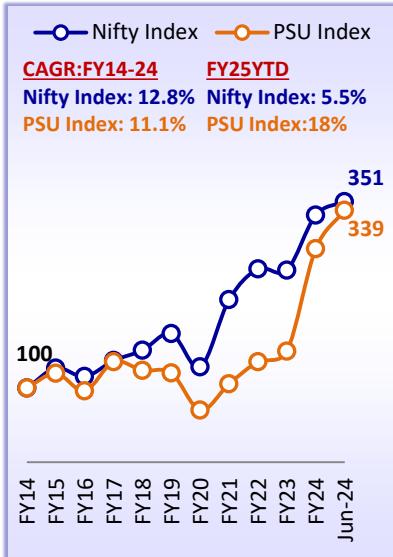


Refer to our strategy note on Corporate profit to GDP – Rebounds to a 15-year high!



PSU index has outperformed the Nifty in FY25YTD



Indian PSUs – Back with a vengeance!

Indian PSUs: Earnings momentum fueling the outperformance!

- **Rebounding in style...:** After a decade of underperformance, the Indian PSUs have made an admirable comeback. They have marked FY24 as the year of clear outperformance. This was evident in the sharp run-up of PSU companies and their index outperformance compared to the Nifty-50 in the previous year.
 - **...and galloping ahead:** Since our [previous report](#) on PSUs, released on 21st Dec'22, the PSU index has surged 113% to date. Conversely, the market capitalization of the BSE PSU Index has galloped ~2.1x to INR69.1t from INR32.5t between Dec'22 and Jun'24. The BSE PSU Index P/E ratio has expanded to 12.8x from 8.7x during the same period.
 - As FY24 came to an end, we are revisiting our findings on Indian PSUs.

Strong business narratives and growing order book driving a rerating

- After a period of weak performance at the start of the past decade, PSUs made a comeback and reported a strong revival in their profits in the previous five years.
 - The government's infrastructure and capex push, which had gained momentum post-pandemic, along with cleaner balance sheet, improved governance, margin tailwinds for commodities, and burgeoning order books, have continued to drive the PSU outperformance and their rerating, in our opinion.
 - During FY19-24, PSU earnings reported a 33.8% CAGR, outperforming that of the Private Sector, which posted an 18.6% CAGR over the same period. The share of PSUs in the profit pool expanded to 36% in FY24 after hovering in the 17-30% range during the past few years. **Further, the earnings of PSUs during FY24 witnessed a spectacular growth of 45% YoY.**
 - **Notably, the loss pools of PSUs have reduced consistently over the last five years.** The contribution of loss-making companies (accounting for 1% of profit pool as of FY24 vs. 45% in FY18) has dwindled over the past few years.
 - **The RoE of the PSU universe also jumped to 17.6% in FY24 from the lows of 5.2% in FY18.**
 - **Sharp underperformance of the past continues to catch up:** The PSU index posted a CAGR of 9.6%, underperforming Nifty-50 (12% CAGR) during Jun'14-Jun'24. Notably, the majority of the gains for PSUs have occurred in the past four years only. The BSE PSU index reported a 9% compounded decline during Jun'14-Jun'20, but clocked an impressive CAGR of 45% during the past four years (Jun'20-Jun'24). During FY24, the PSU index returns of +92.4% significantly outperformed the benchmark (+28.6%). Further, the outperformance continues as of FY25 YTD, the PSU index is up by 12% vs. the benchmark (+5.5%).

- **A steep fall and then a laudable rise in the market cap share:** Notably, the market cap share of PSUs in India, which dropped significantly to 10.5% in FY22 from 20.8% in FY14, has since recovered and currently stands at 17.5%. Over a similar period, India's market cap skyrocketed to INR389t in FY24 from INR69t in FY14 and currently it stands at INR440t. During FY14-24, PSUs' market cap surged to INR66t (INR77t as of Jun'24) from INR14t, while the private sector's market cap catapulted to INR323t (INR363t as of Jun'24) from INR55t.

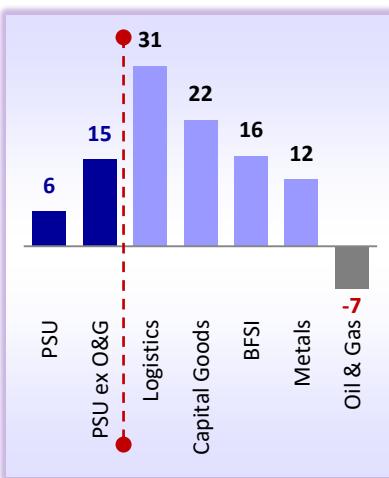
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

PAT growth expected over FY24-26 (%)



Healthy outlook to continue!

- Fundamentally, India is witnessing its own mini-Goldilocks moment with excellent macros (GDP growth of 8.2% in FY24 on the back of ~7% growth in FY23, inflation at ~5%, both current account and fiscal deficits well within tolerance band, stable currency, etc.), robust corporate earnings (Nifty ended FY24 with 25% earnings growth and FY25/26 earnings are likely to post 14-15% CAGR), focus on manufacturing, capex and infrastructure creation, and valuations at ~20x one-year forward earnings.
- The political stability with Modi 3.0 augurs well for the economy and capital markets as it provides the necessary stability and continuity in policy-making which will likely continue pushing its economic agenda.
- This verdict and the consequent political stability and continuity in policy-making will act like an icing on the cake and keep India as the cynosure of all eyes, in our view.
- For our MOFSL Coverage PSU Universe (~55% of Indian PSU Mcap), we estimate that the FY24-26 PAT CAGR is likely to moderate to 6%, mainly due to conservative margin assumptions for O&G. Conversely, the earnings growth for other sectors continues to remain strong. Ex O&G, we estimate a PAT CAGR of 15% for MOFSL Coverage PSU Universe. For the said Universe, incremental profits would be contributed by BFSI (120%), followed by Metals (22%). O&G is likely to drag the earnings CAGR with an adverse contribution of -47% to overall profitability.
- The road ahead:** As we look forward, the profitability of PSUs is likely to improve notably across domestic and global cyclicals, with a sharp turnaround in the fortunes of PSU Banks driving the overall trend. Higher commodity prices over the last two years have strengthened the P&L and balance sheets of Metals and O&G PSUs. The government's emphasis on localization, increased capex, and 'Make-in-India' in the defense sector has catalyzed the improvement in the fortunes of Industrial PSUs. Hence, we expect the recovery in PSUs' contribution to earnings and market capitalization to continue.
- Preferred PSU Ideas:** SBI, Coal India, GAIL, HPCL, and Bank of Baroda.

Exhibit 1: Preferred PSU's valuations

Company	Mkt Cap	CMP	EPS (INR)			EPS CAGR (%) FY24-26	PE (x)			PB (x)			ROE (%)		
	(USDb)	(INR)	FY24	FY25E	FY26E		FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
State Bank	90.4	845	75.2	89.4	104.7	18.0	10.0	9.4	8.1	1.7	1.6	1.4	18.8	18.8	18.5
Coal India	36.4	489	60.7	55.9	66.0	4.3	7.1	8.7	7.4	3.2	3.0	2.5	45.2	34.6	34.1
Bank of Baroda	17.8	287	34.4	39.4	45.1	14.6	7.7	7.3	6.4	1.3	1.2	1.0	17.9	17.7	17.6
GAIL	17.5	222	13.7	13.1	16.5	9.8	13.2	16.9	13.4	1.8	2.0	1.9	15.0	12.9	15.0
HPCL	9.0	530	112.9	71.9	72.1	-20.1	4.2	7.4	7.4	1.4	1.4	1.2	40.4	20.2	17.6

Source: Company, MOFSL

Note: Exhibit data is sourced from Capitaline, Bloomberg and MOFSL research database. Prices as of 18th June'24 closing.

Insightful trends

Exhibit 2: PSUs witnessing a smart recovery after a dull decade

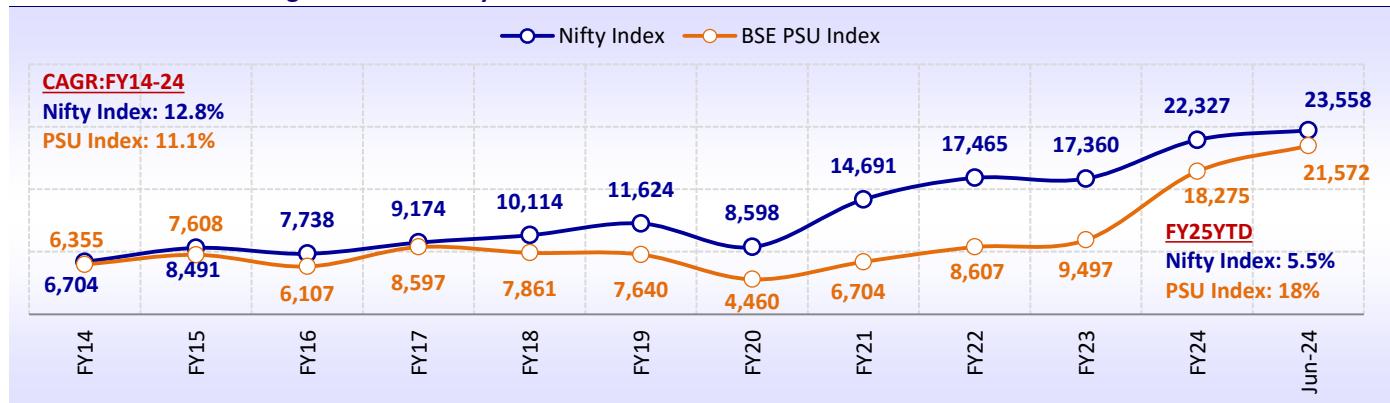


Exhibit 3: BSE PSU's market cap remained nearly flat during FY09-20, while it surged 6.1x in the last four years (since Mar'20)

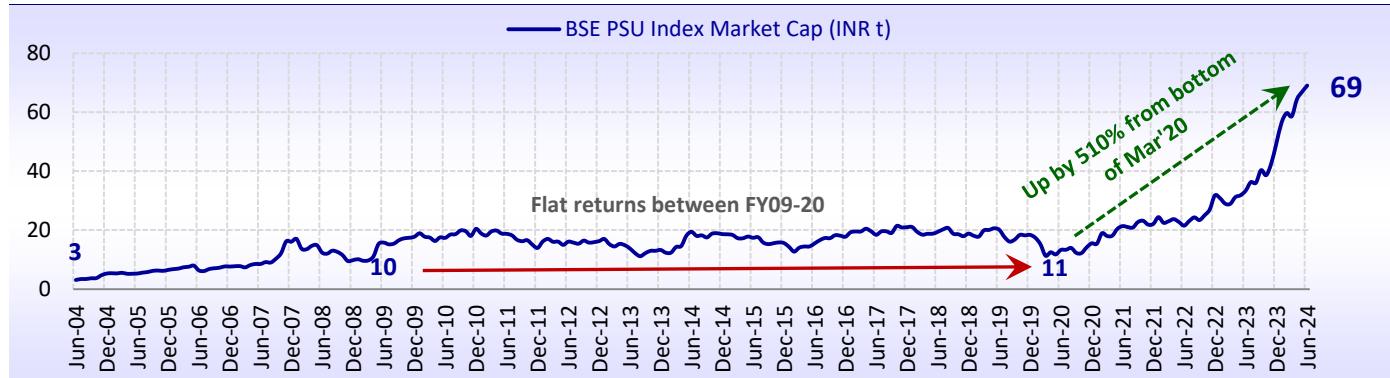


Exhibit 4: PSU's share in the Indian market cap exhibiting an uptick from the FY22 lows

