Market Strategy 2025

Earnings recovery to tide over impending volatility...

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ICICI direct Research

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ICICI Securities Ltd.

CY25: Earnings recovery to tide over impending volatility…

- CY24 witnessed a roller-coaster year for domestic equities with markets scaling new highs of ~26,300 levels in September 2024, and then giving up half the gains thereafter and closing the year with ~10% returns. Notably, Mid and small caps continued to outperform and were up ~25%+ in CY24. The volatility in index was largely a function of plethora of events be it geo-political tensions, elections in major economies (including India, USA, UK, Japan among others) as well as the beginning of the global rate-cut cycle.

- Interestingly, all asset classes have delivered handsome return in CY24 again:- Gold: 19%, Equities Large cap: 10%, Equities Midcap/Smallcap: 25%, Debt: 10%, Real Estate: 15%-20%.

- Domestically, CY24 was also monumental with record capital raising by companies in primary capital markets in India at >₹ 3 lakh crore though a mix of IPO's, QIP's and OFS (>2.5x YoY) with smooth sailing for some of the large IPO's, indicating maturity of domestic markets offering substantial depth and liquidity for foreign investors. On the flip side, we also witnessed cooling of domestic economic growth and consequent corporate earnings as well as aggressive FII selling in the recent past.

- In this backdrop, what stood out with was the strong interest by domestic investors, with both retail and institutions dominating the flows. Indian households (directly + indirectly) now holds ~32% of the Indian market. Equitisation of financial holdings is the mother of all megatrend in India with ~29% of the financial assets now being invested in equity market compared to ~9% in 2012.

- As we embark on CY25, the impending volatility looms with inward looking policy expectations from the new government in US as well as unresolved geo-political issues and muted global growth expectations.

CY25: … Expect Nifty to cross 28k levels !

- We are constructive on markets and believe the recent correction offers good entry point to start accumulation for long term wealth generation. With modest ~7% growth expectations in Nifty earnings for FY25E (on a high base), we expect Nifty to resume its double digit earnings growth trajectory with earnings over FY25-27E expected to grow at a CAGR of 15%. Earnings growth enablers would be pick-up in domestic GDP growth rate, decline in interest rates and continued growth supportive policy framework. However, the focus going forward should be to invest in companies with certainty of growth longevity, healthy balance sheets, less susceptible to foreign shocks, capital efficient business models.

- Our fair value for Nifty is pegged at 28,300 wherein we have valued the index at 21x PE on FY27E. Our Sensex target is pegged at 94,300. We see healthy double-digit upside in boarder markets in CY25

- Our stock picks of CY25 are reflective of key big themes such as (i) capex and infrastructure development; (ii) premiumisation and Electrification; (iii) financialization and (iv) Indian CRDMO players gearing up for global opportunities

Stock Picks for 2025

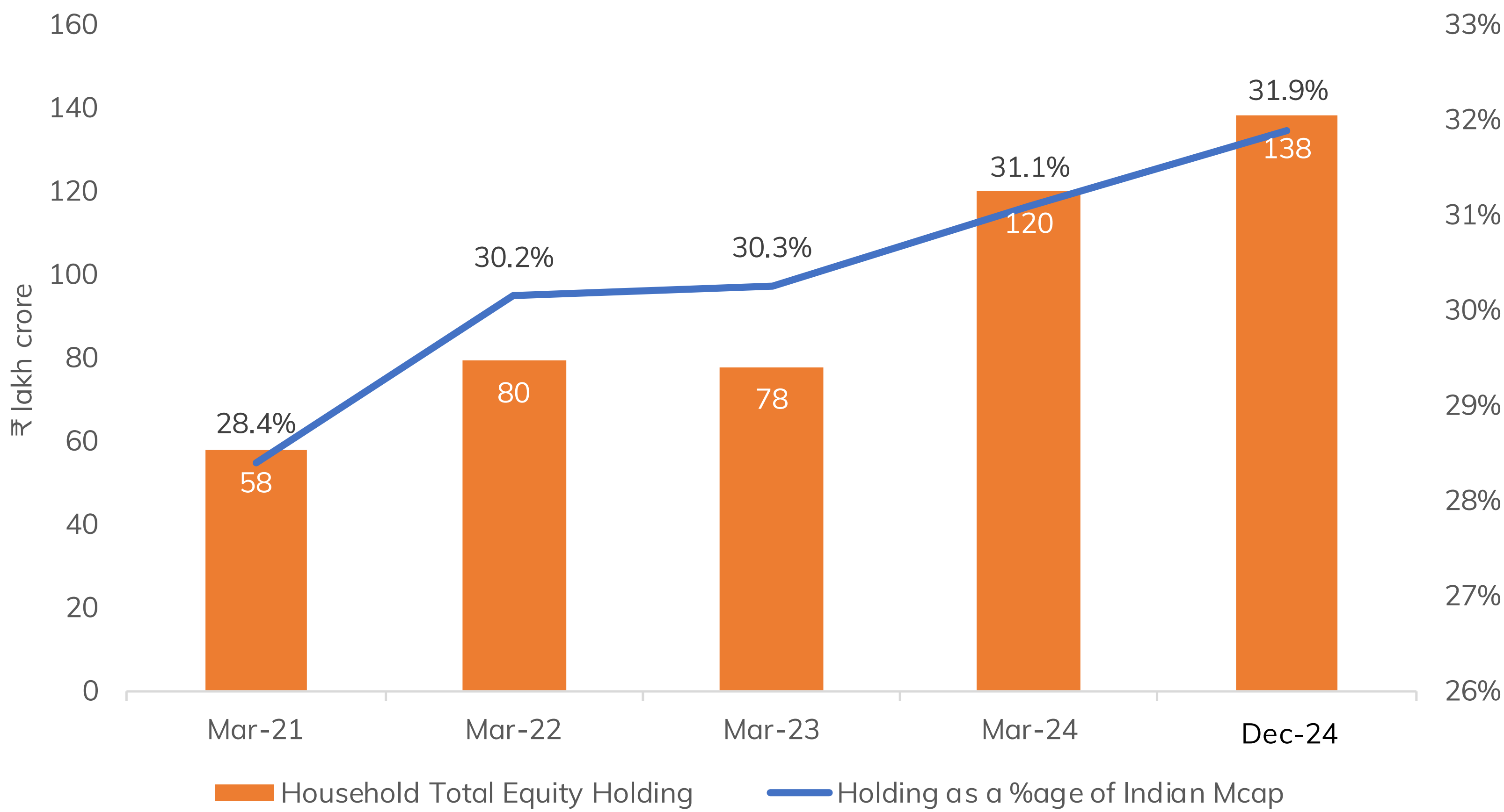
Company	CMP (₹)	Target Price (₹)	Upside (%)
Mahindra & Mahindra	3,049	3,600	18
KNR Construction	315	390	24
Piramal Pharma	255	320	26
Narayana Hrudalaya	1,297	1,600	23
Aditya Birla AMC	817	985	21
Ramco Cements	966	1,180	22
Larsen & Toubro	3,608	4,262	18
Techno Electric and Engineering	1,560	1,920	23

Sensex & Nifty Target (Rolling 12 months)

Earning Estimates	FY23	FY24	FY25E	FY26E	FY27E
Nifty EPS (₹/share)	795	960	1025	1190	1350
Growth (% YoY)	10.5%	20.7%	6.8%	16.1%	13.4%
Earnings CAGR over FY25E-27E					14.7%
FY27E EPS					1,350
PE Multiple Assigned					21
Nifty Target (using FY27E EPS)					28,300
Corresponding Sensex Target					94,300

Domestic households now own 32% of the Indian market

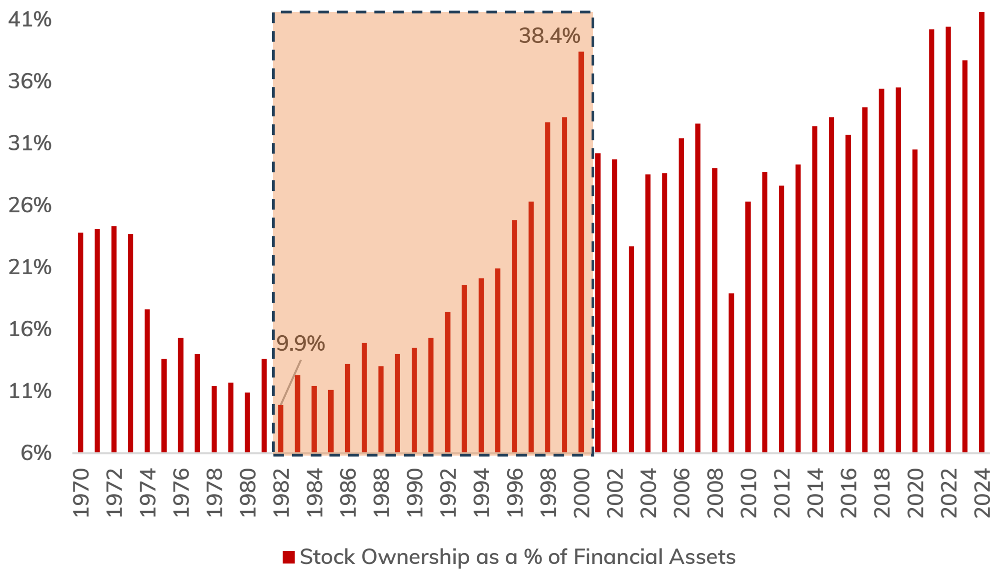
Indian Households (directly + indirectly) now hold ₹138 lakh crore worth of equities, a rise of 80 lakh crore in 4 years from ₹ 58 lakh crore.

