April 08, 2023

Robust Q4; commentary on future trajectory to be watched

In Q4FY23, we expect earnings momentum to continue to remain strong led by 1) continued robust credit offtake, 2) steady elevated margins on the back of yield repricing offsetting higher cost of deposit and 3) steady slippages and resolutions of few stressed assets leading to stable credit cost. The operational performance is expected to remain positive across lenders. PSU banks are seen delivering continued strong earning trajectory. Management commentary on segments to drive advance growth, liabilities accretion while margin trajectory amid rising cost of funds will be keenly watched.

The fag end of the fiscal year, which is generally strong for the financial industry is expected to witness continued traction in retail credit demand. Further, MSMEs are turning to banks for working capital limits. However, credit to industry should continue to show a gradual improvement. In our view, liabilities accretion strategy along with margin trajectory remains a key catalyst to drive valuation.

For banks and NBFCs, following are key expected highlights:

- For our coverage universe, credit growth is expected to be above industry at 16.2% YoY to ₹ 76.3 lakh crore, driven by retail (home, auto & credit card) and MSME segment. As per RBI fortnightly data (as of Mar 10, 2023) has indicated growth of ~16% YoY for the overall banking sector indicating continued resilience in credit offtake. Private bank's advances are expected to grow ~17% YoY while PSBs are also seen witnessing healthy traction at ~16% YoY. Thus, NII is expected to grow 24% YoY aided by healthy business growth and steady margins
- Deposit traction was reported at ~10.3% YoY (as per RBI data for Mar 10, 2023), led by recent hike in deposit rates. Traction in term deposits is expected to remain strong, led by incremental accretion and shift from low cost deposits amid increase in rates. Thus, CASA ratio is expected to either remain stable or decline on a sequential basis
- Continued transmission of rate hikes, elevated CD ratio and focus towards high yielding retail segment is seen offsetting pressure from increasing cost of deposits thereby keeping NIM steadier. Commentary on margin trajectory amid rising deposit rates will remain in focus. In our view, margins are nearing their peak as cost of funds is anticipated to rise at a faster pace compared to yields
- With yields in a broad range, we do not anticipate any significant treasury gains/losses, especially for PSU banks in Q4FY23. Core fee based income should witness healthy growth supporting overall performance. Steady slippages, resolution of a few stressed accounts is expected to lead to further moderation in GNPA. Adequate provision coverage is seen keeping credit cost steady. For our coverage universe, we believe GNPA should fall 10-20 bps QoQ to ~2.9%
- Earnings growth (YoY) to be largely flat for banks in our coverage (both PSU & PVBs) mainly dragged by one-off impact of integration expenses loss in Axis Bank (excl Axis Bank, the growth to be strong at ~36% YoY). Accordingly, PVBs are expected to report de growth of ~35% YoY in earnings led by dent in Axis Bank's earnings (excluding Axis Bank, PVBs earnings growth to be at ~13% YoY).

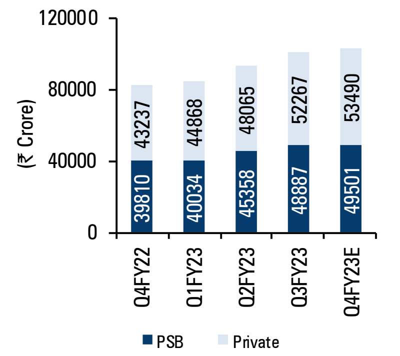
Commentary on liabilities, flexibility of opex to be watched

Announcement of pre-result updates indicates continued healthy momentum in business growth. However, commentary on segments is expected to drive future credit growth, strategy on liabilities franchise while anticipated margin trajectory, flexibility of opex to act as catalyst for a further re-rating.