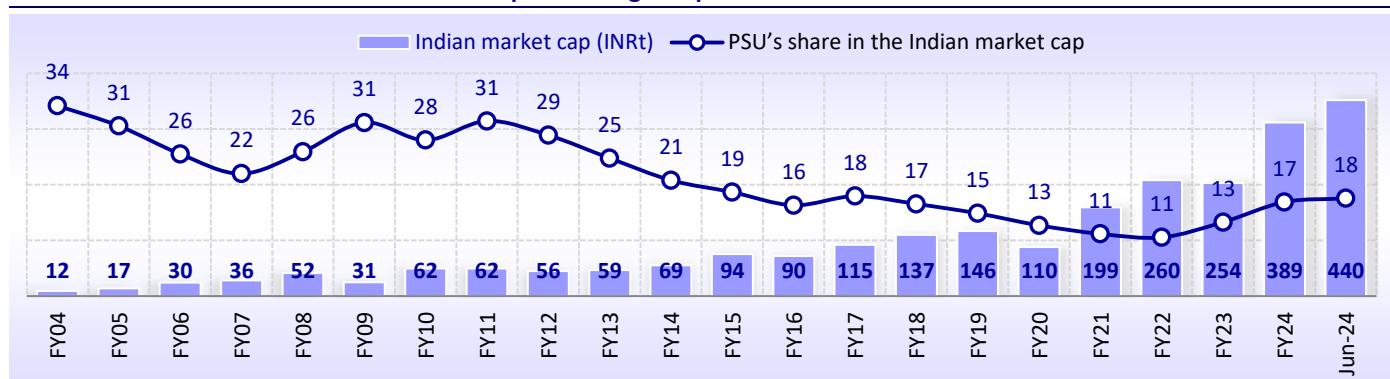


Exhibit 5: PSUs' corporate earnings expanded faster than that of the Private sector in Phase 2

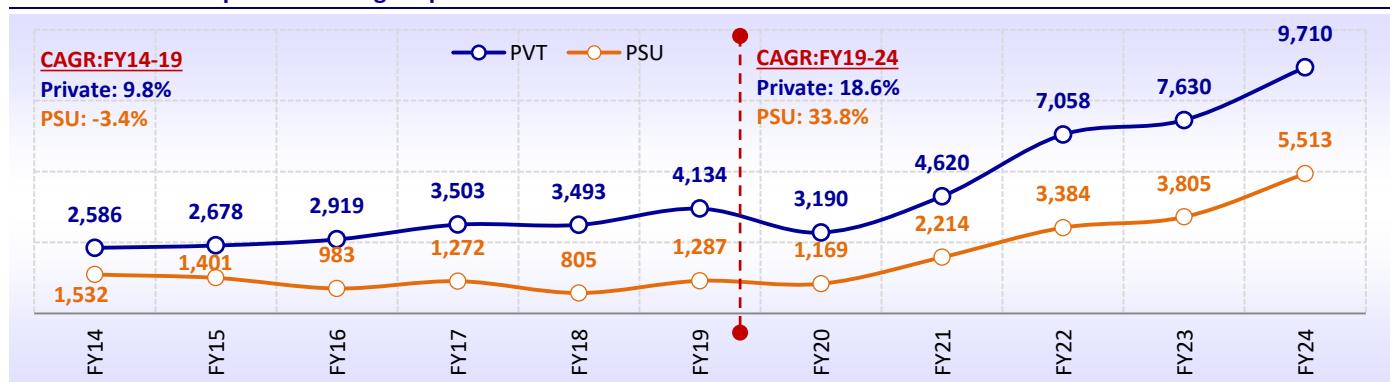


Exhibit 6: PSU's market-cap-to-GDP trend at a 13-year high

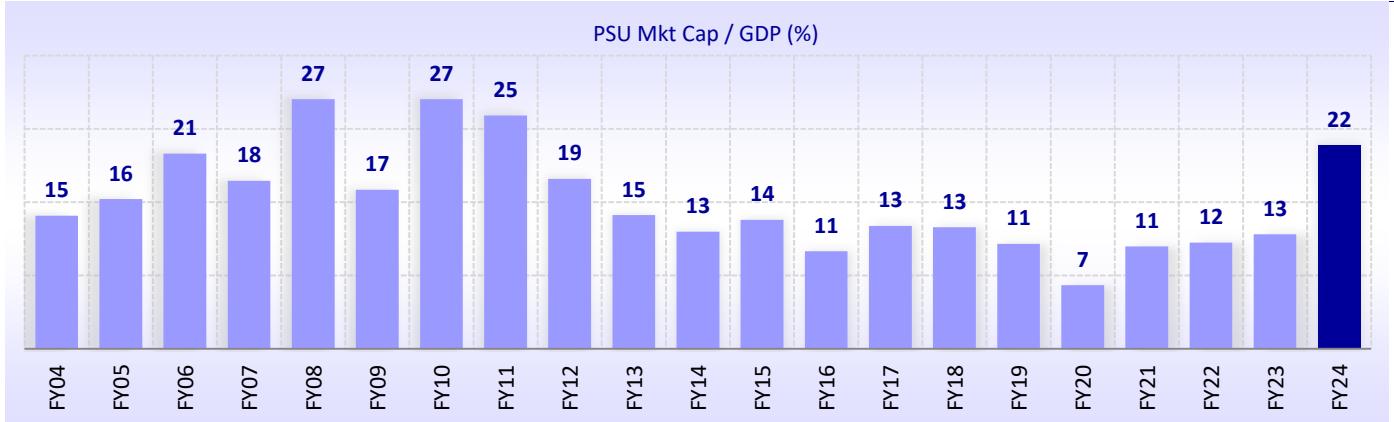


Exhibit 7: Profit mix between Private and Public sectors – PSU's regaining share!



Exhibit 8: Loss pools of PSUs witnessing continuous reduction from the FY18 highs

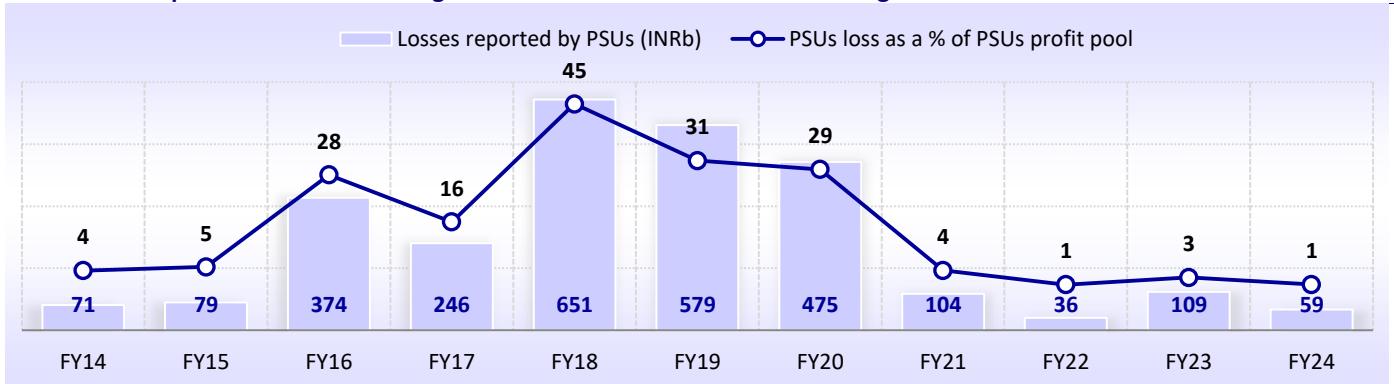
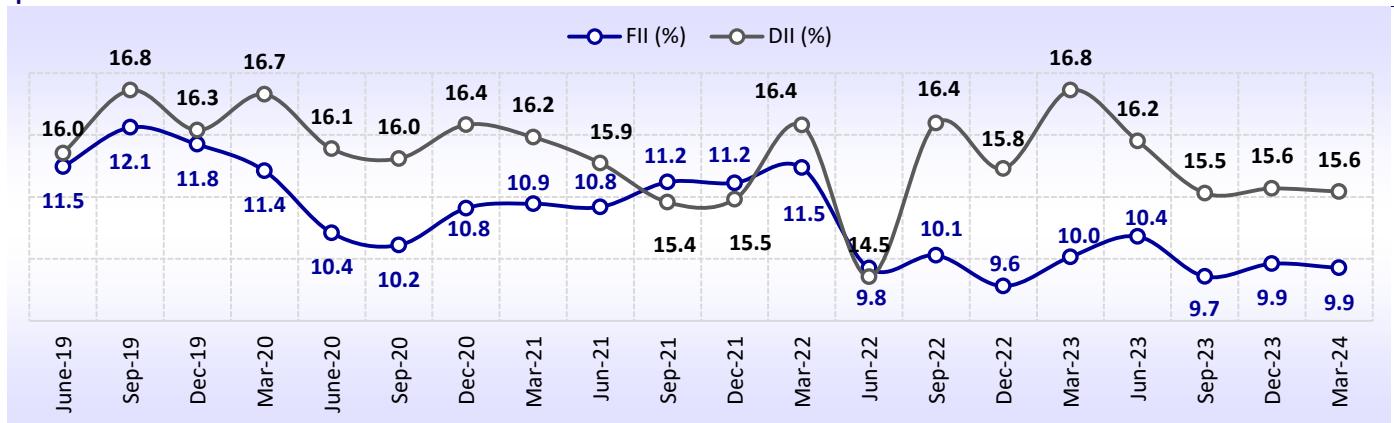
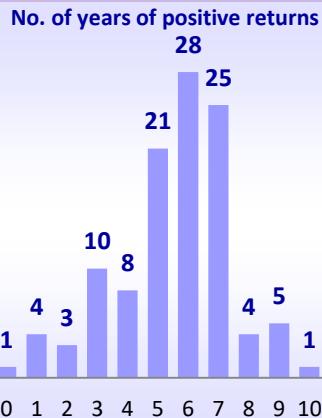


Exhibit 9: PSU companies – FII vs. DII holding trend (%): Institutions' holding in PSUs have remained constant since past few quarters



