The Report Card

FY25: NOV 2024

DSP MUTUAL FUND

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Revenue growth moderating, margin tailwinds fading.

- Revenue growth (excluding financials) is moderating to single digits; it grew at a 10% CAGR from FY19 to FY25
- Margins have improved compared to the pre-pandemic period but have declined year-on-year. Margins, excluding commodities, remained flat compared to FY24.
- With strong operating cash flow and calibrated capital expenditure, the balance sheet continues to strengthen, supported by an improving net debt-to-equity ratio
- Profits have grown at a 13% CAGR between FY19 and FY25 and by 6% year-on-year. Return on Equity has improved by 200 basis points compared to FY19

	Revenue		EBITDA Margins (%)			Net Debt to Equity (%)			ROE		
	FY19-25	YoY (%)	FY25	YoY (%) chg	vs FY19	FY25	YoY (%) chg	vs FY19	FY25	YoY (%) chg	vs FY19
IT	12%	5%	20%	0%	-1%	-31%	-2%	8%	27%	0%	2%
ex Tech Mahindra	12%	5%	21%	0%	-1%	-32%	-2%	7%	28%	-1%	3%
Energy	8%	2%	13%	-3%	0%	34%	5%	-13%	12%	-5%	-2%
ex RIL	8%	1%	11%	-3%	-1%	50%	9%	5%	15%	-10%	-3%
Consumer Staples	10%	7%	18%	0%	-1%	-5%	0%	0%	20%	0%	-5%
ex HUL	10%	8%	17%	0%	-1%	-13%	0%	-4%	20%	0%	-2%
Comm Services	10%	6%	40%	2%	19%	487%	-176%	355%	-4%	14%	0%
Materials	10%	-1%	14%	1%	-2%	48%	5%	-17%	12%	0%	-1%
Ex Metals	10%	-1%	14%	1%	-2%	44%	6%	-24%	10%	0%	-2%
Cons Disc	9%	7%	10%	0%	5%	42%	0%	0%	20%	-1%	14%
ex-Tata Motors	10%	7%	10%	0%	1%	40%	0%	7%	17%	-1%	-2%
Industrials	10%	13%	14%	0%	2%	48%	6%	-4%	18%	0%	4%
Utilities	12%	7%	26%	0%	2%	101%	-8%	-35%	14%	-2%	2%
Health Care	9%	10%	21%	1%	5%	-1%	1%	-16%	17%	3%	5%
Real Estate	4%	8%	24%	0%	5%	20%	-8%	-30%	15%	5%	10%
Total	9%	4%	15%	-1%	2%	45%	2%	-8%	15%	-1%	2%
Ex Energy, Metals	10%	6%	17%	0%	2%	64%	0%	-5%	21%	0%	6%

**Conditional color formatting is verticle ,except Net Debt to Equity where it is reverse>>*

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Analysis is done for NSE 500 universe ex financials, FY25 is TTM

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Revenue Growth: Continues to moderate

- Revenue growth across sectors has moderated to single digits compared to the pre-COVID average, with exceptions seen in IT, Staples, and Utilities.
- Overall growth compared to FY24 has declined to low single digits. However, growth excluding commodities has accelerated over the past few quarters.

	CAGR vs FY19								YoY Chg (%)							
	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
IT	17%	15%	13%	12%	12%	11%	12%	12%	22%	19%	12%	8%	4%	3%	5%	8%
ex Tech Mahindra	17%	16%	13%	12%	12%	12%	12%	12%	22%	19%	13%	8%	4%	3%	5%	9%
Energy	12%	9%	9%	7%	8%	10%	8%	6%	21%	9%	-9%	-9%	0%	3%	4%	1%
ex RIL	11%	8%	9%	6%	8%	10%	8%	6%	22%	11%	-11%	-12%	-2%	1%	1%	2%
Consumer Staples	14%	14%	11%	11%	10%	10%	10%	10%	12%	11%	6%	6%	6%	7%	7%	7%
ex HUL	14%	14%	11%	11%	10%	10%	10%	11%	11%	11%	6%	6%	7%	8%	8%	9%
Comm Services	17%	15%	13%	12%	9%	9%	11%	11%	13%	9%	13%	7%	7%	7%	3%	7%
Materials	15%	14%	12%	11%	10%	10%	10%	9%	9%	3%	0%	0%	-1%	-2%	1%	-1%
Ex Metals	15%	14%	12%	11%	10%	10%	10%	9%	10%	3%	1%	-1%	-2%	-1%	1%	0%
Cons Disc	12%	8%	10%	7%	9%	11%	8%	8%	25%	26%	31%	4%	7%	5%	3%	14%
ex-Tata Motors	12%	8%	10%	6%	10%	13%	8%	8%	25%	24%	28%	-3%	2%	3%	2%	21%
Industrials	14%	11%	11%	9%	9%	9%	11%	9%	19%	14%	7%	5%	12%	14%	12%	11%
Utilities	17%	16%	13%	12%	11%	13%	13%	11%	27%	17%	-5%	3%	3%	7%	13%	4%
Health Care	12%	12%	10%	9%	8%	9%	10%	9%	12%	11%	11%	10%	7%	10%	11%	10%
Real Estate	3%	2%	2%	1%	6%	2%	5%	5%	42%	14%	-4%	9%	-6%	1%	18%	25%
Total	13%	11%	11%	9%	9%	10%	10%	8%	19%	12%	2%	-1%	3%	4%	5%	5%
Ex Energy, Metals	14%	12%	11%	10%	10%	10%	10%	9%	18%	14%	10%	4%	5%	5%	6%	8%

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Analysis is done for NSE 500 universe ex financials

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Operating Margins: Holding up with few exceptions

- For FY25 TTM with exception of Energy and Real Estate margins for most sectors improve on year-on-year basis as commodities cool off
- The margins still trending higher than pre-pandemic levels in most cases except IT, Staples and Materials
- 2Q25 margins are lower year on year for Energy, staples, consumer discretionary and real estate

Operating Margins still holding up

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	3Q24	4Q24	1Q25	2Q25	2Q25 vs 2Q24	FY25 vs FY24	FY25 vs FY19
IT	21%	21%	23%	22%	20%	20%	20%	20%	20%	20%	20%	0.2%	0.2%	-1.1%
ex Tech Mahindra	21%	21%	23%	22%	21%	20%	20%	20%	21%	21%	20%	-0.2%	0.1%	-0.8%
Energy	11%	7%	13%	11%	8%	14%	11%	12%	12%	11%	10%	-5.8%	-2.6%	0.2%
ex RIL	9%	5%	11%	10%	9%	12%	9%	10%	10%	9%	7%	-7.7%	-3.3%	-0.6%
Consumer Staples	19%	20%	19%	19%	18%	18%	18%	19%	16%	19%	18%	-0.7%	0.0%	-0.8%
ex HUL	18%	19%	18%	18%	17%	17%	17%	18%	15%	18%	17%	-0.6%	0.0%	-1.1%
Comm Services	23%	-10%	20%	44%	41%	40%	42%	43%	39%	43%	44%	3.4%	2.2%	19.0%
Materials	18%	15%	22%	22%	15%	15%	16%	16%	15%	16%	15%	1.1%	0.6%	-2.0%
Ex Metals	17%	16%	21%	21%	14%	14%	15%	15%	15%	15%	14%	1.5%	0.5%	-2.2%
Cons Disc	7%	8%	7%	9%	9%	12%	12%	12%	11%	12%	11%	-1.3%	0.2%	4.8%
ex-Tata Motors	10%	9%	6%	9%	10%	11%	11%	11%	10%	12%	11%	-1.4%	0.1%	0.6%
Industrials	13%	12%	12%	12%	13%	15%	16%	16%	16%	16%	15%	0.7%	0.4%	2.4%
Utilities	26%	30%	34%	31%	24%	28%	28%	27%	28%	28%	29%	-0.7%	0.0%	2.1%
Health Care	18%	19%	21%	19%	21%	22%	23%	22%	22%	24%	24%	2.3%	1.3%	4.8%
Real Estate	23%	21%	21%	21%	25%	28%	28%	27%	31%	27%	25%	-4.0%	-0.5%	5.0%
Total	14%	12%	16%	17%	14%	16%	16%	16%	16%	16%	15%	-1.7%	-0.6%	1.7%
Ex Energy, Metals	16%	15%	17%	19%	16%	17%	18%	18%	17%	18%	18%	0.3%	0.4%	2.3%

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Commodities: +60% commodities tracked are on rising trend in the past 6M

Commodity Price Trend	vs 1Q25	3M	6M	12M
Energy				
Brent crude($/bbl) (ICE)	-16%	-17%	-18%	-24%
Natural Gas (Euro/MW)	24%	12%	65%	-1%
Natural gas Henry Hub (USD / MMBTU)	31%	4%	71%	-1%
Dutch TTF Natural gas spot (Euro/MWH)	24%	17%	36%	3%
U.S. Coal 6900 Kcal (INR/'000 Kcal)	4%	5%	6%	-1%
Indonesian coal 4200 Kcal (INR/'000 Kcal)	-6%	-5%	-6%	-16%
Indian Coal (Rs/kg) #	-2%	-10%	-16%	-1%
Propane (USD/MT) #	2%	4%	-4%	10%
Chemicals				
TIO2 (INR/KG)	2%	2%	4%	-5%
Phenol (INR/KG)	-3%	-8%	2%	-6%
HDPE (USD/MT)	-2%	-5%	-3%	6%
CPVC (USD/kg) #	-1%	6%	2%	3%
Indian PVC (Rs / kg)	-6%	-13%	2%	-6%
PVC (USD/MT)	-1%	-5%	-1%	-7%
EDC (USD/MT)	12%	0%	-6%	13%
VCM (USD/MT)	16%	3%	15%	10%
Polypropylene (Rs / kg)	3%	2%	3%	0%
Soda Ash (INR/50KG)	-1%	-1%	-1%	-19%
Caustic Soda (USD/Ton)	-3%	1%	-1%	4%
Toluene Diisocyanate (USD / MT)	-12%	-6%	-18%	-27%
VAM (Rs / kg)	-4%	-1%	-21%	-14%

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Commodity Price Trends	vs 1Q25	3M	6M	12M
Metal				
Copper (USD/MT) (LME)	1%	4%	13%	21%
Alum (USD/MT)(LME)	3%	5%	13%	13%
Steel (USD/T) (India)	-10%	-10%	-7%	-16%
Steel (USD/T) (China)	-10%	-7%	-9%	-11%
Iron Ore (USD/MT)	-9%	-6%	0%	-11%
Lead - USD/MT	-4%	-5%	3%	-5%
Zinc (USD/MT)	8%	5%	27%	17%
Lithium	-28%	-26%	-25%	-64%
Cobalt	-12%	-10%	-15%	-27%
Nickel	-9%	-2%	1%	-9%
Agri				
Coffee Robusta (USD/MT)	36%	29%	58%	123%
Coffee Arabica (USD/MT)	21%	18%	43%	84%
Indian Cotton (Rs/kg)	3%	2%	-3%	-3%
Cotton (USD/LB) (ICE)	-6%	0%	-20%	-17%
Indian Sugar (Rs/kg)	3%	5%	7%	5%
Rubber (Rs/KG) (SGX)	20%	20%	24%	44%
Natural rubber RRS4KO (Rs/kg)	19%	10%	24%	55%
Crude palm oil (India FOB - Rs / kg)	49%	55%	47%	69%
Indian Wheat (Rs/kg)	15%	8%	16%	14%
Wheat (Rs/quintal)	15%	8%	15%	14%
Precious metals				
Gold (USD/troy ounce)	14%	14%	19%	44%
Silver (USD/troy ounce)	9%	8%	26%	42%

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Data source: Bloomberg, Industry. # Indian coal, Indian PVC, CPVC & Propane rates available monthly only

ROE: +550bps above pre-covid average

- ROE is up by 570 basis points compared to pre-COVID levels, with most sectors, except Energy, Staples, Materials, and Consumer Discretionary, performing above pre-COVID levels.
- In FY24, ROE has declined; however, excluding commodity sectors such as Energy and Metals, the ROE profile has largely remained flat.

RETURN ON EQUITY

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY25 vs FY24	FY25 vs FY19
IT	25%	25%	25%	28%	27%	27%	27%	-0.2%	1.9%
ex Tech Mahindra	25%	26%	26%	28%	28%	28%	28%	-0.6%	2.5%
Energy	15%	8%	12%	14%	12%	17%	12%	-4.7%	-2.4%
ex RIL	18%	7%	19%	21%	14%	25%	15%	-9.6%	-2.9%
Consumer Staples	25%	30%	19%	20%	21%	20%	20%	0.0%	-5.3%
ex ITC	22%	27%	19%	20%	21%	20%	20%	0.0%	-1.7%
Comm Services	-4%	-102%	-104%	6%	-21%	-18%	-4%	14.4%	0.1%
Materials	12%	10%	16%	24%	14%	11%	12%	0.4%	-0.9%
Ex Metals	12%	12%	15%	23%	13%	11%	10%	-0.3%	-1.7%
Cons Disc	6%	7%	2%	9%	13%	21%	20%	-0.8%	14.3%
ex Tata Motors	19%	13%	7%	13%	14%	17%	17%	-0.5%	-1.7%
Industrials	14%	10%	9%	11%	14%	18%	18%	0.5%	4.4%
Utilities	12%	12%	13%	15%	14%	16%	14%	-2.3%	2.0%
Health Care	12%	12%	14%	14%	13%	14%	17%	3.3%	5.3%
Real Estate	5%	1%	4%	5%	8%	10%	15%	4.7%	10.3%
Total	13%	8%	12%	17%	14%	16%	15%	-1.2%	2.1%
Ex Energy, Metals	16%	11%	14%	23%	20%	22%	21%	-0.1%	5.7%

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Leverage: Balance Sheet leverage remains healthy

Net debt to Equity

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY24 vs FY23	FY24 vs FY19
IT	-39%	-29%	-33%	-31%	-27%	-29%	-31%	-2%	8%
ex Tech Mahindra	-39%	-29%	-33%	-31%	-28%	-30%	-32%	-2%	7%
Energy	47%	56%	38%	35%	37%	29%	34%	5%	-13%
ex RIL	45%	70%	74%	57%	55%	41%	50%	9%	5%
Consumer Staples	-5%	-5%	-4%	-4%	-4%	-5%	-5%	0%	0%
ex ITC	-9%	-15%	-14%	-9%	-13%	-13%	-13%	0%	-4%
Comm Services	132%	238%	839%	728%	854%	663%	487%	-176%	355%
Materials	65%	62%	48%	32%	43%	43%	48%	5%	-17%
Ex Metals	68%	66%	49%	32%	40%	38%	44%	6%	-24%
Cons Disc	42%	51%	52%	57%	55%	42%	42%	0%	0%
ex Tata Motors	33%	40%	35%	40%	41%	39%	40%	0%	7%
Industrials	51%	58%	52%	47%	42%	41%	48%	6%	-4%
Utilities	137%	138%	134%	126%	119%	109%	101%	-8%	-35%
Health Care	15%	10%	3%	-3%	3%	-3%	-1%	1%	-16%
Real Estate	51%	40%	32%	27%	29%	28%	20%	-8%	-30%
Total	53%	58%	52%	46%	49%	43%	45%	2%	-8%
Ex Energy, Metals	70%	76%	75%	68%	71%	64%	64%	0%	-5%

Net debt to EBITDA

%	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY25 vs FY24	FY25 vs FY19
IT	-118%	-106%	-90%	-78%	-68%	-75%	-80%	-5%	38%
ex Tech Mahindra	-118%	-103%	-88%	-79%	-68%	-74%	-80%	-7%	38%
Energy	160%	243%	187%	153%	161%	98%	145%	47%	-15%
ex RIL	128%	320%	226%	168%	208%	101%	180%	78%	52%
Consumer Staples	-13%	-16%	-16%	-13%	-13%	-17%	-18%	-1%	-5%
ex ITC	-27%	-49%	-52%	-31%	-47%	-45%	-44%	2%	-17%
Comm Services	559%	1485%	982%	411%	464%	431%	406%	-25%	-153%
Materials	209%	251%	147%	80%	144%	158%	178%	20%	-31%
Ex Metals	224%	249%	154%	84%	146%	157%	181%	24%	-43%
Cons Disc	177%	321%	268%	216%	177%	114%	118%	4%	-59%
ex Tata Motors	103%	222%	204%	174%	155%	129%	131%	2%	28%
Industrials	185%	264%	265%	212%	161%	132%	151%	18%	-34%
Utilities	528%	450%	461%	412%	406%	356%	349%	-8%	-179%
Health Care	71%	24%	15%	-14%	14%	-11%	-5%	6%	-76%
Real Estate	411%	630%	491%	351%	290%	262%	193%	-68%	-217%
Total	187%	233%	200%	151%	169%	136%	152%	16%	-35%
Ex Energy, Metals	201%	229%	208%	155%	172%	151%	154%	3%	-47%

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Cashflow: Cash conversion remains strong

- Working capital cycle has deteriorated at the margin, cash conversion remains healthy

CFO after W-cap/CFO before W-Cap

	FY19	FY24	FY25	FY25 vs FY24	FY25 vs FY19
IT	95%	94%	94%	0%	0%
ex Tech Mahindra	95%	93%	94%	1%	-1%
Energy	76%	98%	96%	-2%	20%
ex RIL	65%	104%	118%	14%	52%
Consumer Staples	96%	92%	86%	-5%	-10%
ex HUL	96%	88%	84%	-3%	-12%
Comm Services	85%	96%	100%	4%	16%
Materials	87%	82%	78%	-4%	-10%
ex Metals	60%	69%	61%	-7%	1%
Cons Disc	68%	87%	83%	-4%	15%
ex Tata Motors	65%	75%	75%	-1%	10%
Industrials	38%	78%	68%	-10%	30%
Utilities	82%	96%	94%	-2%	12%
Health Care	80%	90%	85%	-4%	5%
Real Estate	81%	90%	90%	1%	10%
Total	76%	93%	90%	-3%	14%
Ex Energy, Metals	69%	90%	87%	-3%	18%

Cash Conversion: CFO/EBITDA

	FY19	FY24	FY25	FY25 vs FY24	FY25 vs FY19
IT	74%	77%	76%	-1%	2%
ex Tech Mahindra	74%	75%	75%	0%	1%
Energy	63%	94%	91%	-3%	28%
ex RIL	50%	99%	113%	14%	63%
Consumer Staples	70%	79%	65%	-13%	-5%
ex HUL	71%	73%	62%	-10%	-9%
Comm Services	83%	99%	98%	-1%	15%
Materials	74%	74%	69%	-6%	-6%
ex Metals	44%	59%	53%	-6%	9%
Cons Disc	68%	74%	68%	-6%	0%
ex Tata Motors	39%	54%	53%	-1%	15%
Industrials	16%	66%	54%	-12%	38%
Utilities	91%	92%	90%	-1%	-1%
Health Care	67%	72%	67%	-5%	0%
Real Estate	68%	86%	81%	-5%	13%
Total	65%	84%	79%	-5%	14%
Ex Energy, Metals	58%	79%	74%	-5%	16%

Cashflow: CFO moderates vs FY24, capex remains healthy

- Cash Flow from Operations (CFO) has grown at 10% since pre-COVID but has decelerated over the last 12 months.
- Capital expenditure (capex) continues to grow at a healthy pace, with capex excluding commodities growing at a double-digit rate

Capex and CFO trends

	Capex		CFO	
	YoY(%)	Since FY19	YoY(%)	Since FY19
IT	11%	0%	4%	0%
ex Tech Mahindra	13%	1%	4%	1%
Energy	3%	9%	-22%	9%
ex RIL	2%	10%	13%	10%
Consumer Staples	-13%	8%	-13%	8%
ex HUL	-13%	7%	-9%	7%
Comm Services	20%	10%	7%	10%
Materials	5%	17%	-4%	17%
ex Metals	2%	22%	-14%	22%
Cons Disc	10%	4%	-2%	4%
ex Tata Motors	7%	8%	6%	8%
Industrials	9%	20%	-11%	20%
Utilities	17%	13%	2%	13%
Health Care	-2%	8%	1%	8%
Real Estate	11%	10%	5%	10%
Total	8%	10%	-8%	10%
Ex Energy, Metals	14%	9%	-1%	9%

FCF to EBITDA

				FY25	
	FY19	FY24	FY25	vs FY24	vs FY19
IT	61%	70%	69%	-1%	8%
ex Tech Mahindra	62%	69%	69%	0%	7%
Energy	-6%	34%	15%	-19%	21%
ex RIL	-61%	4%	15%	11%	76%
Consumer Staples	49%	58%	51%	-7%	2%
ex HUL	47%	49%	47%	-2%	0%
Comm Services	-22%	50%	43%	-6%	65%
Materials	36%	13%	7%	-6%	-28%
ex Metals	2%	-5%	-15%	-10%	-17%
Cons Disc	-33%	30%	23%	-7%	56%
ex Tata Motors	-9%	16%	16%	-1%	25%
Industrials	-15%	26%	14%	-12%	28%
Utilities	12%	23%	13%	-10%	2%
Health Care	19%	39%	37%	-2%	18%
Real Estate	18%	42%	37%	-5%	20%
Total	6%	39%	29%	-10%	23%
Ex Energy, Metals	-2%	43%	36%	-7%	38%

Profit Pools vs Market Cap Pools

- Sectors with trough profit pools and trough market capitalization include Energy, Materials, Staples, and IT
- Sectors with peak profit pools and peak market capitalization include Industrials, Financials, Consumer Discretionary, and Real Estate.