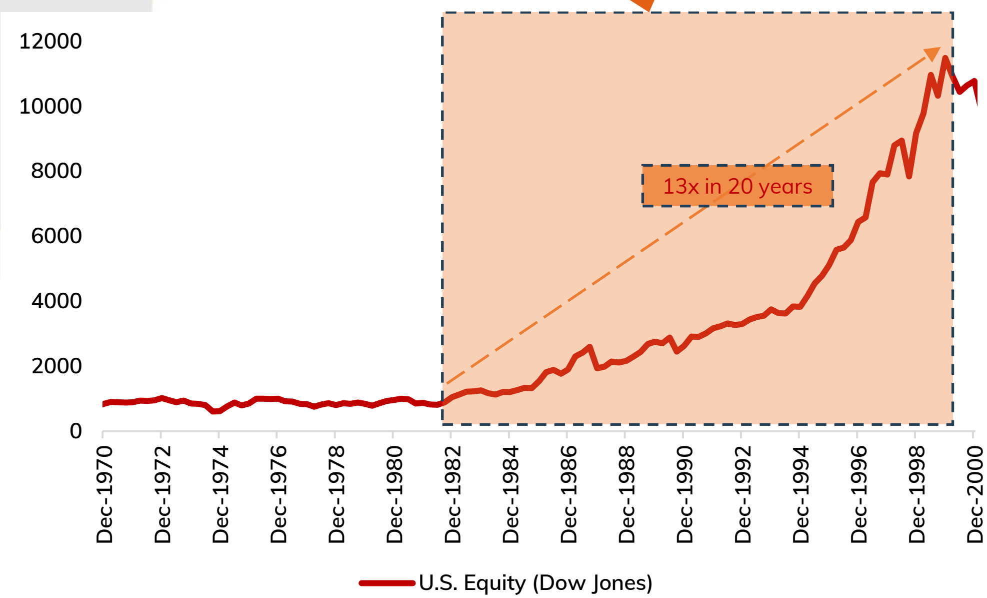


Source: SEBI working paper, ICICIDirect Research

U.S. witnessed a 20 year bull run backed by equitization of savings

U.S. markets witnessed a 20-year bull run from 1980-2000. Household's stocks ownership as a share of financial assets rose from 10% to 38% during the same period.

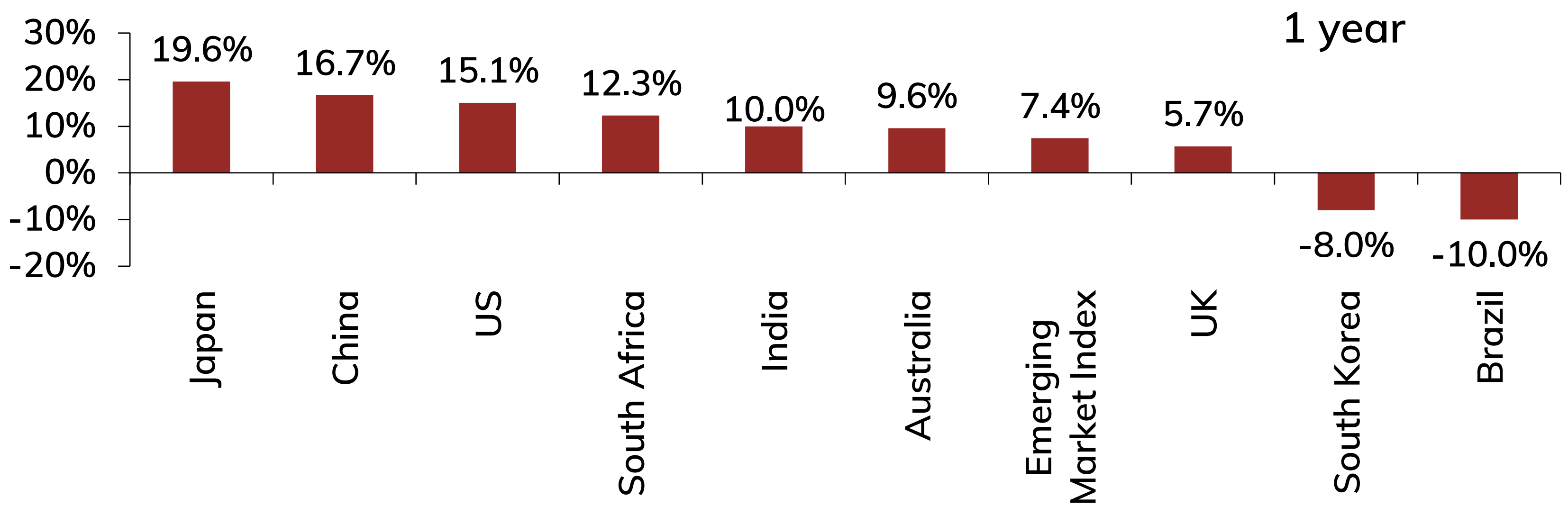




Indian Household's stocks ownership as a share of financial assets has increased from 9% in 2012 to 29% in Q1FY25

Source: Board of Governors of the Federal Reserve System (US), Bloomberg, ICICIDirect Research

Indian Equities: Decent 2024; albeit last quarter selling restricts gains

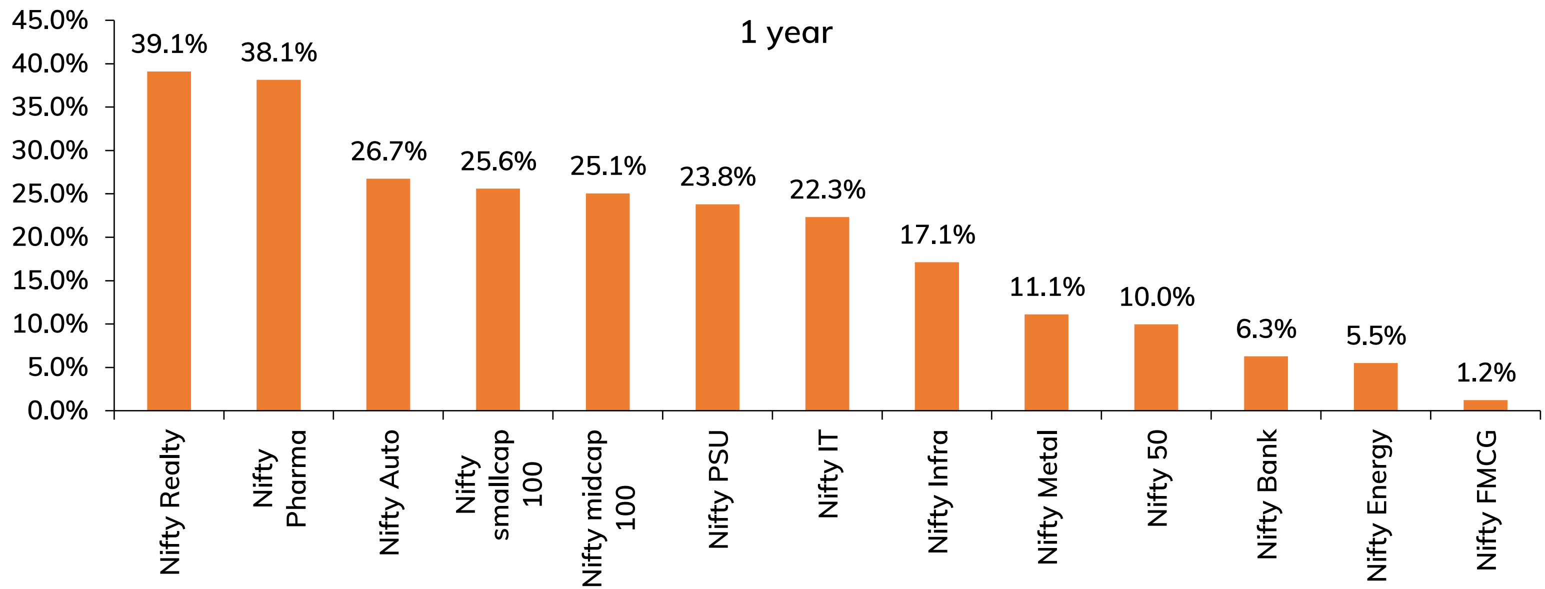


India continues to be amongst the top performing markets globally with CY24 returns pegged at ~10%. Interestingly Indian markets had a positive close in each of the last 9 calendar years, a longest streak over the past 3 decades.