Two-thirds of the PSU Universe have generated 5-7 years of positive returns



Key insights from the report

- **Decoding Indian PSUs:** In this report, we analyze Indian PSUs' journey over the past decade as well as their future prospects. We have selected all the listed PSUs for analysis purpose. Further, to account for future earnings growth, we have taken our MOFSL PSU Coverage as a proxy, which constitutes 55% of the overall listed PSU Universe.
- **Market cap scorecard:** PSUs' share in India's market cap dropped significantly to 10.5% in FY22 from 20.8% in FY14, but has since recovered and currently stands at 17.5%. Over a similar period, India's market cap skyrocketed to INR389t in FY24 from INR69t in FY14 and currently it stands at INR440t. During FY14-24, PSUs' market cap surged to INR66t (INR77t as of Jun'24) from INR14t, while the private sector's market cap catapulted to INR323t (INR363t as of Jun'24) from INR55t.
- **The tale of "sweet and sour" returns:** Around two-thirds of the listed PSU companies have clocked 5-7 years of positive returns since FY14. The positive breadth improved and stood at 95% in FY24, after a weakened trend during FY18-FY20. Of the top 25 stocks, 13 belong to the BFSI space.
- **Volatilities in PSU banks hurt PSU profits over FY14-24:** Most of the Indian PSUs operate in deep-cyclical industries (e.g., Metals, O&G, and Financials), which inherently results in volatile and cyclical profitability and market capitalization performance. A major part of the FY14-24 decade was spent cleaning up the balance sheets of Financials, which took its toll on the overall PSU profits as PSU Banks formed one-third of the profit pool of Indian PSUs. This, along with many other macro disruptions, kept the PSU profit pool suppressed over FY14-20.
- **PSU banks compensated in the second half:** The second half performance was fueled by a sharp 4.3x surge in PSU profits to reach INR5.5t from INR1.3t over FY19-24. About 68% of these incremental profits came from BFSI alone, while Oil & Gas and Metals contributed 21% and 5%, respectively. Profits of PSU Banks surged to INR1.6t in FY24 vs. a reported loss of INR0.3t in FY19. The ROE of Indian PSUs improved notably to 17.6% in FY24 from a mere 7.7% in FY19.
- **Expect healthy earnings ahead:** For our MOFSL Coverage Universe of PSU stocks (~55% of Indian PSU Mcap), we estimate that the FY24-26 PAT CAGR is likely to moderate to 6%, mainly due to conservative margin assumptions for O&G. Conversely, the earnings growth for other sectors continues to remain strong. Ex O&G, we estimate a PAT CAGR of 15% for MOFSL Coverage PSU Universe. For the said Universe, incremental profits would be contributed by BFSI (120%), followed by Metals (22%). O&G is likely to drag the earnings CAGR with an adverse contribution of -47% to overall profitability.
- **Valuations – Continuous re-rating trends seen across PSUs:** The BSE PSU index experienced continued valuation expansion and is trading at 12.8x 12-month forward P/E and 2x 12-month forward P/B as of Jun'24, up 112% and 187% from the FY20 lows, respectively. Given the continued earnings momentum and guidance, we believe the valuation premiums for PSUs are expected to sustain in the near term.

Market cap witnesses continuous gains with sharp rerating trends

- PSUs' share in India's market cap dropped significantly to 10.5% in FY22 from 20.8% in FY14, but has recovered since then and currently stands at 17.5%. Over a similar period, India's market cap skyrocketed to INR389t in FY24 from INR69t in FY14 and currently stands at INR440t. During FY14-24, PSUs' market cap surged to INR66t (INR77t as of Jun'24) from INR14t, while the private sector's market cap catapulted to INR323t (INR363t as of Jun'24) from INR55t.
- Among the top 20 PSUs by market cap, IOB, Bharat Electronics, Union Bank and PFC were the top 'rank gainers' during the past 10 years, while BPCL, Coal India, GAIL, and ONGC were the top losers.
- In the last one year, REC, IRFC, PFC, and Hindustan Aeronautics were the top rank gainers, while BPCL, SBI Life Insurance, BOB, and Canara Bank were the top losers, among the top 20 PSU stocks by market cap.
- As profitability has improved, valuations of the PSU companies have also experienced steady expansion in the past one year. They have been trading at a five-year high level.

Exhibit 10: PSU's share in the Indian market cap sees continuous gains

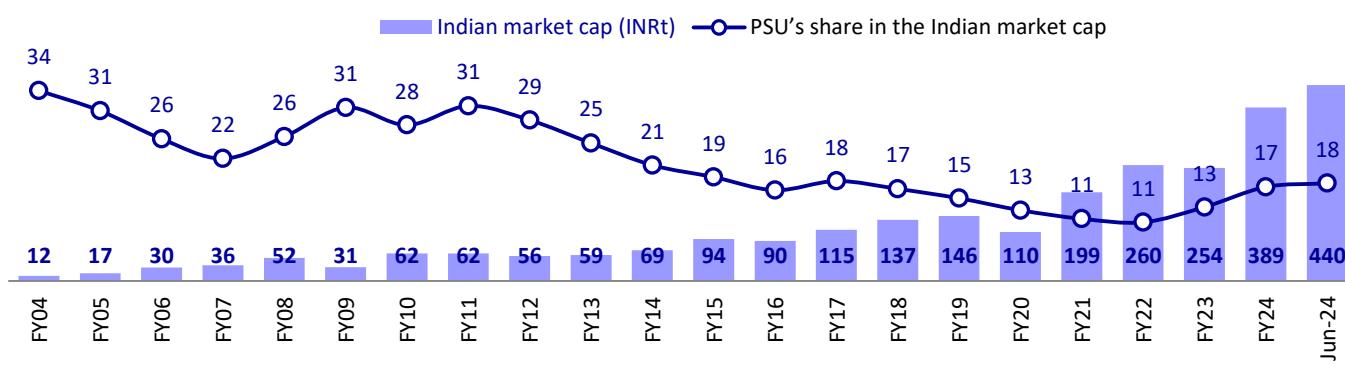


Exhibit 11: Top-20 stock – market cap rank change

Company Name	Mkt Cap (INRb)									Rank in PSU Universe							
	2014	2019	2020	2021	2022	2023	2024	Jun'24	2014	2019	2020	2021	2022	2023	2024	June'24	
St Bk of India	1,432	2,863	1,758	3,252	4,403	4,674	6,717	7,538	3	1	1	1	1	1	1	1	
Life Insurance						3,382	5,785	6,680						2	2	2	
Hind. Aeronautics	237	178	333	497	913	2,225	3,701		25	24	21	14	9	8	3		
NTPC	989	1,339	833	1,032	1,309	1,699	3,258	3,586	4	5	4	4	4	4	4	4	
ONGC	2,727	2,007	859	1,285	2,062	1,900	3,370	3,469	1	2	3	2	2	3	3	5	
Power Grid Corpn	550	1,036	832	1,128	1,513	1,574	2,577	3,085	7	6	5	3	3	5	6	6	
Coal India	1,818	1,459	863	804	1,128	1,317	2,673	3,013	2	4	2	9	5	6	5	7	
IOCL	677	1,532	769	864	1,120	1,101	2,369	2,395	5	3	6	8	7	8	7	8	
Bharat Electron	92	227	181	305	514	713	1,473	2,326	27	26	23	23	13	12	11	9	
IRFC				300	280	348	1,861	2,296				25	26	25	9	10	
Power Fin. Corpn.	255	325	243	300	297	401	1,288	1,675	15	16	16	24	24	22	15	11	
Bank of Baroda	310	341	247	383	577	873	1,366	1,485	11	15	14	14	12	10	13	12	
SBI Life Insuran	580	641	881	1,121	1,101	1,500	1,476		9	8	6	6	7	10	13		
GAIL (India)	477	783	345	602	691	692	1,191	1,461	9	8	10	10	10	14	16	14	
Punjab Natl.Bank	269	439	218	384	386	514	1,369	1,415	14	10	17	13	20	16	12	15	
REC Ltd	226	302	175	259	243	304	1,187	1,390	16	20	25	28	31	32	17	16	
BPCL	333	860	686	928	779	746	1,307	1,369	10	7	7	5	9	11	14	17	
IOB	63	132	117	263	344	426	1,134	1,260	36	34	29	27	23	20	19	18	
Union Bank (I)	86	168	98	218	265	454	1,171	1,123	29	31	31	33	28	19	18	19	
Canara Bank	122	220	93	251	413	516	1,054	1,105	20	28	34	30	17	15	20	20	

The tale of “sweet and sour” returns

- Around two-thirds of listed PSU companies have clocked 5-7 years of positive returns since FY14.
- The positive breadth improved and stood at 95% in FY24, after a weakened trend during FY18-FY20.
- Of the top 25 stocks, 13 belong to the BFSI space. Over FY14-24, one stock (IGL) delivered nine years of positive returns. In addition, five stocks (GAIL, Gujarat State Petronet, Petronet LNG, GIC Housing Fin, and Elnet Technologies) delivered eight years of positive returns over the said period.
- About 52% of the listed PSU stocks outperformed the BSE PSU index in FY24, with 55 of 110 listed PSUs more than doubled during the year. Notably, only five stocks reported negative returns in FY24.

Exhibit 12: Two-thirds of the PSU Universe have generated 5-7 years of positive returns

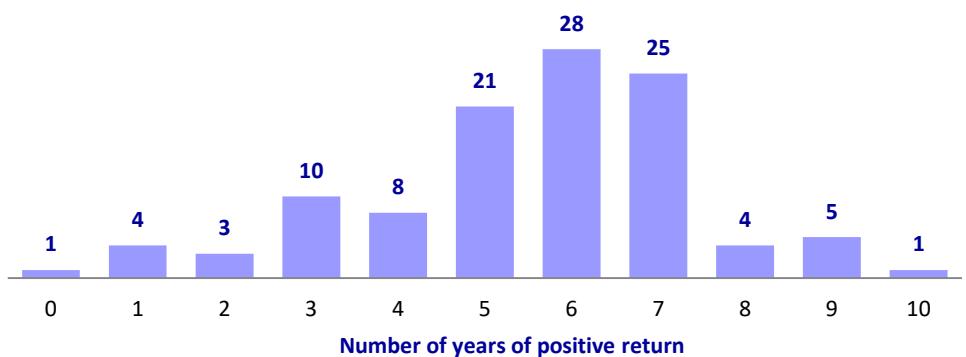


Exhibit 13: % of stocks delivering positive returns

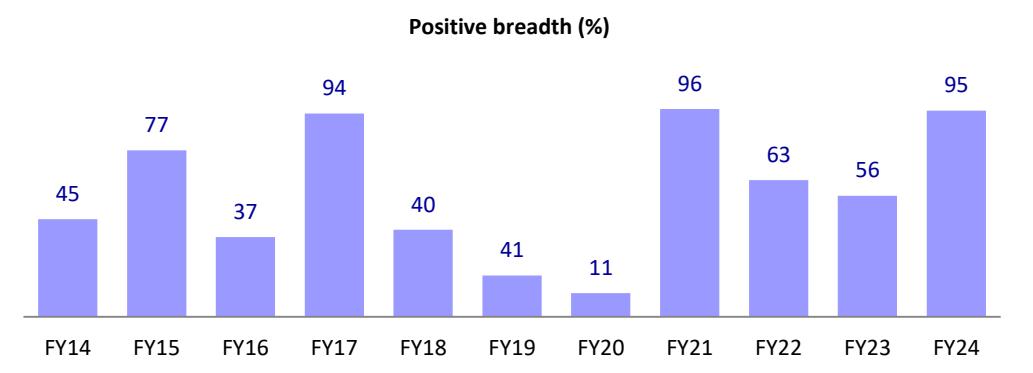
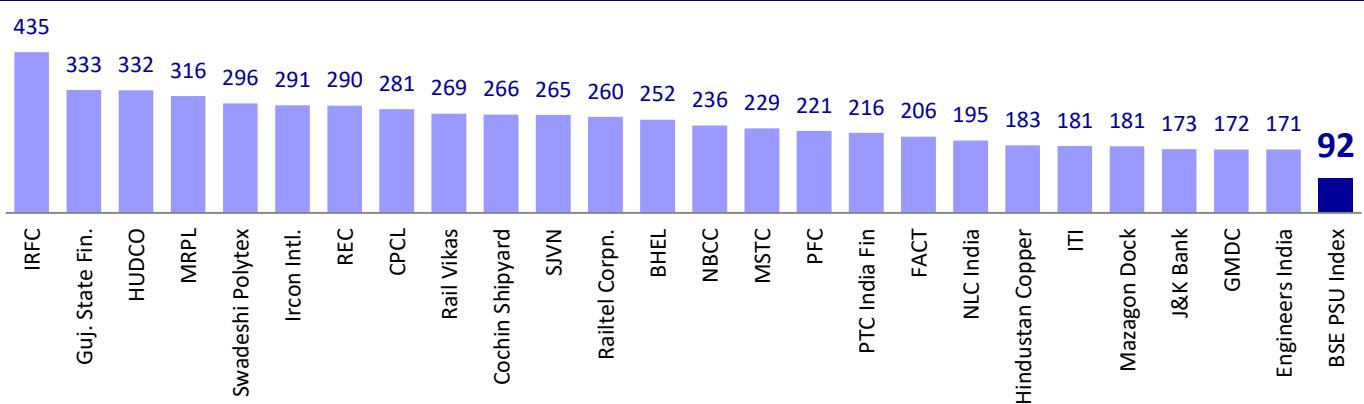