Profit Pool	FY20	FY21	FY22	FY23	FY24	FY25
Industrials	7%	4%	4%	6%	6%	13%
Energy	21%	18%	18%	15%	18%	13%
Materials	17%	16%	21%	11%	8%	8%
Financials	14%	29%	28%	38%	38%	36%
Consumer Staples	8%	6%	5%	5%	4%	4%
Consumer Discretionary	5%	4%	3%	5%	7%	7%
Utilities	9%	7%	7%	7%	7%	5%
Health Care	6%	6%	4%	4%	4%	4%
Communication Services	-5%	-4%	-1%	-1%	0%	0%
Information Technology	17%	13%	11%	10%	8%	8%
Real Estate	0%	0%	1%	1%	1%	3%

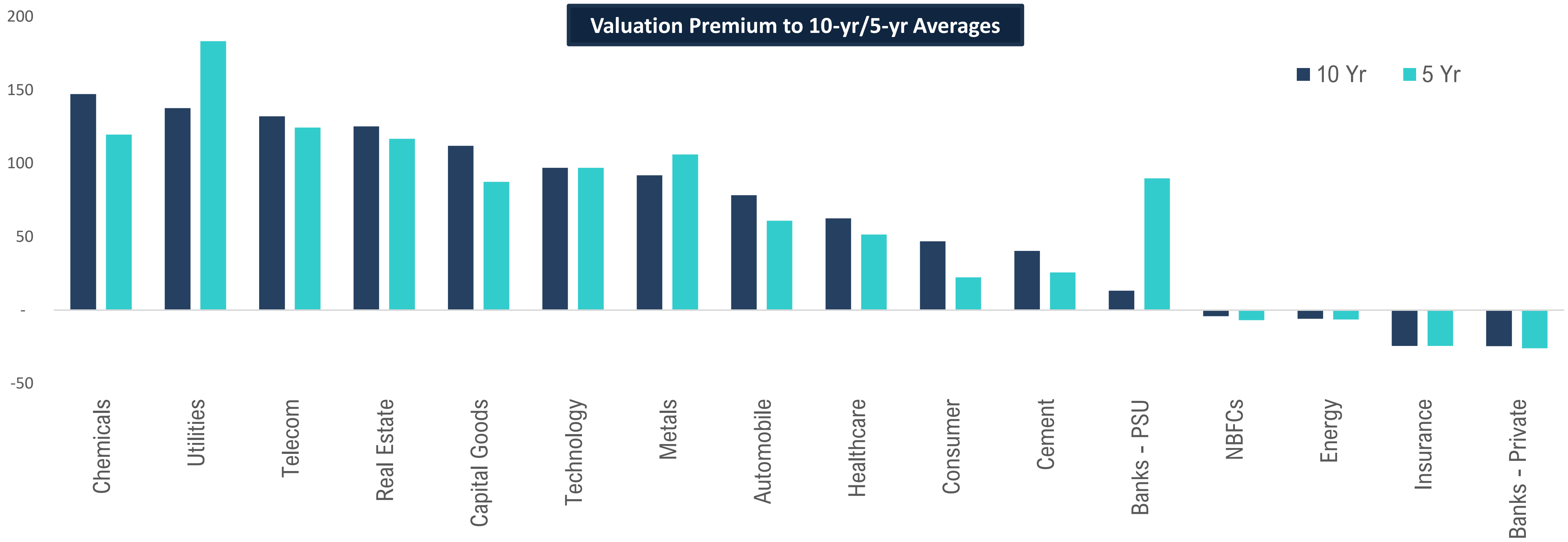
Market Cap Pools	FY20	FY21	FY22	FY23	FY24	FY25
Industrials	7%	8%	8%	10%	12%	12%
Energy	11%	10%	10%	9%	9%	8%
Materials	10%	12%	12%	12%	10%	10%
Financials	23%	24%	21%	24%	24%	24%
Consumer Staples	14%	10%	9%	10%	8%	8%
Consumer Discretionary	7%	8%	9%	9%	10%	10%
Utilities	4%	5%	6%	5%	6%	5%
Health Care	6%	6%	5%	5%	6%	6%
Communication Services	3%	3%	3%	3%	3%	4%
Information Technology	13%	14%	15%	12%	10%	11%
Real Estate	1%	1%	1%	1%	2%	2%

**Conditional color formatting is horizontal >>*

1	2	3	4

Valuation: Premium or Discount to pre-pandemic averages

- Sectors with highest premium to long term averages: Chemicals, Utilities, Telecom , Real Estate
- Sector with discount to long term averages: NBFC, Energy, Insurance, Banks Pvt

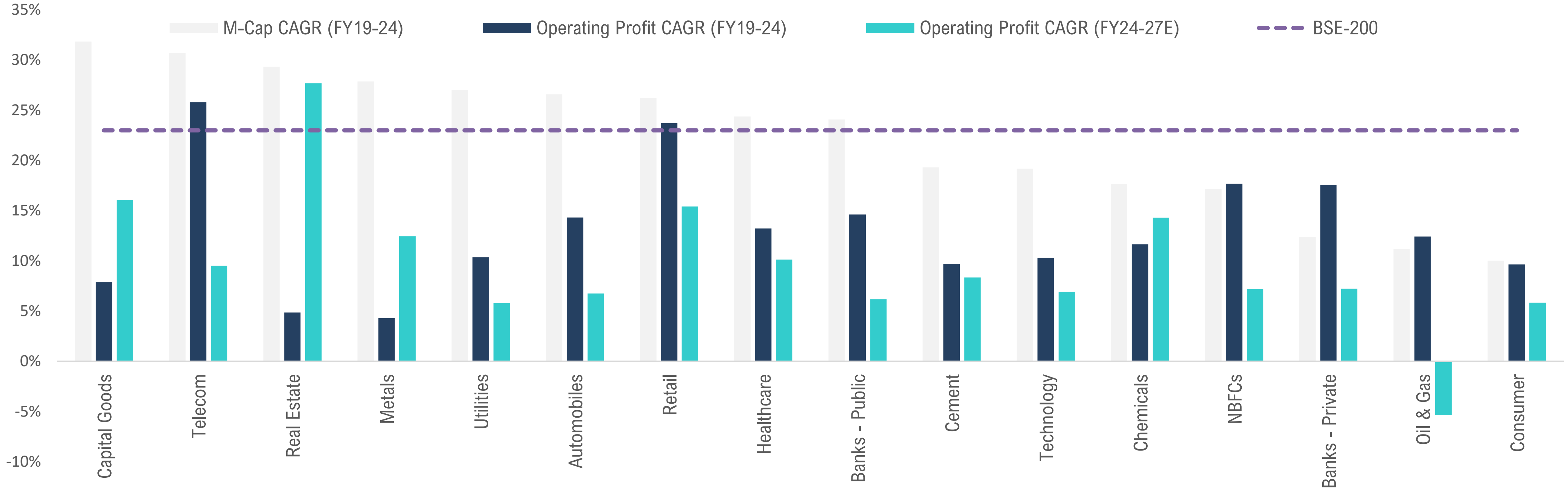


1. 5 yr and 10 yr Pre covid multiples are from Jan-15 to Jan-20 and Jan-10 to Jan-20 respectively
2. Price to book multiples are used for NBFC, Banks, Metals, Oil and Gas, Real Estate and utilities
3. Price to Embedded value is used for insurance. The valuation data is available only from FY17
4. Price to Earnings is used for Technology
5. EV/EBITDA is used for Auto, Capital goods, Cement, Chemicals, Consumer, Healthcare, Telecom
6. Source: Bloomberg. The universe is BSE-200

Profit Pools vs Market Cap Pools

Market Cap CAGR < Operating profit CAGR: NBFC, Pvt Banks, and Oil & Gas

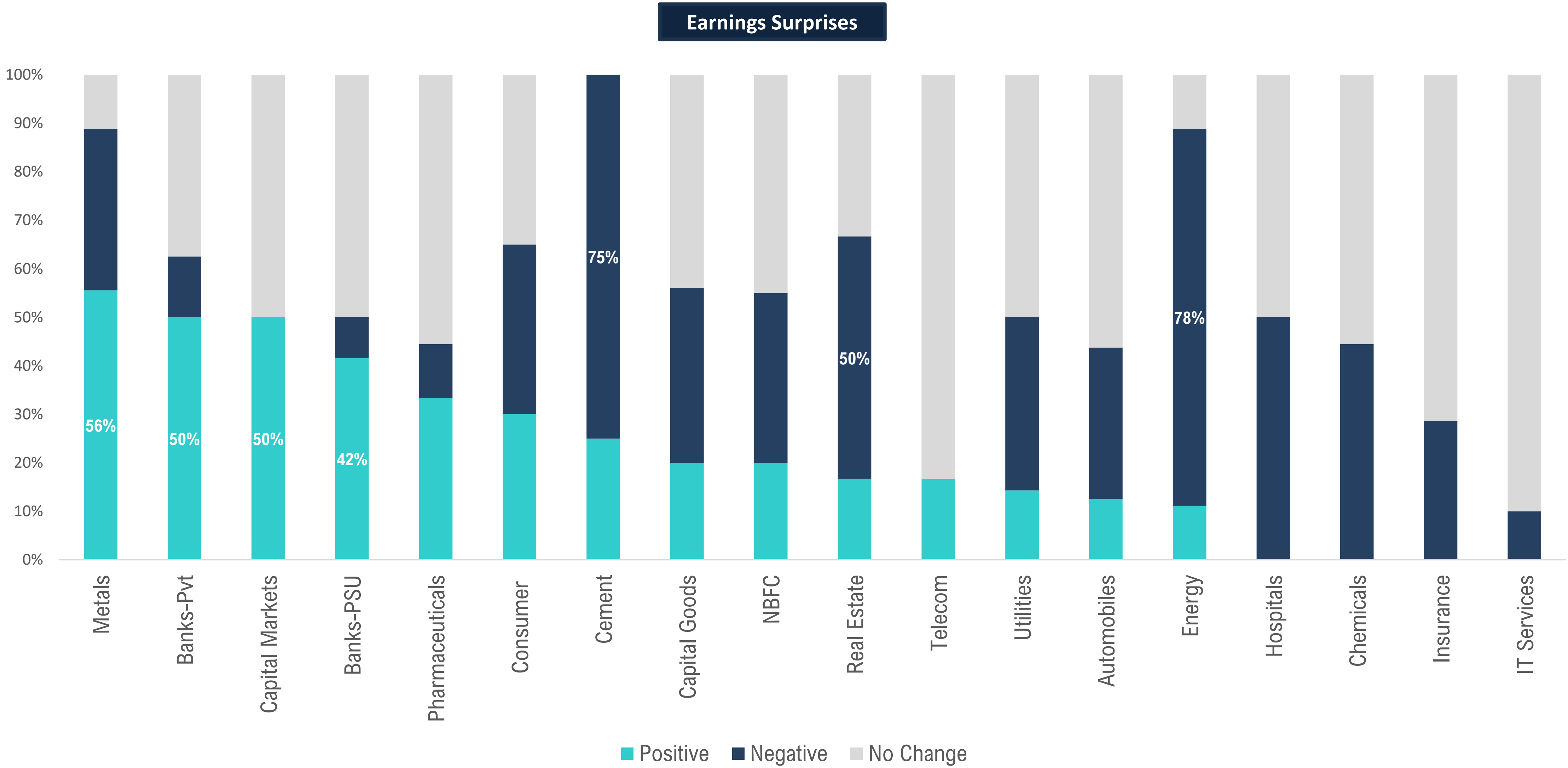
Market Cap and Operating profit growth



1. *The exercise is based on BSE-200 companies due to lack of availability of reliable estimates beyond BSE-200*
2. *For Banks and NBFC's the operating profits is pre-provisioning operating profits (PPOP).*
3. *M-cap CAGR is Nov 19 to Nov 24*
4. *Operating profits CAGR is FY19-24 actuals and FY27 based on Bloomberg consensus estimates*
5. *Source: Capitaline and Bloomberg*

DSP MUTUAL FUND

Earnings Surprises (2QFY25): Positive: Metals, Banks, Capital Markets Negative: Cement, Energy, Real Estate



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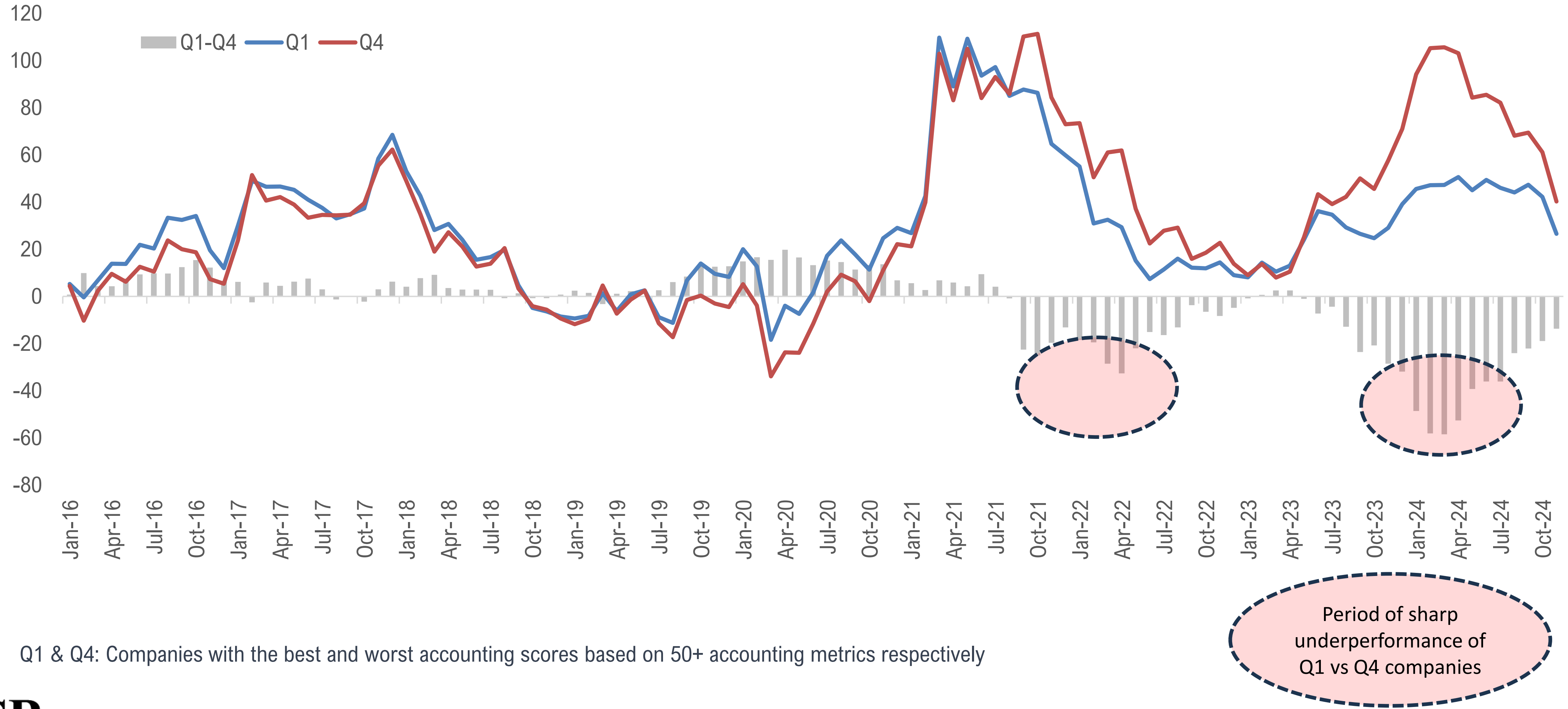
Quality is mean reverting ?

The difference in the performance of Quartile 1 and Quartile 4 companies is mean reverting



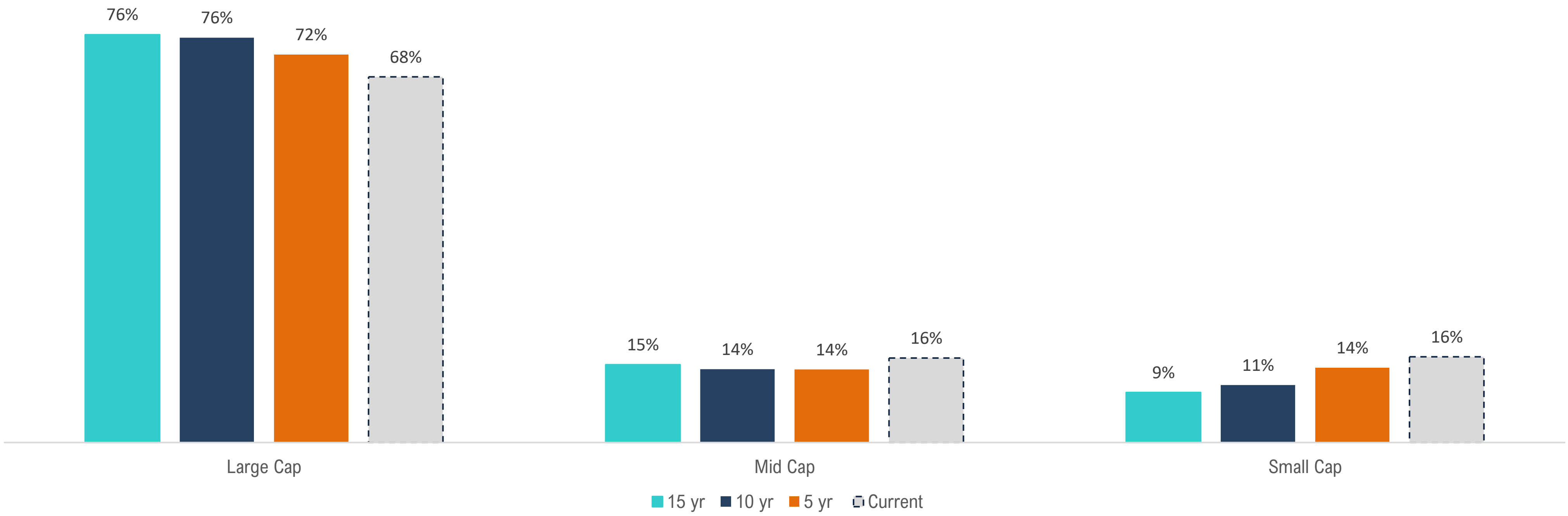
Q1 & Q4: Companies with the best and worst accounting scores based on 50+ accounting metrics respectively

Mid-Caps Outperform Across Key Metrics: A Comparative Analysis

		Large Cap	Mid Cap	Small Cap
Revenue CAGR	FY19-25	10%	11%	10%
EBITDA Margins	FY19	17%	13%	12%
EBITDA Margins	FY25	19%	15%	13%
Margin Delta	**Chg (Bps)**	**190**	**252**	**150**
PAT Growth	FY19-25	14%	17%	12%
ROE	FY19	15%	12%	13%
ROE	FY25	16%	14%	11%
ROE Delta	**Chg (Bps)**	**107**	**231**	**-215**

Based on current AMFI classification
Mid caps exclude Vodafone and Godrej Industries

Market Cap Distribution: Large Caps Lagging Long-Term Averages



1. Large Caps = Aggregate Market Cap of Nifty 50 + Nifty next 50
2. Midcap = Aggregate Market Cap of Nifty Mid cap 150
3. Small Cap = Aggregate Market Cap Nifty 500 (-) Large Caps (-) Midcaps

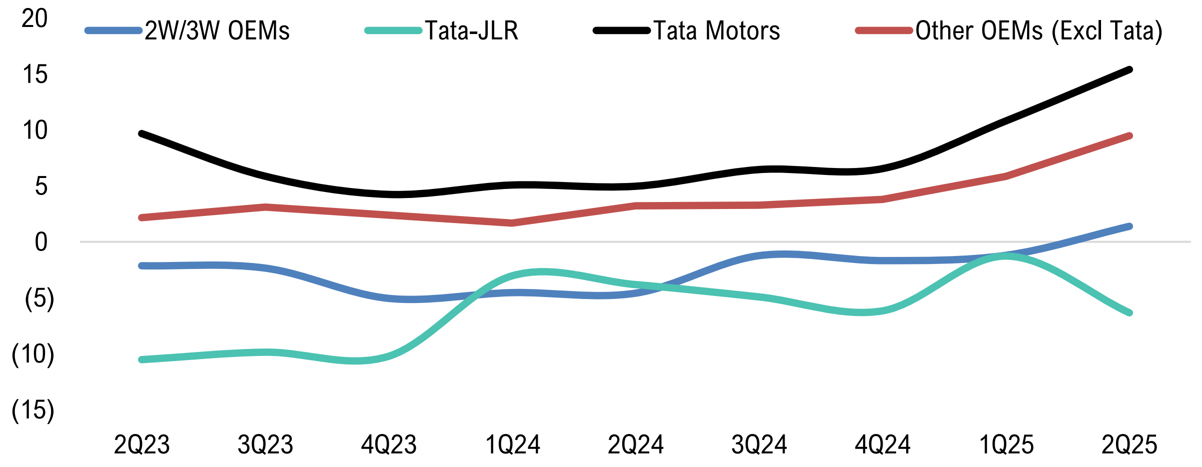
Sectoral Updates

Auto	Energy	NBFC
Auto Components	Gas Utilities	Pharma
Banks	Industrials	Staples
Cement	IT services	Real Estate
Consumer Durables	Life Insurance	Telecom
	Steel	

DSP MUTUAL FUND

Automobile Revenue Growth: Premiumization Drives Uptrend Across Segments

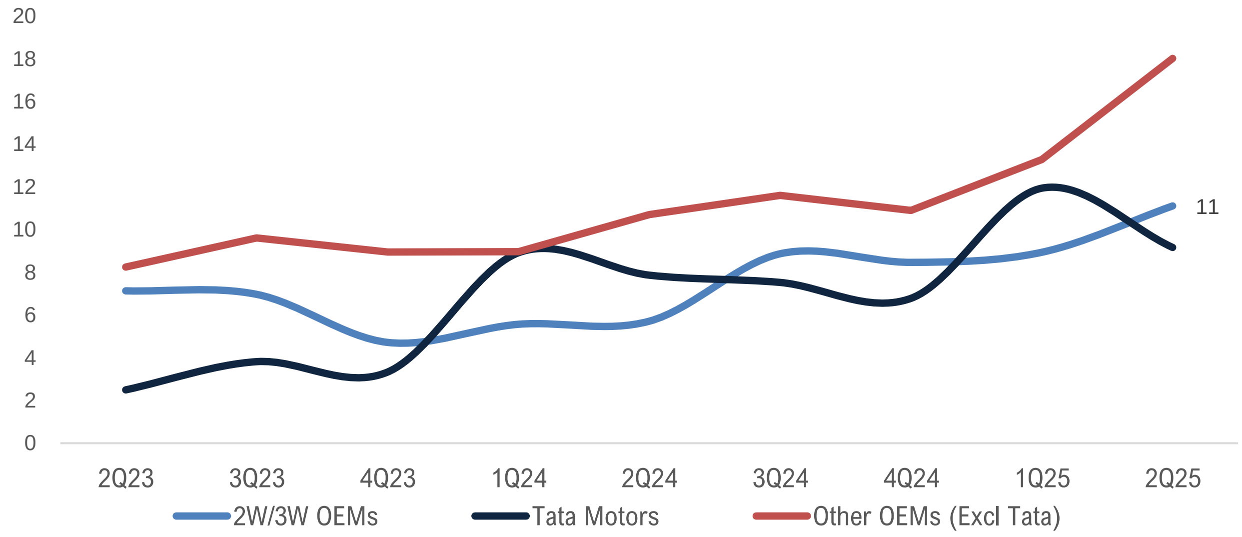
5-yr volume CAGR: Uptrend across segments, baring Tata - JLR



5-yr volume CAGR is positive across categories, baring Tata – JLR. 2W volume is still below peak of 2019. On YoY basis, 2W growth was positive, while CV, PV and Tata-JLR posted a decline.