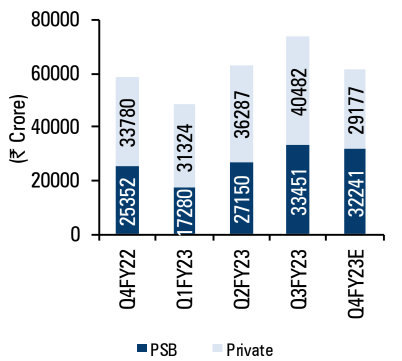
Result Preview

ICICI Securities – Retail Equity Research

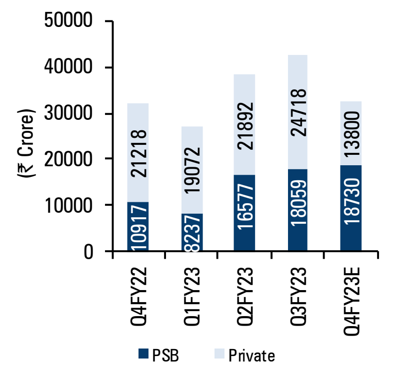
NII



PPP



PAT



Top Picks

State Bank of India

Kotak Mahindra Bank

CreditAccess Grameen

Research Analysts

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnoliai@icicisecurities.com

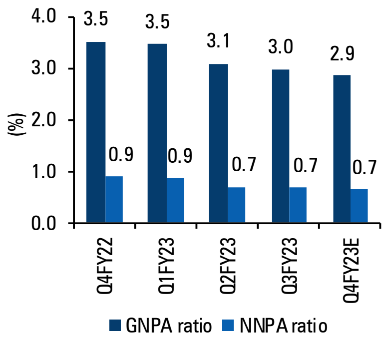
Pravin Mule
pravin.mule@icicisecurities.com

Exhibit 1: Estimates for Q4FY23E (₹ crore)

	NII	Change (%)		PPP	Change (%)		NP	Change (%)	
	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ
Public Sector Banks									
Bank of Baroda	11000.5	27.7%	1.7%	7453.6	32.3%	-9.5%	3615.6	103.3%	-6.2%
SBI	38500.7	23.4%	1.1%	24787.5	25.7%	-1.7%	15114.2	65.4%	6.4%
Total	**49501.2**	**24.3%**	**1.3%**	**32241.1**	**27.2%**	**-3.6%**	**18729.7**	**71.6%**	**3.7%**
Private Banks									
Axis Bank	11742.2	33.1%	2.5%	-2933.0	-145.4%	-131.6%	-5486.7	-233.2%	-193.7%
Federal Bank	1987.9	30.3%	1.6%	1279.0	60.2%	0.4%	823.1	52.3%	2.4%
HDFC Bank	22985.9	21.8%	0.0%	19335.8	18.2%	1.6%	11981.0	19.2%	-2.3%
IDFC Bank	3509.9	31.5%	6.8%	1340.6	62.2%	6.3%	649.3	89.5%	7.4%
Indusind Bank	4693.8	17.8%	4.4%	3704.7	11.3%	0.7%	2014.8	48.0%	2.8%
Kotak Bank	5946.7	31.5%	5.2%	4144.5	24.1%	7.7%	2984.8	7.9%	6.9%
Bandhan Bank	2279.5	-10.3%	9.6%	2115.3	-16.1%	10.0%	688.4	-63.8%	136.9%
CSB Bank	344.1	13.3%	-1.6%	189.8	33.6%	-1.9%	145.5	11.3%	-6.7%
Total	53490.0	23.7%	2.3%	29176.8	-13.6%	-27.9%	13800.2	-35.0%	-44.2%
Total Banks	**102991.1**	**24.0%**	**1.8%**	**61417.9**	**3.9%**	**-16.9%**	**32529.9**	**1.2%**	**-24.0%**
HDFC	5024.1	15%	3.8%	5350.0	6.5%	7.4%	3868.3	4.5%	4.8%
Bajaj Finance	7571.8	24.9%	1.9%	4952.9	24.9%	2.1%	3031.8	25.3%	2.0%
Bajaj Finserv	23765.8	26.0%	9.2%	4474.0	29.2%	1.2%	1707.3	26.8%	-4.2%
SBI Life Insurance	19517.5	12.0%	1.8%	1536.6	17.7%	418.4%	756.1	12.5%	148.6%
HDFC Life Insurance	17207.9	20.4%	19.7%	603.0	9.2%	30.7%	377.3	5.5%	19.7%
HDFC AMC	665.3	14.5%	0.4%	503.0	13.6%	0.5%	379.8	10.5%	2.8%
Muthoot Finance	1846.4	7.3%	8.3%	1322.4	8.2%	4.7%	948.5	-1.2%	5.2%
Star Health	3009.2	14.8%	4.9%	153.8	-198.2%	-53.5%	115.7	-195.1%	-55.8%
ICICI Lombard	4558.4	14.7%	9.5%	-277.6	-10.1%	-5.4%	360.1	15.2%	2.1%
Total	**83166.3**	**19.0%**	**8.0%**	**18618.1**	**20.0%**	**10.7%**	**11545.0**	**15.6%**	**5.4%**