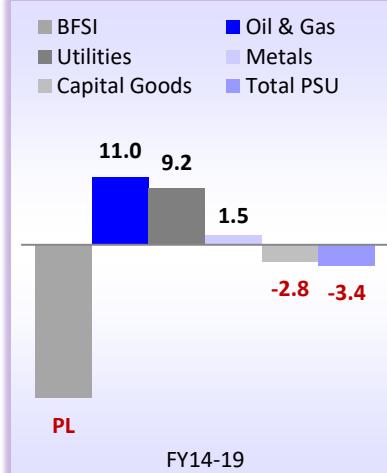
Exhibit 14: Trends in top-25 PSU sectoral performance (%) — 13 of the top 25 stocks belong to the BFSI space

Company	Price Performance YoY (%)										MCap (INR b)	
	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23		
SBI	-7	39	-27	51	-15	28	-39	85	35	6	44	6,717
LIC of India											71	5,785
ONGC	2	-4	-30	29	-4	-10	-57	50	60	-8	77	3,370
NTPC	-16	23	-13	29	2	-4	-38	26	27	30	92	3,258
Coal India	-7	26	-19	0	-3	-16	-41	-7	40	17	103	2,673
Power Grid Corp.	-1	38	-4	42	-2	2	-20	36	34	4	64	2,577
IOCL	-1	32	7	97	-9	-8	-50	12	30	-2	115	2,369
Hind.Aeronautics					-37	-25	87	49	84	144		2,225
IRFC										-7	24	435
SBI Life Ins.						-14	11	37	27	-2	36	1,500
Bharat Elect.	0	192	9	28	0	-34	-20	68	69	39	107	1,473
PNB	4	-3	-41	78	-37	0	-66	13	-4	33	166	1,369
BOB	6	13	-10	18	-18	-9	-58	38	51	51	57	1,366
BPCL	22	76	11	44	-1	-7	-20	35	-16	-4	75	1,307
PFC	7	41	-37	70	-41	43	-25	23	-1	35	221	1,288
GAIL	18	3	-8	41	16	6	-56	77	15	1	72	1,191
REC	10	45	-50	118	-31	22	-42	48	-6	25	290	1,187
Union Bk	-37	14	-16	19	-40	1	-70	18	14	72	131	1,171
IOB	-22	-17	-28	-12	-36	-16	-51	126	14	24	166	1,134
Canara Bk	-31	39	-48	64	-13	10	-69	68	49	25	104	1,054
NHPC	-4	4	21	33	-14	-10	-19	23	14	45	123	900
IDBI Bk	-18	9	-2	8	-4	-35	-59	100	11	5	80	870
BHEL	11	19	-52	43	-25	-8	-72	134	1	42	252	861
IRCTC								79	121	-26	62	744
Indian Bk	-34	50	-39	167	7	-7	-85	170	32	87	81	701
BSE PSU Index	-2	20	-20	41	-9	-3	-42	50	28	10	92	58,661
Nifty-50	18	27	-9	19	10	15	-26	71	19	-1	29	

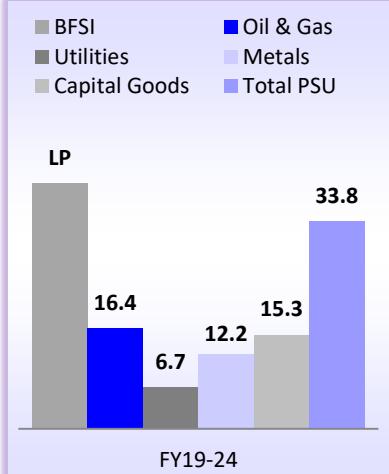
Exhibit 15: Top-25 PSU stocks – FY24 performance (%)



PAT CAGR (%) over FY14-19 Phase



PAT CAGR (%) over FY19-24 Phase



Analyzing PSUs' profit pool during 2014-24

- After a muted performance over FY14-20, when the earnings CAGR of the listed universe stood at 0.9% and absolute profits expanded to INR4.4t in FY20 (vs. INR4.1t in FY14), corporate earnings have accelerated sharply and posted a 37% CAGR over FY20-24 to reach INR15.2t in FY24 from a mere INR4.4t in FY20.
- Notably, the listed PSU Universe reported a 4.4% decline over FY14-20 and its profits contracted to INR1.2t in FY20 from INR1.5t in FY14. However, the PSUs have posted a strong 47% profit CAGR over FY20-24 to reach INR5.5t in FY24 as against Private Sector Universe CAGR of 32% to reach INR9.7t in FY24.
- BFSI's contribution to the PSU profit pool in FY23 was 54%, which moderated to 48% in FY24. The same hovered ~35% over the last few years. However, O&G's contribution jumped sharply to 31% in FY24 from 20% in FY23. Further, Utilities' share dipped to a new low of 8% in FY24.
- We note that there were two distinct phases of growth: a) **Phase 1 (FY14-19)**, which clocked a muted PAT CAGR; and **Phase 2 (FY19-24)**, which reported a higher PAT CAGR.

A tale of two distinct phases of growth

Phase 1 (2014-19): The period of moderation...

- During this five-year period, corporate profits grew at a slower pace due to multiple macroeconomic headwinds and high interest rates.
- Listed Universe profit registered a 5.7% CAGR during Phase 1, primarily fueled by Technology and O&G sectors.
- PSU Universe profit declined 3.4% during Phase 1 led by BFSI, and Capital Goods sectors. BFSI recorded a loss of INR189b in FY19 vs. a profit of INR527b in FY14 due to asset quality clean-up, and steep reduction in its share in the PSU profit pool to -15% in FY19 from 34% in FY14.
- Further, Capital Goods weakened notably (posting a 2.8% compounded decline).
- Notably, O&G and Utilities' contributions to PSU profit pool surged to 62% and 25% in FY19 from 31% and 13% in FY14, respectively.

Phase 2 (2019-24): ...followed by resurgence

- Over this period, corporate profit growth across sectors bounced back smartly, propelled by tax rate cuts, a reduction in banking sector NPAs, and post-Covid tailwinds after a weak two-year base.
- Listed Universe profit posted a stronger 22.9% CAGR in Phase 2 to reach INR15.2t.
- The listed PSU Universe recorded a stronger profit CAGR of 33.8% during Phase 2 to reach INR5.5t in FY24 vs. 18.6% CAGR of the Private sector, reaching INR9.7t in FY24.
- Financials continued to drive PSU profit growth followed by Oil & Gas, and Metals. BFSI continued to witness strong profit growth, contributing 48% to the overall PSU Universe profit in FY24.
- O&G recorded a decent growth, with its earnings recording a 16.4% CAGR over FY19-24, and its share in the profit pool contribution expanding considerably to 31% in FY24 from a low of 20% in FY23.
- During **FY24**, PSUs have continued to report strong earnings growth of 45% YoY, surpassing the Private sector earnings growth of 27%.

PSUs out of the woods | Loss pools melt away

- The BSE PSU index performance remained relatively muted during Phase 1 (FY14-19), reporting a 3.8% CAGR and underperforming Nifty (11.6%) over the same period.
- During Phase 2 (FY19-24), the BSE PSU Index performance was better than Nifty with 19.1% CAGR (vs. 13.9% of Nifty).
- However, PSUs' profits (at 33.8% CAGR) recovered sharply and outperformed those of the Private Sector (at 18.6% CAGR) over the last five years (FY19-24).
- **PSUs' losses that had spiked by FY18 have consistently narrowed over the last four years:** The contribution of loss-making companies (reduced to 1% of profit pool in FY24 as against 45% in FY18).

Exhibit 16: Loss pools of PSUs that spiked during FY15-18, have consistently reduced over the last four years

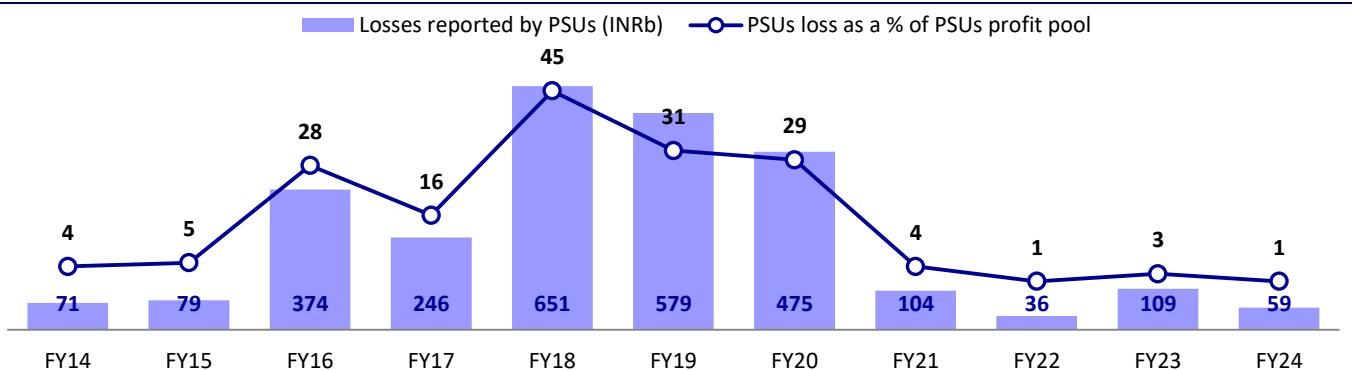


Exhibit 17: PSU's PAT jumped 4.3x vs. 2.4x gain in the PSU index during FY19-24

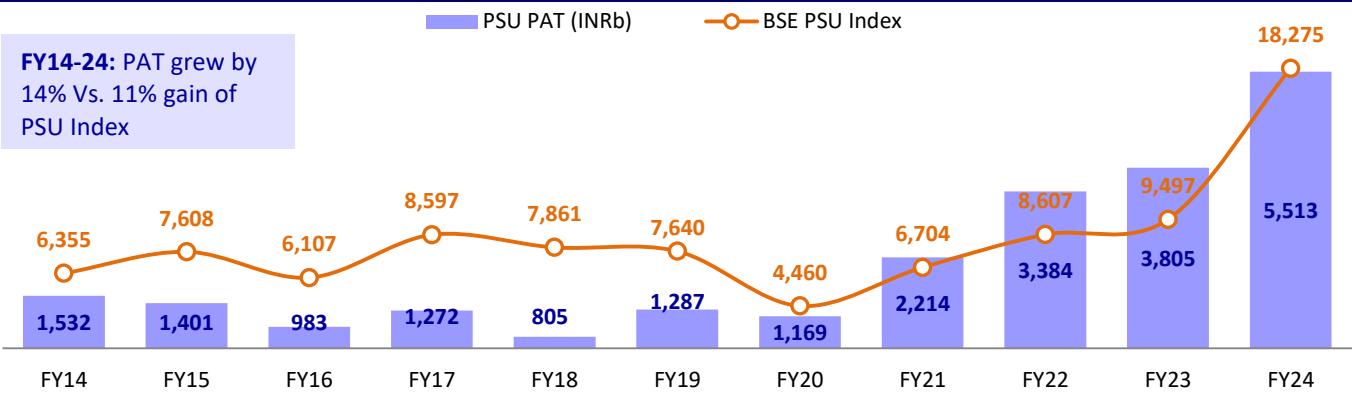


Exhibit 18: PSUs' corporate earnings expanded faster than that of the Private sector in Phase 2