5-yr revenue CAGR: Uptrend across OEMs on premiumisation/ price increases

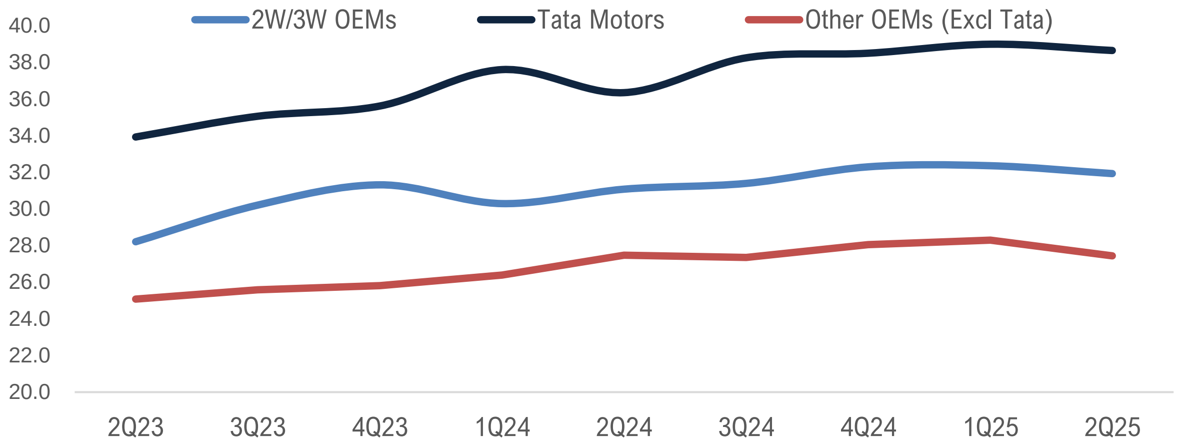
5-yr revenue CAGR in double digits for PV/CV OEMs and 2W/3W OEMs, and in high single-digits for Tata Motors. Revenue CAGR is better than volume CAGR supported by premiumisation and price increases.



Based on representative set of 10 Auto companies

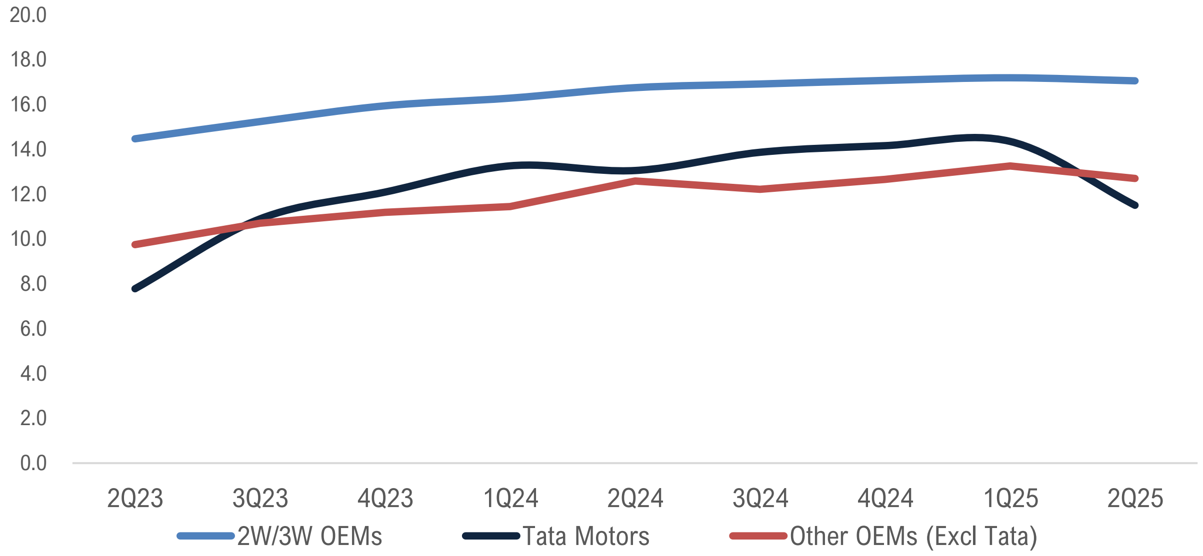
Automobiles: Gross Margin Trends Driven by Premiumization and Pricing Strategies

Gross margin expanded on premiumisation and better net pricing



Gross margins expanded YoY for Tata and 2W/ 3W OEMs owing to premiumization (shift to higher realization/ margin vehicles), better net pricing and cost savings. Gross margin for PV/CV OEMs was flat, as premiumization benefit, was offset by increase in discounts.

EBITDA margin was flat for 2W/3W and other OEMs while it contracted for Tata Motors

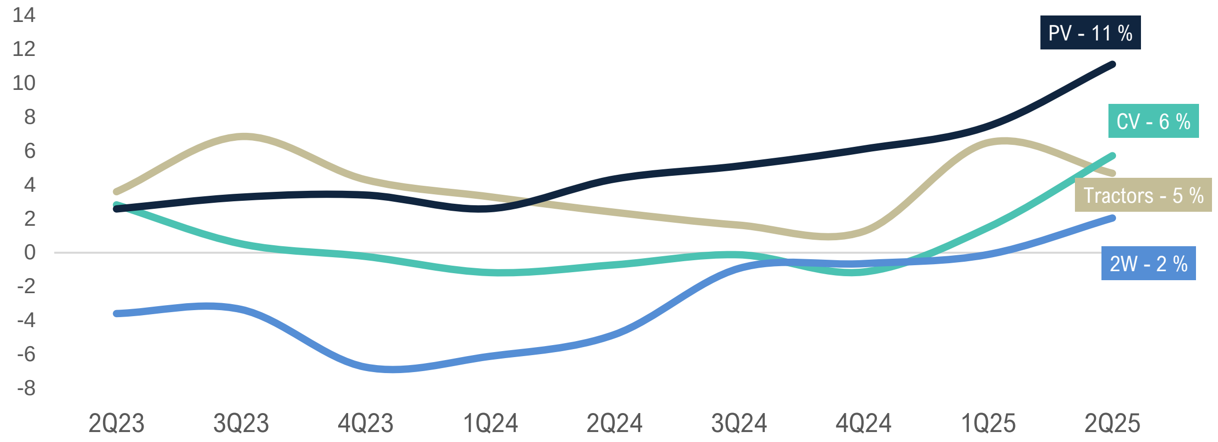


EBITDA margin was flat YoY for 2W/3W and PV/CV OEMs whereas it contracted for Tata Motors. Tata Motors margin contracted due to lower margin of JLR owing to supply chain constraints and higher marketing spends.

Based on representative set of 10 Auto companies

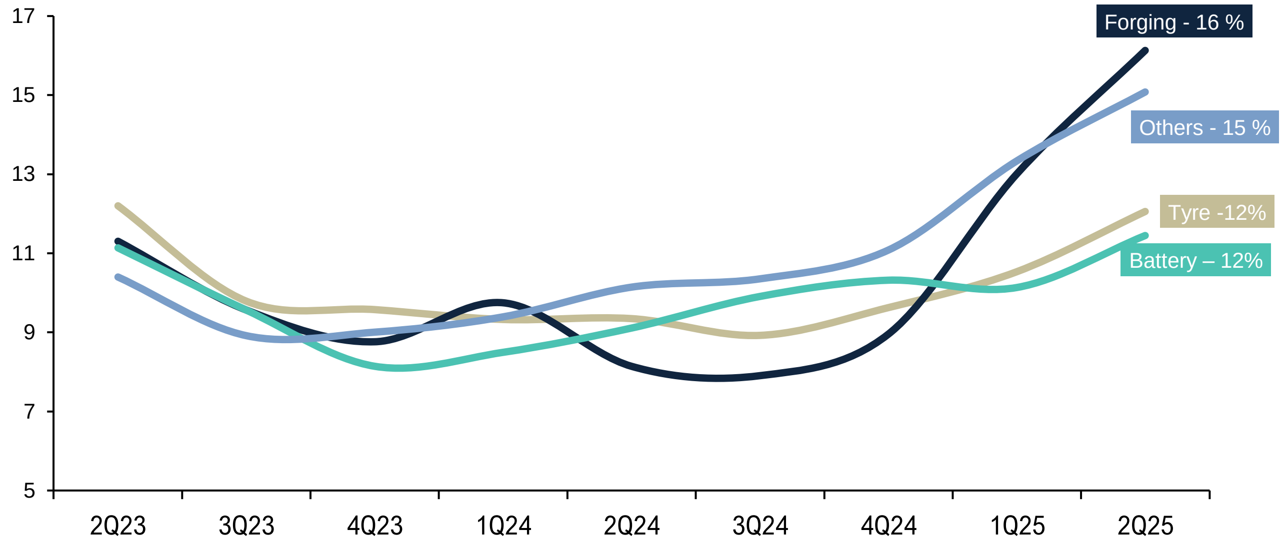
Auto Components: Outperformance Driven by Premiumization and EV Transition

5-yr volume CAGR: Positive across segments, 2Ws still below previous peak



Component companies mirror trend in the automobile segments. 5-yr CAGR is positive across segments. 2W quarterly volume is still below 2019 peak. On YoY basis, 2W posted robust growth, while there is muted performance in CV and PV segments, due to a high base.

Revenue CAGR: Component co's growth better than underlying industry

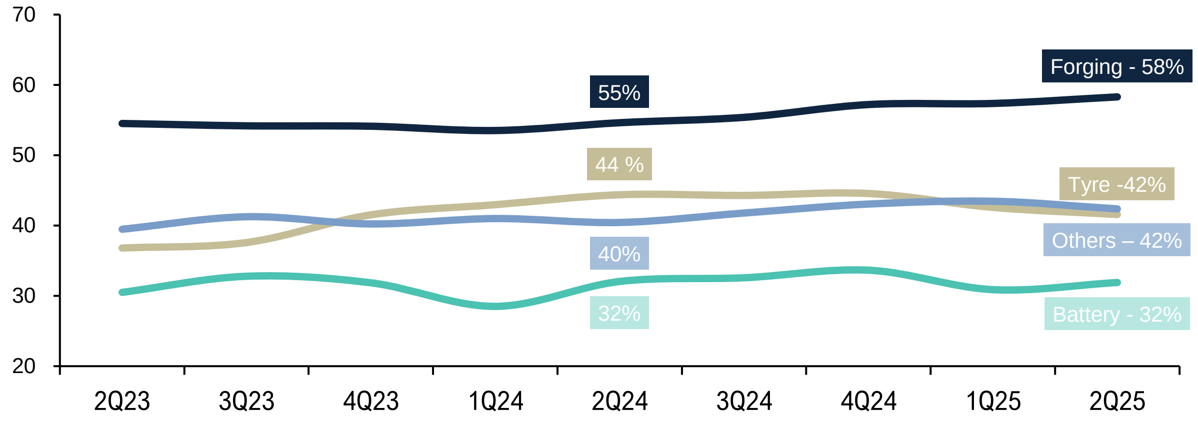


Component companies are witnessing better pricing and increase in content per vehicle, due to premiumisation and EV transition, resulting in outperformance vs. underlying auto segments. For 2Q25, revenue grew YoY across segments.

Based on representative set of 4 tyre firms, 3 forging firms, 2 battery firms and 9 other firms

Auto Components: Mixed Margin Trends Across Forgings, Tyres, and Batteries

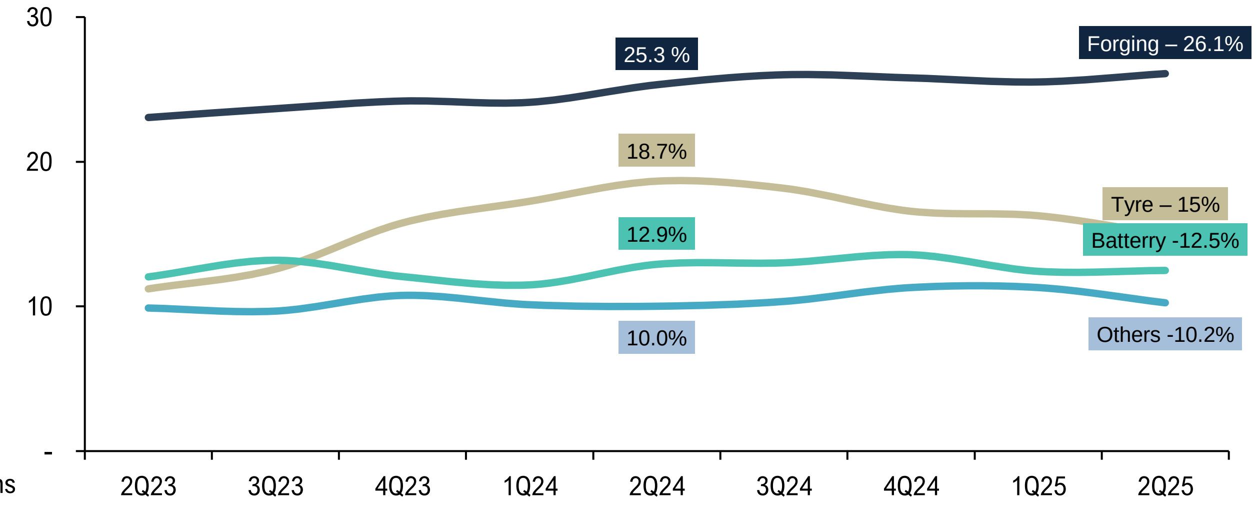
Gross margin expanded for Forgings and Others, but contracted for Tyres



Gross margin improved YoY for forgings and other parts companies due to better mix/pricing, was flat for battery companies and declined for tyre companies. Tyre companies margins declined due to higher input prices.

EBITDA margin expanded for Forgings, while contracted for Tyres and Batteries.

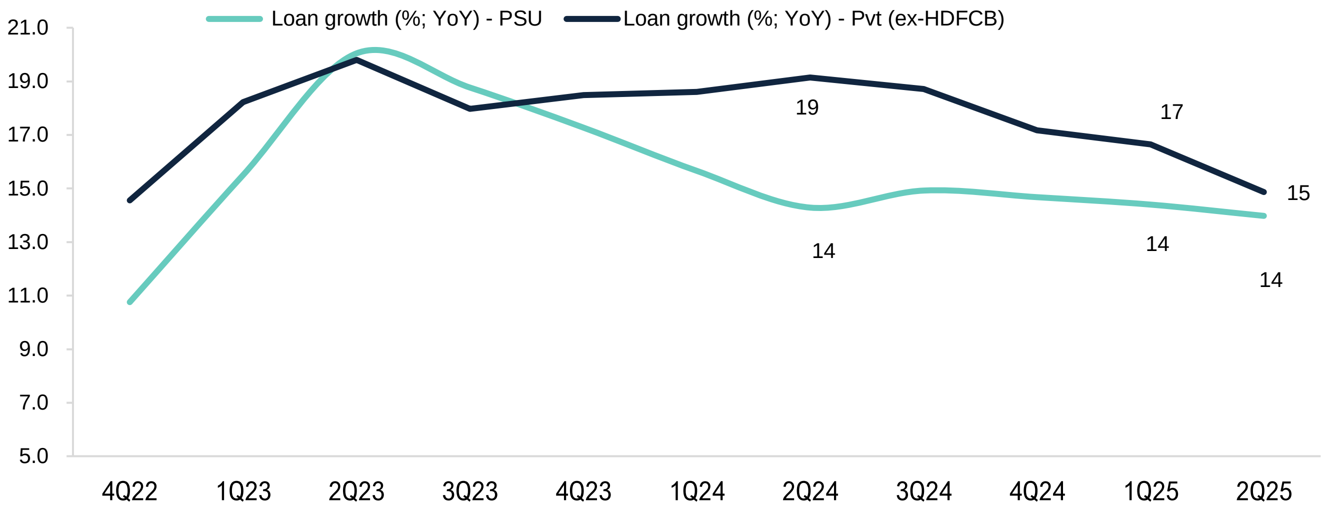
EBITDA margin expanded YoY for forging companies while it contracted for tyre companies due to higher input prices and it contracted for battery companies due to operating de-leverage.



Based on representative set of 4 tyre firms, 3 forging firms, 2 battery firms and 9 other firms

Banks: Loan Growth Stabilizes as NII Growth Slows Amid Moderating NIMs

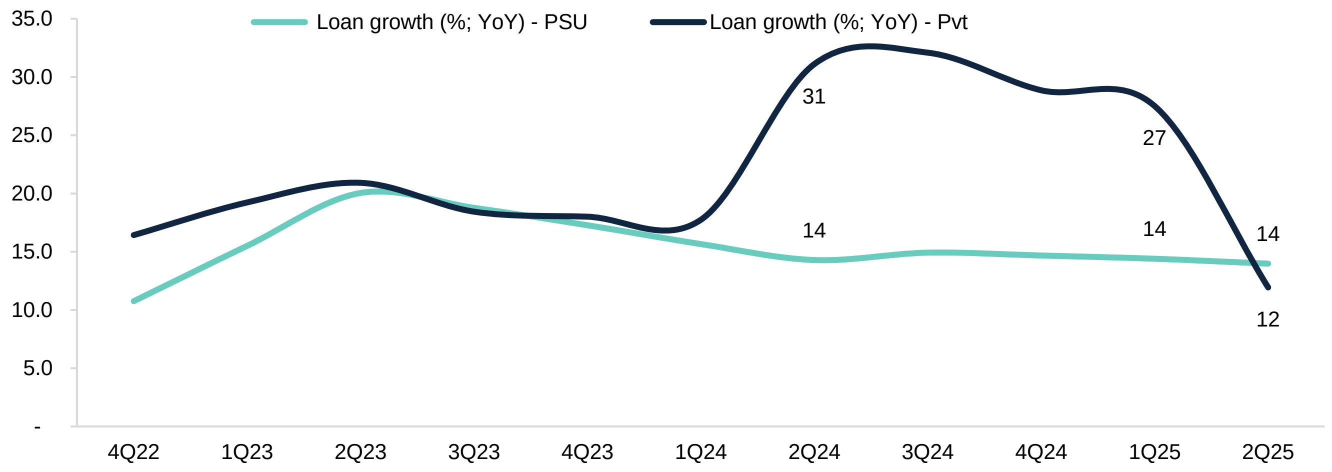
Loan Growth, YoY Change



Loan growth for PSU banks has been broadly stable while private banks excluding HDFCB is showing signs of moderation

NII Growth, YoY Change

Net Interest Income (NII) growth has been much slower than loan growth as Net Interest Margins (NIM) trajectory has been moderating



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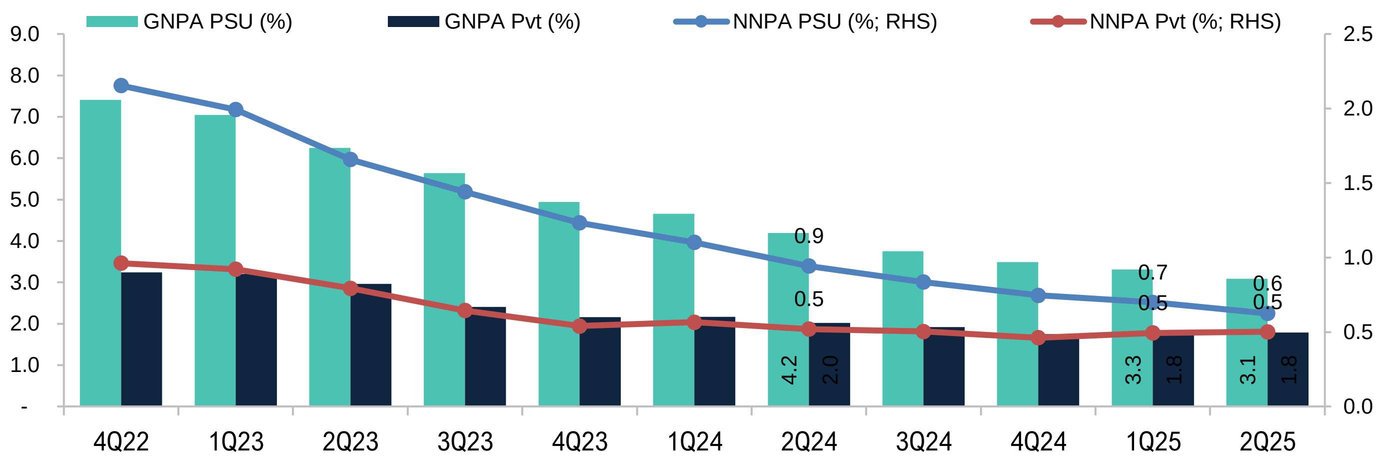
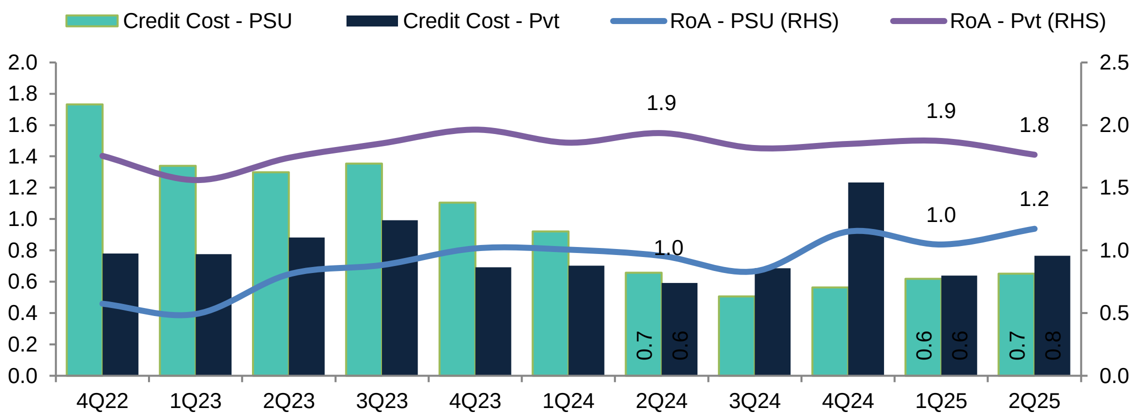
Banks: Stable Asset Quality Amid Rising Unsecured Retail Stress and Higher Provisioning

Headline asset quality remains steady though the rose in unsecured retail stress for private banks.

