Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	74,454	-1.1	-4.7
Nifty-50	22,553	-1.1	-4.6
Nifty-M 100	50,013	-0.9	-12.6
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,983	-0.5	1.7
Nasdaq	19,287	-1.2	-0.1
FTSE 100	8,659	0.0	5.9
DAX	22,426	0.6	12.6
Hang Seng	8,619	-0.6	18.2
Nikkei 225	38,777	0.0	-2.8
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	75	-0.5	0.7
Gold ($/OZ)	2,952	0.5	12.5
Cu (US$/MT)	9,489	-0.3	9.7
Almn (US$/MT)	2,668	-0.9	5.6
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	86.7	0.0	1.3
USD/EUR	1.0	0.1	1.1
USD/JPY	149.7	0.3	-4.8
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.7	0.00	-0.1
10 Yrs AAA Corp	7.3	0.00	0.1
Flows (USD b)	**24-Feb**	**MTD**	**CYTD**
FIIs	-0.7	-3.85	-11.5
DIIs	0.60	4.61	15.5
Volumes (INRb)	**24-Feb**	**MTD***	**YTD***
Cash	755	939	985
F&O	1,28,445	1,82,043	1,87,765

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

360 ONE WAM: B&K acquisition a strategic fit

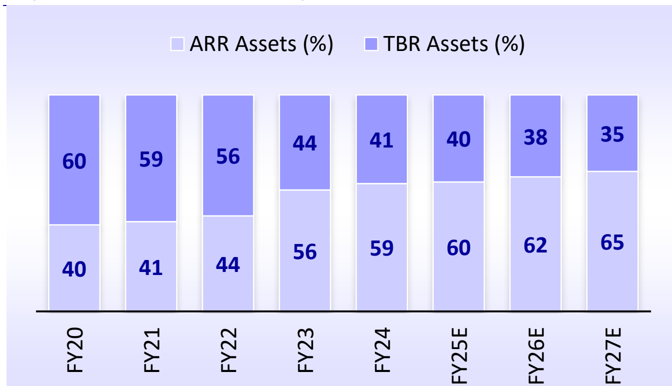
- We attended an analyst call hosted by 360 ONE WAM's management. The B&K acquisition is a strategic fit, enhancing business through equity advisory for existing clients, benefiting corporate advisory, and leveraging 360ONE's relationships to scale IB operations.
- The deal is expected to be EPS-accretive by 3-5%. B&K business is projected to grow at a 15-25% revenue CAGR over 3-5 years, driven by existing and new customers. In the core business, 360 One is poised to gain market share in current market corrections, with clients holding 10-20% cash for equity deployment.
- HNI business should scale in 12-18 months, while the global business is set to grow near term. We cut FY26/27 estimates by 2%/4% but retain our BUY rating with a TP of INR1,250 (34x FY27E EPS).

Research covered

Cos/Sector	Key Highlights
360 ONE WAM	B&K acquisition a strategic fit
Union Bank of India	Asset quality outlook steady; remain watchful on near-term margins
APL Apollo Tubes	Demand revival to drive volume growth, margin recovery
Automobiles	Growth moderating for 2Ws and UVs
Oil & Gas	Pockets of value re-emerging

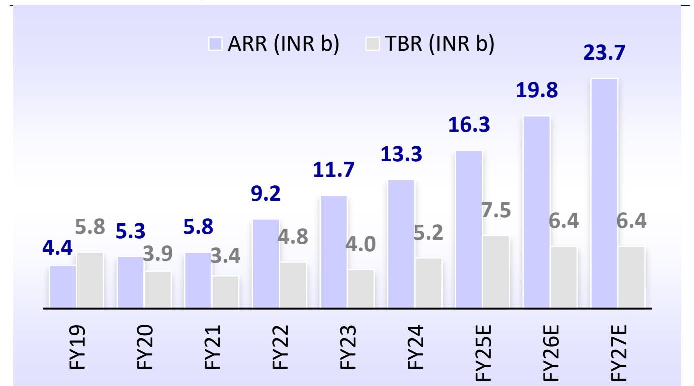
Chart of the Day: 360 ONE WAM (B&K acquisition a strategic fit)

Expect ARR AUM mix to improve



Source: MOFSL, Company

ARR to maintain growth momentum



Source: MOFSL, Company

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Texmaco Rail and Engineering signs MoU with Nevomo for Magrail and AI-driven rail innovations

Texmaco Rail & Engineering Ltd has signed a strategic MoU with Polish technology firm Nevomo to develop next-generation Magrail technology, linear propulsion systems, and AI-powered railway innovations.

2

NTPC Green Energy signs deal to develop 20GW renewable projects in Madhya Pradesh

NTPC Green Energy Ltd (NGEL), the renewable energy arm of NTPC, signed a MoU with Madhya MPPGCL at the Global Investors Summit in Bhopal to develop renewable energy parks and projects in the state.

3

Nestle India considering price hikes to counter commodity inflation

Nestle India will consider raising prices of its products by a small margin to counter inflation in coffee, cocoa and edible oil while aiming to keep sales coming in.

4

Havells To Enter EV Charging Market In Next Six Months

Havells India Ltd. will enter the electric vehicle charging market in the next six months as the company eyes to tap into the lucrative sunrise sector set to buzz after the entry of Elon Musk's Tesla.

5

UK, India Resume FTA Talks; Goyal Says India Has More Flexibility To Cut Tariffs

The United Kingdom and India on Monday formally resumed negotiations for a free trade agreement between the two countries, with bilateral trade aimed to grow two to three times the current levels in the next 10 years.

6

NHAI identifies 24 road assets to be monetised in 2025-26

As per the office order issued by the National Highways Authority of India, these assets are preferably to be montised through toll-operate-transfer (TOT) mode unless not revised at a later stage for any other mode of monetisation.

7

Retail inflation eases slightly to 4.61% for farm workers, 4.73% for rural labourers

Retail inflation for farm and rural workers slightly decreased in January 2025, with CPI-AL and CPI-RL standing at 4.61% and 4.73%, respectively.