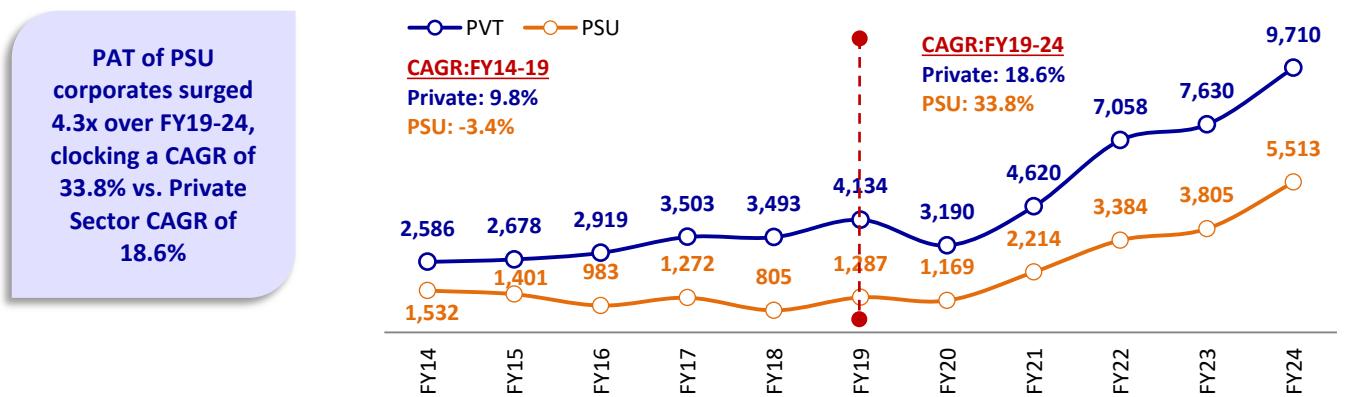


Exhibit 19: PSU Universe profit declined 3.4% during Phase 1 due to BFSI, and Capital Goods sectors

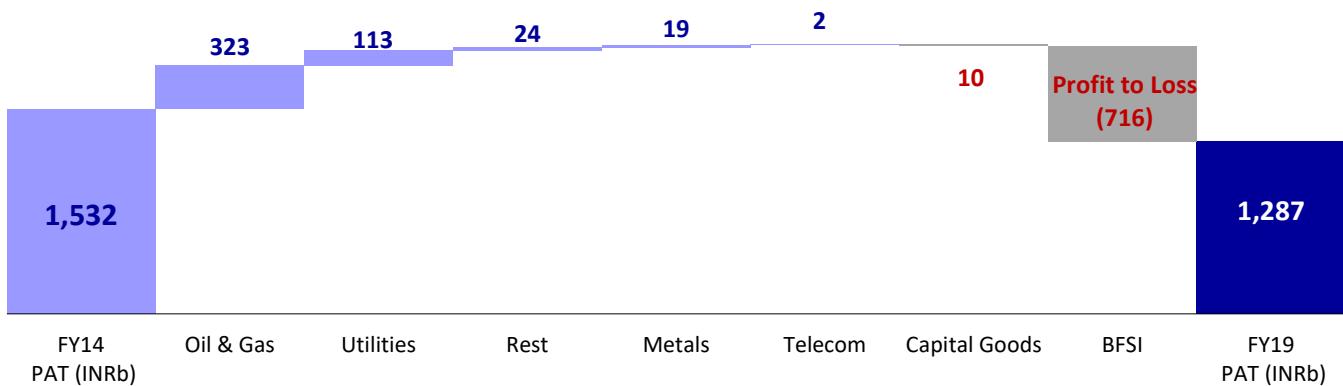


Exhibit 20: PSU Universe reported a stronger growth during Phase 2; BFSI drove profit growth of PSUs followed by Oil & Gas, and Metals

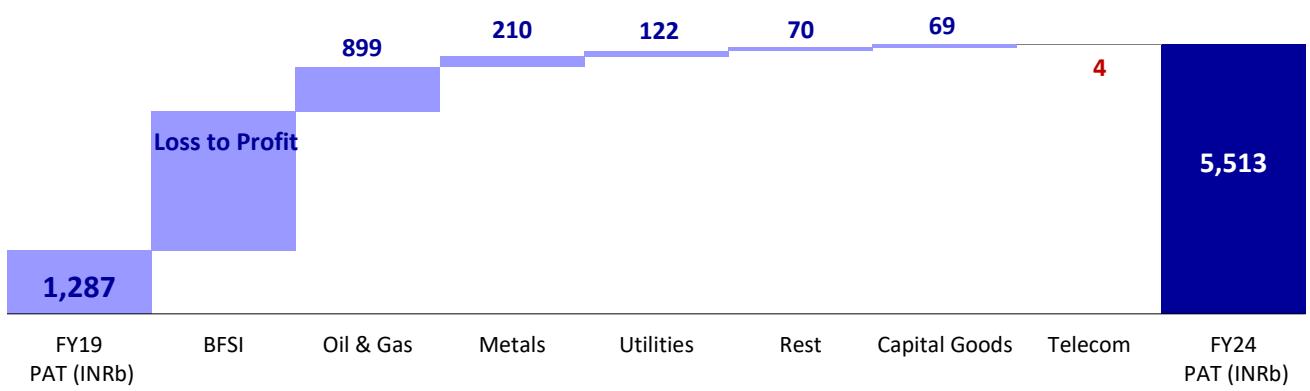


Exhibit 21: PSU Universe profit jumped in FY24 fueled by O&G, BFSI, and Metals sectors

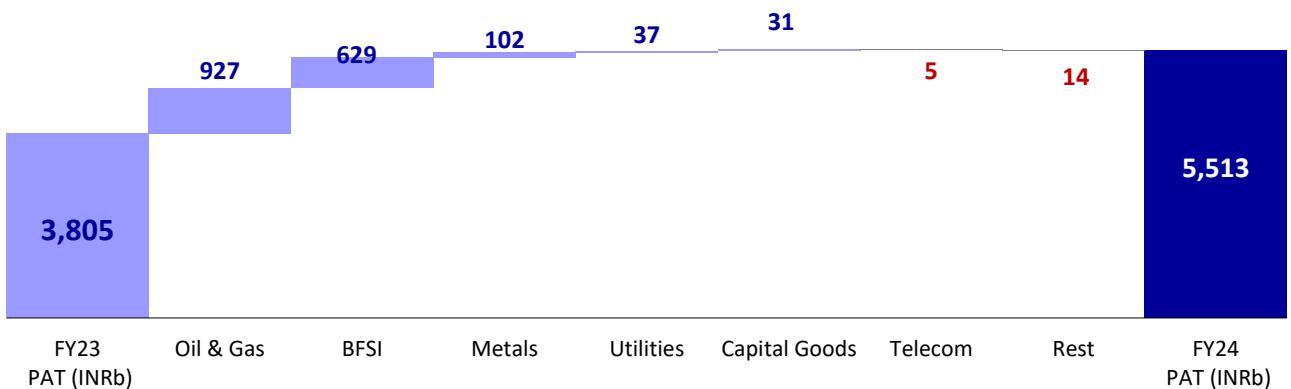


Exhibit 22: Profit mix between Private and Public sectors – PSU's regaining share!

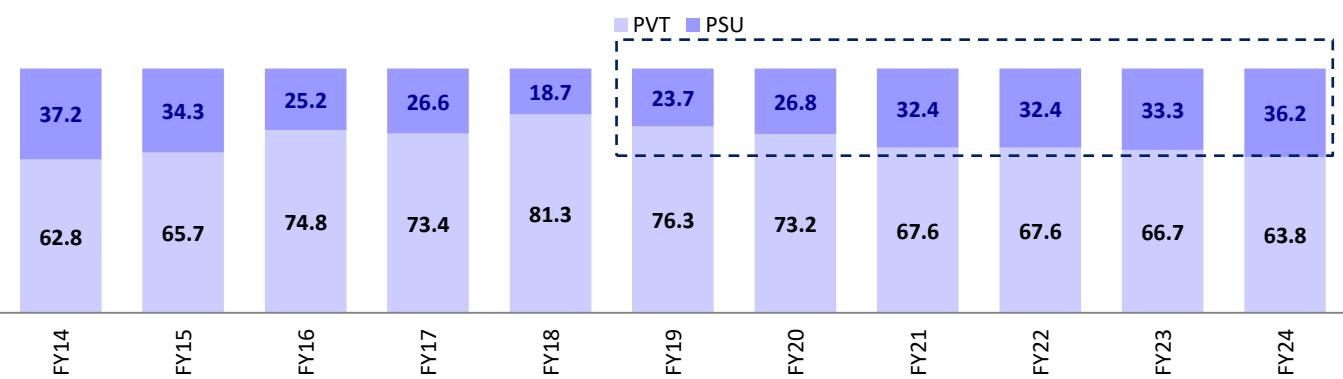


Exhibit 23: Trend in RoE of the PSU Universe (%) – Seeing continuous recovery from the FY18 lows

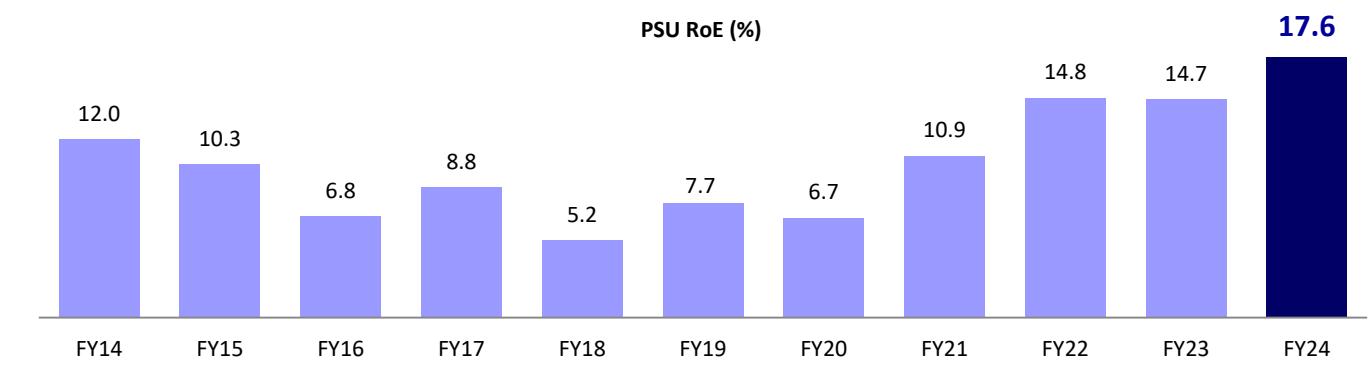


Exhibit 24: BFSI and Oil & Gas' profits expanded at a faster pace in the last five years (INR b)

