Price Chart**



Source: Company, BP Equities Research

# **HDFC Bank Ltd.**

BUY



#### Sector: Bank

#### **Company Background**

HDFC Bank is one of India's leading private banks and was among the first to receive approval from the Reserve Bank of India (RBI) to set up a private sector bank in 1994. The bank has a comprehensive distribution network that spans rural, semi-urban, and urban areas across the country with a retail footprint. As of September 30, 2023, the bank's distribution network was at 7,945 branches and 18,183 ATMs / Cash Recycler Machine (Cash deposit & withdrawal) across 2,488 cities/towns.

#### **Investment Rationale**

#### High Provision Coverage Ratio with comfortable asset quality

HDFC Bank's efficiency in risk management practices have helped it to contain GNPAs between 0.9%-1.5% in the past few years. In Q2FY24, the bank's GNPA stood at 1.34%, with PCR at 74.4%. The bank has also maintained floating and contingency provisions of Rs. 156 billion, about 1.9x of net NPAs as of Q2FY24, providing the private lender with strong operating buffers to contain elevated asset quality stress.

#### Strong Capital Adequacy Ratio to aid robust credit growth in the economy

The bank's CAR stood at 19.5% with CET - I at 17.3%, providing enough cushion for the next few years to encash the opportunity of high credit requirement seen in the domestic economy and to take care of contingencies such as incremental CRR announced by the RBI recently. Furthermore, the RBI's recent circular on increasing risk weight requirements for unsecured consumer credit and for lending to the non-bank segment is going to be limited and easily absorbable, givens its capital buffers.

#### **Valuation and Outlook**

HDFC Bank's financial strength, diverse earnings profile, and sustained strong through-the-cycle performance in the Indian banking system makes it a great compounder, especially after its integration with HDFC Ltd. The bank's retail focus on both the asset and liability sides has resulted in a high-yielding granular asset book and a stable and strong funding profile. Furthermore, its access to a larger depositor base and a majority of the loan portfolio having floating rates will enable the bank to maintain its margins. On the valuation front, we assign a P/BV multiple of 3x FY24E book value and arrive at a target price of Rs. 2,012 per share and have a Buy rating on the stock.

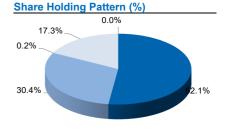
Key Financials					
YE March (Rs. in mn)	FY21	FY22	FY23	FY24E	FY25E
Net Interest Income	648,796	720,096	868,422	1,148,268	1,234,597
Growth (Y-oY)	15.5%	11.0%	20.6%	32.2%	7.5%
Operating Income	900,845	1,015,195	1,180,570	1,492,785	1,759,482
Growth (Y-o-Y)	13.4%	12.7%	16.3%	26.4%	17.9%
Net Profit	311,165	369,614	441,087	616,423	708,789
Growth (Y-o-Y)	18.5%	18.8%	19.3%	39.8%	15.0%
EPS	56.4	66.7	79.1	81.2	93.4
Growth (Y-o-Y)	17.9%	18.1%	18.6%	2.7%	15.0%
	Key R	atios			
NIM (%)	4.0%	3.8%	3.8%	3.8%	3.6%
ROAA (%)	1.9%	1.9%	1.9%	2.0%	2.1%
RoAE (%)	16.6%	16.7%	17.0%	17.8%	15.4%
BV per Share (INR.)	268	316	369	545	671
Valuation Ratios					
P/E (x)	30.3x	25.6x	21.6x	21.0x	18.3x
P/BV (x)	4.6x	4.0x	3.4x	3.1x	2.5x

#### Stock

Otook	
Recommendation	Buy at CMP and add on dips
Buying Range (Rs.)	1673-1709
Target price (Rs.)	2,012
Investment Horizon	Till next new year
NSE Symbol	HDFCBANK
BSE Code	500180
Bloomberg	HDFCB IN
Reuters	HDBK. BO
Key Data	
Nifty	21,731
52WeekH/L(Rs.)	1,757 / 1,460
O/s Shares (mn)	7,592
Market Cap (Rs. bn)	12,987
Face Value (Rs.)	1
Average volume	
3 months	17,129,470