360 ONE WAM

BSE SENSEX	S&P CNX
74,454	22,553

Stock Info

Bloomberg	360ONE IN
Equity Shares (m)	388
M.Cap.(INRb)/(USDb)	392.7 / 4.5
52-Week Range (INR)	1318 / 642
1, 6, 12 Rel. Per (%)	-8/2/38
12M Avg Val (INR M)	734
Free float (%)	85.2

Financials Snapshot (INR b)

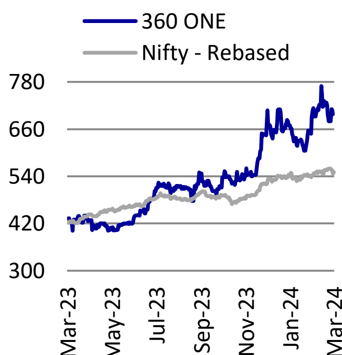
Y/E March	2025E	2026E	2027E
Net Revenues	23.8	26.2	30.1
Opex	12.0	12.8	14.4
Core PBT	11.8	13.4	15.7
PAT	10.3	12.6	14.6
EPS	26.6	32.3	37.6
EPS Grw (%)	18.7	21.6	16.4
BV	162.8	175.7	183.3
Ratios			
PBT margin (bp)	31.3	30.2	30.6
PAT margin (bp)	29.7	28.3	28.5
RoE (%)	21.1	19.1	21.0
Div. Payout (%)	40.0	60.0	80.0
Valuations			
P/E (x)	37.9	31.2	26.8
P/BV (x)	6.2	5.7	5.5
Div. Yield (%)	1.1	1.9	3.0

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	17.8	20.8	22.0
DII	8.9	6.4	2.2
FII	62.5	61.9	61.2
Others	10.9	10.8	14.6

FII Includes depository receipts

Stock performance (one-year)



CMP: INR1,009 TP: INR1,250 (+24%) BUY

B&K acquisition a strategic fit

We attended an analyst call hosted by the management team of 360 ONE WAM. Management outlined the strategic rationale behind the B&K acquisition and new strategic initiatives. The following are the key takeaways from the meet:

- B&K acquisition is a strategic fit for 360ONE as it will enhance its business in multiple ways: 1) it will provide equity advisory to existing clients; 2) corporate advisory of B&K will benefit from the product portfolio of 360ONE; and 3) the corporate relationships of 360ONE will help to scale up the IB business. The deal is likely to be EPS-accretive by 3-5%.
- The company expects a revenue CAGR of 15-25% in B&K business over the next 3-5 years, driven by incremental business from existing customers and new customer additions, with its inherent need for a strong equity advisory franchise.
- With the recent market corrections, the company expects to gain market share given its strong product portfolio and customers sitting on 10-20% cash for deployment in equity markets. The current flows are more toward non-equity assets, though a change in the existing AUM mix toward debt seems to be a limited possibility.
- HNI business is expected to scale up over the next 12-18 months as the company gets the right products and teams in place, which will need incremental costs. Global business, however, should start scaling up in the near term as the team and products are in place.
- We have cut our estimates by 2%/4% for FY26/FY27 to factor in the MTM hit along with lower assumptions on growth in inflows. We have not yet built in revenues/costs/dilution for the B&K acquisition. We retain our BUY rating with a one-year TP of INR1,250, premised on 34x FY27E EPS.

Synergies from B&K acquisition

- 360ONE acquired 100% of B&K Securities recently for a consideration of INR18.84b. The transaction involves a cash consideration of INR7.1b and 10m equity shares at INR1,174/share.
- **Structure of the deal:** Of the total INR7b cash, ~INR2b stands in the B&K balance sheet. Of the balance INR5b, around INR1b will be utilized for the purchase of warrants, and the net cash outflow will be INR1-1.5b. With a strong research platform and interest-aligned management in place and a five-year lock-in for ESOPs, there is favorable leverage on the deal structure. The deal is expected to be 3-5% EPS-accretive.
- ESOP cost will be~INR2-2.4b over six years, with a vesting period of 48/60/72 months.
- Strategic rationale for acquisition: 1) to provide a **complete service cycle to clients** as it believes the capital market has become a large part of client activity and exposure and expects the momentum to continue for the next 10-15 years at least; 2) **to build steady growth of 6-10% in TBR AUM; 3)** to create a robust **research-backed brokerage platform** for the company**.**

- In order to maintain steady growth in the TBR segment, 360ONE aims to improve the contribution from the **equity brokerage book to** 40-50% from ~12% (9MFY25) of TBR mix**.**
- The expansion of companies under coverage from 400-450 stocks to ~600, acquisition synergies via incremental brokerage from B&K acquisition (INR1.9b in annualized 9MFY25), an increase in equity-biased clients such as family offices/AIFs for 360ONE, and a granular approach to equity wallets of existing clients will likely lead to growth of ~15-25% in the equity brokerage segment for the next 3-5 years.
- In the corporate distribution business, there is a lot of synergy that can result in exponential growth. B&K is one of the leading corporate distributors with an excellent team and experienced leadership in place.
- Growth in IB business will be driven by strong relationships with corporates in multiple stages of fundraising. However, growth is expected to be slower due to the requirement of a stronger team and a robust execution platform.

New business initiatives

- In global business, distribution will be mainly focused on the company's own asset management products. 360ONE is engaged with few firms that will be managing money for nearly 6-8 large endowments.
- The global business cost will remain the same as no significant hiring will be done in the near term. 360ONE plans to have limited coverage with a focus on building a small sales team for attracting institutional and family office money.
- In HNI business, 360ONE has built a team of ~30 professionals to strengthen engagements. The delay in launching the HNI platform was mainly due to the structuring of UHNI business and employing the right people. The business will see a ~15-20% increase in cost due to employee additions.

Core businesses to remain largely stable

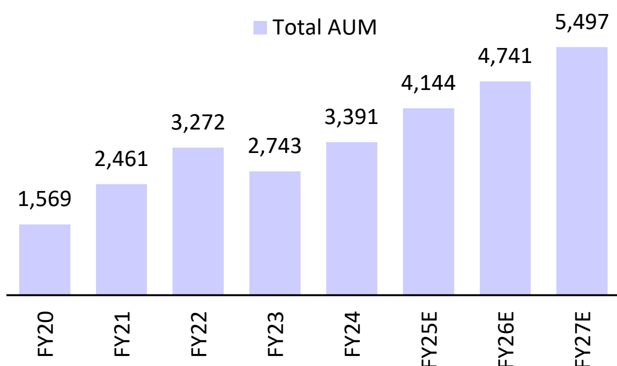
- Amid weak market sentiment, business opportunities could be weak for the next 4-6 months. 360ONE believes it is well poised for a market share gain in this environment, driven by its astute portfolio management team, a rise in equity allocations after a market correction, and a strong team in the alternates space.
- An ideal contribution from ARR to the mix remains at 75-80%, even after the B&K acquisition.
- The cost-to-income ratio will remain in the range of 45-50%. Few anomalies can be witnessed in building the new businesses, which will be offset by the continuous optimization of core businesses.
- Margins are expected to expand steady as its platforms widens its reach and its ability to approach clients improves.
- Net flows will likely be within the guidance range. MTM will be impacted with slower markets, which will be offset by higher unlisted activity and market share gains.
- No shift is expected in the asset allocation mix. ~10-15% of cash in the sidelines will come back into the equity segment once the market stabilizes.
- Incremental flows currently are largely toward the fixed-income side.