Source: Company, ICICI Direct Research

Asset Quality (Coverage Universe)



NPA trend (Coverage Universe)

Q4FY23E (₹ crore)	GNPA	QoQ (%)	NNPA	QoQ (%)
PSB				
Bank of Baroda	37548	-18.7	8712	-8.8
SBI	100847	-7.7	25084	-0.3
Private Banks				
Axis Bank	19204	-8.4	3032	-15.4
Bandhan Bank	7417	-6.8	1854	-17.4
Federal Bank	3868	-6.7	1315	7.0
HDFC Bank	19327	3.0	5085	1.2
IndusInd Bank	5963	4.4	1611	-4.2
Kotak Mahindra Bank	5596	-7.3	1511	-7.3
IDFC First Bank	4022	-6.0	1508	-6.0
CSB Bank	292	1.0	83	-14.0

Exhibit 2: Bank Specific Views

Banks	Remarks
Bank of Baroda	Bank of Baroda is expected to report loan growth marginally higher than industry trend. For Q4FY23, we expect overall loan growth of ~18% YoY and 3% QoQ. Overall deposits should grow by 13.9% YoY at ₹ 11.9 lakh crore, while CASA ratio to be largely steady at ~36% . NII is estimated to grow at 27.7% YoY to ₹ 11000 crore. NIMs are expected to inch up at ~3.5%. Provisions should decline on YoY basis (up ~7% QoQ), resulting in ~2x jump in PAT at ₹ 3616 crore. CI likely to increase to ~46% level mainly due to wage revision. Asset quality to witness marginal improvement QoQ with GNPA ratio declining by ~8-10bps.
State Bank of India	Credit growth expected at 15% YoY to ₹31591 bn basing out post strong 18-20% growth in last two quarters. W estimate deposit growth at 9.6% YoY with cost of funds stabilising. Overall NII growth to stay strong at ~23% YoY to ₹38500 crore. Expect slippages at ~₹4000 crore with overall NPA provisions seen at ₹45 bn. Expect strong profit growth trend to continue with a surge of 65% YoY and 6.4% QoQ to ₹15114 crore.
Axis Bank	Axis Bank is expected to deliver healthy business growth and steady operational performance, however, optically the bank is expected to report loss in Q4FY23, owing to one-off impact of knocking off goodwill related to Citi acquisition. On business front, Axis Bank is expected to report advance growth of 16.2% YoY, 7.9% QoQ to ₹ 8.21 lakh crore, while deposit base is seen to grow 11.2% YoY, 7.7% QoQ to ₹ 9.13 lakh crore. Healthy credit off-take coupled with ~10 bps improvement in margins is seen to result in ~33% YoY growth in net interest income. Integration cost related to Citi acquisition is expected to keep CI ratio elevated, though credit cost is seen to remain steady. Overall, operational performance is expected to remain steady, expect loss of ₹ 5487 crore owing to write-off of acquisition related goodwill.
HDFC Bank	Expect NII growth at 21% YoY to ₹22958 crore even though moderation seen in credit growth to 16%. Corporate advances slowed to 12% YoY while retail advances are robust 21% Yoy. Expect margins stable at 4.1%. Other income to see improvement QoQ and expected to grow 17 % YoY to ₹8935 crore. Asset quality to be stable with slippages in control. GNPA ratio seen at 1.21% and NNPA at 0.32%. Expect provision to be elevated at ₹3361 crore building in merger buffers. PAT is expected to grow 19% YoY to ₹11981 crore and mild decline of 2% sequentially. Timelines and other merger events will be watched.
CSB Bank	As per the latest disclosure CSB's advances grew 30.3% YoY / 11.7% QoQ to ₹ 20842 crore while deposits were up by 21.4% YoY / 8.1% QoQ at ₹ 24506 crore. We expect NII growth of 13.3% YoY at ₹ 344 crore. Margins to decline by ~15-20bps QoQ. Growth in other income to be partly aided by PSLC income. Investment in branches and tech to keep CI ratio elevated at ~57%. Credit cost should continue to trend downwards QoQ and YoY. Thus we expect PAT to be at ₹ 145 crore vs ₹ 130 crore in Q4FY22. Management guidance on key segments will be watchful.