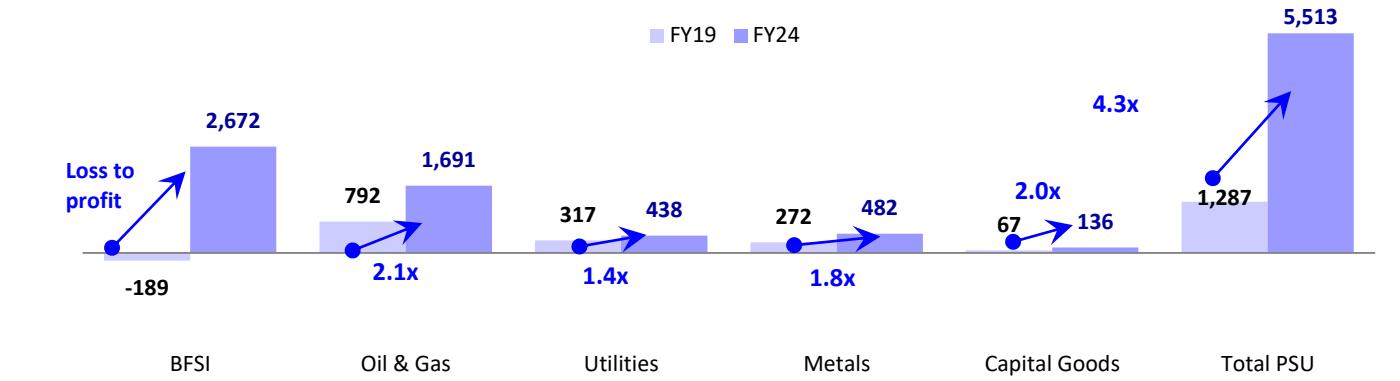


Exhibit 25: BFSI's contribution to PSU profit moderated in FY24, after scaling highs in FY23

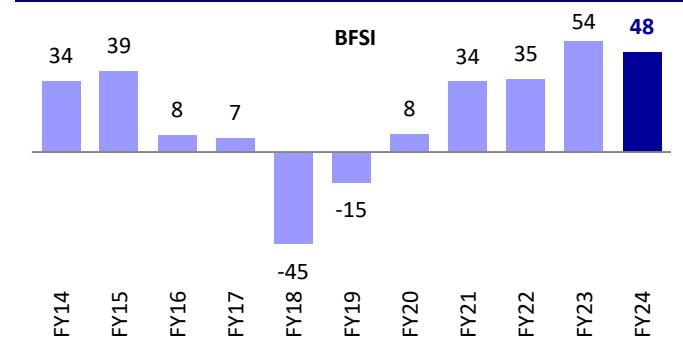


Exhibit 26: O&G's contribution to PSU profit pool recovered in FY24, after hitting lows in FY23

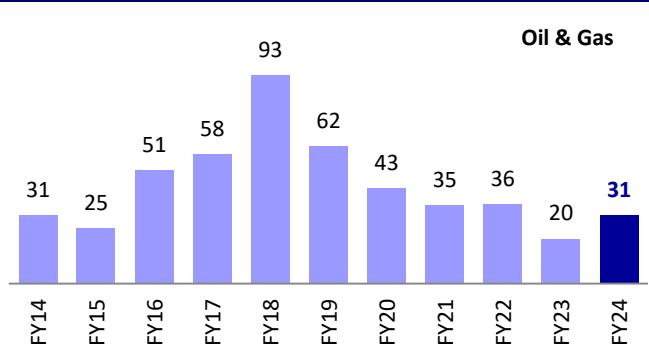


Exhibit 27: Utilities' contribution to PSU profit pool at a new low

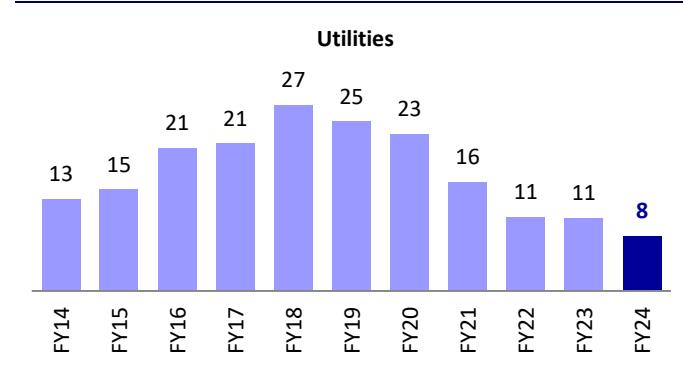


Exhibit 28: Metals' contribution to PSU profit pool at a new low as well

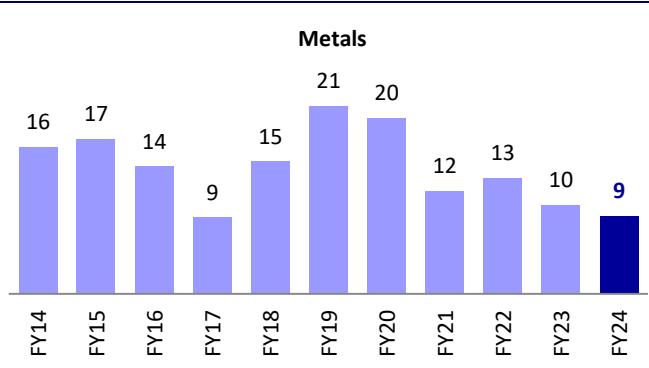


Exhibit 29: Capital Goods' contribution to PSU profit pool continues to be low

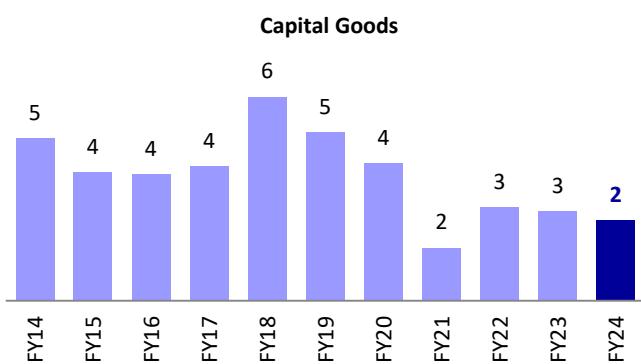


Exhibit 30: Telecom has been a negative contributor to PSU's profit pool

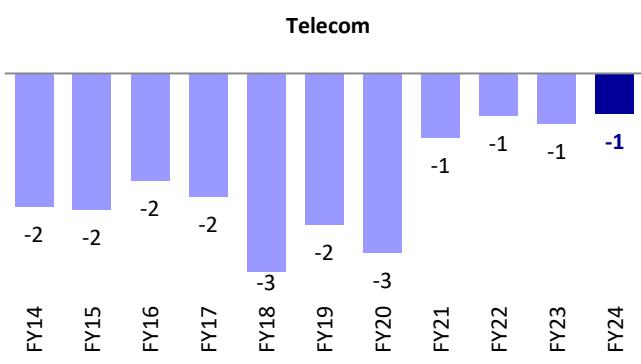


Exhibit 31: Top 25 PSU stocks – PAT CAGR over FY14-19 (%)

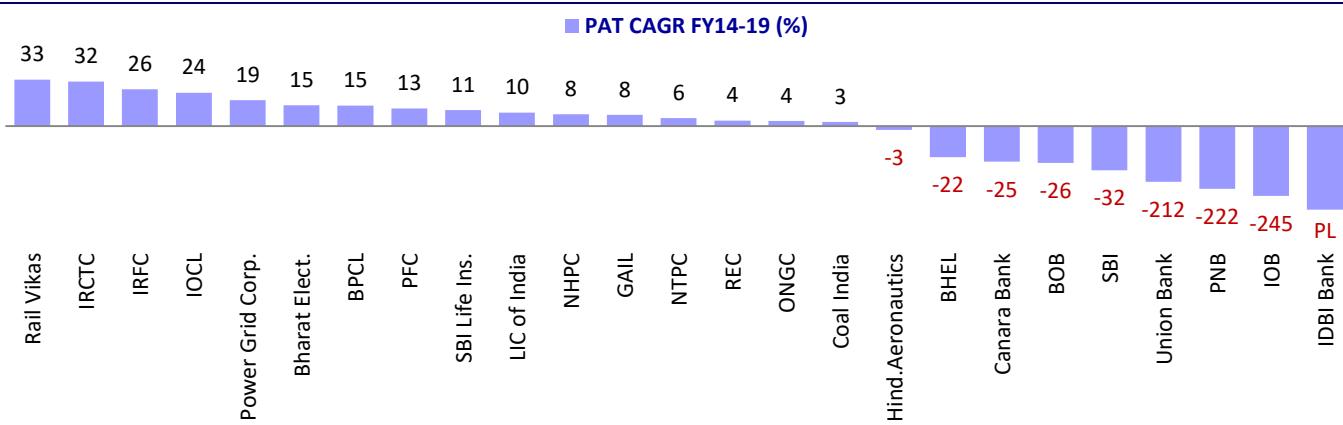
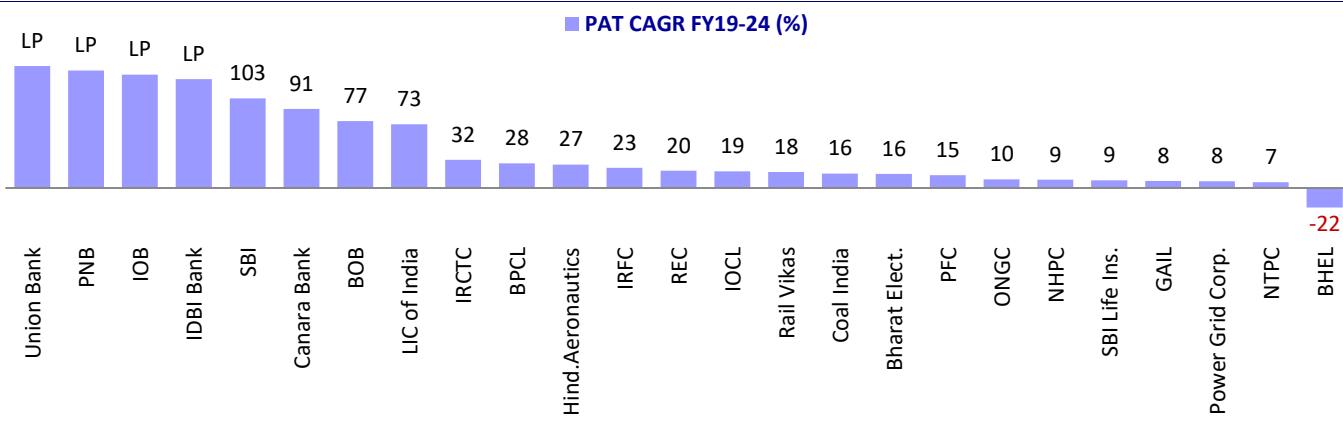


Exhibit 32: Top 25 PSU stocks – PAT CAGR over FY19-24 (%)



Sharp recovery in PSBs' profitability supports PSU revival from the lows

- PSBs have experienced a remarkable turnaround, from reporting record losses to posting record profits, as their aggregate earnings surpassed the ~INR1.2t mark in FY24. The strong earnings recovery is attributed to steady credit growth, significant improvements in asset quality, and stable to positive margins.
- The steady recovery in PSBs' profitability during the past three years led to a significant rerating of the underlying stocks within the coverage universe and also drove PSU index outperformance.