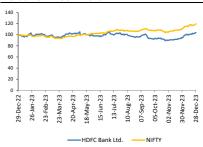
### 1 year

6 months



■ Promoters ■ FII ■ DII ■ Government ■ Public

#### Relative Price Chart



19,862,730

16.108.450

# **PVR Inox Ltd.**

BUY



Sector: Media

#### **Company Background**

Incorporated in 1997, PVR INOX Ltd (formerly Priya Village Roadshow Ltd.), formerly known as PVR Cinemas, is an Indian multiplex chain based in Mumbai. It was formed as a result of the merger between PVR Cinemas and INOX Leisure Multiplex. Currently, it operates 1,707 screens in 114 cities in India and Sri Lanka, aggregating ~3.6 lakh seats, covering almost the entire country. It is the fifth largest listed multiplex chain globally by screen count. The merged entity has plans to open 150+ screens every year and enter Tier 3 and Tier 4 cities in India to provide the ultimate movie viewing experience which currently is mostly restricted to Tier 1 and Tier 2 cities. Additionally, the merged company recently launched the PVR INOX Passport - a first of its kind in India, a subscription plan that allows to watch 10 films in a month at a subscription price of Rs 699 during weekdays.

#### **Investment Rationale**

#### Resilient box office recovery and strong content pipeline key triggers going ahead

India's box office collections in Oct-Nov 2023, despite being a third of the previous quarter, indicate a steady revival in cinema-going habits. While the Cricket World Cup in Oct-Nov 2023 affected big movie releases, notable performances by films like Leo (BOC: ~Rs. 400 crores) and Tiger 3 (BOC: ~Rs. 340 crores) demonstrate the underlying strength of the market. Even a small-budget film like "12th Fail" (BOC: Rs. 58 crores) found success, underscoring the renewed interest in cinema. PVR-Inox's second-quarter performance, marked by the highest-ever footfall and revenues, is not dismissed as an exception but rather as a result of factors like delayed releases. The healthy pipeline for Dec-Jan, featuring films like Animal, Dunki, and Fighter, is poised to further boost box office collections. Moreover, an analysis comparing Q2FY24 with the average quarterly FY20 performance reveals the sustainability of PVR-Inox's improved operations. Despite a 15.5% rise in admissions, revenue increased by ~50%, showcasing the company's pricing power.

#### Robust merger synergies and operational strength signal growth potential

PVR-Inox's H1FY24 results highlight the successful realization of merger synergies, totalling Rs. 120-140 crores. The breakdown of these synergies into Box Office (BO) revenue (Rs. 75- 85 crores), Food and Beverage (F&B) revenue (Rs. 31-38 crores), and Overhead cost synergies (Rs. 17-21 crores) underscores the strategic integration of the two cinema giants. Notably, the growth in Average Ticket Price (ATP) of 3.5-4.5%, the introduction of non-veg options in F&B, and cost rationalization measures have contributed significantly to the improved financials. The company's expectation of a 200 bps impact on operating margin once full synergy benefits are realized further strengthens its outlook. Additionally, a robust content lineup across languages, with a diverse range of releases from Hindi, Hollywood, and regional genres, signals a positive outlook for future revenues.

#### **Valuation and View**

The merger between PVR and Inox has positioned the premium theatre chain as a multiplex giant in the under-penetrated movie exhibition business. Moreover, favourable demographic mix and increased discretionary spending is set to provide headroom for growth in the coming years. Despite a temporary dip in Oct-Nov 2023, the cinema industry's steady revival is evident, driven by strong content offerings and a renewed interest in cinema-going habits. This, coupled with the aggressive expansion plans of the merged entity, positions PVR Inox for healthy revenue and earnings growth. Additionally, the realization of merger synergies, including growth in Average Ticket Price (ATP) and cost rationalization measures, further strengthens the operational metrics of the company. Based on the anticipation of strong box office collections, supported by a robust content pipeline and increased benefits of revenue and cost synergies. On the valuation front, based on 34x FY25E earnings, we have arrived at a target price of Rs. 1,985 per share and have a Buv rating on the stock.