Source: Company, ICICI Direct Research

Exhibit 3: Bank Specific views continued…

Banks	
Federal Bank	Federal Bank's provisional numbers indicate strong advances growth at 3.8% QoQ (up 20.2% YoY) to ₹ 1.77 lakh crore. Deposits growth of 5.9% QoQ (17.4% YoY) to ₹ 2.1 lakh crore with CASA ratio 32.7%. NII is expected to grow 30.3% YoY and 1.6% QoQ to ₹ 19879 crore. Margins are expected to improve QoQ by 10-12 bps. Other income to grow 16.4% YoY, 1.4% QoQ. Credit cost continued to decline further QoQ leading to a PAT growth of ~58% YoY (7% QoQ) at ₹ 858 crore. Management outlook on business banking segment and deposit accretion would be key to watch
Kotak Mahindra Bank	During Q4FY23, Kotak Mahindra Bank is expected to report strong growth in advances of 21.5% YoY and 6.1% QoQ to ₹ 3.29 lakh crore while deposits are expected to grow 13.5% YoY and 2.6% QoQ to ₹ 3.53 lakh crore. CASA ratio to be largely steady at ~54% of deposits. NII is estimated to grow at 31.5% YoY to ₹ 5946 crore, while NIMs are expected to improve ~23 bps QoQ at 5.7%. Slight moderation in C/I ratio can be seen in Q4FY23 (C/I to be at ~50%). Thus, we expect 7.9% YoY and 6.9% QoQ growth in earnings at ₹ 2984 crore. GNPA ratio is expected to improve ~20 bps QoQ to 1.70%
IndusInd Bank	As per provisional numbers, IndusInd Bank's advances reported strong growth of 21.3% YoY, 6.3% QoQ at ₹ 2.89 lakh crore. Deposits registered growth of 14.6% YoY and 3.4% QoQ at ₹ 3.36 lakh crore. CASA ratio was at ~40% during Q4FY23 vs. 42.7% in Q4FY22. NII to grow at 17.8% YoY and 4.4% QoQ to ₹ 4694 crore while non-interest income to grow 11.2% YoY at ₹ 2114 crore. C/I ratio to be at ~46% levels. Subsequently, PAT to grow 48% YoY (~2.8% QoQ) at ₹ 2015 crore. Overall asset quality trend is expected to improve sequentially with GNPA at ~2% levels. Management commentary on growth would be key to watch
Bandhan Bank	Bandhan Bank reported advance growth of 9.8% YoY and deposit growth of 12.2% YoY. Non-MFI book is expected to grow at a faster pace while accretion in retail deposit is expected to remain steady. Margin is expected to recover at ~7-7.2% and CI ratio is seen steady at ~38%. Credit cost is seen tapering down at ~1.2% (annualised) leading to recovery in earnings at ₹ 688 crore. Post sale of stressed assets, NPA numbers are seen improving with ~30 bps QoQ decline in GNPA at 6.8%
IDFC First Bank	IDFC First Bank is expected to report better than industry average growth of ~24% YoY (5.3% QoQ) at ₹ 160203 crore. NII growth of 31.5% YoY and 6.8% QoQ would be primarily driven by retail assets. NIMs to remain largely steady QoQ at ~6.4%. Other income at ₹ 1350 crore to report growth of 62.4% YoY. Provisions are expected to inch up to ₹ 480 crore sequentially. PAT is expected to grow 89.5% YoY and 7.4% QoQ to ₹ 649.3 crore. Overall asset quality is expected to improve further with GNPA ratio at ~2.8% vs. 2.9% in Q3FY23. Management outlook on growth to be watched