- The aggregate market cap of PSBs has surged in recent years, up ~5x since FY20 at ~INR17t.
- Further, with the sharp revival in PSBs' profitability, the aggregate contribution of BFSI to PSU profits recovered to 54% in FY23 from the lows of -45% in FY18.
- We estimate the earnings momentum to continue and the PSBs to register a CAGR of 18% over FY24-26, thereby reaching INR1.7t by FY26. Please refer to our [recent note on PSBs](#).

Exhibit 33: PSU bank index has generated 68% returns in FY24 (Apr'23- Mar'24) vs. 8% for the Private bank index over the same period

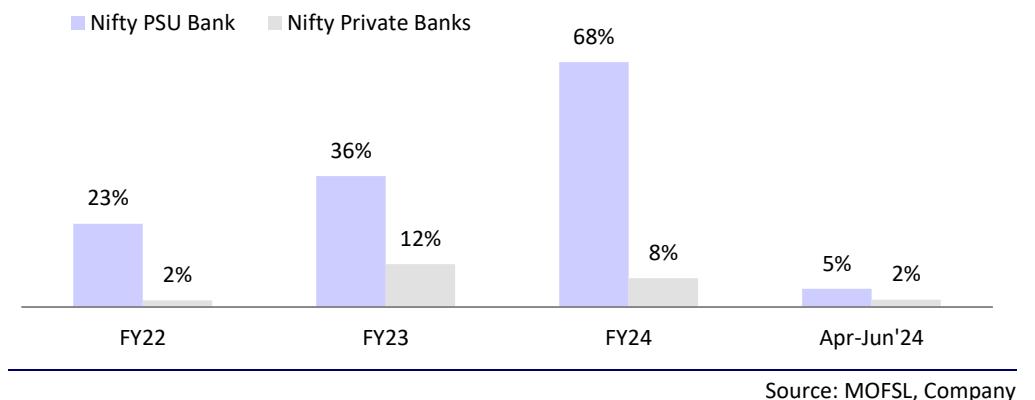
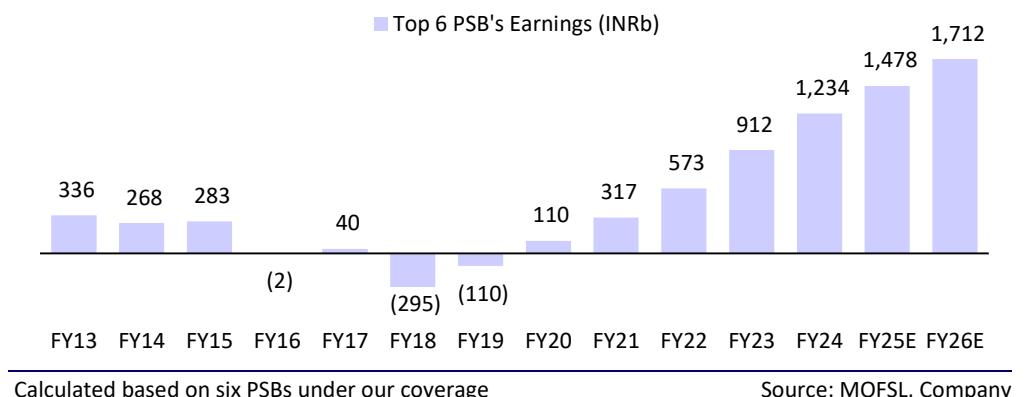


Exhibit 34: PSBs' market cap contribution to the total banking sector has increased to FY14 levels

Market Cap (INR b)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
PSBs	2,672	2,671	3,392	2,611	3,996	3,521	4,720	2,918	5,511	7,457	9,227	17,143
Pvt Banks	4,540	5,333	8,029	7,910	10,622	13,581	17,429	12,070	21,354	22,305	24,851	29,847
Total	7,212	8,004	11,421	10,521	14,617	17,102	22,149	14,988	26,864	29,763	34,078	46,990
Share in M. Cap	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
PSBs	37%	33%	30%	25%	27%	21%	21%	19%	21%	25%	27%	36%
Pvt Banks	63%	67%	70%	75%	73%	79%	79%	81%	79%	75%	73%	64%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Exhibit 35: PSBs to report ~18% earnings CAGR over FY24-26E

Earnings of PSBs improved significantly to INR1.2t in FY24 from INR110b in FY20



Earnings outlook continues to remain healthy

- Fundamentally, India is witnessing its own mini-Goldilocks moment with excellent macros (GDP growth of 8.2% in FY24 on the back of ~7% growth in FY23, inflation at ~5%, both current account and fiscal deficits well within tolerance band, stable currency, etc.), robust corporate earnings (Nifty ended FY24 with 25% earnings growth and FY25/26 earnings are likely to post 14-15% CAGR), focus on manufacturing, capex and infrastructure creation, and valuations at ~20x one-year forward earnings.
- The political stability with Modi 3.0 augurs well for the economy and capital markets as it provides the necessary stability and continuity in policy-making which will likely continue pushing its economic agenda.
- This verdict and the consequent political stability and continuity in policy-making will act like an icing on the cake and keep India as the cynosure of all eyes, in our view.
- For our MOFSL Coverage PSU Universe (~55% of Indian PSU Mcap), we estimate that the FY24-26 PAT CAGR is likely to moderate to 6%, mainly due to conservative margin assumptions for O&G. Conversely, the earnings growth for other sectors continues to remain strong. Ex O&G, we estimate a PAT CAGR of 15% for MOFSL Coverage PSU Universe. For the said Universe, incremental profits would be contributed by BFSI (120%), followed by Metals (22%). O&G is likely to drag the earnings CAGR with an adverse contribution of -47% to overall profitability.

Exhibit 36: Expect FY24-26 earnings growth to moderate mainly due to O&G, while other sectors to remain strong

Conservative margin assumption for O&G to moderate earnings growth over FY24-26

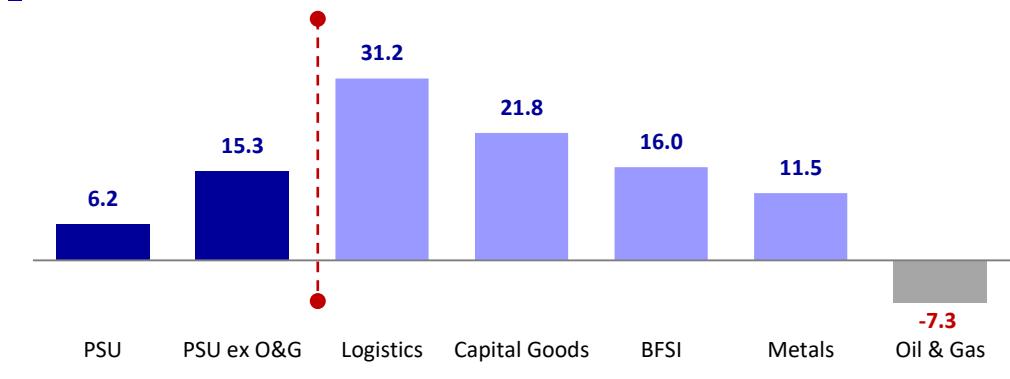


Exhibit 37: MOFSL Coverage PSU stocks – PAT growth for FY24 (%)

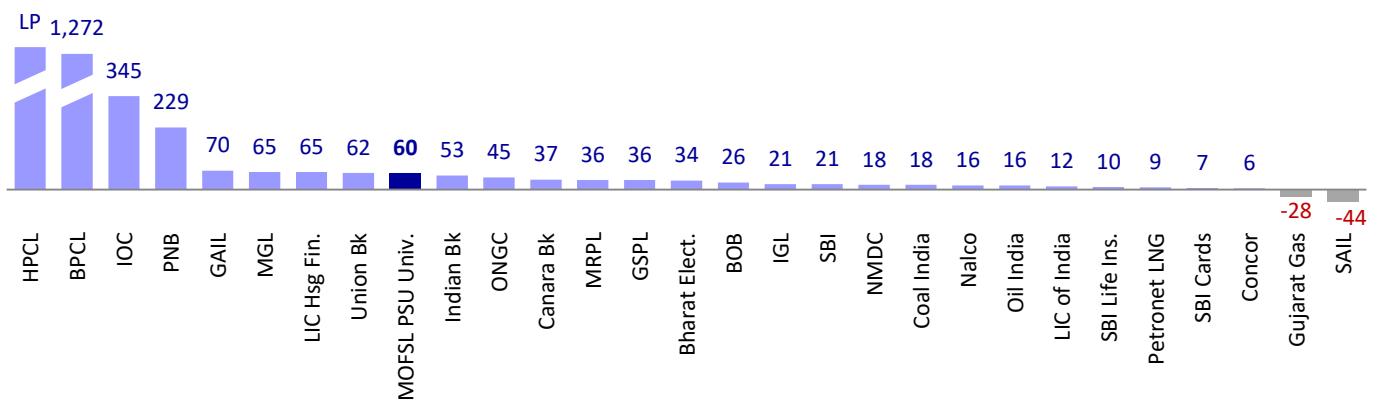
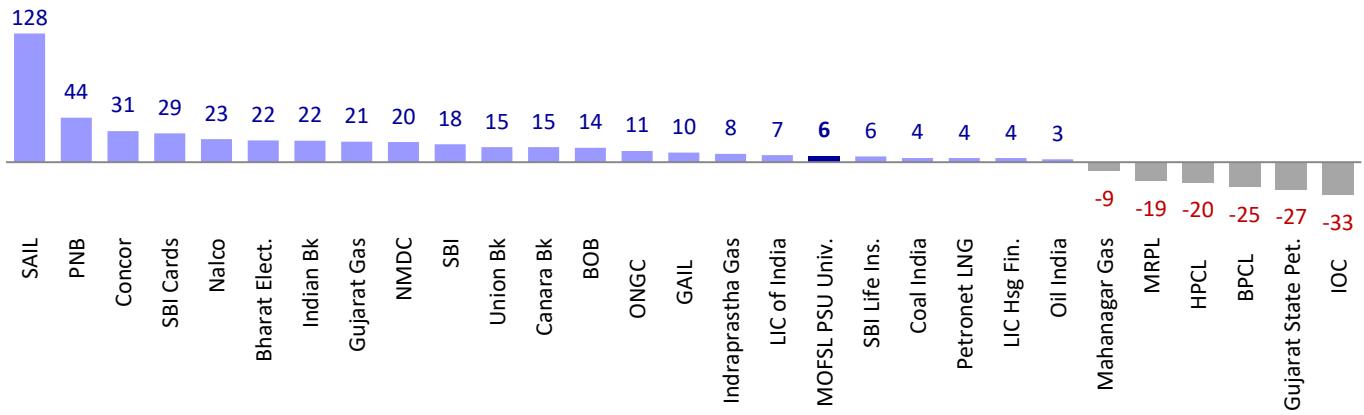


Exhibit 38: MOFSL Coverage PSU stocks – PAT CAGR over FY24-26E (%)



Valuation: Continuous rerating trends seen across PSUs

- Strong earnings pickup with underlying RoE expansion, healthy macros, policy tailwinds and an optimistic management outlook led to the sharp valuation expansion for PSUs over the past few years.
- The BSE PSU index that had seen a sharp de-rating in the first half of the previous decade, has subsequently experienced a sharp re-rating in the past three years.
- The BSE PSU index experienced continued valuation expansion and is trading at 12.8x 12-month forward P/E and 2x 12-month forward P/B as of Jun'24, up 112% and 187% from FY20 lows, respectively.
- Given the continued earnings momentum and guidance, we believe the valuation premiums for PSUs are expected to sustain in the near term. However, due to the multi-year high valuation and sharp run-up in select PSU stocks, earnings guidance vs. delivery would be the key monitorable.