Asset Quality



Provisioning (Credit cost) and ROA



Rise in provisioning for private banks and thus marginal dip in RoA. PSU banks RoA rise even further QoQ.

Credit costs is defined as Total Provisions (annualized) divided by average loans.
Data pertains to 28 banks aggregating >90% of the banking system (ex Foreign banks).

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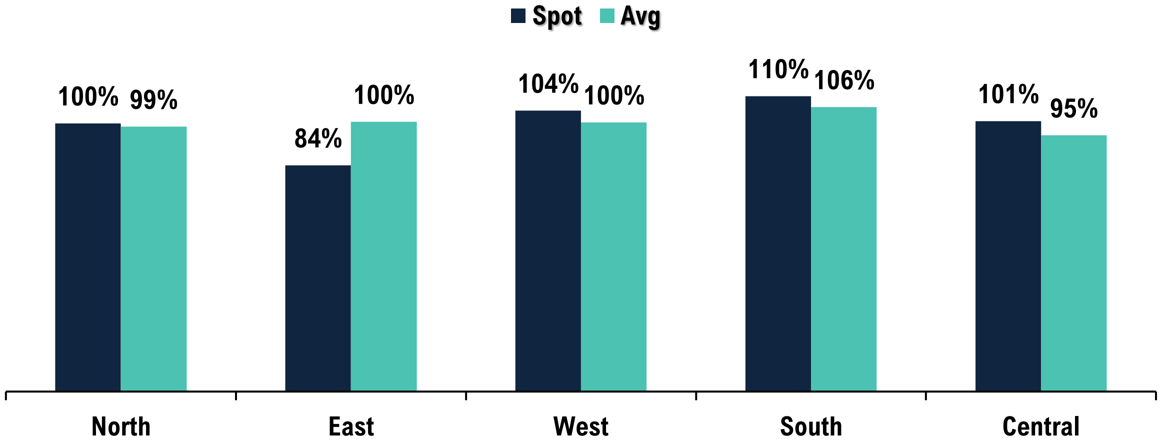
Cement : H1FY25 wraps with subpar performance

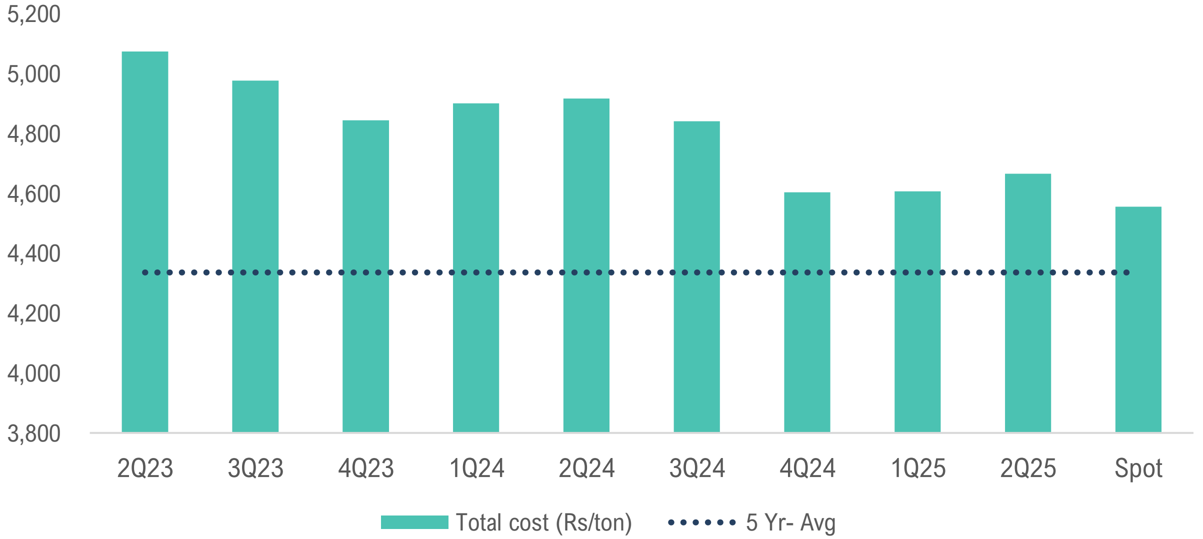
Spot regional cement prices are broadly in-line / above long-term avg as % of India prices



Spot regional cement prices (except East) are broadly in-line/ above long-term average as % of pan-India prices suggest limited price hike potential from hereon

Operating leverage to reduce cost/t in coming quarter

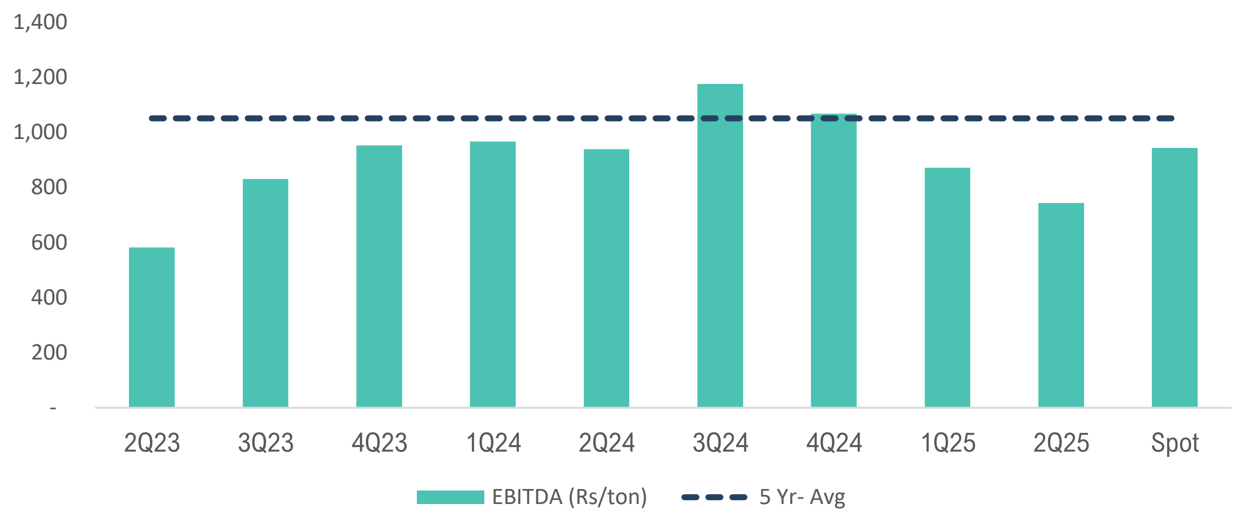
Input prices have broadly stabilized; however operating leverage to reduce cost/t in upcoming quarters



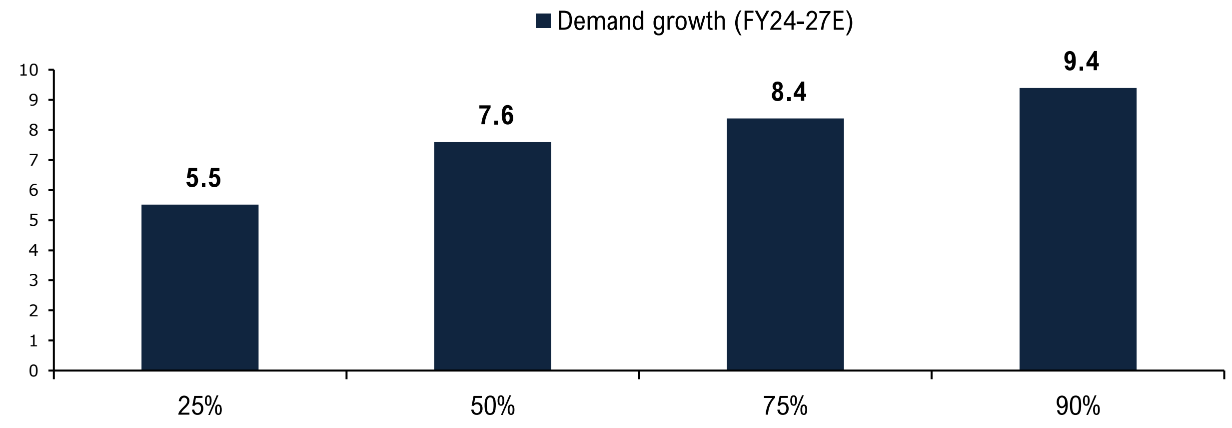
Based on representative set of 10 Cement companies

Cement : Operating leverage should aid profitability

With marginally better prices and operating de-leverage; spot profitability likely to improve



Demand should grow at least 75% percentile to maintain utilization level over coming years



To maintain the current utilization the Cement demand must sustain at 75th percentile of the long-term growth

Based on representative set of 10 Cement companies

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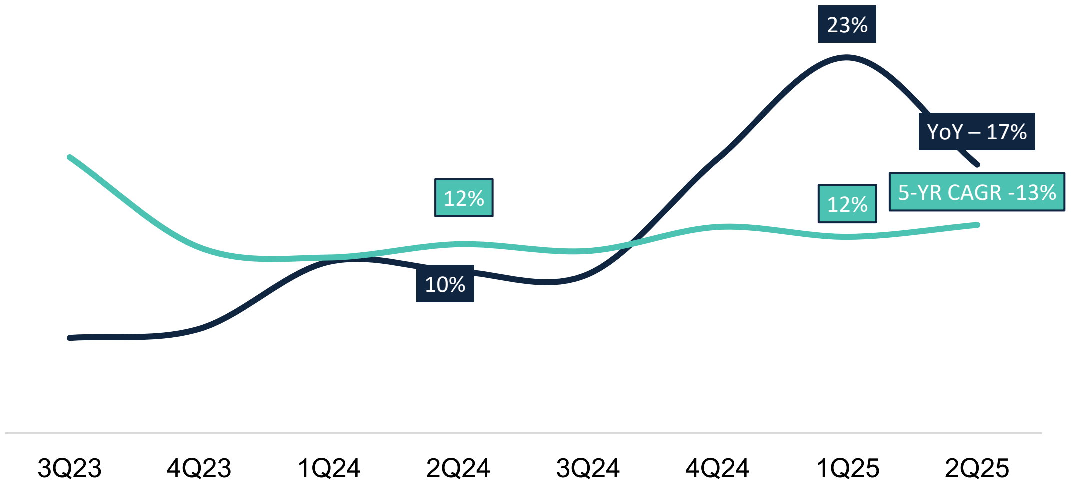
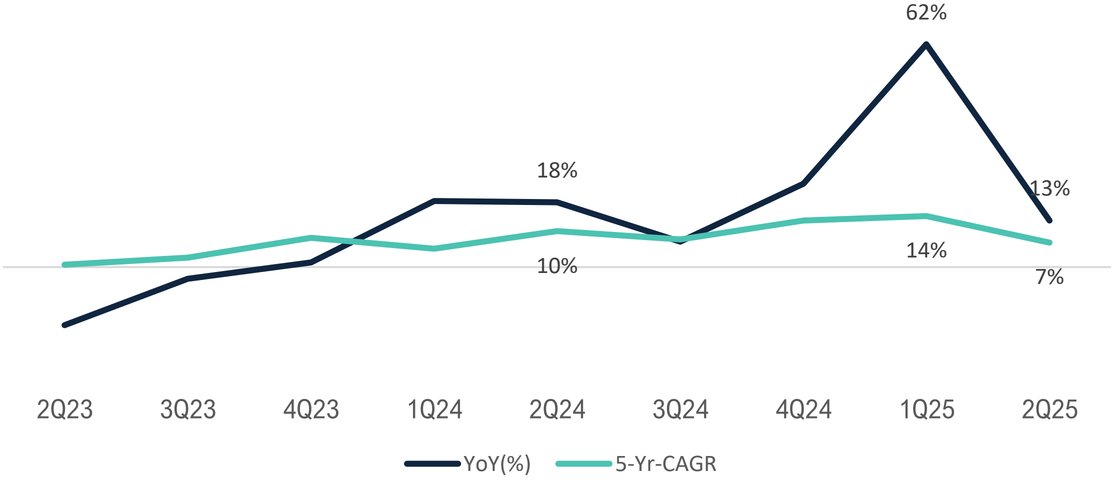
Consumer Durables: Revenue Growth Outpaces Profits Amid Margin Pressures

5-yr CAGR for revenue continues in double digit



The overall growth was driven by Cooling products and C&W despite. Demand for RAC continued due to stock-out situation witnessed in previous giving boost to sales. Kitchen appliances growth remain under pressure whereas Lighting is gradually recovering. The 5-Yr CAGR rose to ~13% indicating recovery in growth in the sector.

PAT growth trailed revenue growth

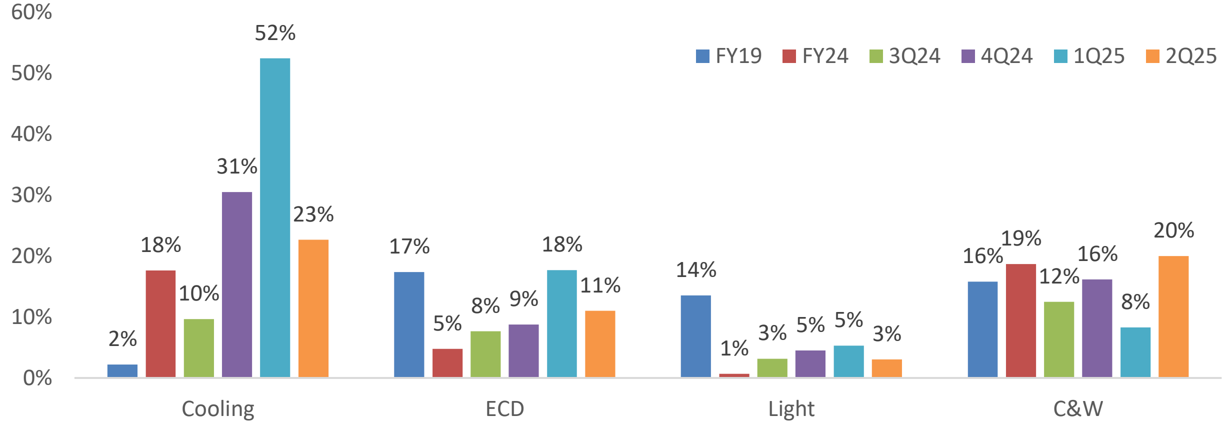


PAT growth trailed revenue growth and grew at single digit given margin pressure across most categories

Based on representative set of 17 Consumer Durable companies

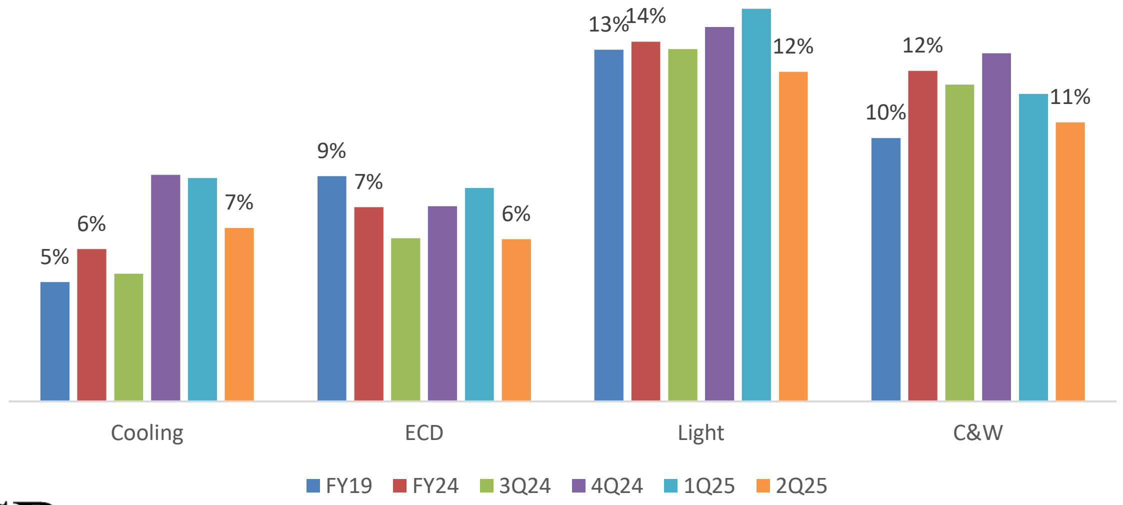
Consumer Durables: Cooling Products Drive Growth Amid Mixed Segment Performance

Revenue Growth: Extended summer and capex help cooling products and C&W growth



Continuing high temperature and capex drove growth for cooling products and C&W segment whereas continuing price deflation in Lighting category hampers growth. Kitchen appliance maintains its disappointing journey due to weak demand.

Category EBIT margin: Remain subdued in most categories



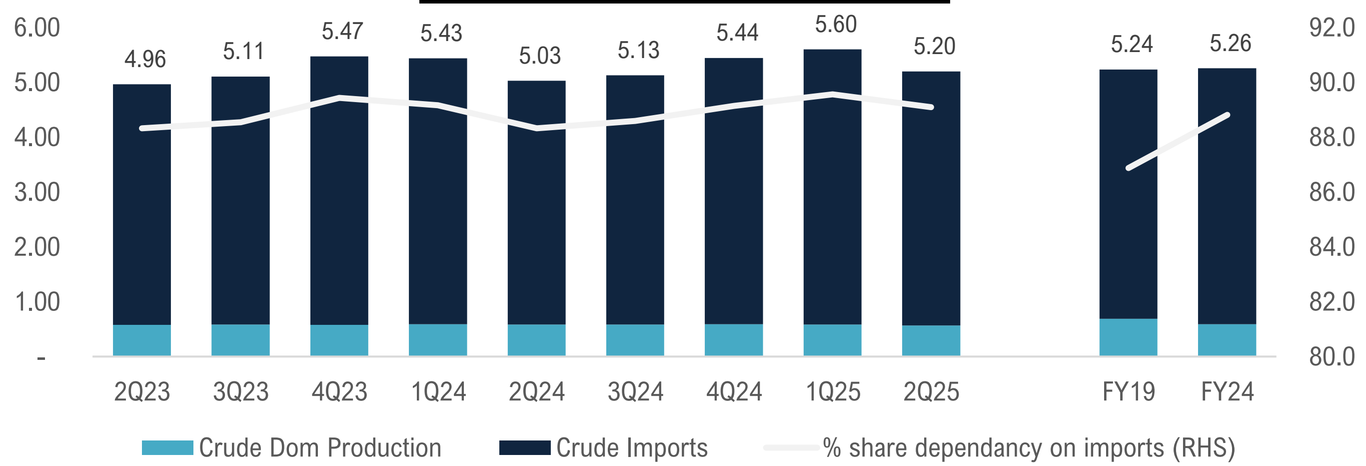
Margins for cooling products continue to remain strong due to operating leverage. However, C&W margins declined due to de-stocking of inventory by channel as copper prices declined. Lighting category is witnessing gradual recovery whereas headwinds in kitchen appliances led to lower margins in ECD segment.