Source: Company, ICICI Direct Research

Exhibit 4: NBFC Specific views

NBFC	
HDFC Ltd	HDFC Ltd is expected to witness loan growth of ~15% YoY to ₹ 651060 crore, led by healthy demand for home loans. Hence, growth in NII to be seen at 15% YoY to ₹ 5024 crore. NIMs to remain largely steady despite competitive intensity. Provisions to decline marginally YoY at ₹ 391 crore leading to standalone profit growth of 6.3% YoY (4.8% growth QoQ) to ~₹ 3868 crore. Subsidiaries are expected to report a steady performance
HDFC AMC	HDFC AMC is expected to witness healthy growth in AUM at 14.6% YoY to ₹ 4.67 lakh crore, primarily led by inflow in debt schemes amid end of taxation benefit from April 1, 2023. Equity AUM is expected to remain steady amid lacklustre market, supported by continued traction in SIP flows. Higher inflow in debt schemes to offset yield pressure and keep revenue flat. Other income is seen at ₹ 82 crore. In line with topline, PAT is expected to increase 3% QoQ at ₹ 380 crore (~33 bps of AUM). Commentary on impact of change in taxation regime and TER needs to be watched
Bajaj Finance	AUM growth reported in quarterly filing at 25% YOY and 7% QoQ to ₹ 243500 crore was in line. Core AUM ex IPO grew 29% YoY. New loan additions came at 76 lakh vs. 78.4 lakh QoQ. Number of customer additions was flat QoQ to 31 lakh vs. 31.4 lakh. Higher ticket size boosted AUM. Accordingly, NII growth is expected to surge 30% YoY to ₹ 7893 crore. NIMs are expected to remain stable with cost of funds stabilising to setoff rise in lower yielding books. Provisions to be at ₹ 874 crore. With C/I ratio under control, PAT estimates to increase 26% YoY and 2% QoQ to ₹ 3037 crore
Bajaj Finserv	Bajaj Finserv's consolidated revenue is expected to grow at ~31% YoY to ₹ 23765 crore, led by pick up in lending business, healthy traction in premium accretion in insurance businesses and steady yields. Client acquisition and healthy AUM growth is expected to boost operational performance. Steady persistency and non-par business, led by change in taxation from April 2023, seen to propel life insurance premium accretion. Healthy motor & individual health business is seen to support general insurance business. Steady opex and moderate slippages (in lending business), business mix and steady claims (in insurance business) to result in ~27% YoY growth in earnings at ₹ 1707 crore
SBI Life Insurance	SBI Life Insurance is expected to report recovery in premium accretion at 12% YoY, led by 17% YoY growth in new business premium (NBP). Non-par business (owing to change in taxation norms) is expected to contribute to incremental new business while renewals are seen remaining steady at ~85%. Normalised claims and steadier yields are expected to lead to surplus of ₹ 1537 crore. Gradual recovery in premium, steady opex and higher appropriation to shareholders (Q4 phenomenon) are seen leading to earnings growth at 12% YoY to ₹756 crore. Commentary on recent regulatory changes and growth strategy needs to be watched
HDFC Life Insurance	For HDFC Life, individual business traction is expected to remain healthy led by non-par individual business owing to change in taxation. Further, steady persistency is expected to lead in healthy renewals, thereby resulting in ~20% YoY growth in overall premium to ₹ 17382 crore. Normalisation of claims and steadier yields is expected to lead to surplus of ₹ 754 crore; up 7% YoY. Thus, steady persistency and normalised claims is seen resulting in 6% YoY to ₹ 377 crore. Commentary on premium trajectory should remain in focus
MCX	For MCX, options continued to witness robust traction in turnover with sequential uptick of ~16% in Q4FY23, primarily led by natural gas and crude oil. Turnover crossed ₹ 12 lakh crore for the first time in March 2023. Higher traction in options is expected to contribute to topline trajectory but additional payout related to extension of platform contract with existing vendor is seen impacting bottomline. Expect ~34% YoY growth in revenue while PAT is seen declining by 67% YoY at ₹ 12 crore amid higher opex related to software. Current status on migration to new software needs to be watched
Muthoot Finance	AUM growth should be largely steady led by increase in gold prices (~10% from January 2023 to March 2023). We estimate loan growth of ~6% at ₹ 61270 crore in Q4FY23. NII is expected to grow 8.3% QoQ% at ₹ 1846 crore primarily driven by improvement in margins. Opex to remain elevated mainly due to branch expansion plans and overall C/I should remain at ~30% levels. Credit cost should see improvement both QoQ and YoY led by improvement in asset quality. As a result, we expect PAT growth of 5.20% QoQ to ₹ 950 crore. Management commentary on competitive intensity and growth will be key monitorable