Valuation and view

360ONE maintains a strong position in the industry, reflected by robust flows and consistent performance. Diversification across client segments (mass affluent) and geography (lower-tier cities) is gaining traction, and its global platform has also seen green shoots. The B&K acquisition will bring in many synergies and is expected to be 3-5% EPS-accretive. We have cut our estimates by 2%/4% for FY26/FY27 to factor in the MTM hit along with lower assumptions on growth in inflows. We have not yet built in revenues/costs/dilution for the B&K acquisition. **We retain our BUY rating with a one-year TP of INR1,250, premised on 34x FY27E EPS.**

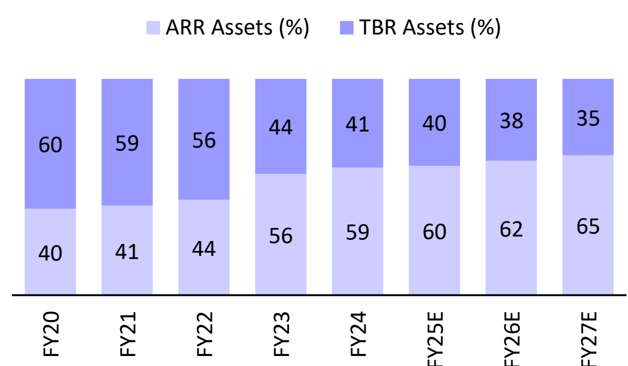
Key exhibits

Trend in total AUM



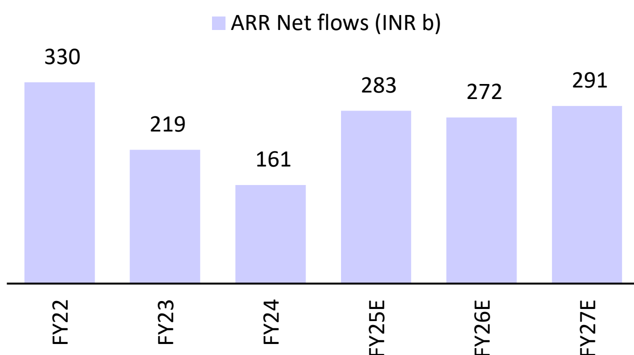
Source: MOFSL, Company

Expect ARR AUM mix to improve



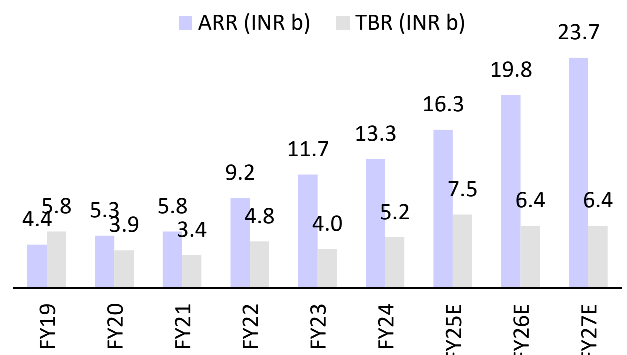
Source: MOFSL, Company

Trend in ARR net flows



Source: MOFSL, Company

ARR to maintain growth momentum



Source: MOFSL, Company

Union Bank of India

BSE SENSEX	S&P CNX
74,454	22,553

Stock Info

Bloomberg	UNBK IN
Equity Shares (m)	7634
M.Cap.(INRb)/(USDb)	895.4 / 10.3
52-Week Range (INR)	173 / 101
1, 6, 12 Rel. Per (%)	12/1/-21
12M Avg Val (INR M)	2172
Free float (%)	25.2

Financials Snapshot (INR b)

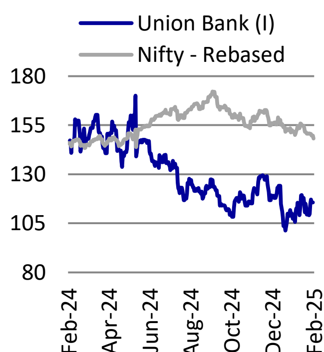
Y/E March	FY24	FY25E	FY26E
NII	365.7	372.3	401.8
OP	282.1	310.3	332.7
NP	136.5	171.0	174.1
NIM (%)	2.9	2.7	2.7
EPS (INR)	18.9	22.4	22.8
EPS Gr. (%)	52.9	18.7	1.8
BV/Sh. (INR)	123	141	160
ABV/Sh. (INR)	112	132	151
RoA (%)	1.0	1.2	1.1
RoE (%)	16.7	17.4	15.5
Valuations			
P/E(X)	6.2	5.2	5.1
P/BV (X)	1.0	0.8	0.7
P/ABV (X)	1.0	0.9	0.8

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	74.8	74.8	77.0
DII	11.9	11.2	12.3
FII	6.5	6.9	4.0
Others	6.9	7.1	6.8

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR117 TP: INR135 (+15%) Buy

Asset quality outlook steady; remain watchful on near-term margins

Focus on delivering profitable growth

We attended an analyst meet hosted by the top management team of Union Bank (UNBK). Management emphasized the bank's efforts in delivering profitable growth while continually making investments in business and enhancing its technological capabilities. Management has guided FY25E advances growth to be ~11% and NIMs to remain at 2.8-3.0%. Following are the key takeaways from the meet:

Loan growth to be at lower end of guided range of 11-13%

UNBK reported controlled loan growth in 3QFY25, aided by healthy traction in RAM segments, while corporate segment growth remained sluggish. It has a healthy approval pipeline of INR750b, with ~INR360b pending for disbursement. MSME growth has been muted in the current quarter, primarily due to some portion of the MSME book being upgraded to the mid-corporate segment and some being declassified due to the unavailability of URN numbers. Concerns persist in the micro-segment of MSMEs, though 99% of loans are covered under the CGTSME scheme (75% secured through this mechanism). Agri growth was impacted by debt waivers, though the recovery is expected in the coming quarters. However, 98% of NBFC exposure is rated 'A' and above, with no signs of stress in the sector. UNBK is also planning to increase exposure to well-rated NBFCs. Thus, the bank anticipates credit growth to be at the lower end of the guidance of ~11-13% in FY25.