Based on representative set of 17 Consumer Durable companies

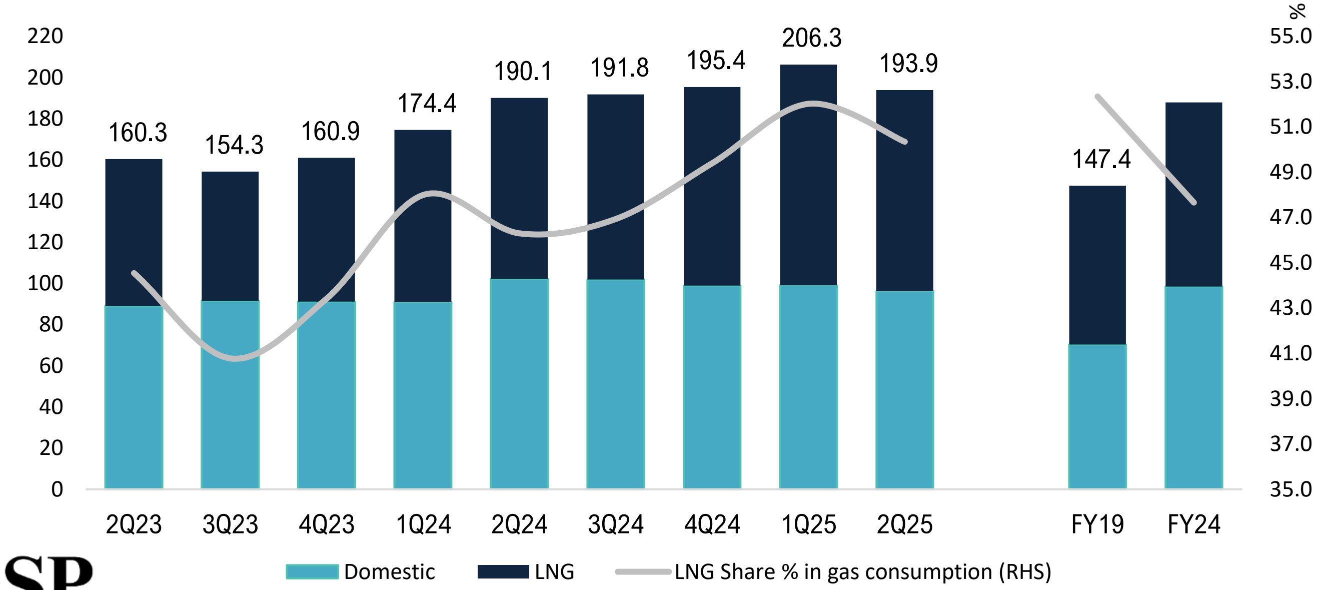
Energy: High Oil Import Dependency and Rising Gas Consumption on Stable LNG Prices

Import dependency of crude continues to be high, Russian discounted sourcing stable at ~35%

Oil consumption trends (mb/d)



Gas consumption trends (in mmscm/d)



Overall gas consumption has grown at 5-yr CAGR of 5.0%, the dependence on imported LNG has started to increase on steady demand growth and peaking of domestic production

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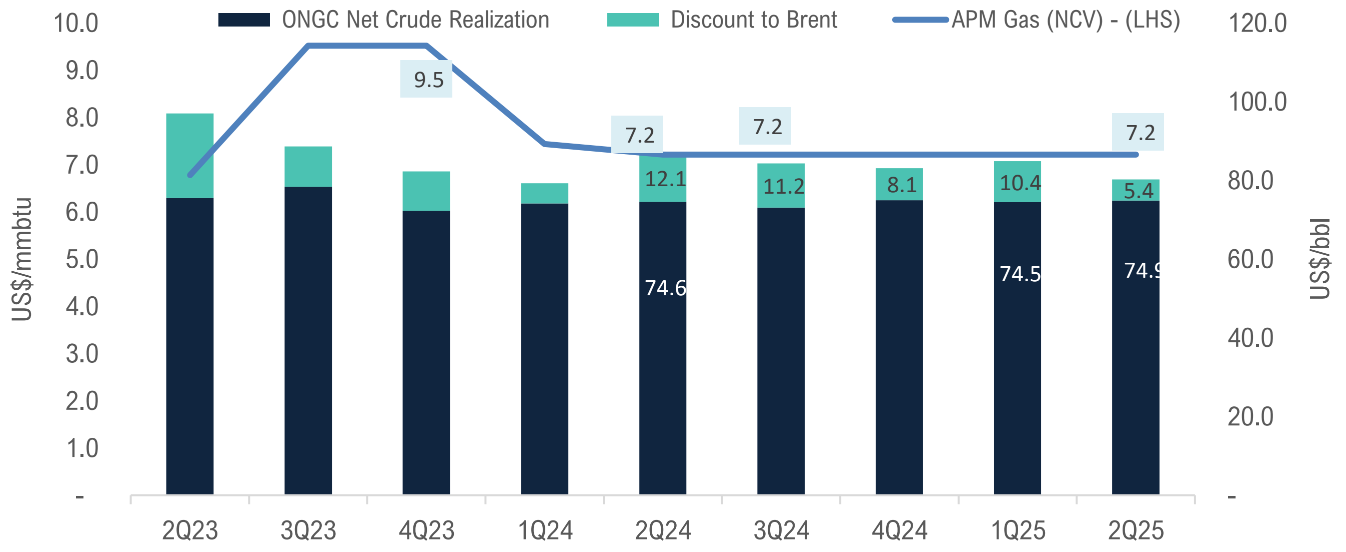
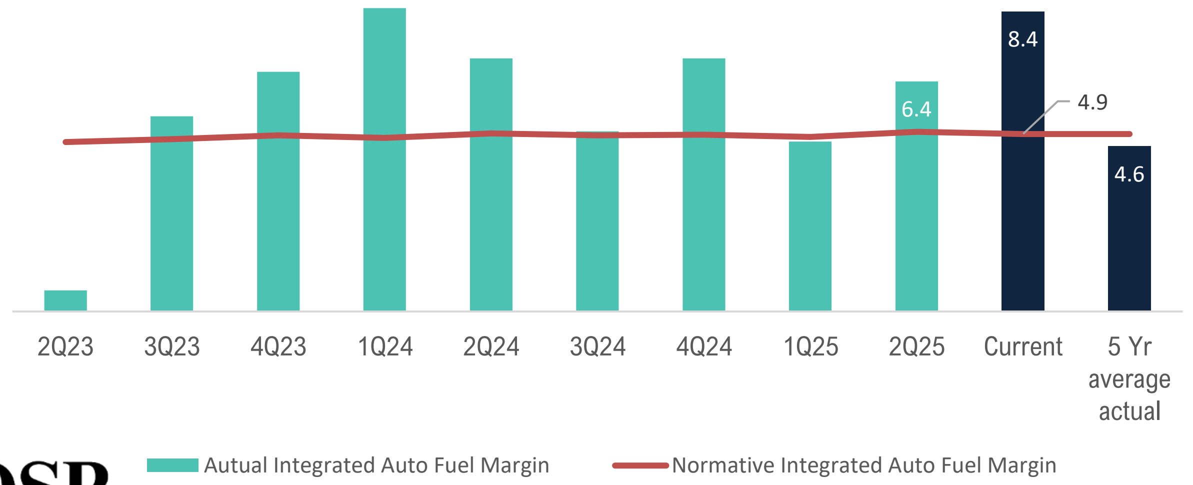
Energy: Domestic gas realisations stable, marketing margins strong in Q2

Brent prices are at US$70-80/bbl levels, while APM Gas Prices are constant at US$6.5/mmbtu GCV with premium gas pricing (12% of crude price) now applicable for new wells/interventions

Oil and Gas realization trends



Integrated gross auto-fuel margins (₹/ltr.) improve for Oil marketing companies



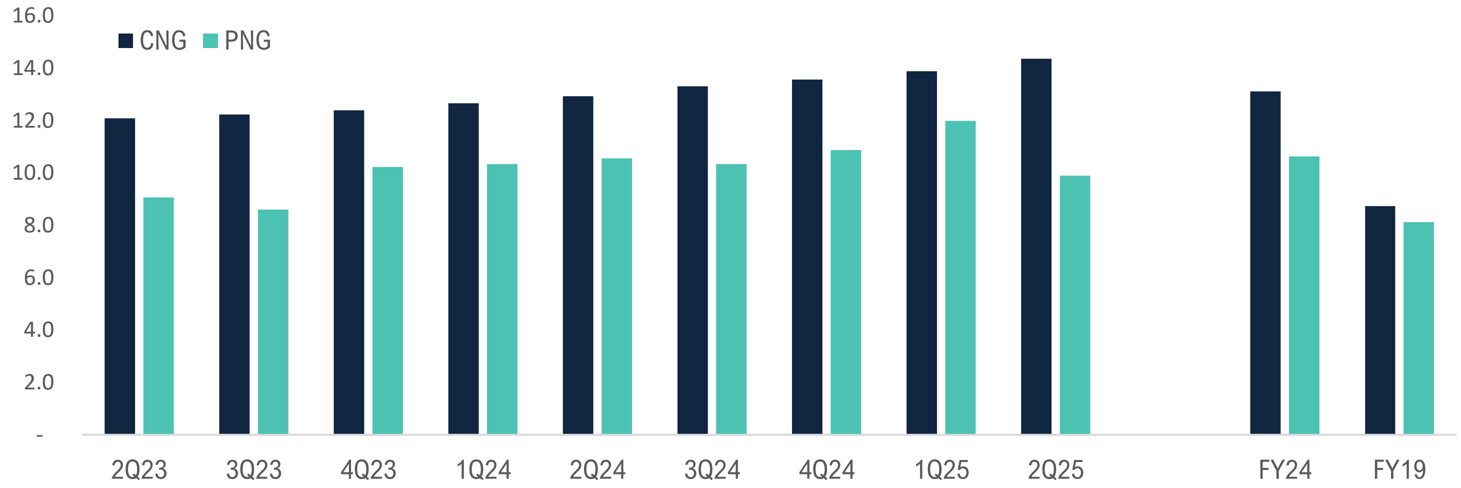
Integrated auto-fuel margins have improved on the back of lower oil prices and despite subdued refining as retail prices are being kept fixed. Spot integrated auto-fuel margins are: ₹8.4/ltr. v/s ₹6.4/ltr.

Why Track integrated margins?

Normative auto margins are calculated using long-term refining cracks for diesel and petrol, as well as long-term marketing margins for these fuels. Since diesel and petrol constitute the majority of products refined and marketed by oil companies, these metrics are reliable indicators of their profitability.

Gas Utility: Steady CNG Volume Growth Amid Margin Volatility

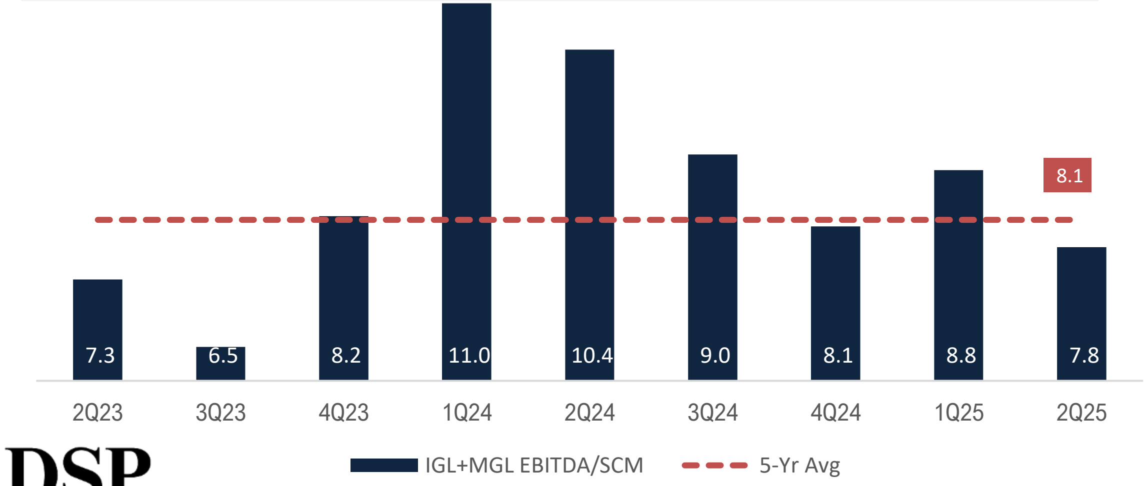
Volumes: CNG volumes improve steadily; supported by range-bound differentials



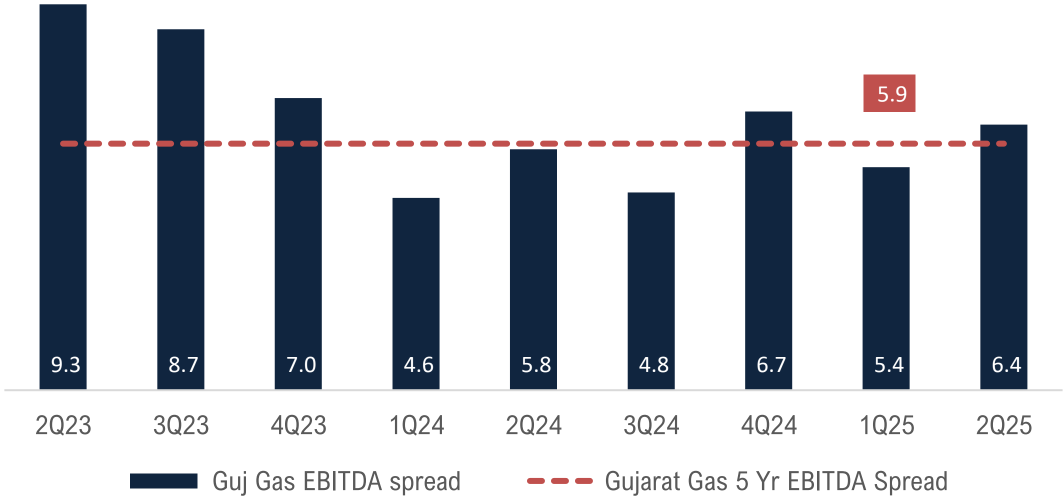
Key CGD utilities witnessed improvement in CNG sales volume growth in Q2, gross margins were largely range-bound on stable LNG prices despite lower APM allocation. Sharp ~35% APM allocation cut in Oct-Nov'24 requires Rs5-6/kg hike in CNG prices though to manage margins

Industrial margins improve on lower LNG prices, while priority margins (CNG + DPNG) impacted by lower APM and higher opex

CNG + DPNG (IGL + MGL) Margins trends



Industrial Margins trends



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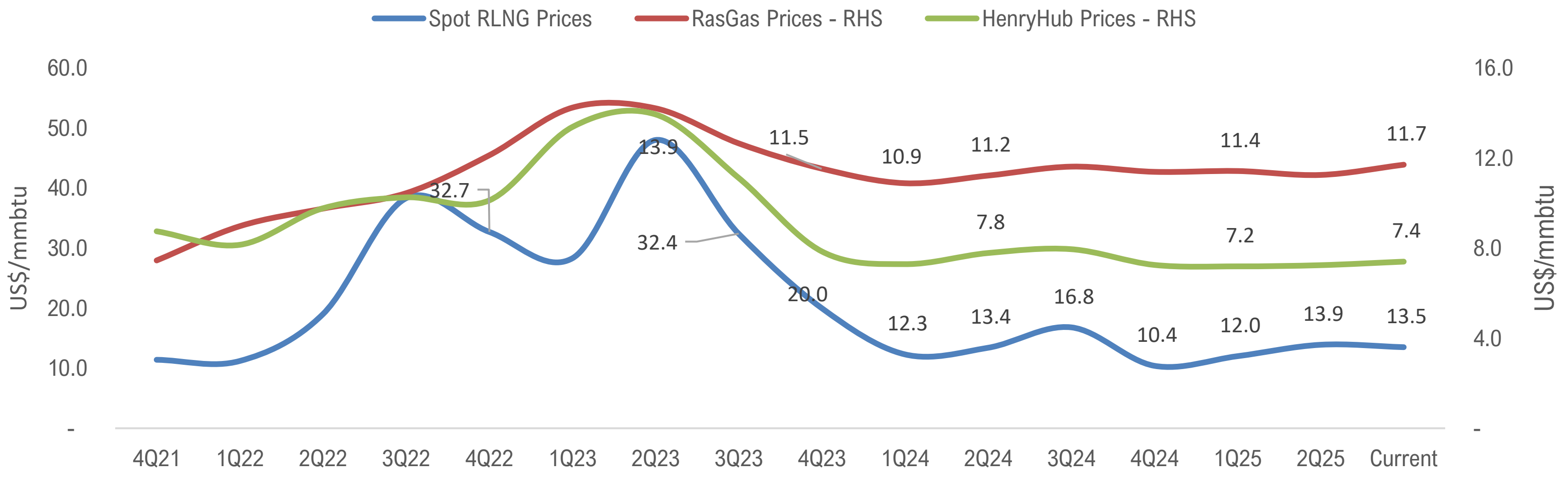
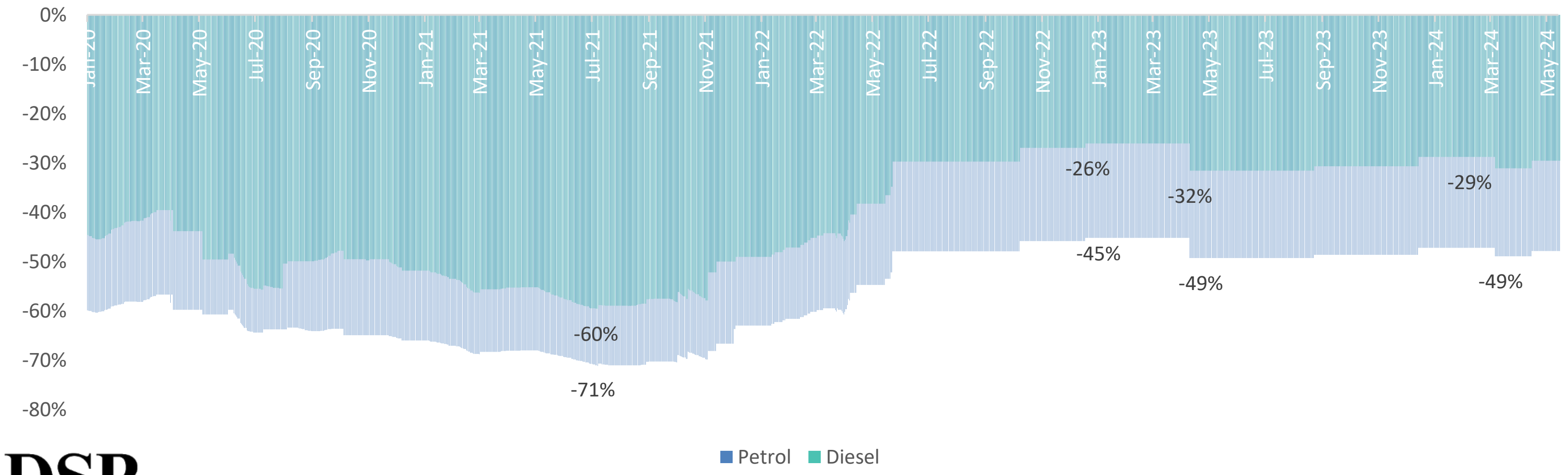
Gas Utility: CNG growth steady, margins volatile

LNG prices fall driving gas consumption across industries



The spot LNG prices have seen some uptick in 2Q at US$13-14/mmbtu which is continuing amid upcoming winter

Industrial margins improve on lower LNG prices, while priority margins (CNG + DPNG) impacted by lower APM and higher opex

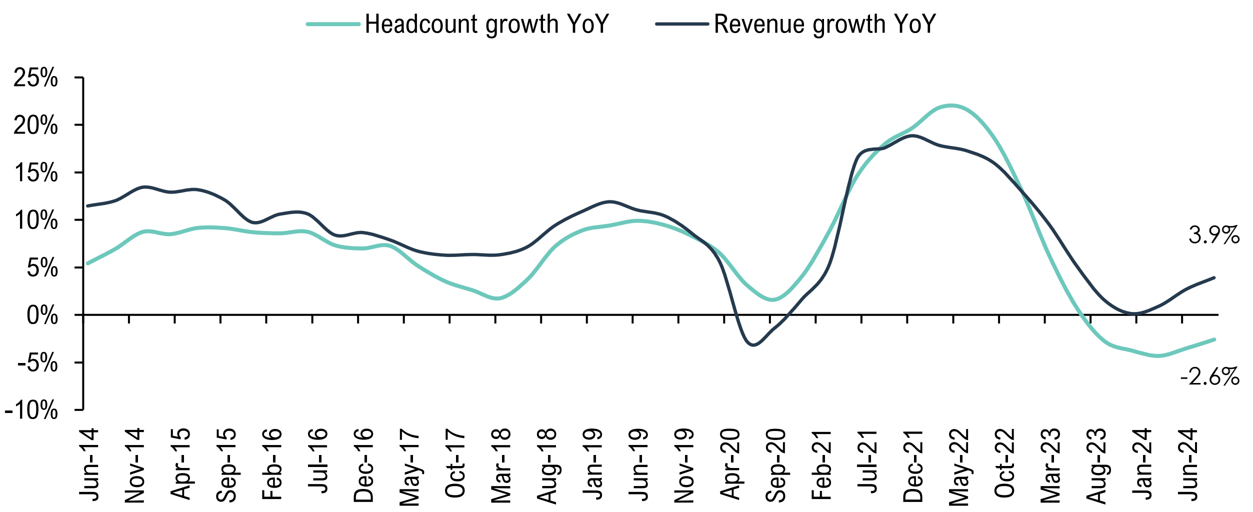


Differential of CNG prices vs petrol and diesel are largely stable, but outlook is volatile now with APM allocation only ~40% of CNG sales volume, which requires Rs 6-9/kg RSP hike.