Source: Company, ICICI Direct Research

Exhibit 5: NBFC Specific views

ICICI Lombard	ICICI Lombard is expected to deliver steady growth at 18% YoY to ₹ 5926 crore, attributable to gradual recovery in auto business and continued robust accretion in health and property business. Steady claim ratio at ~70% and non claim opex at ~30-32% is expected to lead to under-writing loss of ~₹ 277 crore. With investment income of ₹ 792 crore, PAT is seen growing at 15% YoY to ₹ 360 crore. Commentary on recent regulatory changes and growth strategy needs to be watched
Star Health Insurance	Star Health is expected to report healthy growth in premium at 15% YoY to ₹ 4012 crore, led by customer accretion, renewals and price hikes in floater products. Growth in floater policy needs to be seen post price hikes undertaken in Feb'23. Claims are expected to stay steady at ~62%, non-claim expense is expected at ~31%. Thus, overall combined is seen at 93-94%, leading to underwriting loss at ₹ 26 crore. Investment income at ₹ 180 crore is expected to enable PAT at ₹ 115 crore vs. loss in previous year. Commentary on recent regulatory changes needs to be watched
Can Fin Homes	Can Fin Homes is expected to see loan growth of ~18% YoY to ₹ 31576 crore, led by healthy demand for home loans. Hence, growth in NII to be seen at 11.8% YoY to ₹ 265 crore. Rise in cost of funds to drag NIMs by ~12 bps during Q4FY23 to remain largely steady despite competitive intensity. Provisions to register meaningful decline YoY to ₹ 11 crore leading to earnings growth of ~30% YoY (5.7% growth QoQ) to ~₹ 160 crore. Management outlook on growth and margins would need to be watched

Source: Company, ICICI Direct Research

Exhibit 6: ICICI Direct Research coverage universe (BFSI)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Bn)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BoB (BANBAR)	166	200	Buy	862	14.0	23.9	28.0	12.4	7.3	6.2	1.2	1.0	0.8	8.9	13.3	13.3
SBI (STABAN)	527	700	Buy	4711	35.5	50.8	58.4	15.9	11.1	9.7	2.0	1.7	1.4	11.9	15.0	14.9
Axis Bank (AXIBAN)	851	1100	Buy	2620	42.4	31.7	78.2	20.3	27.1	11.0	2.5	2.3	1.9	12.0	8.2	17.9
Federal Bank (FEDBAN)	127	165	Buy	268	15.1	15.1	15.1	9.0	9.0	9.0	1.3	1.3	1.3	14.3	14.3	14.3
HDFC Bank (HDFBAN)	1666	1920	Buy	9297	66.7	78.7	93.7	24.5	20.7	17.4	3.4	2.9	2.5	16.9	17.5	17.7
IndusInd Bank (INDBA)	1081	1450	Buy	839	59.5	93.1	111.0	19.7	12.6	10.6	2.0	1.7	1.5	10.1	14.2	14.9
Kotak Bank (KOTMAH)	1757	2175	Buy	3490	43.0	51.5	56.3	40.4	33.8	30.9	4.9	4.3	3.8	12.6	13.2	12.6
CSB Bank (CSBBAN)	255	300	Buy	44	26.4	30.2	33.2	9.0	7.9	7.1	1.7	1.4	1.2	19.0	18.0	16.8
Bandhan (BANBAN)	208	265	Hold	335	0.8	12.9	15.9	294.5	17.9	14.5	2.4	2.1	1.9	0.8	11.3	12.6
IDFC First (IDFBAN)	55	70	Buy	364	0.2	3.4	4.7	246.1	17.1	12.3	1.9	1.6	1.5	0.8	9.5	12.0
HDFC (HDFC)	2730	3150	Buy	5008	75.8	86.7	100.0	35.3	30.9	26.8	4.0	3.6	3.2	12.0	12.3	12.6
Bajaj Finserv (BAFINS)	1303	1625	Buy	2076	52.8	39.1	48.4	26.1	35.3	28.5	2.7	4.7	4.1	11.2	14.4	15.3
Bajaj Finance (BAJFI)	5935	7250	Buy	3593	116.8	198.5	229.7	51.3	30.2	26.1	8.4	6.9	5.7	17.5	24.2	22.9
Muthoot Finance (MUTFIN)	1020	1150	Hold	409	98.5	85.2	95.7	9.6	11.1	9.9	2.3	2.0	1.7	23.5	17.5	17.4
HDFC AMC (HDFAMC)	1742	2250	Buy	371	66.4	68.1	74.8	27.1	26.4	24.0	6.8	6.2	5.7	25.2	23.6	23.6
SBI Life Insurance	1116	1300	Buy	1117	15.1	16.3	17.0	75.7	69.8	67.0	2.9	2.5	2.2	8.5	10.8	10.4
HDFC Life	514	540	Hold	1105	5.7	6.4	7.9	85.5	76.1	62.2	3.4	2.7	2.3	18.0	18.1	18.2
Star Health	567	650	Buy	330	-20.5	12.3	14.3	-28.4	47.5	40.9	7.9	4.7	3.3	-27.8	9.9	8.1
ICICI Lombard	1088	1300	Hold	534	18.7	18.7	18.7	58.4	58.4	58.4	4.4	4.4	4.4	15.5	15.5	15.5

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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