Source: Bloomberg, ICICIDirect Research * As of Dec 26. 2024 closing * Dec 27. 2024 closing for Indian equities

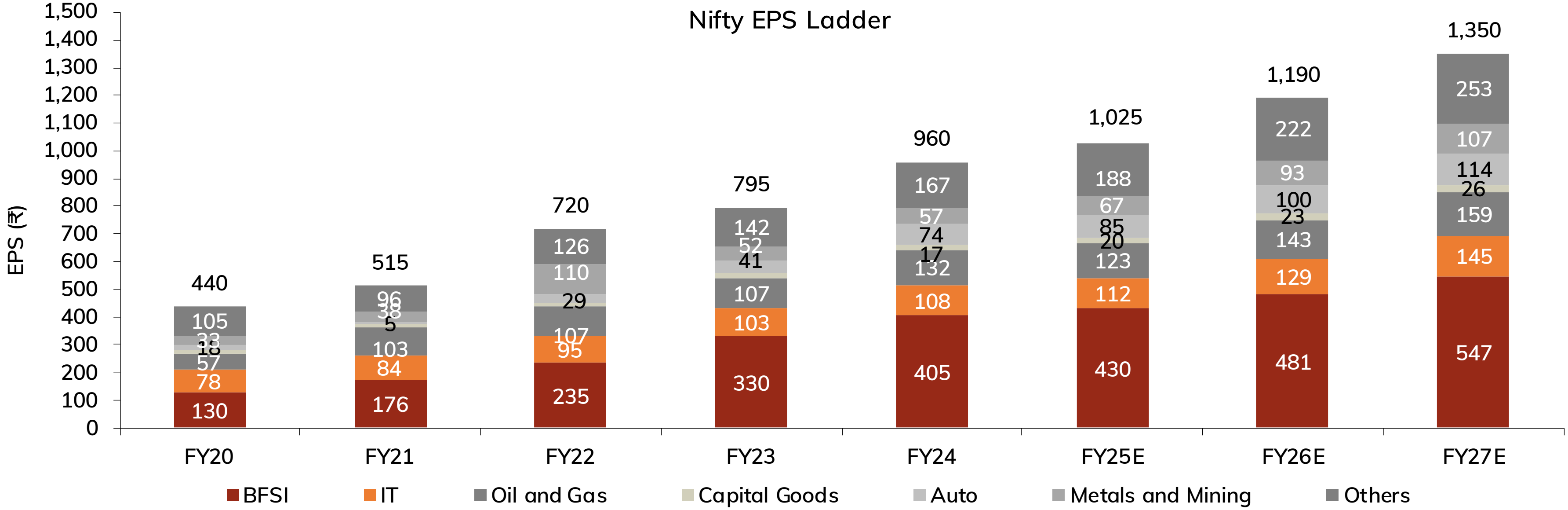
Realty and Pharma – top two sectors of 2024

Realty and Pharma have been the top performers in CY24. Energy, FMCG and Banks, on the other hand, have been the laggards.



Source: Bloomberg, ICICIDirect Research * As of Dec 27. 2024 closing

Earnings recovery on the mend: Nifty seen at 28,300 in CY25E



- Nifty earnings have nearly doubled to ~₹ 1,000/share levels presently from the stagnant levels of ~₹ 500/share observed over FY18-21. Nifty index in the same period has nearly doubled (2x), reaffirming our thesis of earnings growth led market gains.
- With high base and volatile macro-economic environment, Nifty earnings is seen moderating in FY25E thereby growing modest 7% YoY. Going forward, however, with pick up in capex spend, both public & private, we believe positive momentum to kickstart thereby resulting in resumption of double digit earnings growth with earnings over FY25-27E expected to grow at a CAGR of 15%.
- Earnings growth enablers would be healthy domestic GDP growth rate, decline in interest rates and stable policy framework.

Sensex & Nifty Target (Rolling 12 months)

Earning Estimates	FY23	FY24	FY25E	FY26E	FY27E
Nifty EPS (₹/share)	795	960	1025	1190	1350
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Source: ICICIDirect Research

Themes for the Decade

Capex Beneficiaries

Infrastructure, Cement, Steel

Premiumisation led Consumption

Auto, Hotels, Real Estate and others

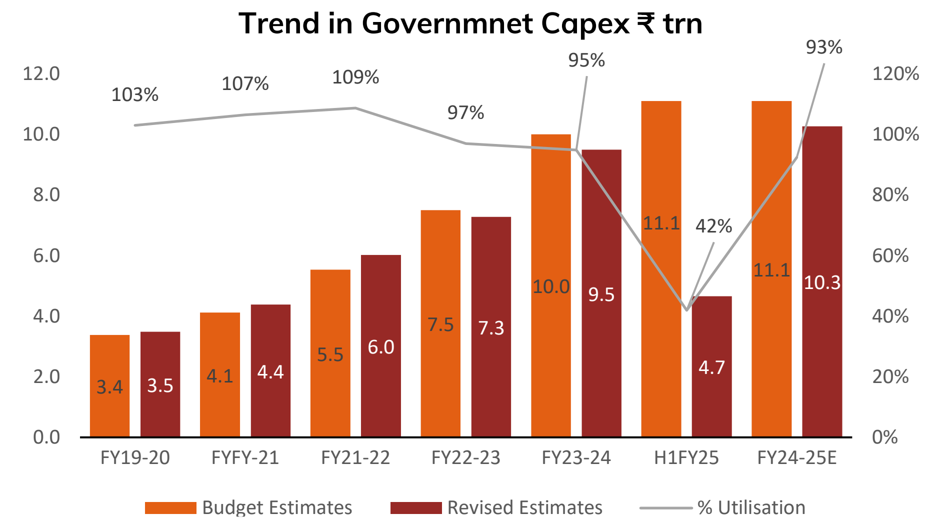
Structural Measures Beneficiaries

BFSI, Real Estate

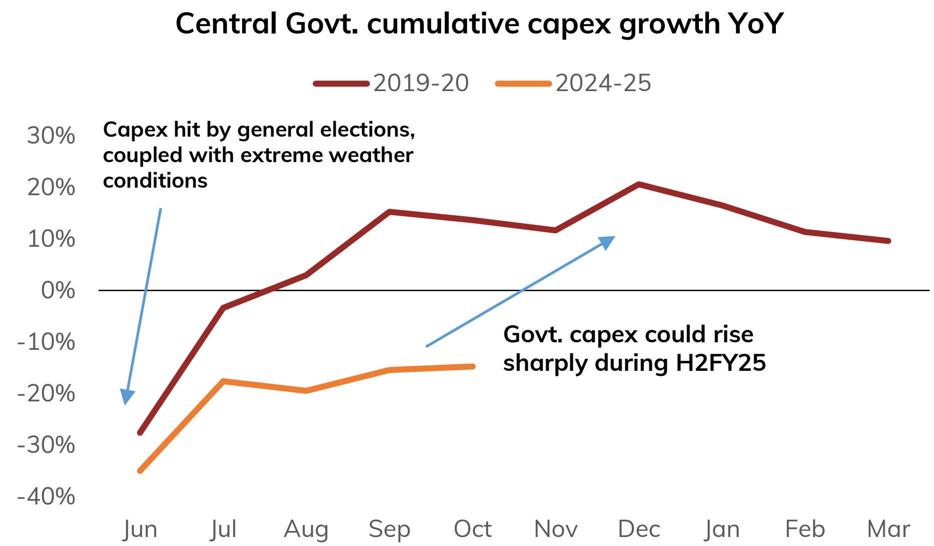
Energy Transition Beneficiaries

Power, Auto

Capex: To be back on track post elections impact



Source: Union Budget, ICICIDirect Research



Source: CEIC, I-Sec Research

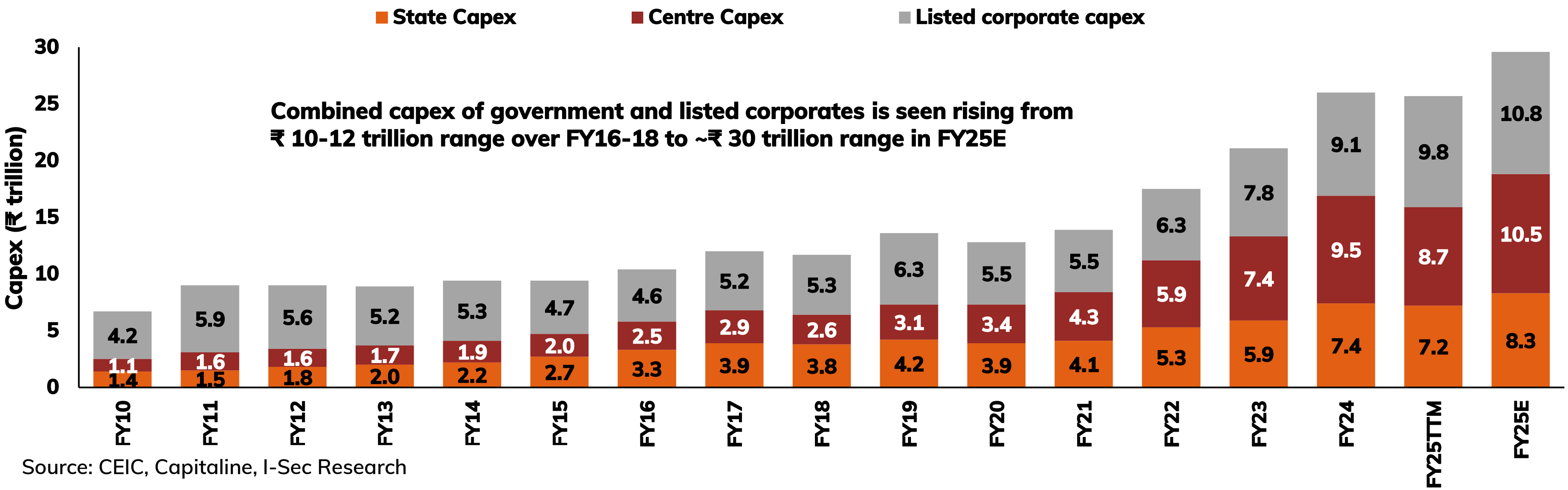
Election fervour to subside in CY25

Elections in 2024		Elections in 2025	
Elections	Dates	Elections	Dates
Lok Sabha election	19 April to 1 Jun 2024		
Legislative elections		Legislative elections	
Arunachal Pradesh	19-Apr-24	Delhi	Q1CY25
Sikkim	19-Apr-24	Bihar	Q4CY25
Andhra Pradesh	13-May-24		
Odisha	13 May – 1 June 2024		
Jammu and Kashmir	18 September – 1 October 2024		
Haryana	05-Oct-24		
Jharkhand	13 – 20 November 2024		
Maharashtra	20-Nov-24		

Source: I-Sec Research

- H1FY25 capex trends have been slow but the same has picked up pace since September 2024. We expect the government to reach 93% of the capex target of ₹ 10.3 lakh crore in FY25.
- Even in 2019-20 election cycle capex was hit during the polling phase and subsequent period saw strong rebound in the capex spend. We expect the same pattern to play out in H2FY25/CY25.
- With lesser fervour of election in CY25, we expect the state governments to step up capex cycle in their respective states mainly in the area of renewables, Power T&D, transportation, water etc.