DSP MUTUAL FUND

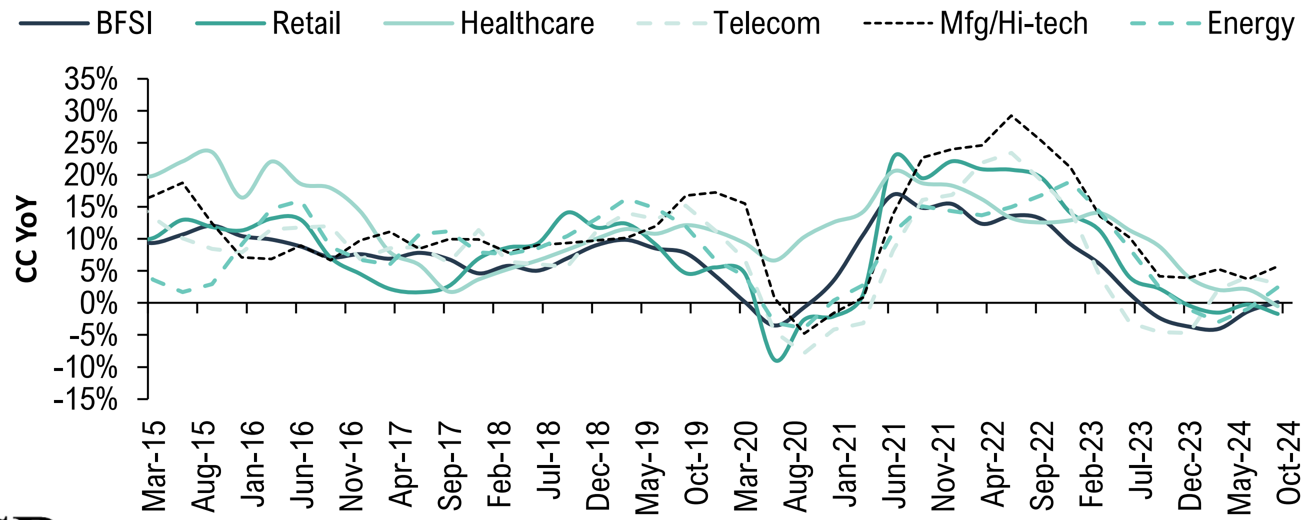
IT Services: On the cusp of recovery

Divergent Revenue vs Headline growth trends



Divergence between headcount and revenue growth has been constantly increasing for Indian-IT, indicating exhausting utilization and need for hiring.

Pick up led by BFSI



After 4 quarters of YoY decline, BSFI seems to be on cusp of recovery which should augur well for the sector

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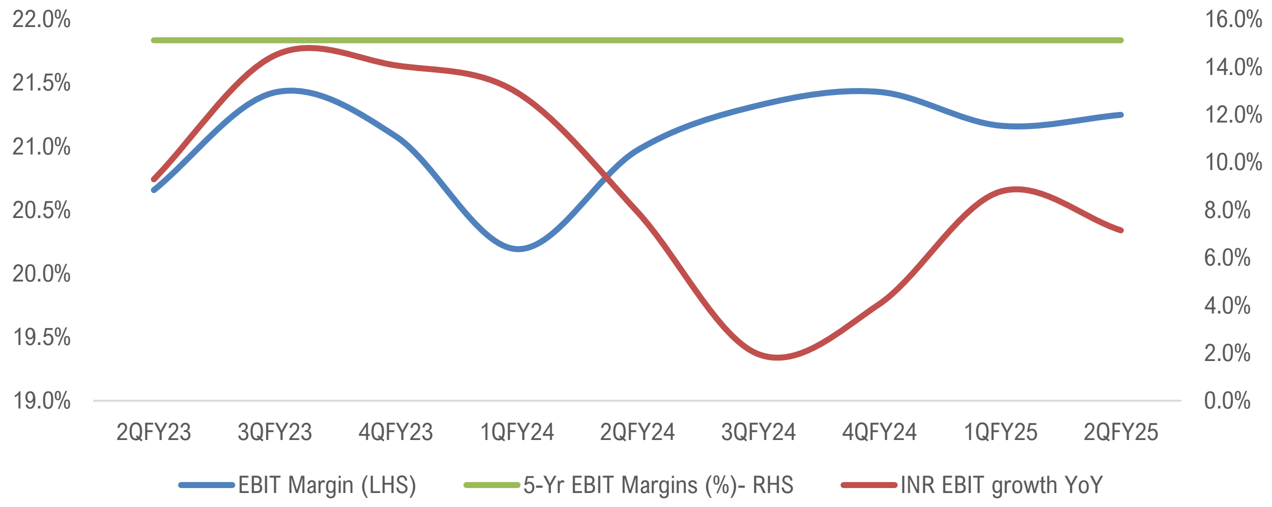
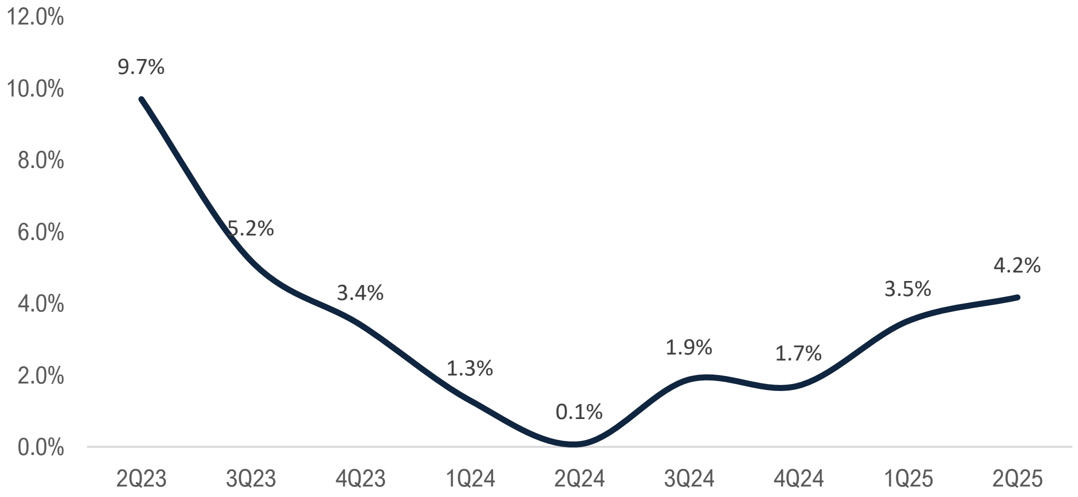
IT Services: Recovery Driven by Margin Expansion and Cost Optimization

Cost management has received elevated focus, driving margin expansion and cushioning earnings against revenue headwinds

EBIT margins normalising

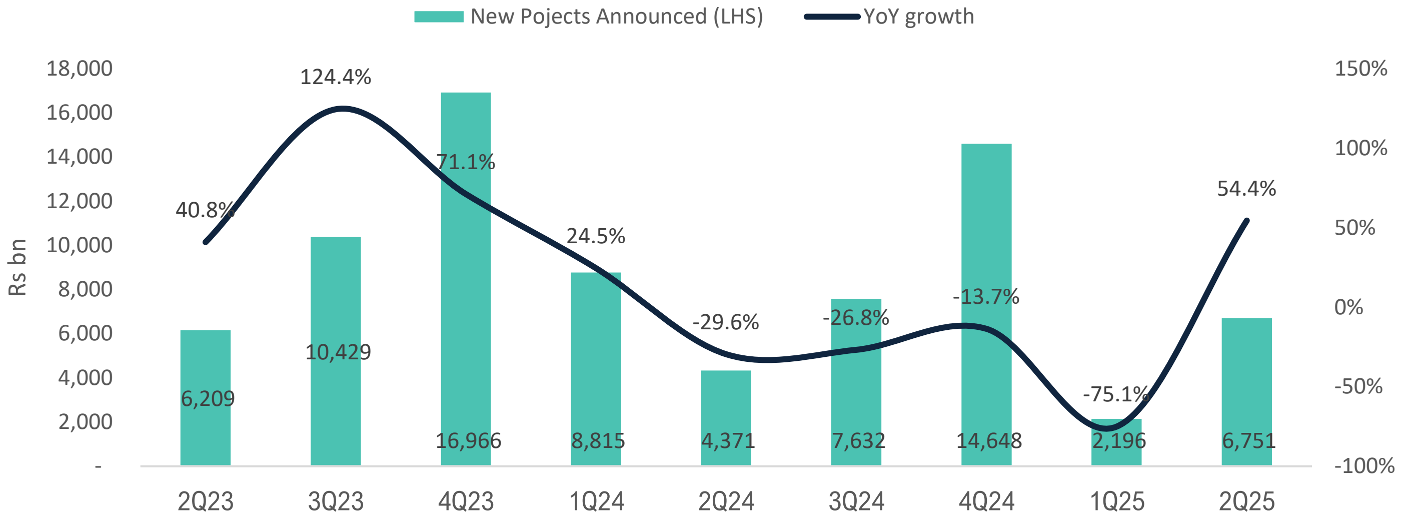


Growth differential between Tier 2 and Tier 1 is inflecting



Industrials: New project announcement witness recovery.

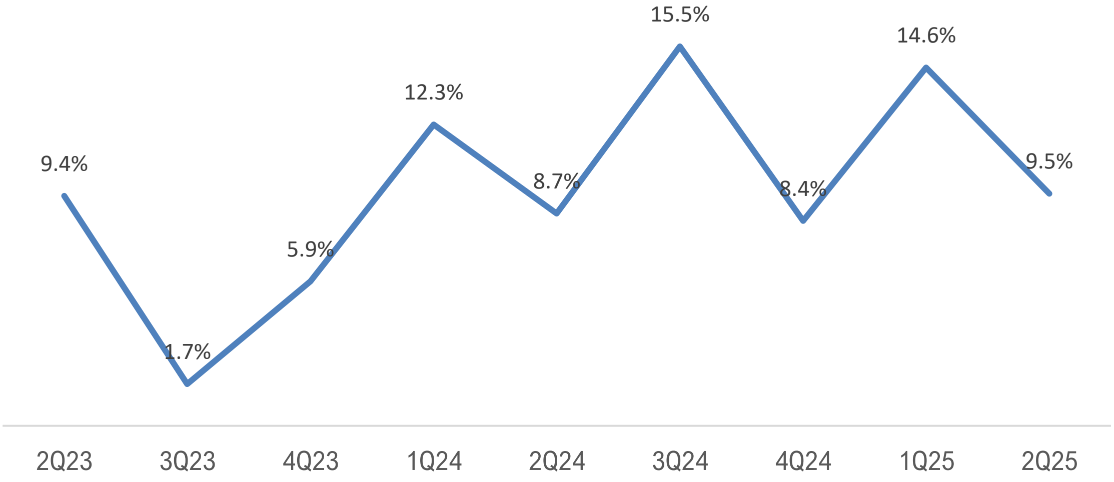
New project announcements



The new investment proposals recovered in September 2024 and new capacity creation projects announced more than doubled sequentially. The new investments announcements for 2Q25 is expected to be revised upward with new information coming in with a lag.

Source: CMIE

Order inflow growth



Ordering momentum remained subdued with decline of 10.3% YoY during the quarter mainly due to slowdown owing to extreme rains during 2Q25.

The above comprises of 6 companies cumulative performance

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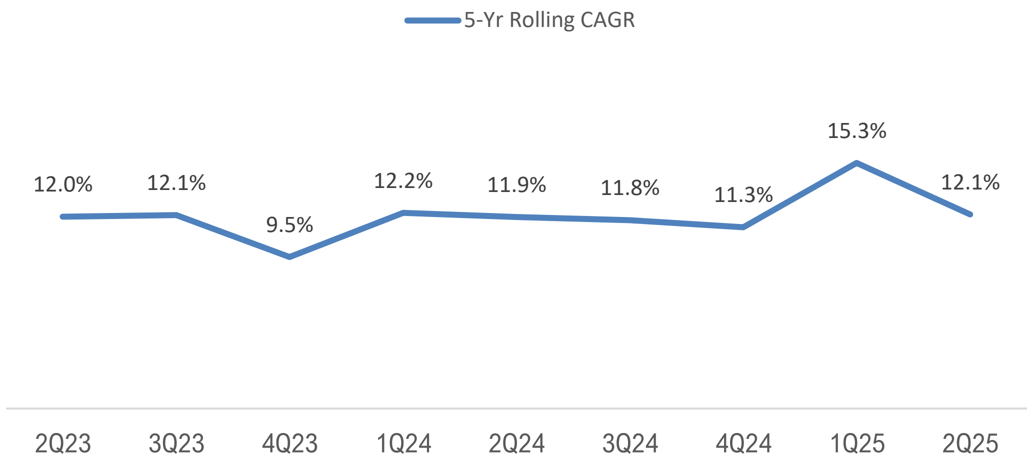
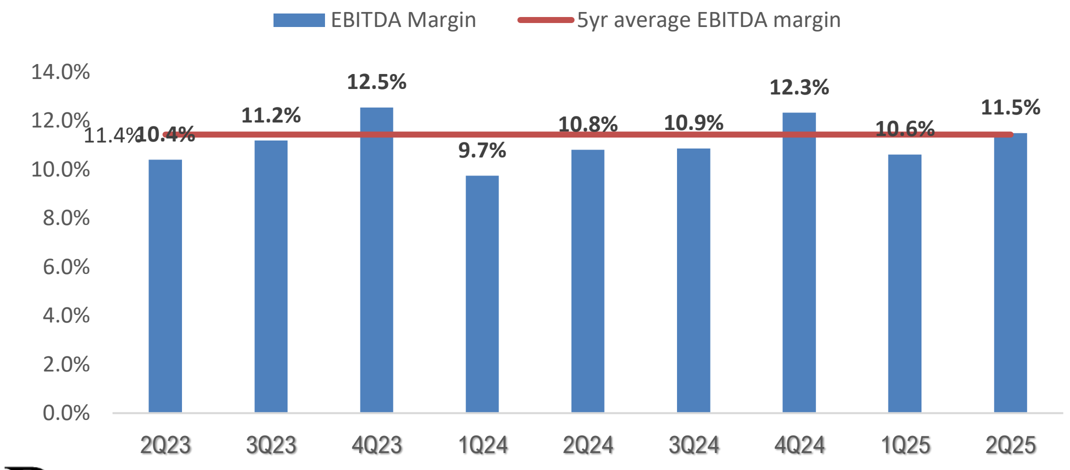
Industrials: Sales growth robust, margins improve and sustain above average

Revenue for 2Q25 grew by 17.5% YoY to ~Rs 1.03 trn on the back of healthy growth in L&T, BHEL and KEC international. The companies have expected for a better environment in 2HFY25 as both elections and monsoon are behind leading to expectations of higher government expenditure. Hence, 2HFY25 execution will likely be stronger.

Revenue growth trajectory



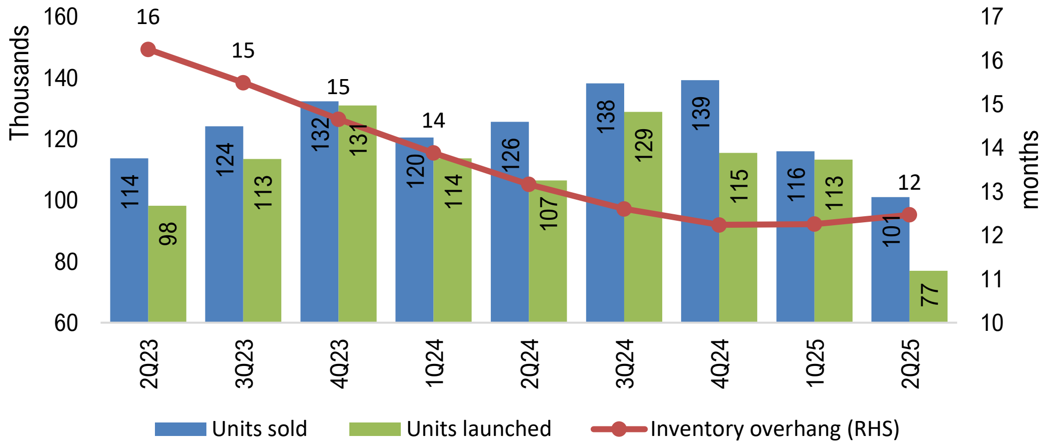
EBITDA margins



Margins during 2Q25 expanded by 70 bps YoY to 11.5% which is at 5-Yr average margins. As execution increases, margins will see further improvement going ahead.

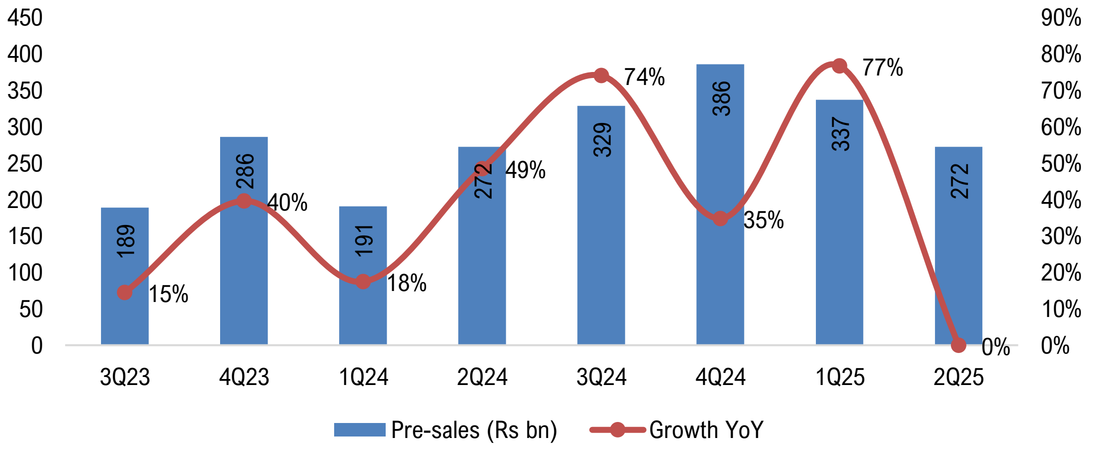
Real Estate: Absorption and Launches decline

Launches declined leading to lower absorption



Absorption across top-7 cities declined by 20% to ~100,000 units largely led by 28% decline in launches to ~77,000 units

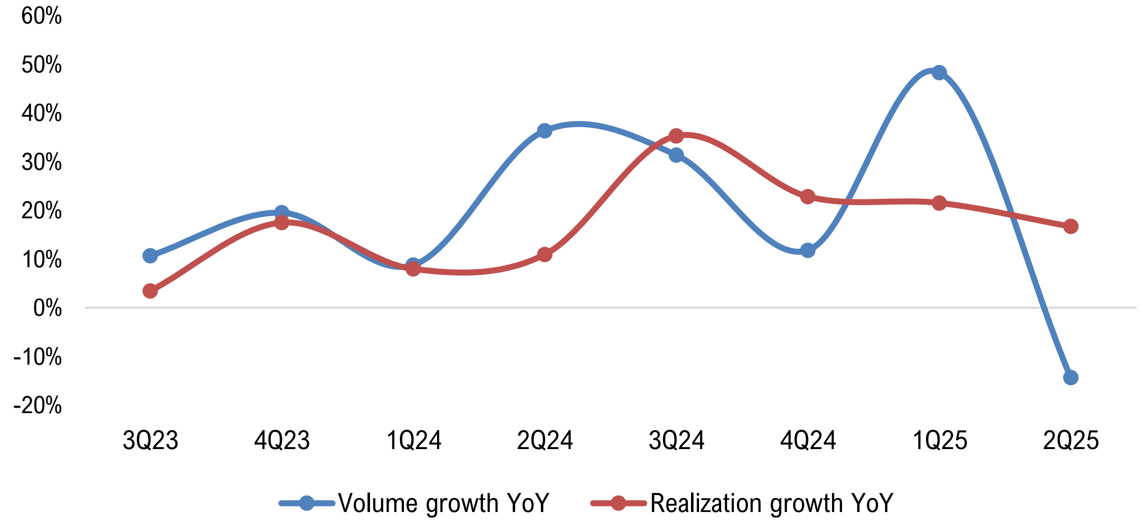
Pre-sales flat YoY



Performance for listed peers was better than industry as top-15 players reported pre-sales of Rs 272bn which was flat YoY

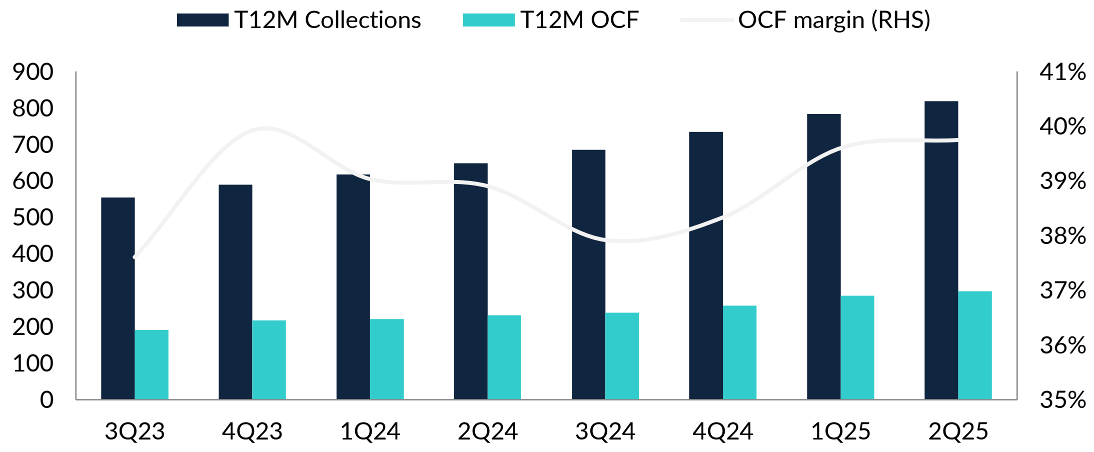
Real Estate: Healthy Collections Amid Declining Launches and Absorption

Launches declined leading to lower absorption



Volumes declined by 14% for top-15 players versus 20% decline for industry. Decline in volumes was offset by 17% increase in blended realization

Launches declined leading to lower absorption



In Q2, Collections was up 26% while OCF rose by 28% as OCF margin improved by 100bps to 40%