Exhibit 39: 12-month forward P/E (x)

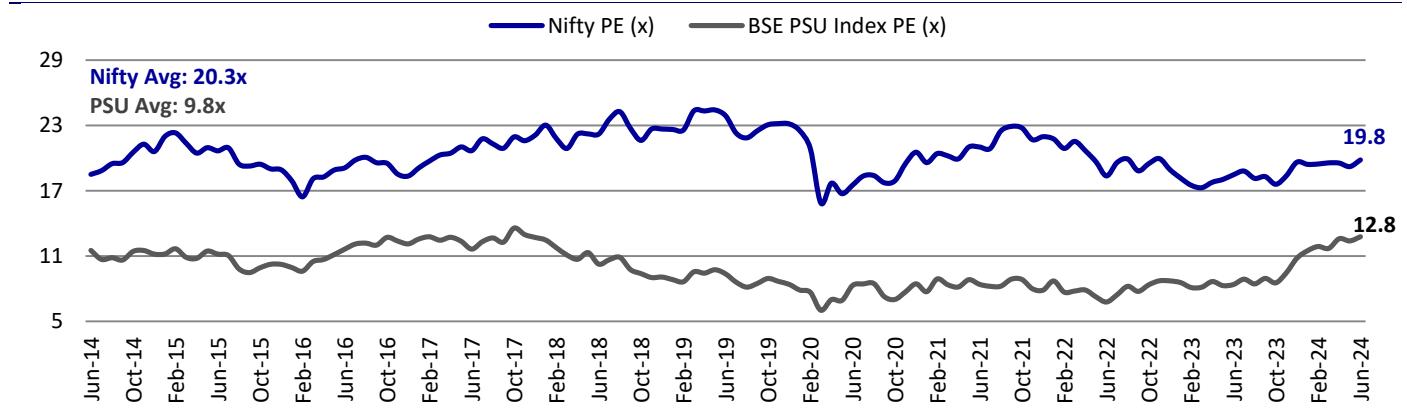


Exhibit 40: Trend in P/E discount to the benchmark (%)

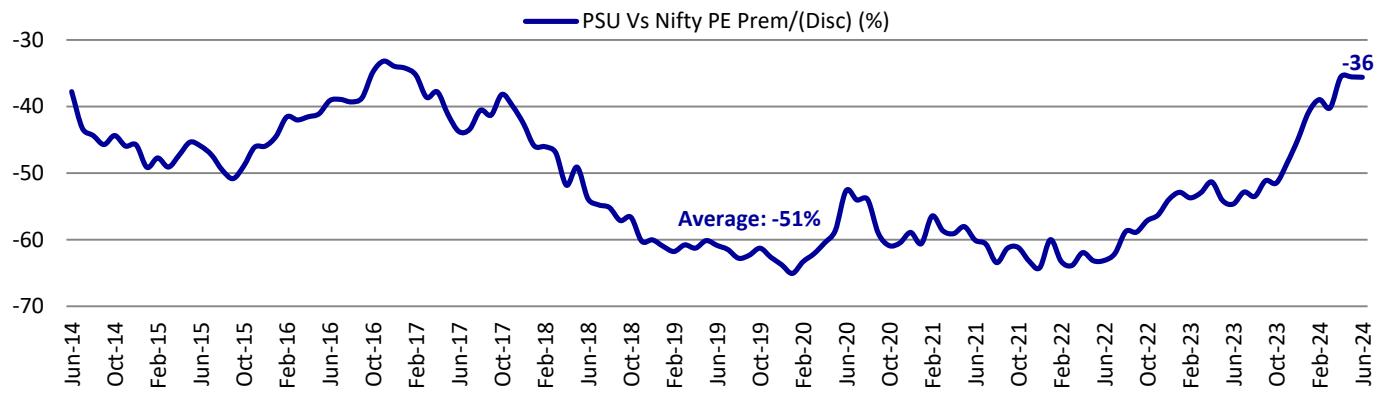


Exhibit 41: 12-month forward P/B (x)

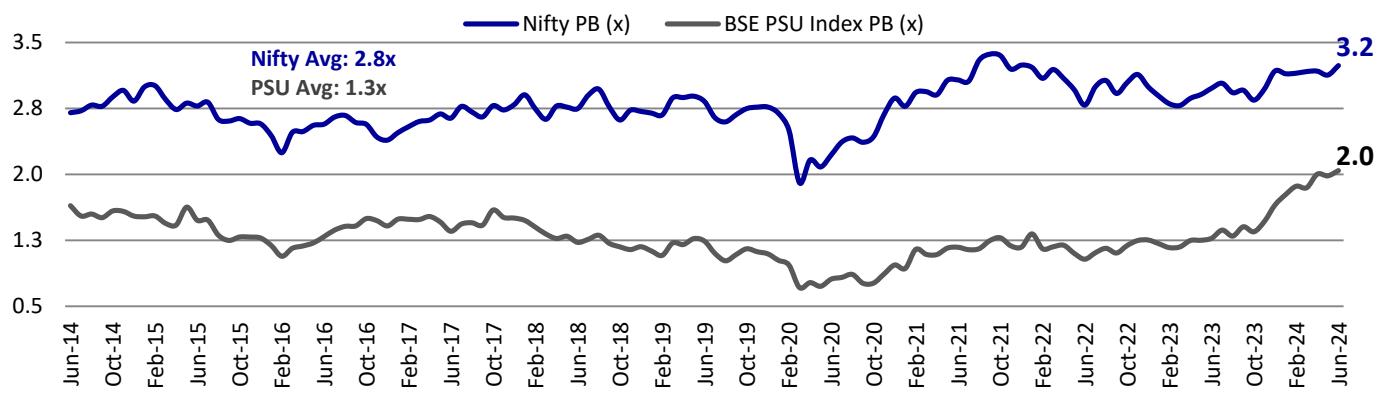
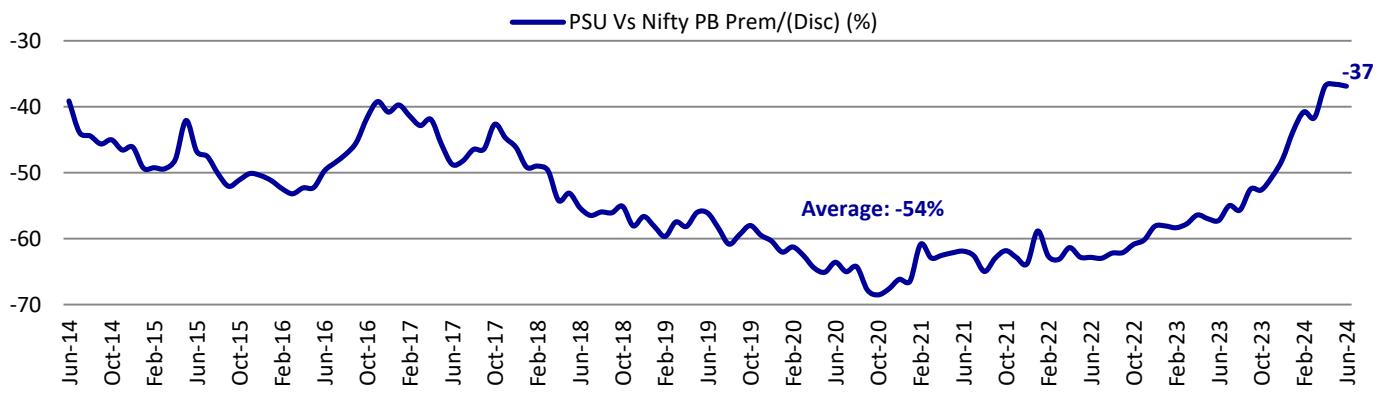
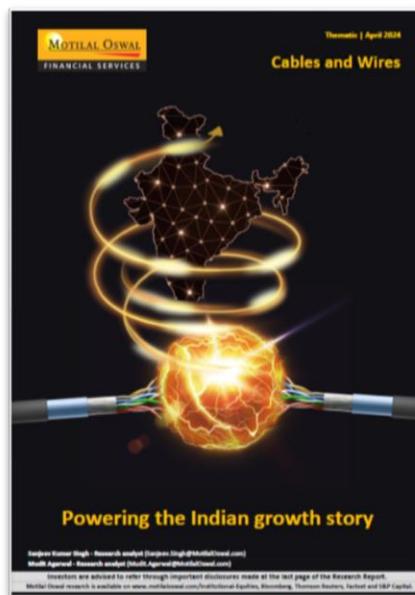
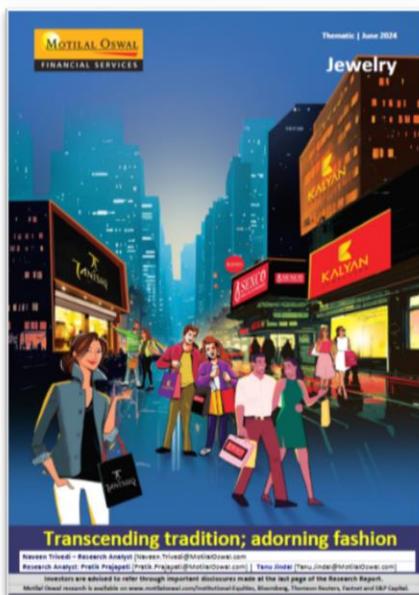
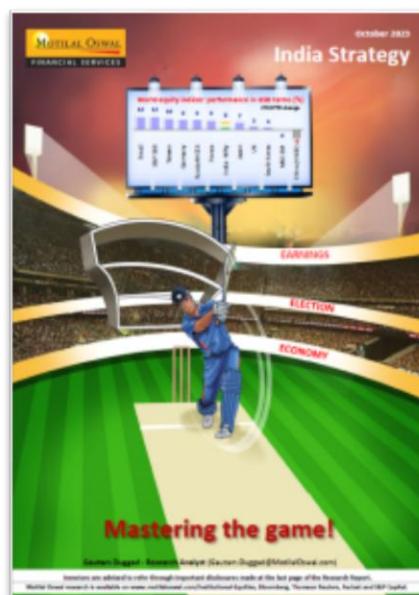


Exhibit 42: Trend in P/B discount to the benchmark (%)



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Research Gallery



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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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