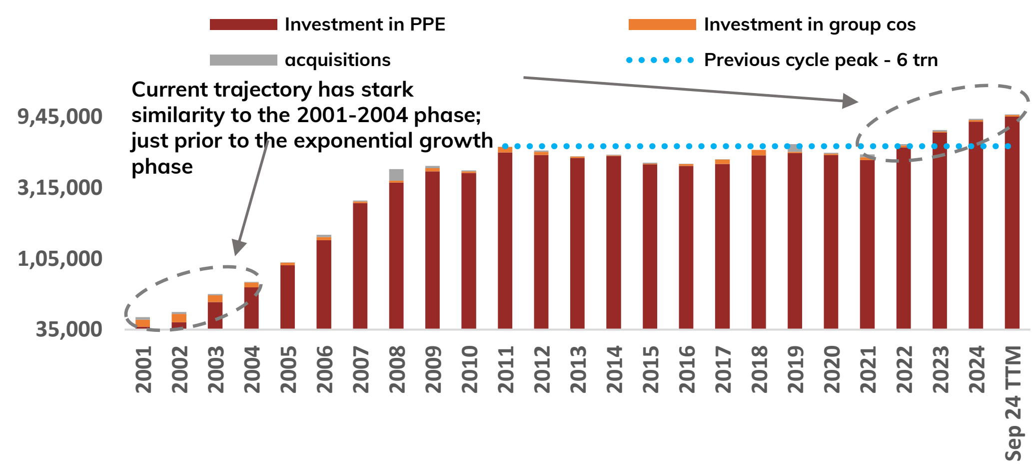
Capex Cycle : Longevity to sustain ...



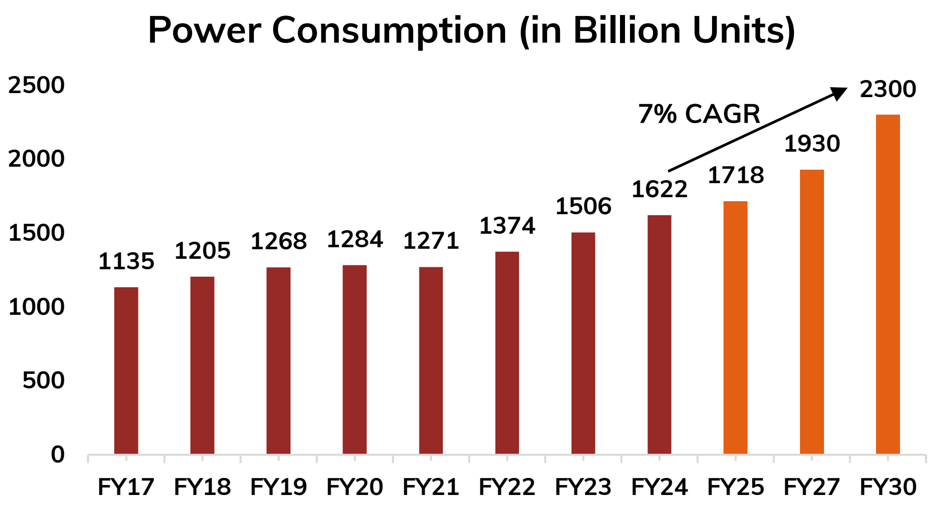
Source: CEIC, Capitaline, I-Sec Research

- **Listed corporate capex is estimated at ₹ 10.8 trillion (19% YoY) in FY25E driven by old-economy sectors (energy, metals, utilities, telecom, auto, industrials etc.).**
- **However, it is still at a two-decade low relative to the central government's capex, which stood at ₹ 10.5 trillion (11% YoY) in FY25E. Interestingly, lot of manufacturing led capex has also been seen in the unlisted side.**
- **Note that, the maximum ratio of 'listed corporate/central government capex' was marked at ~5x in FY09. Thus, there is a long runway of capex potential overall, driven by healthy balance sheet of listed universe in India**

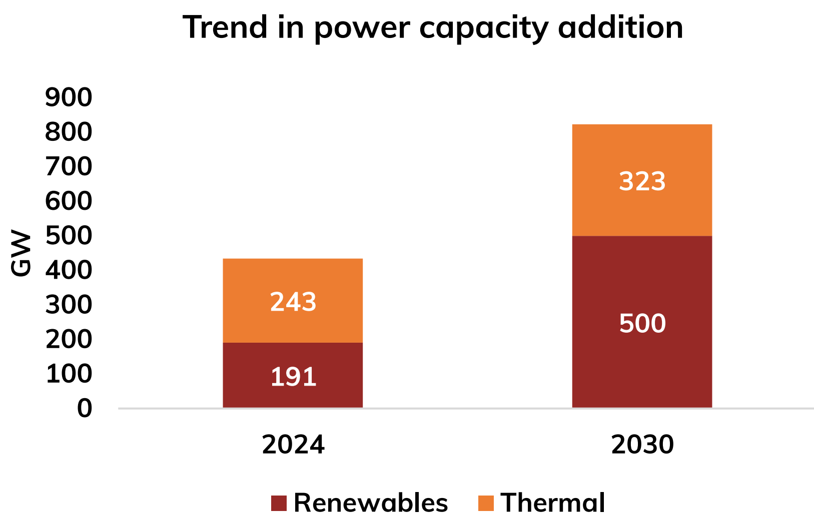
Corporate capex continues to rise despite challenges



Source: Capitaline, I-Sec Research



Source: CEA, ICICIDirect Research

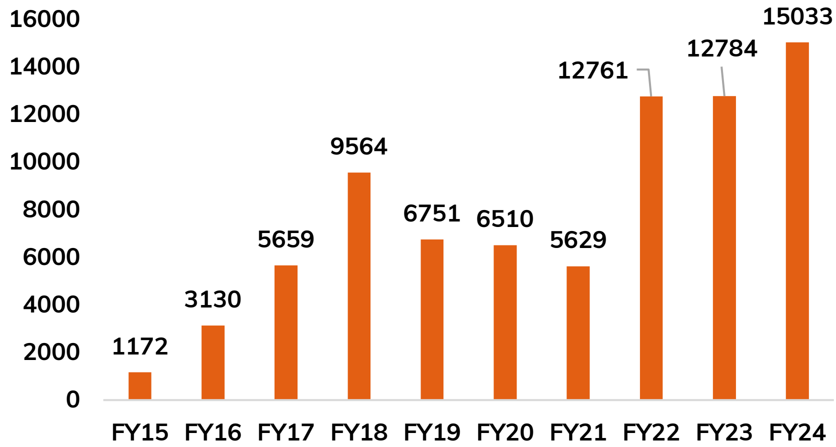


Source: CEA, ICICIDirect Research

- **With power consumption expected to grow at ~7% CAGR over FY24-FY30, the generation capacity in the renewable and the thermal space is expected to grow at a CAGR of 21% and 6% respectively over the same period. This will also include 125 GW of renewable energy required to support green hydrogen ecosystem.**
- **India's share of Renewables is projected to increase from 41% in FY23 to 61% in FY30E**
- **The above will require a combine capex of ~₹ 30 lakh crore and the same will be executed by the government owned utilities (thermal and renewables) and private sector (mostly on the renewables)**

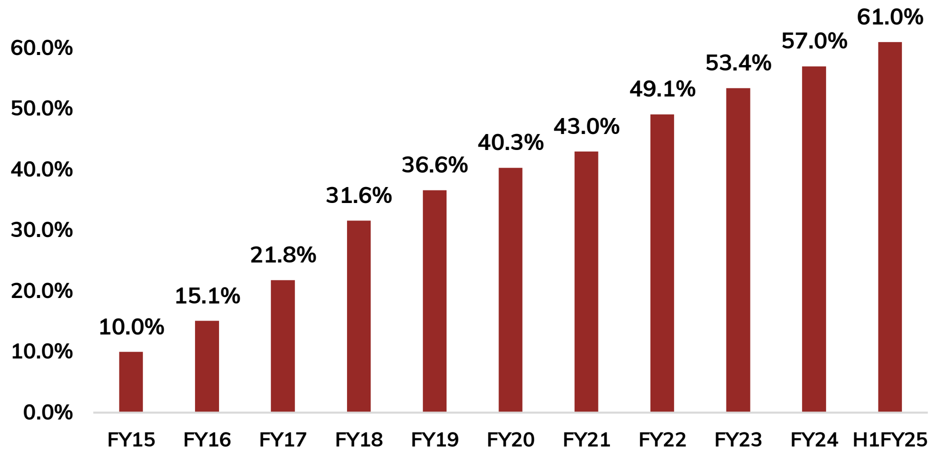
Renewables – Solar taking the charge…

Trend in annual capacity addition in Solar (MW)