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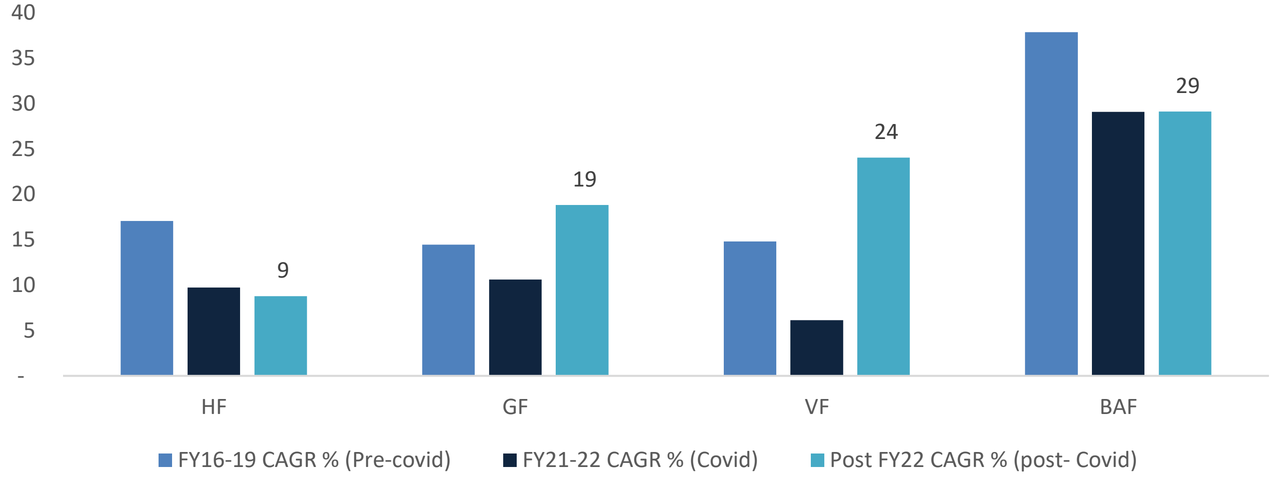
NBFC: AUM Growth and Profitability Outpace Pre-COVID Levels Across Segments

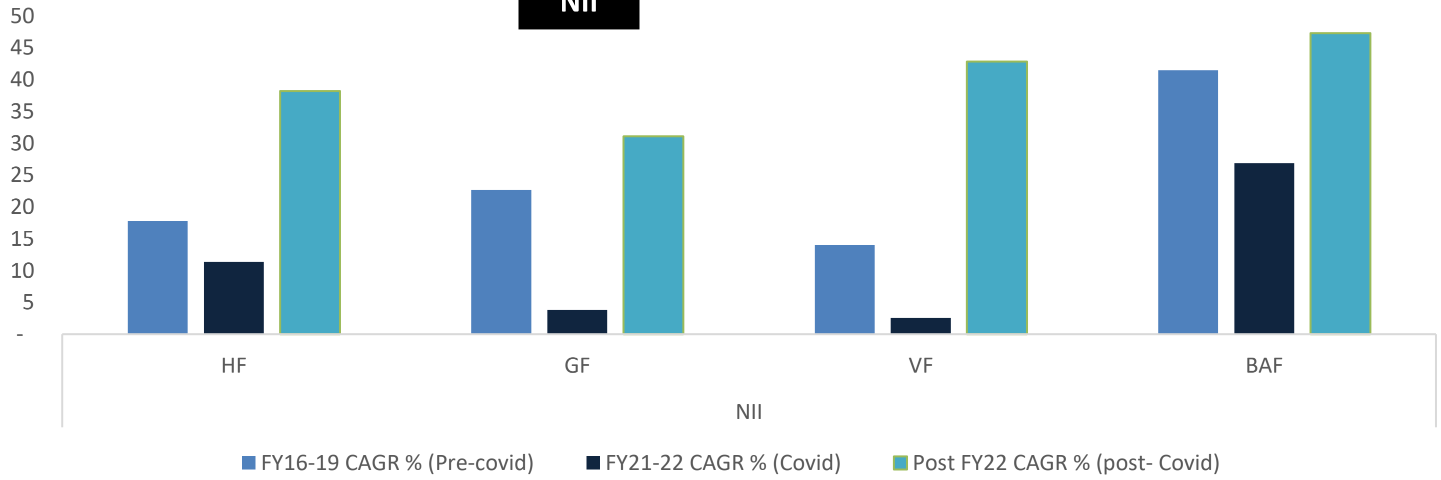
AUM growth in most buckets is higher than pre-covid averages for Gold financiers and Vehicle financiers

Asset under management



Post covid CAGR comparison is of (FY24+1HFY25) figures with FY22 figures . Number of yrs considered is 2.5 yearsc

NII



NII growth is above the pre-covid averages in every bucket

HDFC Ltd figures have been excluded for like-to-like comparison

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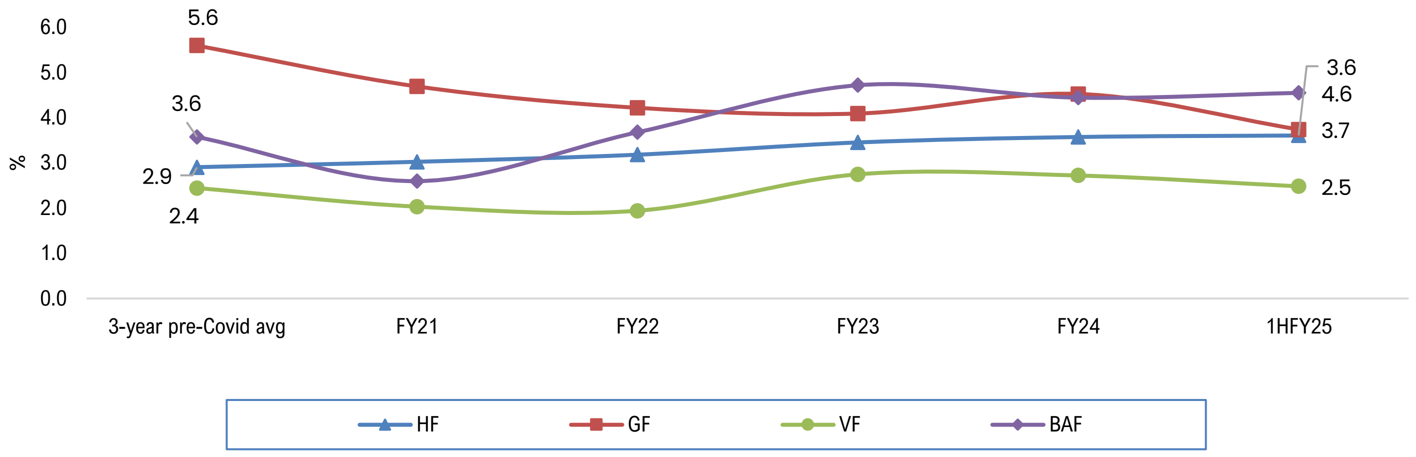
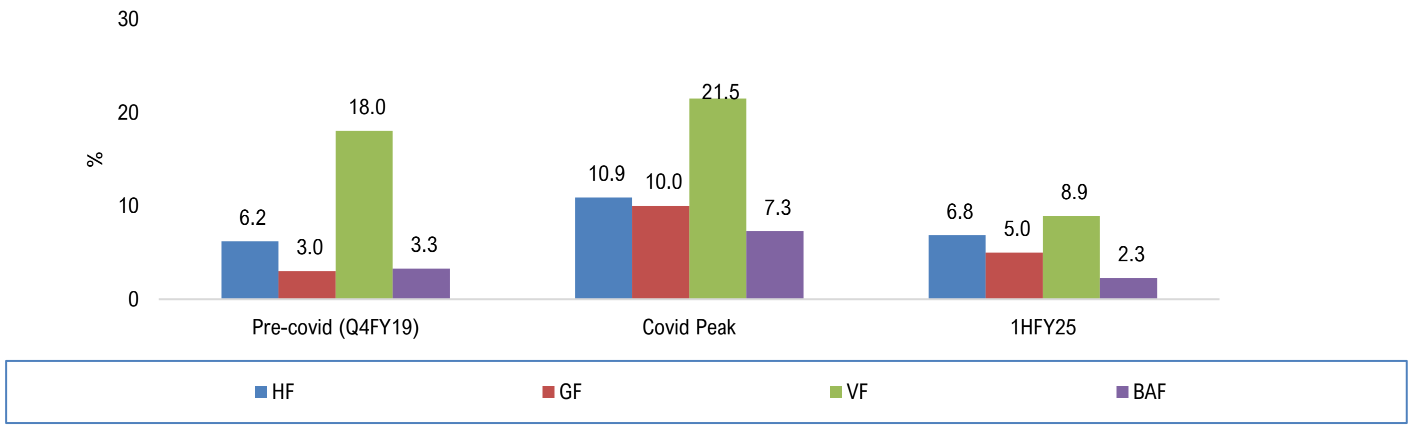
NBFCs: Improving ROA Profiles with Exceptions in Gold Financing

Return on Assets

ROA profile is higher in every bucket except Gold financiers



Total stress (Stage-2 + Stage -3)

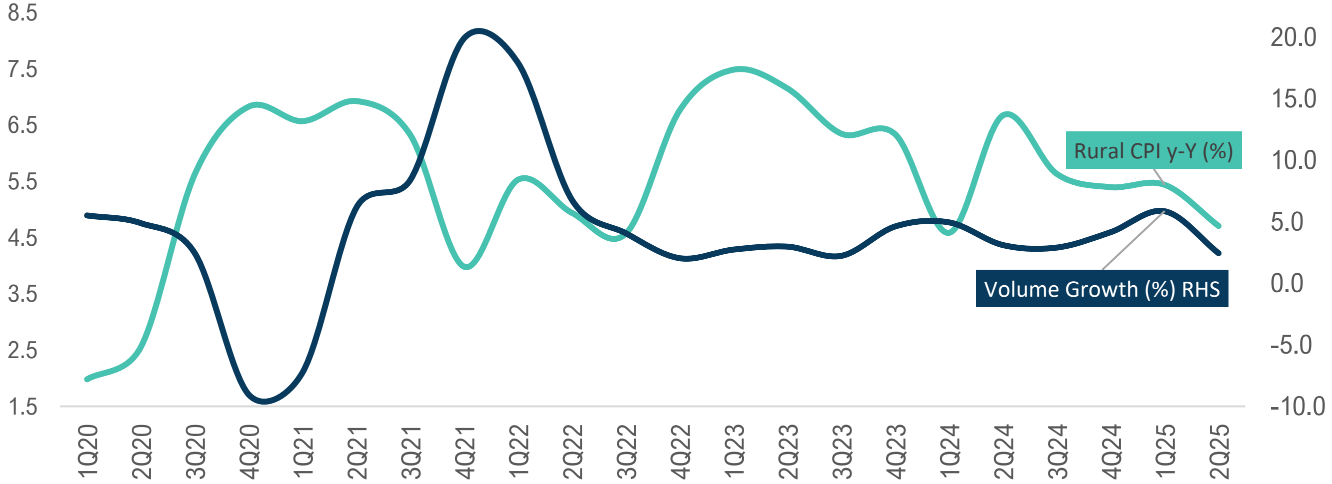


Total stress pool is below pre-covid averages for BAF and VF and above for Housing and Gold Financiers

NBFCs moved to a daily NPA tagging regime from FY23 which makes the historical comparison not directly comparable.

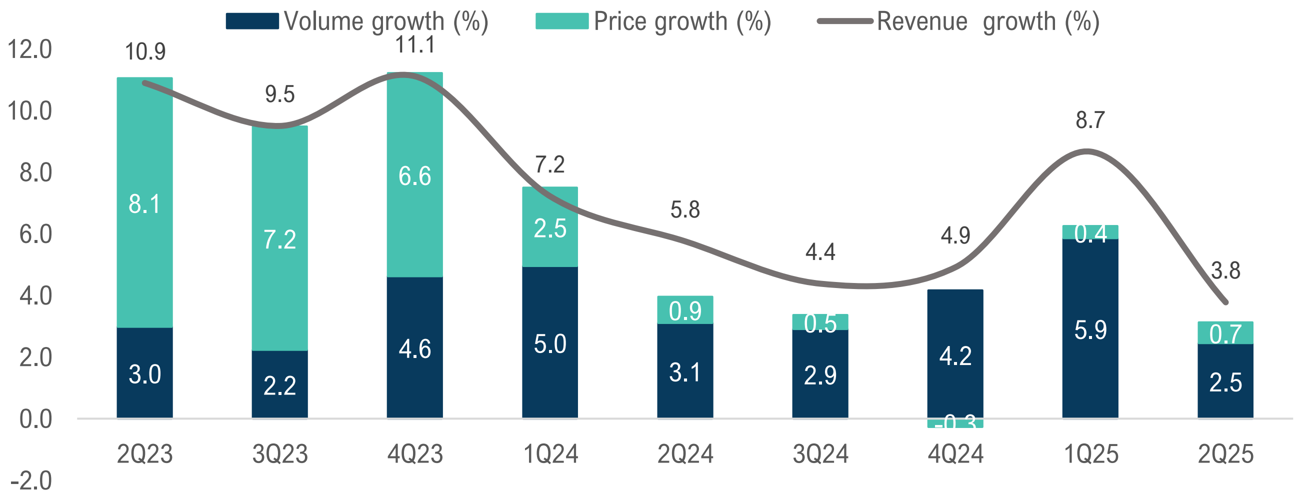
Staples: Volume growth moderates

Rural CPI and FMCG volume growth negatively correlated



Historically rural CPI and volume growth are negatively correlated; with recent higher CPI prints in October could be negative for volume growth for FMCG companies.

Volume growth - rural improves but urban stagnated

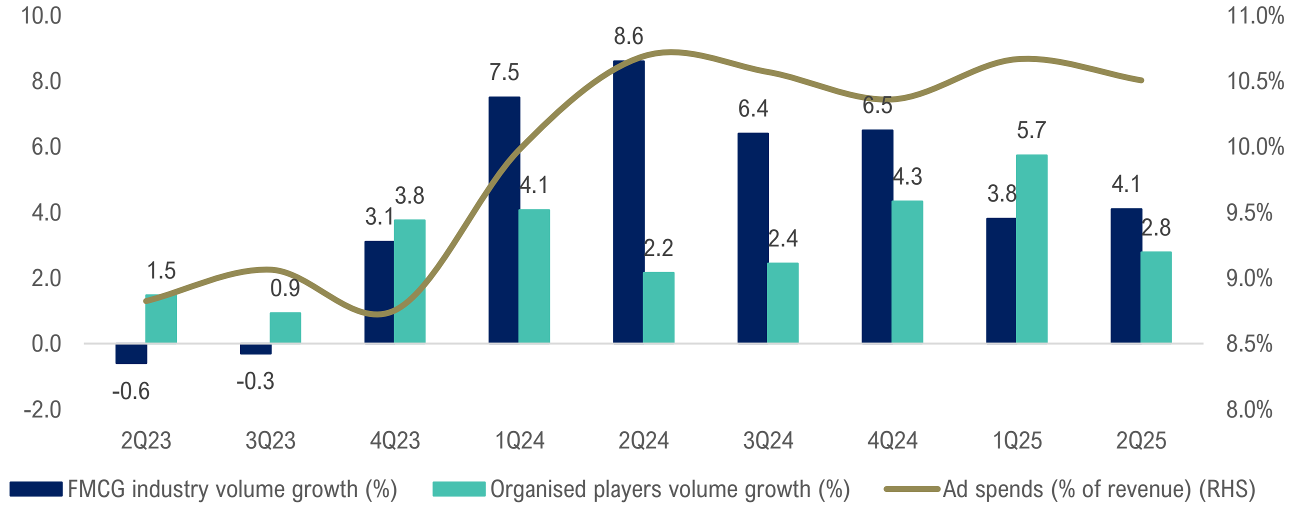


Uptick in volumes in 4Q/1Q fades in 2Q due to weak urban demand and inventory correction in GT due to quick commerce

Based on a representative set of 11 consumer companies (2Q25 impacted by Dabur)*

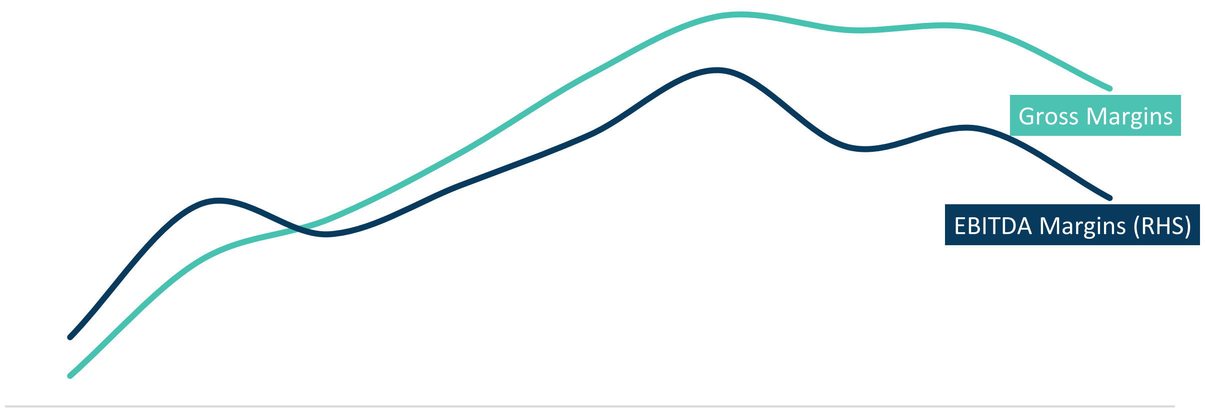
Staples: Volume Growth Slows Amid Rising Ad Spends and Margin Pressures

Advertisement Spends



As organized players trail the overall FMCG volume growth, the advertisement spends are accelerating

Margin Trends



Rising commodity inflation and higher advertisement spends are potential headwinds for the sector

Based on a representative set of 11 consumer companies (2Q25 impacted by Dabur)*

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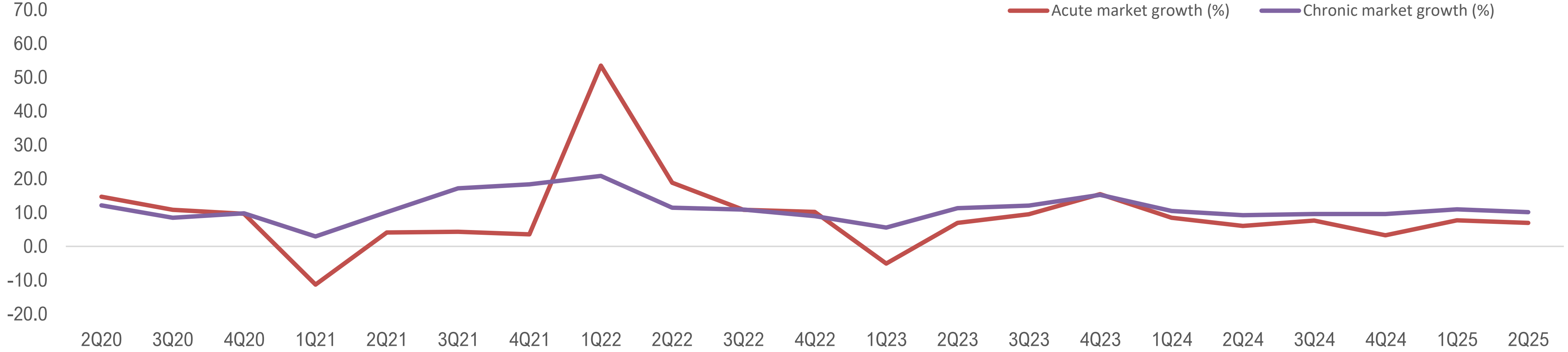
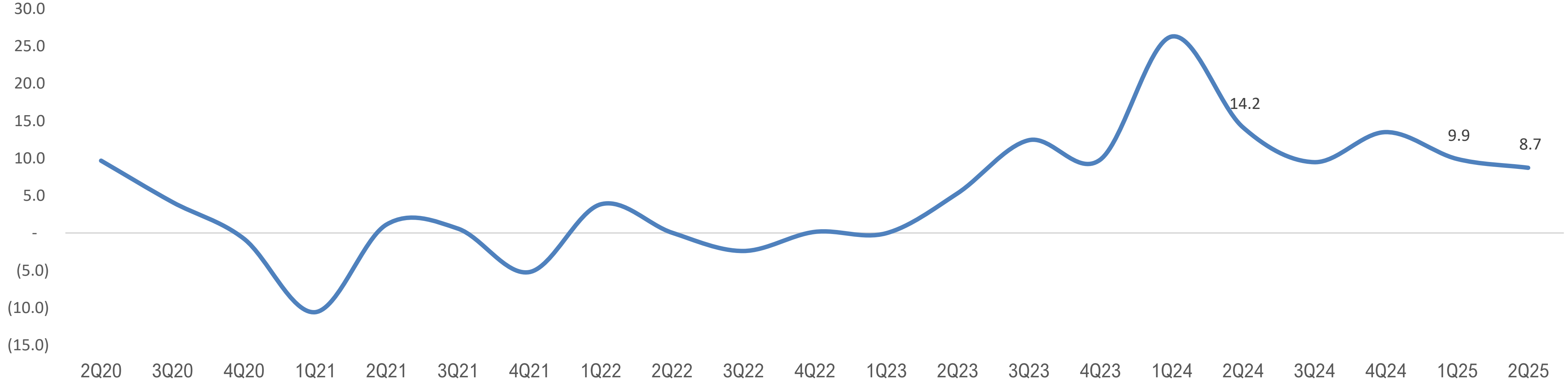
Pharma: Domestic market impacted by acute therapy