Key Financials					
YE March (Rs. in mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	2,080	13,290	37,510	66,063	76,387
Growth (Y-oY)	-	538.9%	182.2%	76.1%	15.6%
BIDTA	-3,360	1,050	10,480	21,521	24,827
Growth (Y-oY)	-	(131.3%)	898.1%	105.4%	15.4%
Net Profit	-7,480	-4,890	-3,360	2,773	5,731
Growth (Y-oY)	-	(34.6%)	31.3%	182.5%	106.7%
Diluted EPS	(123.1)	(80.0)	(34.2)	28.3	58.4
Growth (Y-oY)	-	(35.0%)	57.3%	182.6%	106.7%
	Key R	atios			
BIDTA (%)	-161.5%	7.9%	27.9%	32.6%	32.5%
IPM (%)	-359.6%	-36.8%	-9.0%	4.2%	7.5%
RoE (%)	-45.1%	-30.5%	-7.7%	4.4%	7.8%
RoCĖ (%)	-10.0%	-6.6%	-2.8%	2.6%	4.7%
	Valuation	Ratios			
P/E (x)	-13.5x	-20.8x	-48.7x	58.9x	28.5x
EV/EBITDA	11.3x	155.1x	21.7x	11.2x	9.7x
P/BV (x)	4.1x	8.6x	2.1x	2.1x	2.0x
Market Cap. / Sales (x)	27.2x	8.9x	4.0x	2.5x	2.1x

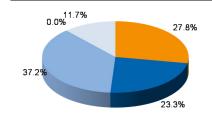
#### Stock

Recommendation	Buy at CMP and add on dips
Buying Range (Rs.)	1,623-1,659
Target price (Rs.)	1,985
Investment Horizon	Till next new year
NSE Symbol	PVRINOX
BSE code	532689
Bloomberg	PVRINOX IN
Reuters	PVRL.BC
Key Data	
Nifty	21,731
52WeekH/L(Rs.)	1875 / 1336
O/s Shares (mn)	98
Market Cap (Rs. bn)	162

# Face Value (Rs.) Average volume

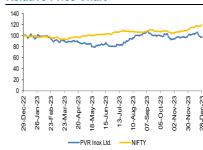
3 months	494,040
6 months	676,430
1 year	644,430

#### **Share Holding Pattern (%)**



■ Promoters ■ FII ■ DII ■ Government ■ Public

#### Relative Price Chart



10

10

**UPL Ltd.** 

BUY



### **Sector: Agrochemicals**

#### **Company Background**

UPL Ltd. is a prominent player in the agricultural solutions sector, offering a comprehensive suite of solutions spanning the entire agriculture value chain. Their diverse portfolio encompasses everything from seeds and conventional crop protection products to innovative BioSolutions and advanced post-harvest solutions, paired with a range of physical and digital services. With presence across the agricultural value chain, UPL aims to drive the development of sustainable food systems. The company is in over 100 countries & operates through its overseas subsidiaries. As of FY23, Latin America comprises 41% of their revenue, along with North America at 16%, Europe at 14%, India at 12%, & RoW at 17%.

#### **Investment Rationale**

#### Demand recovery is expected across different regions to aid financial performance

The global agrochemical industry has channel inventory overstocking issues and price erosion due to overcapacity from China. The company expects high channel inventories to persist in H2FY24 worldwide. However, management anticipates that destocking headwinds for UPL will fade by Q4FY24, as the company has a positive outlook for the LATAM market. In North America, channel inventories are approaching optimal levels and are projected to improve further. The company foresees heightened demand in H2FY24, traditionally peak seasons for the company. Across LATAM, the agricultural sector has expanded due to increased property and low labour costs. The company expects a steady upswing in conventional chemicals and substantial growth in Biosolutions, a European high-margin product. Brazil is expected to be a key market for the company, with strong demand for crop protection products. Thus, we expect UPL to have strong revenue growth in the coming years.