Source: CEA, ICICIDirect Research

Share of Solar in overall renewables rising rapidly



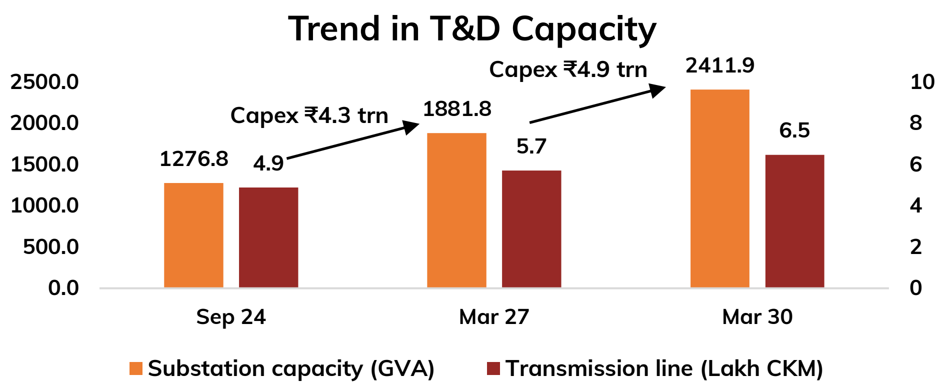
Source: CEA, PIB, ICICIDirect Research

- **India used to add ~7 GW of solar generation capacity annually on an average between FY17-FY20 which has risen to 13.5 GW over FY22-FY24. With pick up in new project announcements, favourable government policy and emerging solar equipment ecosystem; the same is about to rise further going ahead.**
- **The share of solar capacity in the overall cumulative renewable capacity has risen from a low 10% in FY15 to 57% in FY24.**
- **To put things in perspective, H1CY2024 has witnessed 282% growth in installations to nearly 15 GW, which is the highest-ever half-yearly installation.**
- **India's large-scale solar project pipeline stood at 146 GW, with projects totaling another 104 GW tendered and pending auctions as of June'24.**

Source: CEA, JSW Energy, ICICIDirect Research

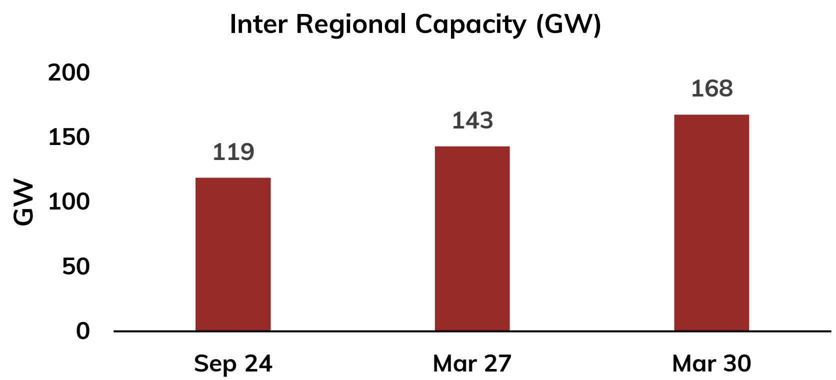
Power T&D– Strong focus of National Electricity Plan…

Trend in capacity addition in T&D space by 2032



Source: CEA, PowerGrid, ICICIDirect Research

Trend in interregional capacity (MW)



Source: CEA, PowerGrid, ICICIDirect Research

- **Ministry of Power has finalised National Electricity Plan (NEP) for Central and State transmission systems, with a massive investment of ₹ 9.15 lakh crore**. This plan aims to meet the growing energy demand, targeting a peak demand of 458 gigawatts (GW) by 2032.

- The transmission network capacity will be increased from 4.9 lakh circuit kilometers to 6.5 lakh circuit kilometers, and the transformer capacity will be raised from 1,277 GVA (Gigavolt-Ampere) to 2,412 GVA (CAGR of 11.2%)

- The ability to transfer electricity between regions will increase from 119 GW to 168 GW.

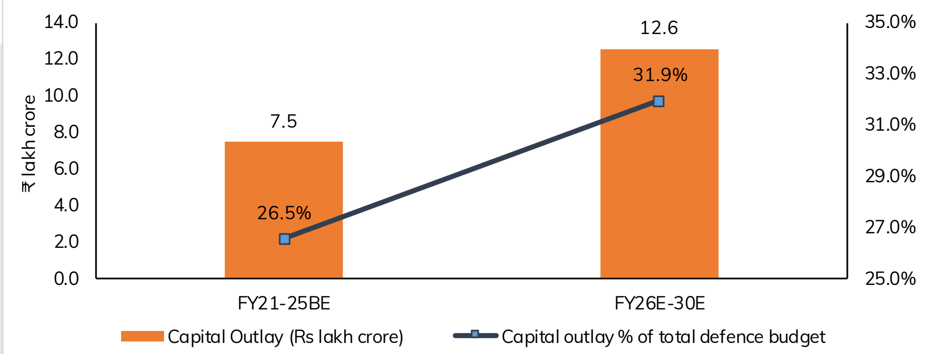
- On the asset addition side, key beneficiaries will be **Powergrid (higher capex on TBCB basis), KEC International and Kalpataru Projects International Ltd. (EPC of transmission line and substations) and ABB (Substation equipment's and transformers)**

Defence Sector – A decade of transformation through indigenization

Defence PSUs cumulative order backlog stands at 4x of TTM revenue

Defence PSUs	Orders Inflow (FY23-H1FY25)	Order Backlog as of Sept -24	Order Book to TTM Revenue
Hindustan Aeronautics*	1,05,478	1,20,000	3.9
Bharat Electronics	63,916	74,595	3.5
Bharat Dynamics	14,149	18,852	8.6
Mazagon Dock Shipbuilders	16,280	39,872	3.8
Cochin Shipyard	19,022	22,500	5.6
Garden Reach Shipbuilders	8,434	24,221	5.9
Mishra Dhatu Nigam Limited	2,873	1,820	1.7
Cumulative	**2,30,152**	**3,01,860**	**4.0**

Domestic capital outlay expected to grow at ~13% CAGR over the next 5 years (vs ~8% for total defence budget); total cumulative capital outlay expected at ~Rs 13 lakh crore



Acceptance of Necessity (AoNs) worth ~₹ 7.9 lakh crore accorded by Defence Acquisition Council (DAC) during FY23-YTDFY25

Period		AoNs received (₹ crore)	Total
FY23	Jun-22	76,390	2,64,226
	Jul-22	28,732	
	Dec-22	84,328	
	Jan-23	4,276	
	Mar-23	70,500	
FY24	Aug-23	7,800	3,60,360
	Sep-23	45,000	
	Dec-23	2,23,000	
	Feb-24	84,560	
FY25	Sep-24	1,44,716	1,66,488
	Dec-24	21,772	
Total			7,91,074

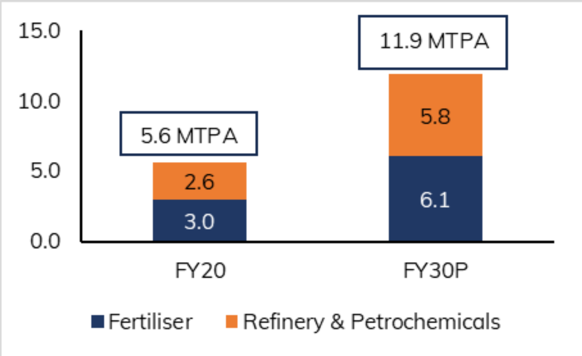
Major platforms include fighter aircrafts, helicopters, missiles, warships, submarines, drones, support vessels, munitions, tanks, combat vehicles, electronic systems like radars, electronic warfare and other sub-systems

- **Total cumulative capital outlay is expected at ₹ 12-13 lakh crore over FY26-30E**
- **Defence budget for domestic procurement has increased at ~15% CAGR over FY20-25E (vs total capital outlay CAGR of ~9%), led by increase in domestic procurement (as % of total defence capital outlay) to 75% in FY24 & FY25 (from 58% in FY20)**
- **Given the substantial increase in capital outlay, tendering & awarding activities to remain strong. We estimate contracts worth ₹ 8-10 lakh crore to be placed with domestic defence companies over the next 5-7 years**
- **By FY29E, Govt targets annual defence production of ₹ 3 lakh crore (~19% CAGR) and defence exports of ₹ 50,000 crore (~19% CAGR)**
- **Number of policy reforms have also been taken to achieve the objective of increasing indigenization (like integration of private players, MSMEs and start-ups into the supply chain)**
- **Share of defence electronics (in total defence production) is expected to increase to 35-40% in the coming years (vs. current share of 25-30%) driven by increasing requirement of highly modernized platforms**