Deposit growth muted due to reduction in bulk deposits; CD ratio guidance at ~76-78%

UNBK expects deposit growth in line with its guidance of ~9-11%, bolstered by retail TDs. It has reduced its bulk deposits to ~25% and aims to maintain this level going forward to guard margins. However, CASA remains a challenge, which, along with a recent cut in policy rates, is likely to exert additional pressure on margins. With a current domestic CD ratio of 77%, UNBK has mechanisms in place to further boost loan growth and aims for a CD ratio of around 76-78%. Moreover, the bank holds excess SLR reserves of INR520b, which can be utilized to enhance credit availability.

NIM to remain in the guided range of 2.8-3.0% backed by healthy share of RAM, MCLR-linked loans

Management stated that the bank will continue to pursue profitable growth and prioritize profits over revenue growth. Its focus on RAM segment has helped to manage costs and thus retain healthy NIMs at 2.91%. UNBK forecasts margins in the range of ~2.8-3.0%. The bank expects a mere 3bp impact on margins due to the rate cut. On the other hand, over the years, the bank has gradually increased its MCLR book, with a majority of the book now at MCLR pricing, which should be beneficial now as the rate cycle starts to turn. Combined with further potential for improvement in the CD ratio, these factors could support margins going forward.

Asset quality robust; recoveries to maintain a healthy run rate

UNBK's asset quality demonstrates ongoing enhancement, characterized by a consistent decline in NPA ratios. The bank has effectively contained slippages, with the bank ranking the second-best in the industry in terms of recoveries. UNBK continues to maintain its recovery guidance of ~INR160b in FY25. The written-off pool stands at INR780b, with recoveries from written-off accounts maintaining a steady rate of 5-5.5%. No corporate loan quality issues have been identified, though some stress has emerged on the retail side (housing loan), leading to slippages into SMA without any significant forward flow. The telecom account that slipped from SMA1 to SMA2 in the quarter has now been resolved and is making regular payments.

Other highlights

- Persistent liquidity constraints continue to hinder the feasibility of an immediate rate cut in term deposits. As a result, deposit rates are likely to be maintained in the near term unless liquidity conditions improve or a rate reduction becomes viable, which could weigh on near-term profitability.
- Gold loans constitute 45-50% of the bank's agri loan book. However, recent regulatory changes restricting collateralization for loans up to INR200k have led to some contraction in this segment.
- Bulk deposits of INR320b were shed in 3QFY25. Retail term deposits are growing at a strong pace, with a healthy 8% growth rate.
- The bank's focus remains on attracting new-to-bank customers, a critical focus area. Engagements with the existing bank customers have been suboptimal, and to address this, 1,500 employees have been deployed to improve customer engagement.
- The bank has a well-established strategy for its treasury operations. With this plan, the bank is positioned for a strong 25% YoY growth in treasury profits, which could contribute significantly to overall earnings momentum.

Valuation and view

UNBK has been reporting a healthy performance, with earnings driven by healthy revenue and controlled provisions. Fresh slippages have been under control, which, coupled with healthy recoveries and upgrades, has resulted in an improvement in asset quality ratios. Further, a lower credit cost and controlled restructuring provide a better outlook on asset quality. Loan growth is expected to trend at ~11%, aided by healthy growth in RAM segment. Margins are also expected to remain in the guided range of ~2.8-3% despite the rate cut, supported by higher MCLR-linked loans. We estimate loans to grow at ~10% over FY25-27E, with RoA/RoE at 1.1%/15.5% by FY26E. **We reiterate our BUY rating with a TP of INR135 (premised on 0.8x Sep'26E ABV).**

APL Apollo Tubes

BSE SENSEX	S&P CNX
74,454	22,553

Bloomberg	APAT IN
Equity Shares (m)	278
M.Cap.(INRb)/(USDb)	408.5 / 4.7
52-Week Range (INR)	1729 / 1253
1, 6, 12 Rel. Per (%)	-3/13/0
12M Avg Val (INR m)	964

Financials & Valuations (INR b)

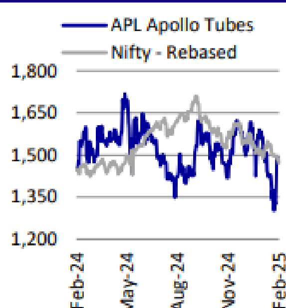
Y/E Mar	FY25E	FY26E	FY27E
Sales	208.6	261.6	304.5
EBITDA	11.7	17.5	22.2
PAT	7.1	11.8	15.3
EBITDA (%)	5.6	6.7	7.3
EPS (INR)	25.4	42.5	55.3
EPS Gr. (%)	-3.7	67.2	30.0
BV/Sh. (INR)	149.4	186.0	235.2
Ratios			
Net D/E	-0.1	-0.2	-0.4
RoE (%)	18.2	25.4	26.3
RoCE (%)	17.1	23.8	26.3
Payout (%)	23.6	14.1	10.9
Valuations			
P/E (x)	57.9	34.6	26.6
EV/EBITDA (x)	34.4	22.7	17.3
Div Yield (%)	0.4	0.4	0.4
FCF Yield (%)	3.5	1.9	3.5

Shareholding pattern (%)

As on	Dec-24	Sep-24	Dec-23
Promoter	28.3	28.3	29.6
DII	16.5	15.9	13.8
FII	31.7	31.9	29.3
Others	23.5	23.8	27.4

Note: FII includes depository receipts

Stock's performance (one-year)



CMP: INR1,472 TP: INR1,830 (+24%) Buy

Demand revival to drive volume growth, margin recovery

The Indian structural tubes industry has been in a turbulent phase due to a sharp drop in realization, slowing demand, and capacity expansions. APL Apollo Tubes (APAT), being the market leader, delivered healthy volume growth in 9MFY25, though at the expense of margins, which took a major hit (EBITDA/Mt down 28% YoY in 9MFY25). However, we expect the scenario to change for the better going ahead owing to the following factors:

- **HRC prices have stabilized at lower levels, driving affordability, as the spread between primary and secondary steel has also narrowed. APAT, being the largest primary steel player with an extensive distribution network, will be a key beneficiary.**
- **The demand environment is also expected to improve, led by better capex spends across traditional and new-age sectors. We can see increasing momentum for volume growth for APAT, along with margin expansion; unlike earlier, when volume growth was at the expense of margins (discounting).**
- **APAT has been focusing on widening its reach in both export and domestic markets. Its Dubai plant is ramping up smoothly, becoming an export hub for APAT. The company's plans to set up two facilities in eastern markets of Gorakhpur and Siliguri bode well for capturing the untapped eastern markets and saving freight costs.**
- **We expect APAT's margins to improve going ahead as infrastructure spending resumes, capex spending in new-age sectors increases, and dealer restocking begins. Long-term growth will be driven by rising demand, strong distribution, a rapid expansion in Dubai and eastern markets, higher value-added product (VAP) share, and its market leadership.**
- **We expect APAT to report a CAGR of 19%/23%/28% in revenue/EBITDA/PAT over FY24-27. We value the stock at 33x FY27E EPS to arrive at our TP of INR1,830. Reiterate BUY.**

Near-term bottoming of HRC prices improving affordability

- Indian HRC prices have seen a significant contraction of ~40% from the high of ~INR79,050/MT in Apr'22 to INR48,143 in Jan'25. Of this decline, half (till ~INR60,000/MT normalized levels by Jan'23) is attributed to normalization of pricing after Covid-related price hikes.
- Major factors leading to the latter half of price erosion are: subdued domestic demand (election year impact), higher cheap HRC imports from China and SEA countries, weak global demand, and weak price sentiment.
- The fall in HRC prices is also reflected in the performance of APAT, which witnessed subdued realization. APAT's realization declined by 19% vs. 1QFY23 to INR65,597/MT in 3QFY25 (down 5%/4% YoY in 3Q/9MFY25). Consequently, EBITDA/MT declined by only 9% during the same period (down 10%/28% YoY in 3Q/9MFY25). Despite volume growth of 19% YoY in 9MFY25, EBITDA declined by 14% YoY due to discounting and inventory loss.
- However, a moderate fall in EBITDA/MT compared to realization can be attributed to the addition of VAP, such as super-heavy structural tubes, rust-proof structures, coated tubes & sheets, etc., which have much better margins (in the range of INR6,000-8,000/Mt).

- HRC prices are now stabilizing at lower levels and also have started to inch up in Feb'25. Going ahead, HRC prices can further increase, led by 1) improvement in the domestic demand scenario (better government and private capex spending expected in FY26 vs. lower spend in FY25 due to election; 2) government capex budget for FY26 has been increased by 10% vs. FY25RE); and 3) a pick-up in the global demand scenario (particularly in China, EU and the US), thereby reducing imports to India. The potential implementation of safeguard duty on steel can also increase domestic HRC prices.
- With lower pricing, affordability of HRC has improved, as now the price gap between primary (HRC) and secondary (patra) steel is only ~INR5,000-8,000/Mt. This is expected to further push the replacement timeline toward HRC-based tubes from traditional products, such as secondary steel, TMT, cement, wood, angle channels, and aluminum.
- This affordability will remain effective if HRC prices stay below INR60,000/MT. The price increase over this level can dampen the demand scenario.
- APAT booked a major inventory loss in 1H by selling off high-cost inventory. Going ahead, with improving or stable pricing, we expect the company to witness a volume pickup. The improving mix of VAP will also drive margin expansion.

Demand revival in 4Q to drive healthy volume growth

- Demand for structural tubes has been slowing over the last few quarters (since 3QFY24) due to extended monsoon and subdued domestic demand (election year impact). However, volume growth for the industry has remained healthy (low double digit), largely led by capacity expansions across companies.
- However, higher volumes across the industry have been led by higher discounting, which impacted margins.
- With elections (both general and state) now behind, we expect a gradual pickup (from 4QFY25) in demand, led by increase in government spending (still at lower levels). Traditional sectors, such as highways and railways, are expected to witness a pickup in demand.
- New sectors (such as solar) are expected to contribute to the demand recovery. The central and state governments (Maharashtra, Gujarat, etc.) are working aggressively on solar projects. Moreover, the increasing use of prefabricated structures is driving up the tubes usage in construction sectors.
- For APAT, volumes have remained on an upward trajectory since 3QFY24, led by plant additions in Raipur (new products such as heavy structural tubes and coated tube & sheet) and Dubai, despite a subdued demand scenario. Higher volumes can be attributed to discounting and lower realization (affordability).
- However, going ahead, we expect volumes to continue increasing, led by an expected demand recovery with low discounting, thereby boosting margins. We estimate a ~28% YoY increase in volumes in 4QFY25 to ~0.87mmt (i.e. monthly run rate of ~290kmt). This is expected to increase to ~3.9MMT/4.4MMT in FY26/FY27 (i.e. monthly run rate of ~321KMT/~370KMT).
- The incremental volumes in FY26/FY27 will be driven by the increase in the VAP product mix to 65%/68% vs. ~60% in FY25E. This will lead to healthy margin improvement.

Export business ramping up smoothly

- APAT is expanding its exports while focusing on domestic growth, with a presence in 20 countries and key opportunities in the Middle East and Southeast Asia. **Export demand** is fueled by a shift to high-quality HR coil-based steel

pipes, replacing lower-grade alternatives, and rising infrastructure projects, particularly in Saudi Arabia, where it has secured a major order.
- Stable global steel prices further support competitiveness for APAT in export markets. Export pricing is competitive, benefiting from lower steel procurement costs in international markets like Dubai (no duty on steel imports there unlike in India on imports from Russia and China). The pricing gap between domestic and export markets is, however, narrowing, making exports more viable. APAT maintains a price premium over local competitors in its export markets due to its brand strength and product quality.
- APAT's **Dubai plant** is now fully operational, sourcing cost-effective steel from Asia. Plant utilization has reached 58% in 3QFY25, with further scaling planned.
- It serves both local markets and exports, particularly to Saudi Arabia, focusing on structural steel and high-value products.
- APAT targets over **200KMT** of exports in FY25, with Dubai playing a major role. The long-term strategy focuses on expanding international sales, using Dubai as a key manufacturing hub. EBITDA margins (currently lower) are expected to improve as export operations grow. EBITDA margins from the Dubai plant are higher than overall company margins.
- In the longer run, the company expects its international sales to surpass 1MMT (~0.5MMT from the Dubai plant and 0.5MMT of exports from India), accounting for ~20% of the total sales volume (vs. ~4% in FY24).
- Therefore, going forward, international sales will be one of the key growth drivers for the company.