#### Focus on debt reduction to enhance financial stability

The company aims to reduce net debt by \$300 million through debt repayment, working capital reduction, and cash generation. Looking forward into FY24 and beyond, the company aims to continue its debt reduction strategy to enhance liquidity and optimize capital allocation. The company targets a debt reduction of \$400-500 million in FY24 and \$500-600 million in FY25. This progressive approach to debt reduction improves the company's financial stability and enhances its ability to allocate resources effectively toward strategic growth initiatives.

#### **Valuation and Outlook**

The global agrochemical industry has been challenging over the last two quarters as distributors destocked and focused on tactical purchases amid elevated channel inventory levels and intense price competition. These factors significantly impacted the company's revenue and profitability in H1FY24. However, UPL is expecting volume-driven recovery with healthy margins in H2FY24, led by resilient performance of the differentiated and sustainable portfolio. Further, the company has taken cost reduction initiatives to improve margins over the next two years. Overall, the company is expected to perform much better in H2FY24, led by an uptrend in pricing and better demand. The management believes that CY24 should fare better than last year, led by newer inventory, introducing more unique products and increased pace of contribution of specialized products. On the valuation front, we value the stock at a PE of 12x FY24E earnings to arrive at a target price of Rs. 695 per share and have a Buy rating on the stock.

	Key Financials					
YE March (Rs. in mn)	FY21	FY22	FY23	FY24E	FY25E	
Revenue	386940	462,400	535,760	523,460	563,280	
Growth (Y-oY)	8.2%	19.5%	15.9%	-2.3%	7.6%	
EBIDTA	83520	95,290	101,960	101,840	115,350	
Growth (Y-oY)	23.3%	14.1%	7.0%	-0.1%	13.3%	
Net Profit	34950	44,370	44,140	32,690	43,480	
Growth (Y-oY)	60.5%	27.0%	-0.5%	-25.9%	33.0%	
Diluted EPS	37.6	47.5	47.6	43.5	57.9	
Growth (Y-oY)	61.7%	26.3%	0.2%	-8.4%	33.0%	
Key Ratios						
EBIDTA (%)	21.6%	20.6%	19.0%	19.5%	20.5%	
NPM (%)	9.0%	9.6%	8.2%	6.2%	7.7%	
RoE (%)	17.3%	14.6%	13.1%	10.7%	13.0%	
RoCE (%)	14.2%	16.3%	16.1%	11.5%	14.7%	
Valuation Ratios						
P/E (x)	15.6	12.4	12.4	13.5	10.1	
EV/ÈBITDA	8.7	8.7	6.3	6.1	5.5	
P/BV (x)	2.1	1.8	1.5	1.5	1.5	
Market Cap. / Sales (x)	1.2	1.0	0.8	0.9	0.8	

#### Stock

Recommendation	Buy at CMP and add on dips
Buying Range (Rs.)	569-587
Target price (Rs.)	695
Investment Horizon	Till next new year
NSE Symbol	UPL
BSE Code	512070
Bloomberg	UPLL IN
Reuters	UPPL.BO

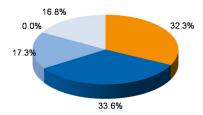
#### **Key Data**

Nifty	
52WeekH/L(Rs.)	780 / 528
O/s Shares (mn)	751
Market Cap (Rs. bn)	442
Face Value (Rs.)	2

#### Average volume

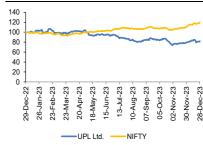
3 months	2,393,300
6 months	2,684,600
1 vear	2 367 810

#### **Share Holding Pattern (%)**



■ Promoters ■ FII ■ DII ■ Government ■ Public

#### **Relative Price Chart**



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#### **Disclaimer Appendix**

Analyst (s) holding in the Stock: Nil

#### Analyst (s) Certification:

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