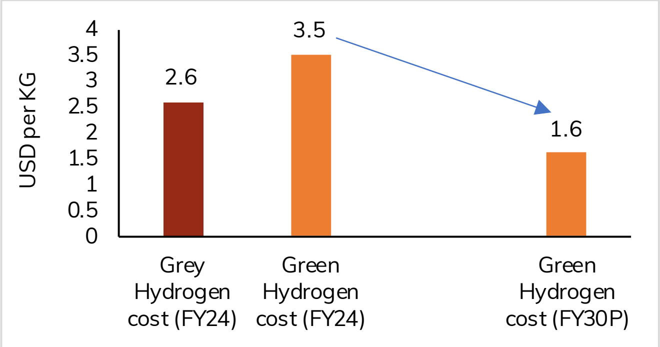
Source: Government data, ICICI Direct Research

Green Hydrogen – India aiming for significant global share, presents huge opportunity

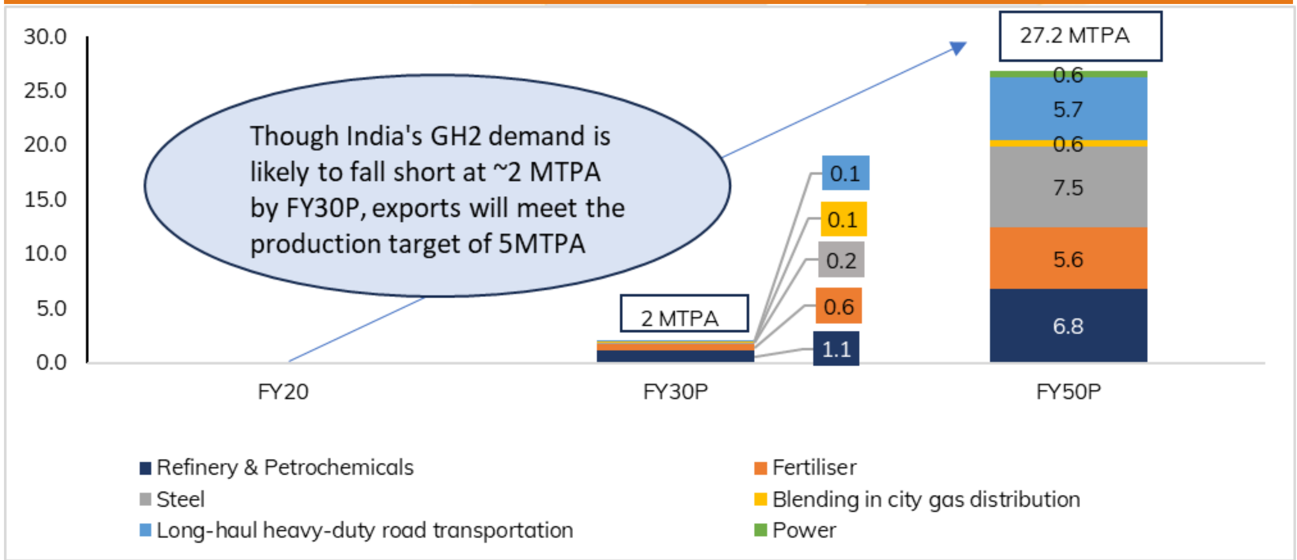
India's Hydrogen demand is expected to double to~12 MTPA by FY30P



Green Hydrogen cost is expected to come down to USD 1.6/kg by FY30P



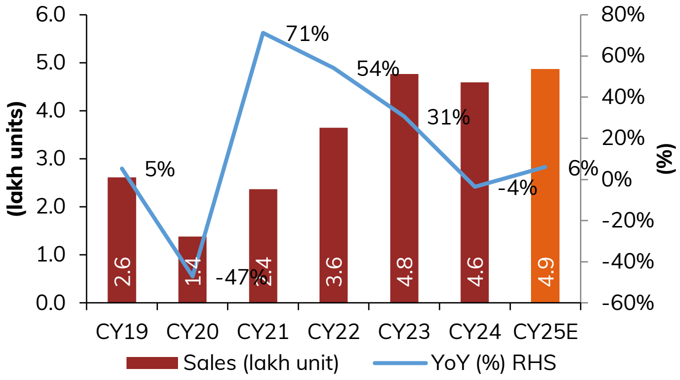
India's Green Hydrogen demand outlook; Expected to reach ~27 MTPA by FY50E

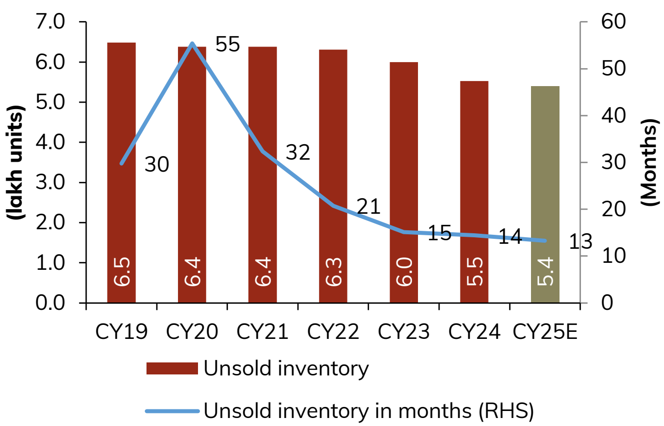


Source: CCEW, ICICI Direct Research

- **Global demand for hydrogen is expected to be around 150 MTPA by 2030, with green hydrogen projected to meet 51 MTPA of this demand**
- **As per CEEW (Council on Energy, Environment & Water) report, total domestic demand for green hydrogen (GH2) in FY30 may be short of the National Green Hydrogen Mission's (NGHM) target of 5 MTPA, owing to low domestic demand led by current high production cost**
- **As per industry reports, cost of Green Hydrogen (LCOH) stands at ~1.75x times and ~1.50x times higher than that of grey and brown hydrogen respectively, posing a barrier to its adoption**
- **Economic viability of Green Hydrogen requires a 35%-40% drop in electrolyzer prices & a 12%-14% rise in efficiency amid supportive policies**
- **Given the projection of 2 MTPA of domestic GH2 demand by FY30, demand from export markets will be key to meeting India's GH2 production capacity target of 5 MTPA**
- **Several countries (like European Union, Japan, Singapore, & South Korea) have already stated their intentions to import GH2 & its derivatives, to support their decarbonization goals**
- **As per industry estimates, GH2 presents total capex opportunity of ~₹ 10 lakh crore across the value chain until 2030 (~ ₹ 4.5 lakh crore on renewable power, ~ ₹ 4 lakh crore on ammonia and ~ ₹ 2 lakh crore on electrolyzers)**
- **LCOH of GH2 expected to fall further from USD 1.6/kg in FY30E, led by continuous focus on cost reduction of renewable power, electrolyzers**

Real Estate – Bigger players to sustain growth





Source: Anarock, CBRE, ICICIDirect Research

Sales volume Momentum moderates in CY24 (down 4% YoY)

Luxury and Price Hike Drives value Growth of 16% YoY

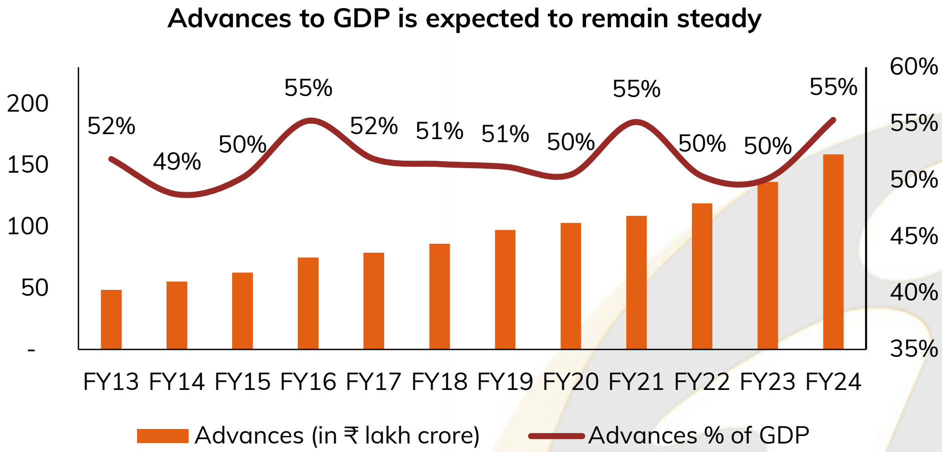
Inventory at historical lows of ~14 months

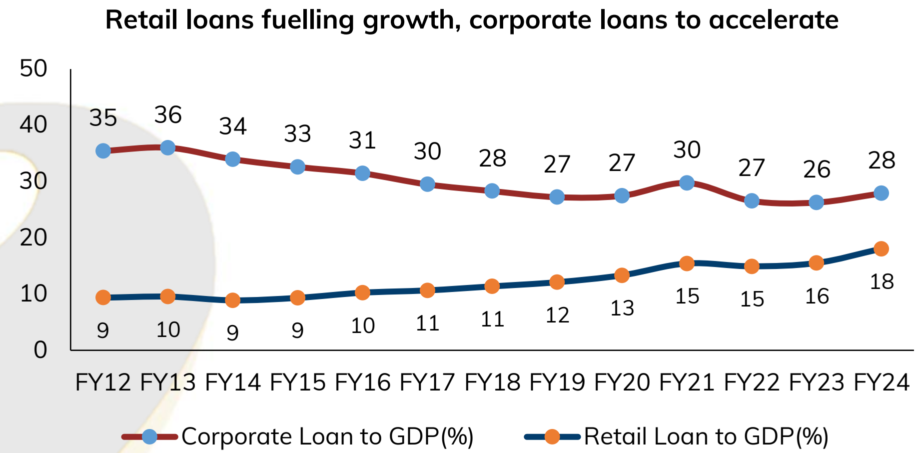
Launch pipeline strong ahead; Luxury offering to lead growth

The sales value growth of 16% during the current CY24 at ₹ 5.7 lakh crore, has been led by price hike by major players and higher luxury sales which led to 30% realisation increase. As per CBRE, the sales of luxury homes priced greater than ₹ 4 crore increased by 37.8 % YoY. The luxury segment will continue its upward trajectory into 2025, driven by rising economic confidence and growing numbers of HNIs and UHNIs.