Widening reach in eastern markets

- **Domestic market** still remains a focus point for the company, with an aim of widening its presence in the untapped eastern markets.
- Raipur plant has been ramping up smoothly, with a utilization rate of 55% in 3QFY25. Going ahead, this is further expected to improve.
- Apart from the Raipur plant, which is just tapping into the eastern markets, APAT is strengthening its foothold in this market by setting up two facilities, i.e., in Gorakhpur and Siliguri, each having a capacity of ~200-250KMT.
- Gorakhpur plant will serve Eastern Uttar Pradesh and Jharkhand, while Siliguri plant will target Northeast India, including the seven-sister states, with potential exports to Bhutan and Myanmar.
- The new plants will reduce freight costs for eastern markets, improving distribution efficiency, as the freight cost from Raipur to the eastern markets is currently ~INR5-6k/MT.
- Eastern markets are currently dominated by small unorganized players. Hence, APAT will have a good opportunity to penetrate these markets.

Valuation and view

- APAT is likely to witness margin improvements as demand recovers after infrastructure spending resumes and dealers begin restocking inventory (affordability factor).
- In the long term, we believe APAT would sustain its earnings momentum on the back of: 1) growing demand across segments, 2) increased product penetration with a robust distribution network, 3) rapid capacity expansion (Dubai and eastern markets), 4) an increase in the share of VAP, thus driving margins, and 5) its market leadership.
- We expect APAT to report a CAGR of 19%/23%/28% in revenue/EBITDA/PAT over FY24-27. We value the stock at 33x FY27E EPS to arrive at our TP of INR1,830. **Reiterate BUY.**

Automobiles

At the SIAM Looking Ahead Conclave, PV OEMs have projected the domestic PV volume to grow between 1-4% for FY26, with growth likely to be driven by UVs.

Growth moderating for 2Ws and UVs

HMSI closes in on HMCL in domestic 2W ICE

- **In Jan'25, 2W ICE volume remained flat YoY, while PV volume grew 1.6% YoY.**
- **In 2Ws, ICE scooter volume increased 8% YoY in Jan'25, whereas motorcycle sales fell 3% YoY, declining for the third consecutive month. On YTD basis, the motorcycle industry, excluding HMSI, has grown by just 2.6% YoY.**
- **In domestic 2W ICE, the gap between HMCL and HMSI is just 100bp on YTD basis (just 20bp in Jan'25).**
- **In the motorcycle segment, growth in the 125cc segment decelerated to 7% in Jan'25, while the 150-250cc segment fell 7% YoY.**
- **HMSI has outperformed in motorcycles and increased its share by 330bp YoY to 20.2% on YTD basis. In scooters, TVSL has been the biggest gainer, with share gain of 150bp to 24.8%.**
- **In PVs, growth in UVs has also been decelerating for the last few months, up just 5.9% YoY in Jan'25. Key outperformers in FY25 so far are MM and Toyota, which have gained market share by 140bp and 185bp, respectively, in UVs.**
- **Our top picks in auto OEMs are MSIL, MM and Hyundai.**

ICE 2Ws: HMSI gains share from HMCL and BJAUT, TVSL share is stable

- The domestic 2W industry's volumes remained largely flat YoY in Jan'25 and have grown by 9.2% on YTD basis.
- The motorcycle segment has grown 7% YoY on YTD basis and the ICE vertical has increased by 14.3% YoY.
- Among OEMs, HMSI has gained share from HMCL and BJAUT in 2W ICE, while TVSL has managed to maintain its share on YTD basis.

Segmental trends:

Motorcycle segment:

- Motorcycle industry declined 3% YoY in Jan'25, falling for the third consecutive month.
- HMSI and RE outperformed industry growth in Jan'25 (up 15%/14%).
- As highlighted above, the domestic motorcycle industry has posted 7% YoY growth on YTD basis.
- Only HMSI has outperformed the industry with 28% YoY growth and has increased its share by 330bp to 20.2%. Excluding HMSI, the industry has posted just 2.6% YoY growth YTD.
- On the other hand, BJAUT has seen the steepest decline in its market share by 165bp to 16.9% YTD. TVSL has lost 70bp share to 9.8%. HMCL has lost 40bp share to 42.6%.

100cc segment:

- The segment continued to underperform the industry, as Jan'25 volume declined 10.6% YoY. Except HMCL, all players posted double-digit declines in Jan'25 volumes.
- Even on YTD basis, this segment has posted just 2.3% YoY growth.

- On YTD basis, HMSI (+20%) and HMCL (+3%) have outperformed the 100cc segment.
- As a result, HMSI has seen 100bp share gain to 7.1% and HMCL has seen 70bp share gain to 77.9%.
- On the other hand, BJAUT has lost 140bp share to 9.2% and TVSL has lost 40bp share to 5.9%.
- **For HMCL, Splendor continues to be its key growth driver, with 12.3% YoY growth YTD. On the other hand, HF/Passion has posted 7.5%/40% YoY decline in volumes YTD.**
- For HMSI, growth in 100cc is being driven by Livo (134% YoY growth) and Dream (+47%). Shine100 has posted just 3% YoY growth YTD.

125cc segment:
- Though the 125cc segment has been the key growth driver in motorcycles, its growth rate moderated to just 7% YoY in Jan'25 (+14.6% YTD).
- HMSI has gained 440bp share to 44.5% in this segment and HMCL has gained 220bp to 19.7%. It is important to highlight that while Xtreme125R has done well, it seems to have also cannibalized its own models in the segment: **Glamour sales down 21% YoY and Splendor sales down 25% YoY.**
- Market share for BJAUT/TVSL declined by 290bp/380bp to 24.6%/11.2% for YTD.
- For BJAUT, Pulsar125 volumes have declined 5% YoY on YTD basis. After a strong run-up initially, Freedom 125 sales fell to 1,345 units in Jan'25.