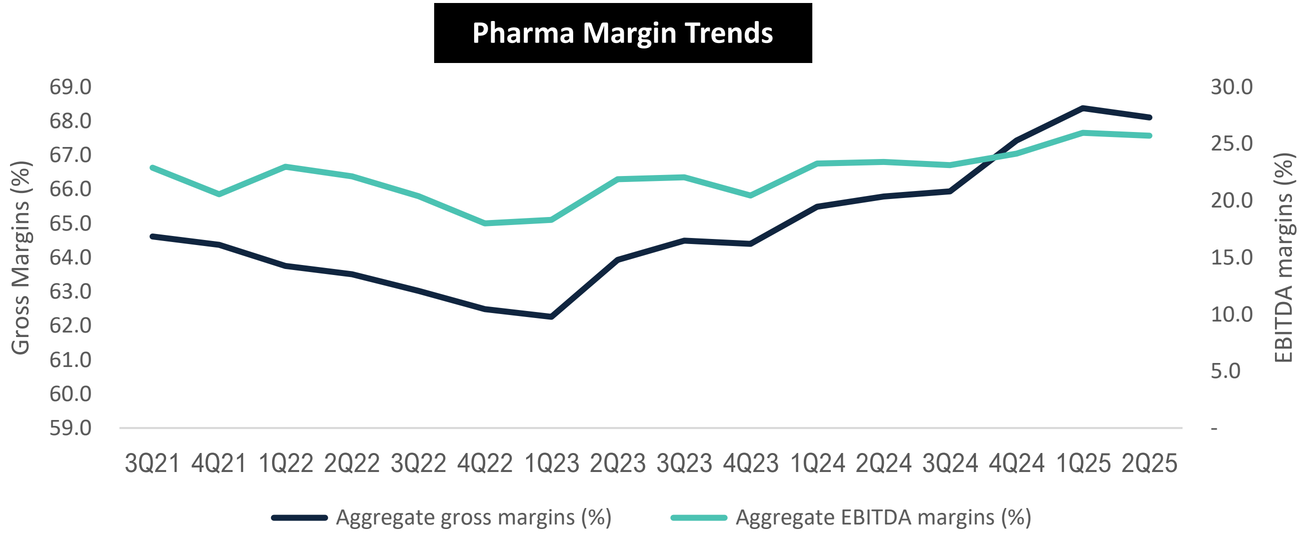
Domestic pharma Market : Lacklustre season for acute therapies is weighing on market growth



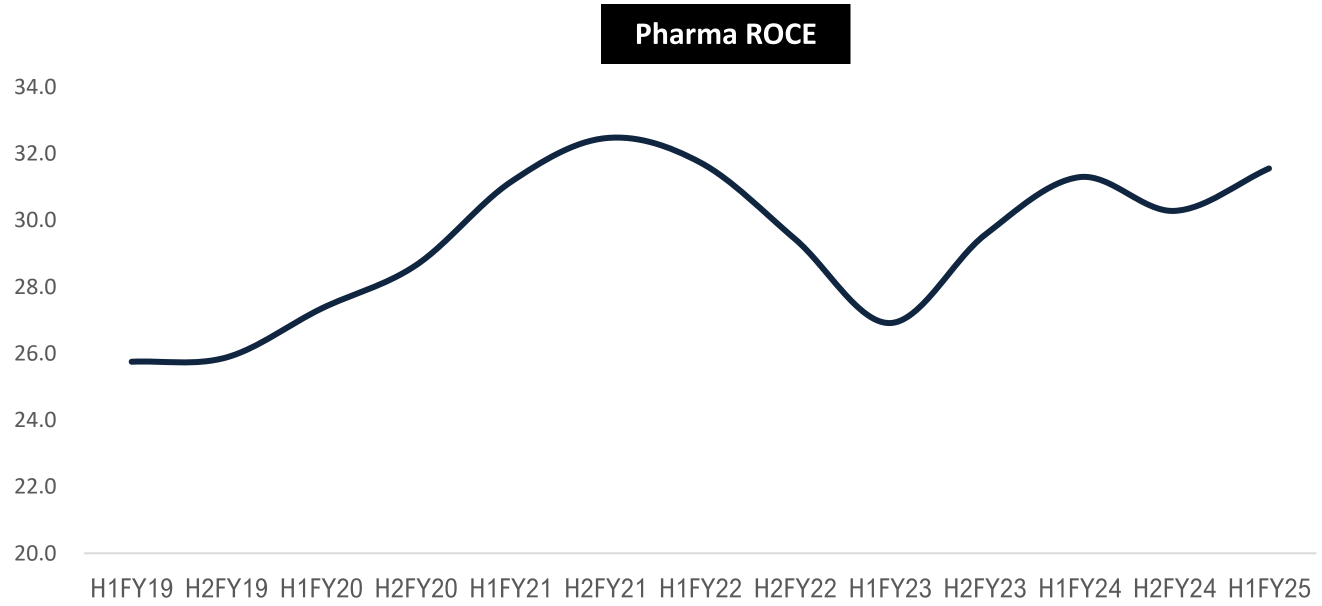
US Generics Growth: Higher volumes in base business coupled with exclusivities aiding stability in growth



Pharma: Margins and ROCE remain healthy



US exclusivity and PLI incentives scaling up margins of Indian Pharma companies



Turnaround in profitability in US and better asset sweeting has driven pre-tax RoCE to above 30%

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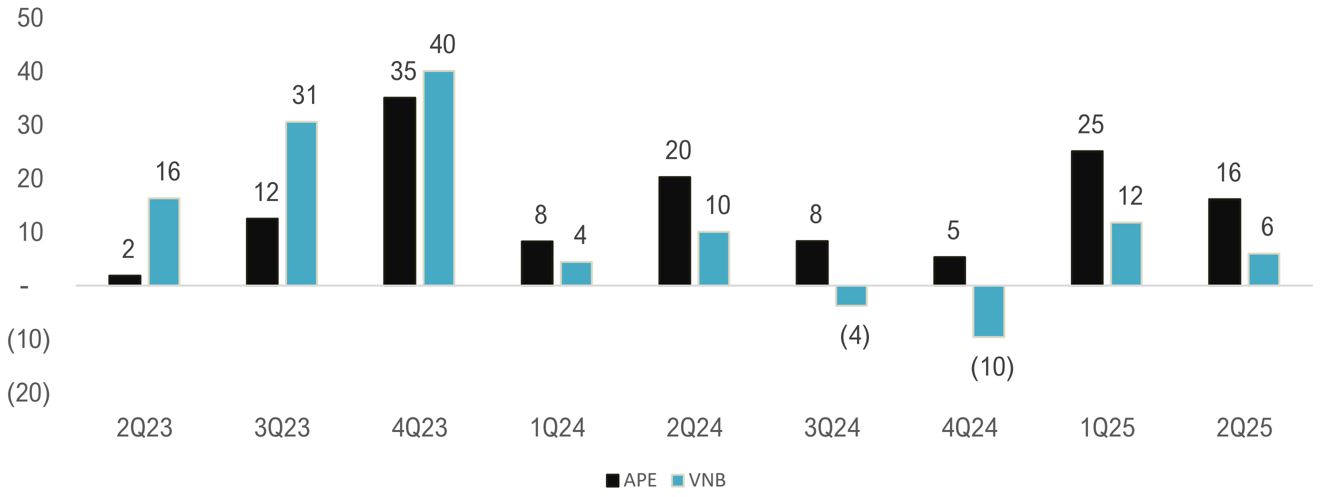
Life Insurance: ULIP products sustains growth

2QFY25 growth was driven by continued traction in ULIP products, offset by a slower group segment

YoY (%) APE and VNB growth



Key parameters for listed players (%)

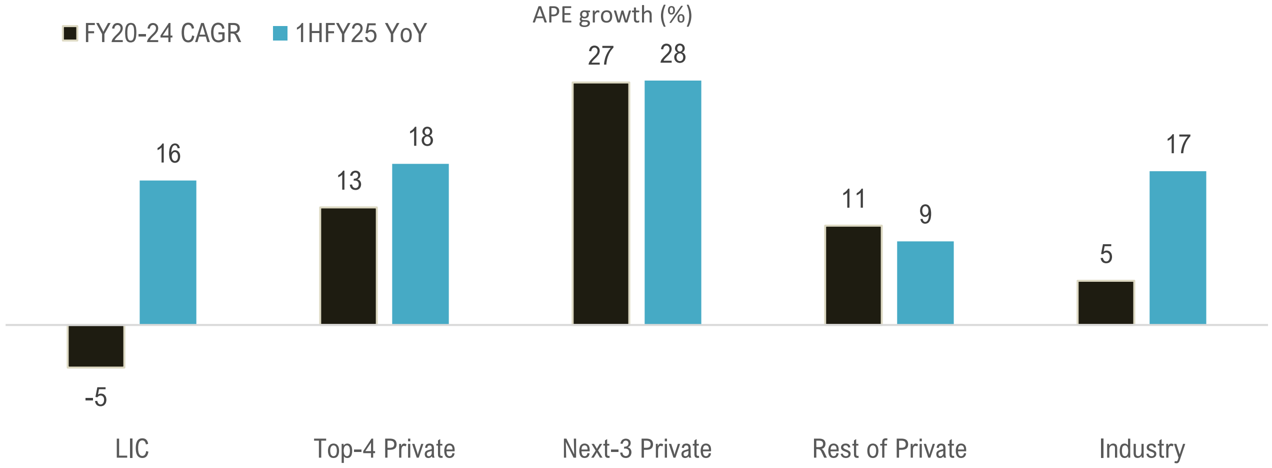
Parameters	FY20-24 CAGR	1HFY25 YoY
APE	**13.7**	**19.7**
VNB	**18.8**	**8.3**
EV	**19.8**	**24.5**
Retail Protection	**5.2**	**11.8**
Non par (Ind)	**26.2**	**19.9**
ULIP	**9.8**	**41.5**

Product mix skewed towards ULIP on the back of vibrant equity markets, leading to normalization of margins

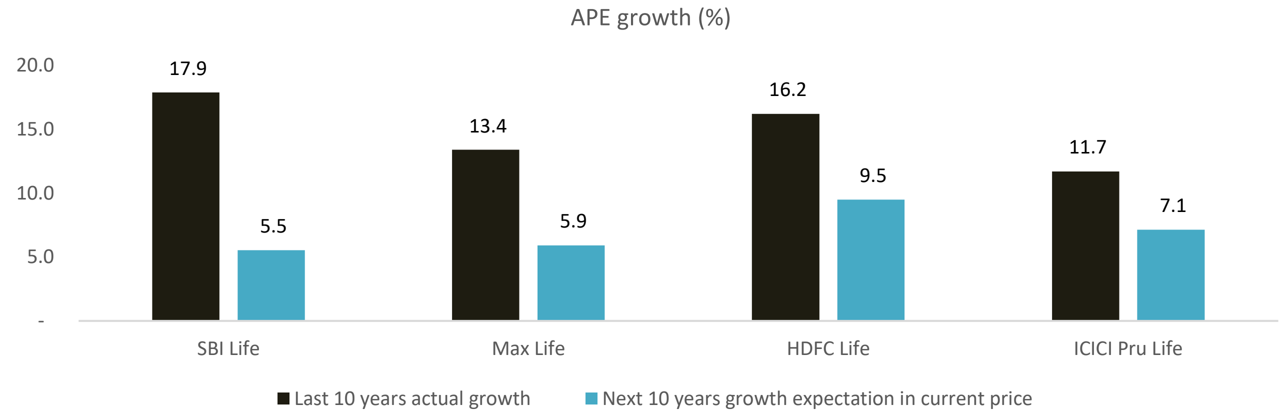
Life Insurance : Implied growth expectations are reasonable

Industry growth has been largely driven by top-7 private life insurance companies, with next-3 players taking a slight lead in 1HFY25

Growth print by players



Implied APE growth expectation (%) *

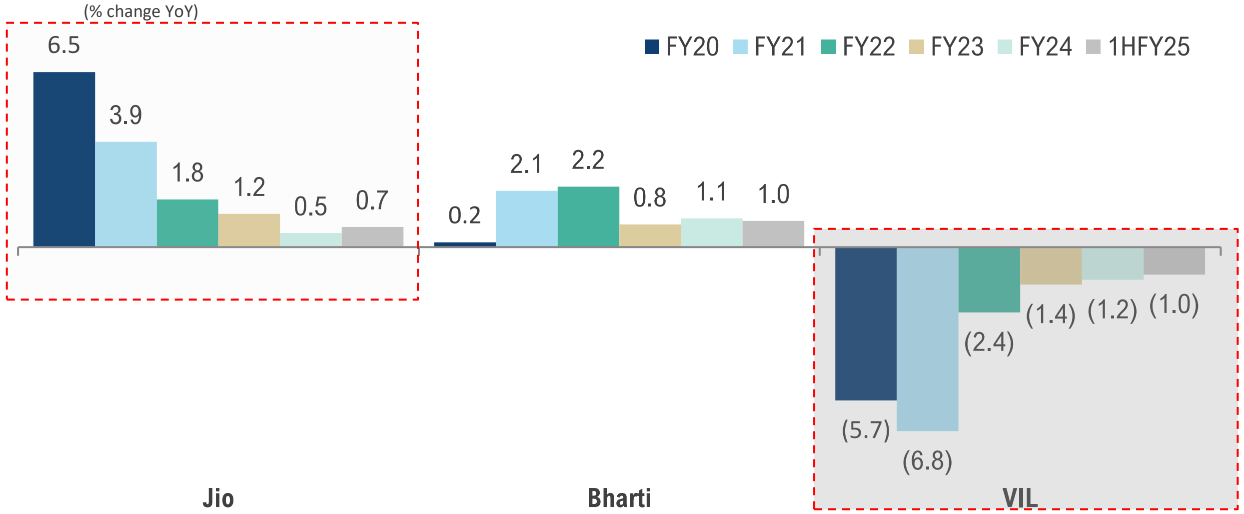


Current prices factor in lower growth than demonstrated historically.

*Terminal growth expected based on price of November 15,2024 assuming current VNB margin and 4% terminal growth rate and cost of equity of 12%.

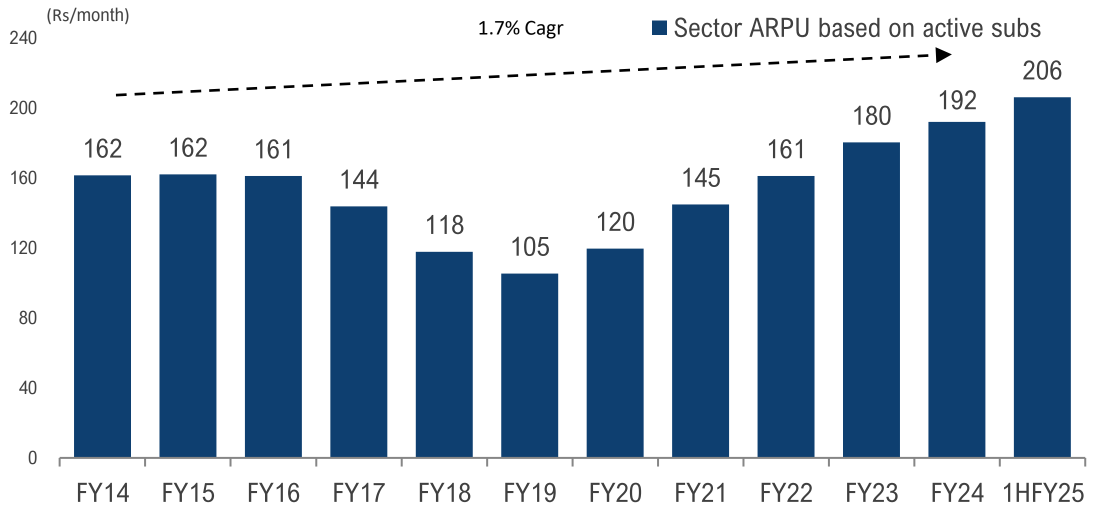
Telecom: Tariff hikes aiding ARPU growth

Vodafone continues to lose market share



Jio and Bharti continues to gain market share while VIL lost market share in 1HFY25

Sector ARPU on active subscribers



Sector ARPU growth was aided by recent tariff hikes; have enough room to grow

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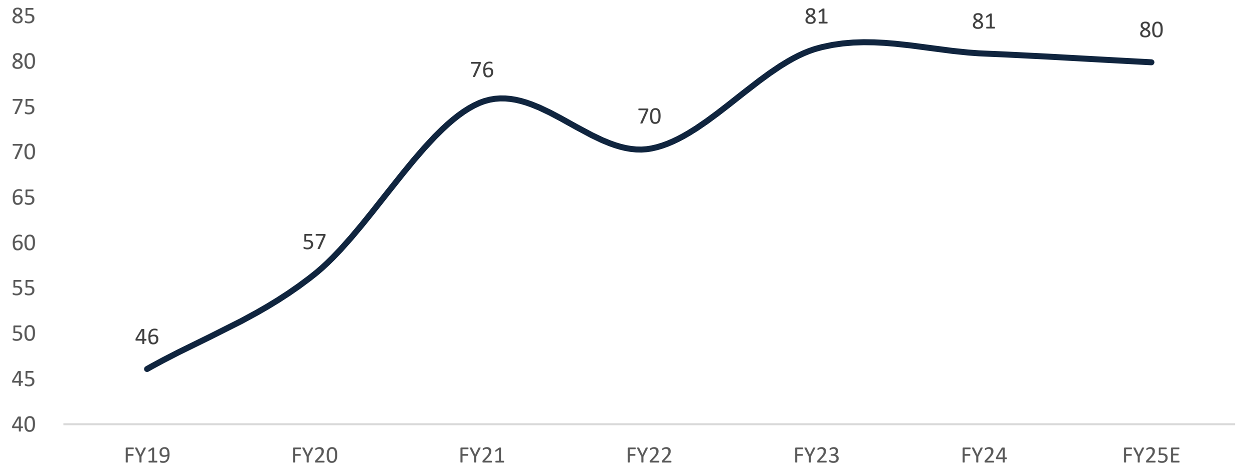
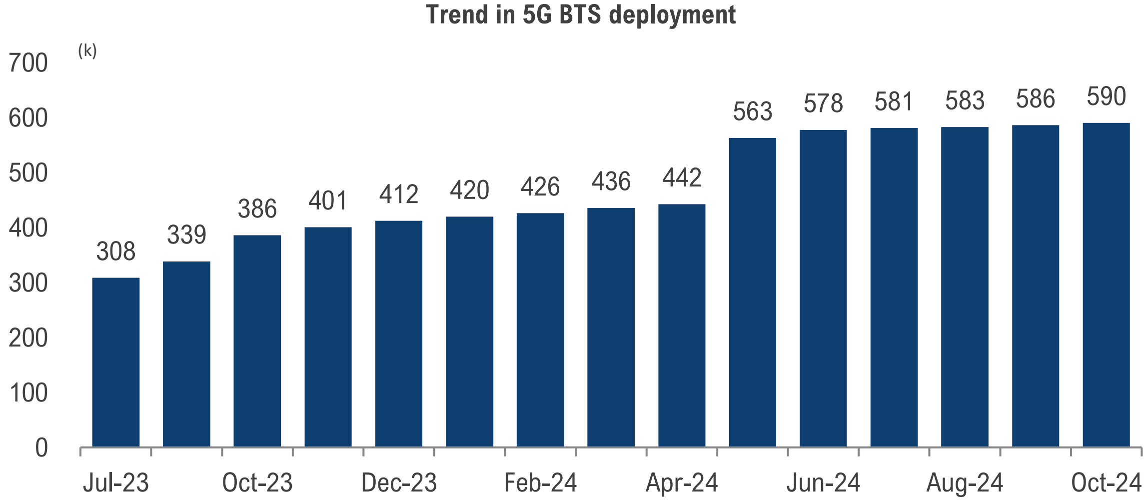
Telecom: Moderating Capex= Improving Free Cash generation

Government dues as % of total debt for telecom sector

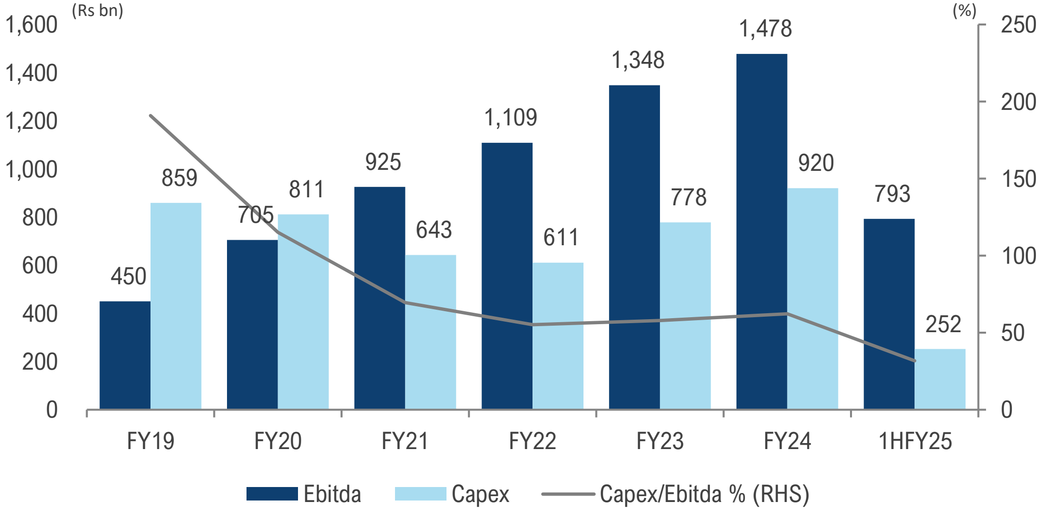


Being the largest lender to telcos, Govt. to support the sector

5G roll out trend plateauing would lead to lower capex



Moderating capex to aid free cash generation



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SUMMING UP

Key Highlights

- Revenue growth continues to moderate to low single digits for FY24, with an FY19-25 CAGR of 10% excluding financials.
- Operating margins are stagnating as commodity tailwinds have subsided.
- Profit growth is in line with top-line growth for FY24, with an FY19-25 CAGR of 13%.
- Quality is mean-reverting, with the performance of low quartile score companies aligning with high-quality counterparts.
- The ROE profile has moderated marginally but remains above pre-COVID averages.
- Capex growth is up by 8%, although operating cash flow has declined YoY.
- The balance sheet continues to remain deleveraged

Key Sectoral Trends

- Sectors at low cycle and with low market cap representation include Energy, Materials, Staples, and IT.
- Sectors with valuations below long-term averages are NBFC, Energy, Insurance, and Private Banks.
- Sectors with positive earnings surprises include Metals, Banks, and Capital Markets.
- Mid-cap and small-cap sectors are above long-term averages in market cap representation; however, mid-cap is outperforming on most parameters such as revenue growth, margins, ROE, and delta ROE.

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