We highlight that top 11 listed Real Estate players had guided for ~253 mn sq feet of new launches over next few years and ~57 mn sq feet was launched in H1. This implies that supply will be high over the next couple of quarters. Nonetheless, higher prices (up 40-50% over 2-3 years) will lead to some moderation in demand. Thus, only bigger players, with strong balance sheets and luxury offerings are likely to sustain growth ahead, in our view

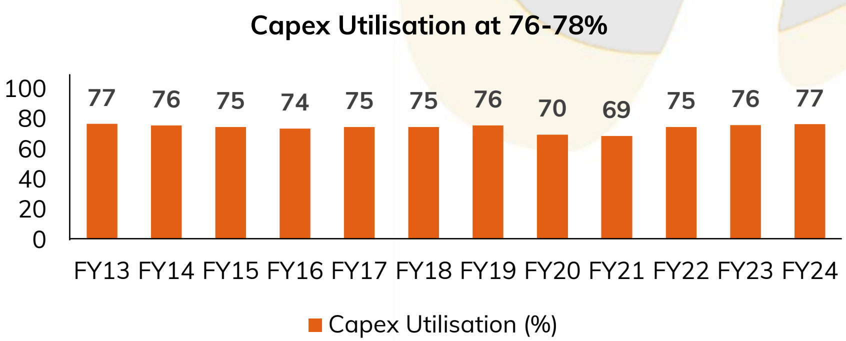
Banks: Corporate lending to steer growth from hereon

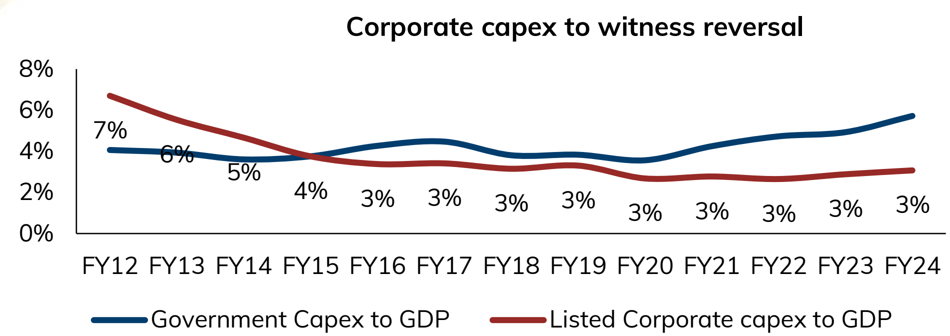




Advances to GDP has remained in a broad range of 50-55% which is expected to continue with marginal volatility

Corporate loans to GDP on a declining trend from 35% to 28% amid balance sheet de-leveraging and gradual capex



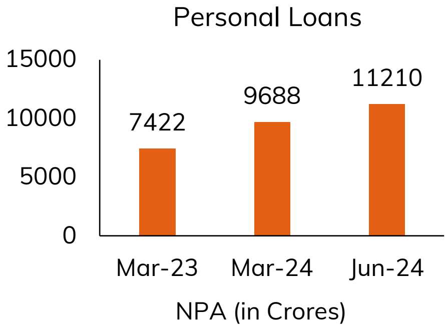


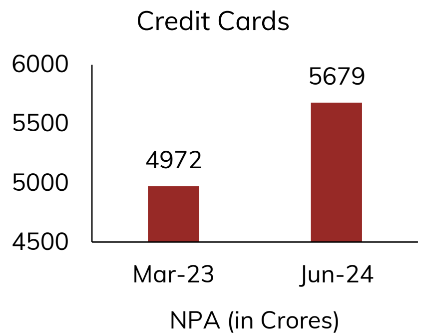
Historically private capex has been higher as compared to government capex. However, in last last 6-7 fiscals, private capex lagged government capex declining to similar level in absolute terms. Given capacity utilization at 76-78% level, we expect revival in private capex. Accordingly, corporate lending is likely significant driver of advances growth, while retail segment is expected to remain steady.

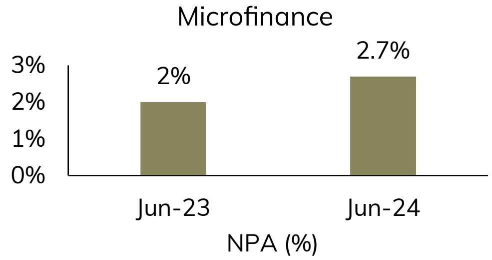
Source: RBI, Tradingeconomics, ICICI Direct Research

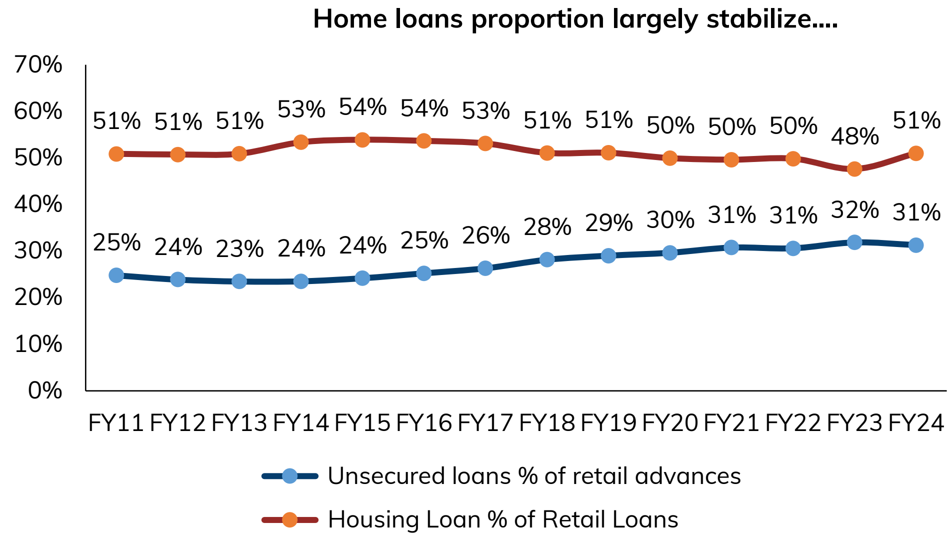
Banks: Retail book to be largely stable on Home loans

Pain has been witnessed in some pockets of retail segment – credit cards, personal loans & MFI







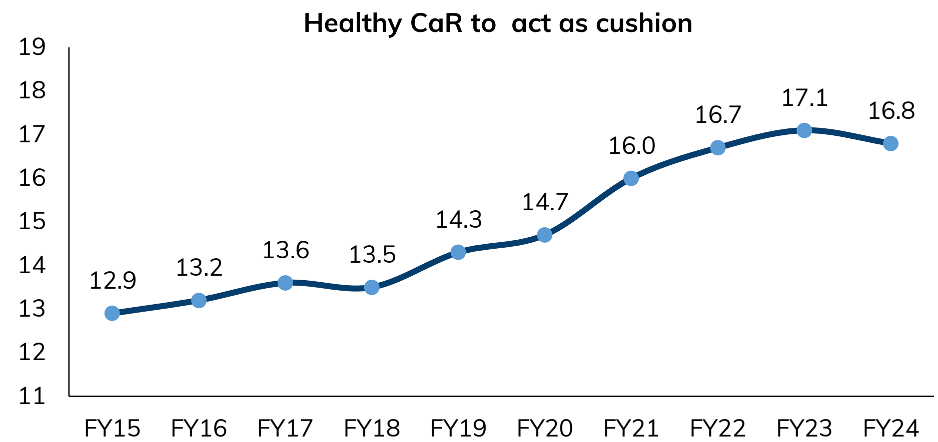


Despite volatility in asset quality in certain pockets, banks remain resilient given;

1) Home loans being ~50% of retail loans which remain to be steady

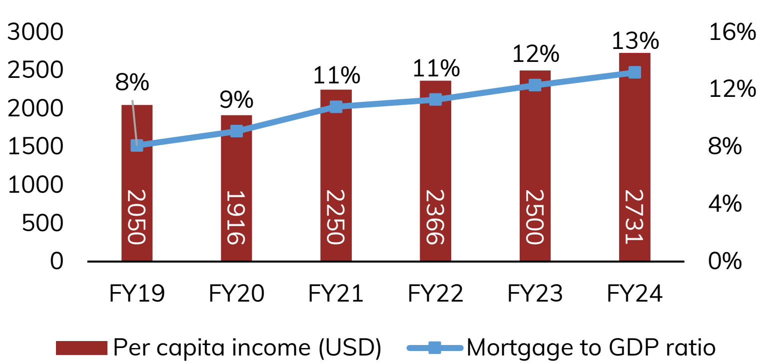
2) Healthy capital adequacy ratio enabling absorption of any near term shocks