150-250cc segment:
- This segment saw a ~7% YoY decline in Jan'25 (up 7.6% YoY on YTD basis).
- In Jan'25, BJAUT sales in this segment were down 21% YoY. Even on YTD basis, sales are down 5% YoY.
- HMSI (+44% YTD) and TVS (+20% YTD) continue to outperform in this segment.
- HMSI and TVSL have gained 550bp/250bp share to 21.8%/23.6%.
- On the other hand, BJAUT has lost 420bp share to 30.6% YTD. While Yamaha has lost 260bp share to 20%, HMCL has lost 70bp share to 3%. In Jan'25, HMCL did not sell any units of Karizma.

>250cc segment:
- In Jan'25, Triumph sales improved YoY to 4k units.
- On the other hand, HMCL's HD X440 sales declined to 881 units and HMCL's Maverick sold just 182 units in Jan'25.

Scooters ICE segment
- The segment has clocked 14.3% YoY growth YTD.
- TVSL continues to outperform in this segment. It was the only player to have posted strong double-digit growth (27%) in Jan'25 vs. industry growth of just 8%.
- **TVSL has gained the most share in this segment by 150bp to 24.8% YTD.**
- Both HMSI and Suzuki have gained ~35bp share each to 47.7%/16.6%.
- On the other hand, HMCL is the only player that has posted 16% YoY decline in scooters. As a result, its market share has now fallen by 190bp YoY to 5.3%.

PV update – UV mix now stands at 64.9%

- PV industry grew by 1.6% YoY in Jan'25 and 1.8% for YTDFY25.
- While UVs have grown 12%, cars have declined 14% on YTD basis. As a result, UVs' contribution in total PVs has increased to 64.9% so far in FY25.
- In the PV segment, MSIL's market share has fallen by 70bp YoY to 41%, mainly due to a consistent decline in the passenger car segment, in which MSIL has a higher share.
- Key outperformers this fiscal are MM and Toyota, which have seen their market share rise by 200bp and 150bp, respectively, for YTDFY25.

Car segment:

- The segment declined 5% YoY in Jan'25 and 14.2% YTD.
- In Jan'25, the car industry saw a 5% YoY decline, while MSIL posted 5% YoY growth in cars, driven by a strong push for WagonR (24k units sold in Jan'25).
- On YTD basis, MSIL has gained 410bp share to 66.6%.
- Except Toyota, which has seen a marginal 30bp share gain, all other players have lost to MSIL in this segment.
- Another point to highlight is that VW Virtus is now the market leader in the mid-size sedan segment, with Hyundai Verna at the second spot with 28% share. Honda City's market share in this segment has now fallen to 19%.

UV segment:

- The UV segment continues to outperform, though growth has been decelerating for the last few months, up 6% YoY in Jan'25 and 11.8% YTD.
- Among top gainers, Toyota has gained 190bp share to 9.2% and MM has gained 140bp share to 19.7%. **MM's growth is driven by Scorpio (+23% YoY), XUV 3XO (+74%), Thar (+25%), and XUV 700 (+19%)**. Further, Thar Roxx volumes stood at 5,303 units for Jan'25, while Thar (3-door) volumes fell to 2,254 units.
- MM's EV wholesales stood at 1,837 units in Jan'25.
- MSIL has gained about 40bp market share in UVs to 25.8%. **MSIL's growth in this segment is driven by Ertiga (+33% YoY), Fronx (+21%), and Brezza (+13%).**
- On the other hand, Hyundai/Kia have lost market share by 70bp/100bp YTD to 14.8%/8.9%. Hyundai Creta has clocked its highest-ever sales of 18,522 units in Jan'25.
- For Kia, its wholesales for new Kyros to dealers stood at 5,546 units, while Sonet sales fell to 7,194 units in Jan'25.

Valuation and view

- After a strong demand seen in 1H for both 2Ws and UVs, growth for both these segments has been moderating after the festive season.
- MSIL is our top pick among auto OEMs as it continues to be a play on the rural recovery with an attractive valuation. We like MM for its healthy demand momentum in both SUVs and tractors for FY25. We also like Hyundai as it appears well aligned to benefit from the industry trends toward UVs.

Oil & Gas

Our latest O&G updates

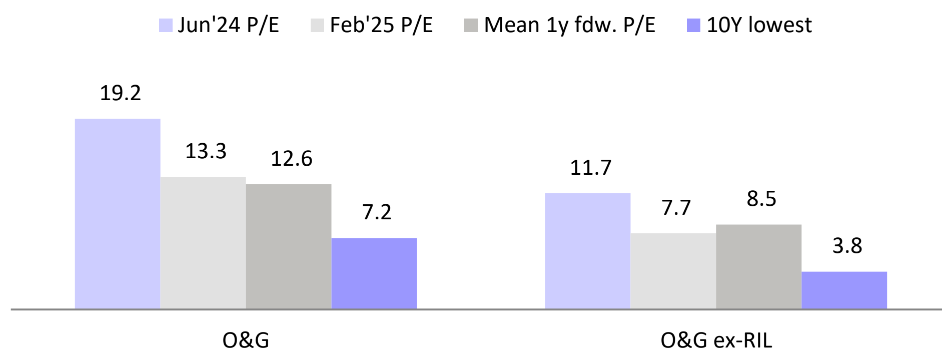
Pockets of value re-emerging

- In Jun'24, we had highlighted that valuations for O&G stocks had surged and the value trade was fading away. In the last seven months, valuations have corrected sharply, with the average **one-year fwd. P/E for O&G stocks (excl. RIL) at 7.7x**, **down 34% vs. Jun'24** (and below 10-year mean now).
- We see a **limited risk of sharp earnings downgrades** to FY26 numbers based on the following factors: 1) Even the most bearish crude oil price estimates of USD60/bbl imply 9.6%/11.9% FY26E ROE for ONGC (SA)/OINL; 2) Marketing margins in our model for MS/HSD are already at a 45%-65% discount to prevailing margins; and 3) The bulk of APM de-allocation shock for CGDs is behind now. INR depreciation is a risk for OMCs, but it is largely offset by lower crude price risk in 2HCY25. Dividend yields for OMCs, ONGC and GAIL are now in the attractive 4-6% range and close to the 10-year average.
- **GAIL** now trades at 8.5x FY27E PE with a 4.4% FY26 dividend yield. We believe strong marketing demand, steady transmission volume growth, transmission tariff hikes in 1QFY26, and the start of petchem facilities in 2HFY26 are key catalysts.
- **HPCL** continues to enjoy strong marketing business momentum, with the commissioning of the bottom-upgrade project slated in 4QFY25.
- **BPCL:** Lastly, we highlight BPCL (Neutral) has corrected 32% in the past five months and now trades at mean – 1 SD (on 1 yr. fwd. PB basis) with a ~6% FY26E dividend yield. BPCL now trades at par with HPCL vs. a historical average premium of 50% (1y fwd. P/B basis).

After recent corrections, pockets of value are re-emerging

- In Jun'24, in our report titled "Value trade is fading away," we had highlighted elevated valuations in the O&G sector as the average one-year fwd. P/E for the 15 O&G stocks (incl. RIL) under our coverage was up 76% vs. Jun'23. For O&G stocks (excl. RIL) under our coverage, the average one-year fwd. P/E was up a staggering 155% YoY in Jun'24.
- In the last seven months, after widespread selloffs in the energy space, valuations have corrected sharply. The average one-year fwd. P/E for O&G stocks (excl. RIL) stands at **7.7x**, **down 34% vs. Jun'24** (10y LTA one-year fwd. P/E valuation is **8.5x**).
- The current valuations are still far off from the 10-year trough levels, though we think earnings should largely hold up (and stocks are unlikely to move toward 10 yr. low valuations), as 1) even the most bearish crude oil price forecasts in CY25/CY26 are above USD 60/bbl; 2) we are building in gross marketing margins on MS/HSD of INR3.3/lit; actual margins have sustained and could come in higher than these numbers; and 3) the bulk of APM de-allocation shock for CGDs is behind now.

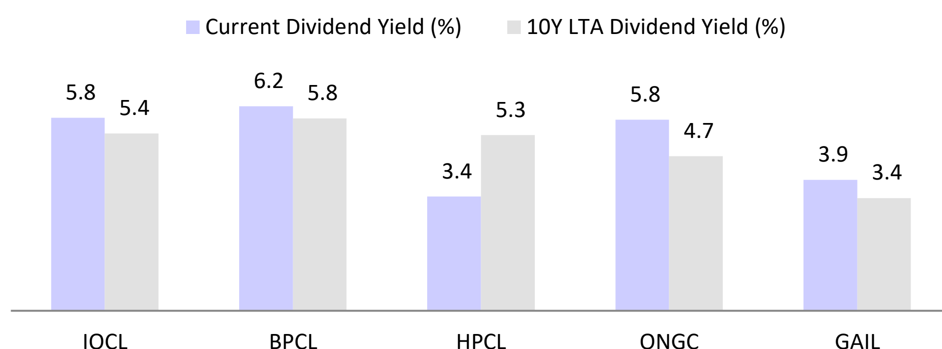
Valuations have corrected over the past seven and half months



Source: Company, MOFSL

- Since Jun'24, O&G stocks have declined 6%-49% — OMCs down 6%-28%, upstream entities down 13%-19%, CGDs down 11%-33%, gas utilities down 6%-23%, and RIL down 16%.
- Given the sharp de-rating, dividend yields are now at attractive levels and have risen to ~6% for IOCL/BPCL and ~4-5% for ONGC and GAIL (slightly above the historical average).

Dividend Yield (%) - O&G stocks



Source: Bloomberg, MOFSL

Oil prices: Looking beyond the immediate strength

- US EIA forecasts Brent crude oil prices to average **USD74/bbl** in CY25, down 8% YoY, and to further decline by 11% YoY to **USD66/bbl** in CY26.
- While there has been some upward pressure on crude oil prices in Jan'25 (averaging USD79/bbl), US EIA anticipates that crude oil prices will decline from mid-CY25 through the end of CY26, as global oil production grows faster than oil demand.
- Production growth will be driven by the unwinding of spare capacity by OPEC+ starting in 2QCY25 and a sequential rise in production by non-OPEC+. US EIA believes that this production growth, coupled with relatively weak growth in oil demand, will cause global oil inventories to accumulate from mid-CY25 through CY26. Global inventories will increase by an average of 0.9mb/d in 2HCY25 and by 1mb/d in CY26. Increasing inventories will put further downward pressure on prices.
- We had first highlighted the rising pressure on crude oil prices in Jun'24 (Has the crude oil party peaked?) and continue to believe that Brent oil prices will face strong headwinds in 2HCY25 and beyond.

Dixon Tech: Synergies From Display Fab Foray; FY26 Capex Plans; Atul Lall, VC & MD

- Setting up a campus to manufacture laptop, servers
- Look forward to Govt's incentive scheme roll-out
- Setting up manufacturing unit for display modules in Noida
- Noida unit to have capacity of 2 million units per month
- Will double Noida unit's capacity in a year
- Margins will inch up on a blended basis

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KEI Industries: Cables will continue to contribute 75% to the overall product mix; Anil Gupta, CMD

- Good demand coming from solar projects Indian energy market
- See more traction in cables business as compared to wires
- New capacities will be on stream by July 2025, 20% top-line growth is possible
- Exports will increase from 11-12% to 18-20% in FY26-27 further aiding margins
- Cables will continue to contribute 75% of the overall product mix

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Metropolis Healthcare: Acquisition of core diagnostics will be completed in the next 1-2 weeks; Surendran Chemmenkotil, CEO

- Q4 is seeing improvement in wellness and health check up
- Advance stage of discussion for acquisition in the northern region
- Core diagnostic margin is a lower margin business vs current margin
- Expect to exit FY25 with 12% growth
- Could see some acquisitions in next 2-3 quarters

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Healthcare Global: Expanding existing centers presents an opportunity for us; BS Ajai Kumar, Executive Chairman

- Hope to have a significant partnership with KKR
- Expanding existing centers presents an opportunity for the company
- Will continue to remain a shareholder of the company
- AS cancer cases continue to rise it is becoming a major issue

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GRSE: Expect substantial order wins over next few months; PR Hari, CMD

- Current order book stands at Rs 23,877 Crs comprising of 10 projects & 40 platforms
- P-17A will deliver by middle of this year
- Will be able to maintain PAT margin of 8%
- Will be signing 2 more contracts in current year
- Orderbook will be touching Rs 40,000 Crs in one year

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