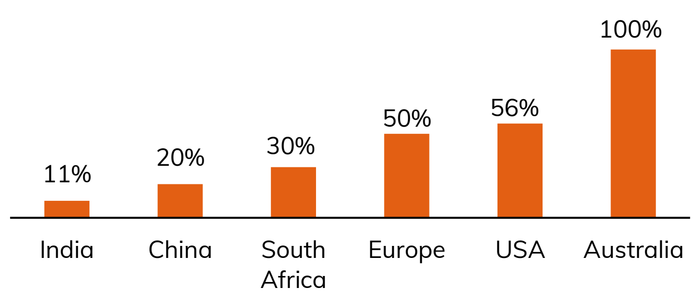
3) Higher PCR providing cushion in event of adverse slippages



Source: RBI, Media, CRIF, ICICI Direct Research

Housing Finance: Beneficiary with relative resilience





Mortgage penetration in India is currently lower then other emerging economies. however, rising per capita income, favourable demographics & government initiatives will drive mortgage growth in India, with a rising trend in mortgage-to-GDP ratio signalling improved penetration and long-term potential

31% 2010	40% 2031

Urbanisation

PMAY, CLSS, Collateral free loans

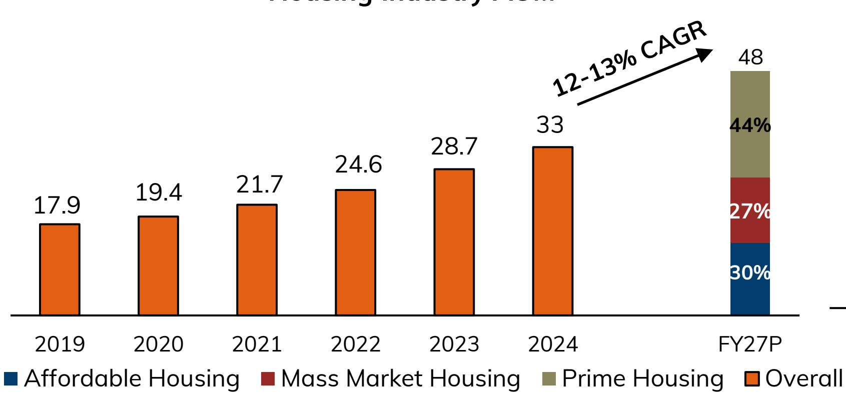
Government Incentives

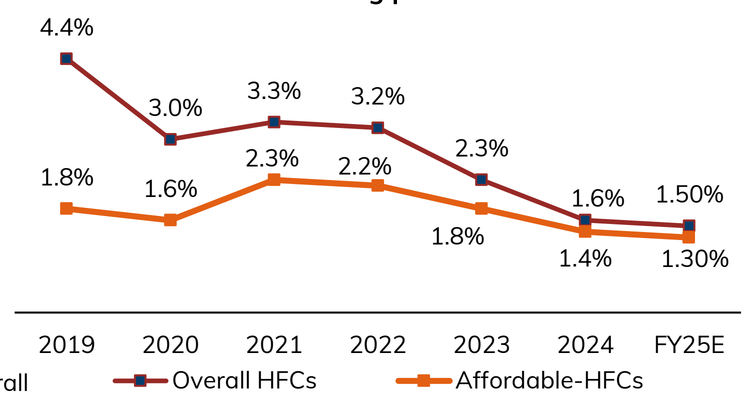
5 2010	4.6 2021

Nuclearisation (Avg household Size)

1.43 bn 2023	1.67 bn 2050

Rising Population



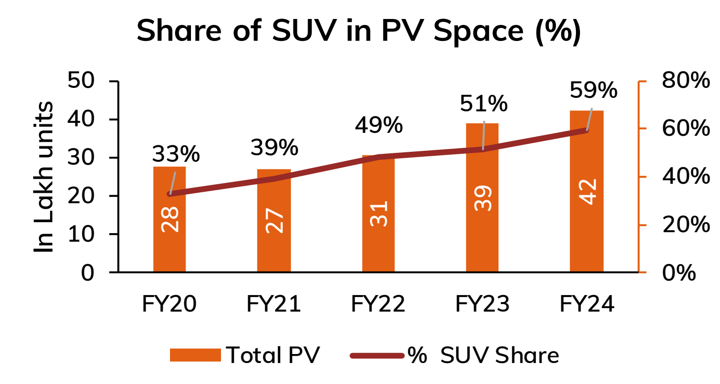


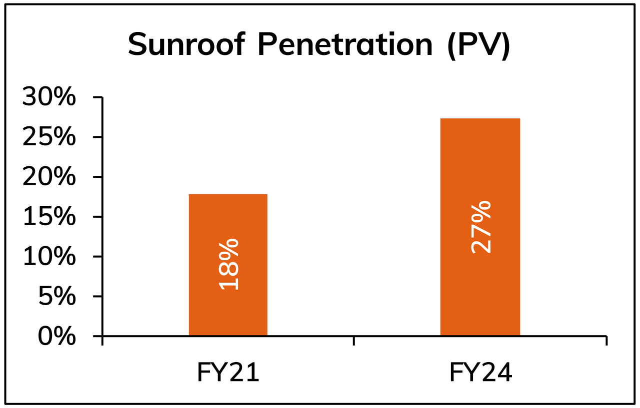
Asset quality of HFCs remain strong, with low write-offs driven by robust underwriting. Credit costs are below other products, reflecting housing finance's resilience.

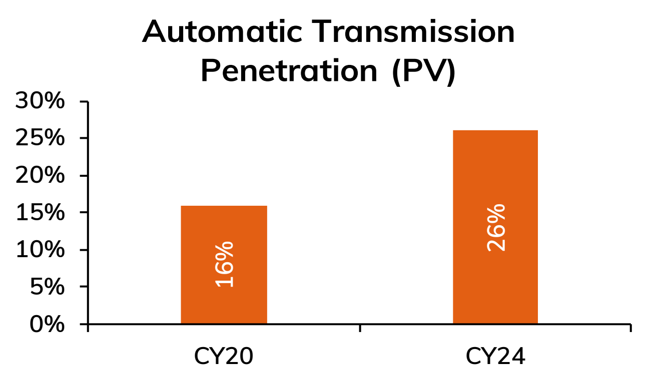
Source: RBI, Media, RHP, ICICI Direct Research

Premiumization to drive value growth for Auto Industry

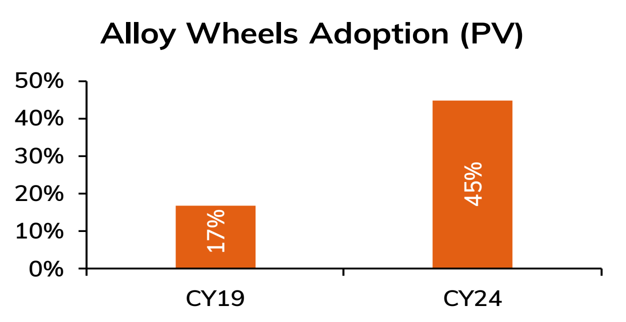
- Post Covid, recovery in volumes has been strong in domestic auto space, with PV sales volume already surpassing all time highs in FY23 and projected to grow single digit going forward. Rest of the segments will surpass the previous peak sometime in FY26-27E.
- Interestingly along this volume recovery path over the past few years, premiumisation has taken center stage with present customers having penchant for more performance, technology and safety-oriented products. This was supported by higher disposable incomes.
- A testimony to this is that over past 5 years, more than 30 SUVs were introduced by OEMs, compared to only 4 hatchbacks and 3 sedans. During the same time period, SUV segment volumes expanded at CAGR of 22% i.e. over 4x the industry growth of 5%.
- The Industry is seeing significant surge in Premium features like Sunroofs, Automatic Transmission and Alloy Wheels among others.

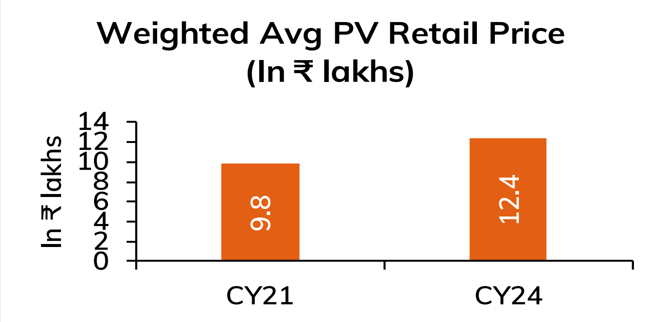






Going forward we expect premiumisation trend to get more stronger with domestic auto industry well poised to clock **double digit value growth** amidst **single digit volume growth**. Key beneficiaries in OEM Space: **Mahindra & Mahindra and Eicher Motors**. Ancillary Space: **Uno Minda, Gabriel India & Lumax Auto Technologies**

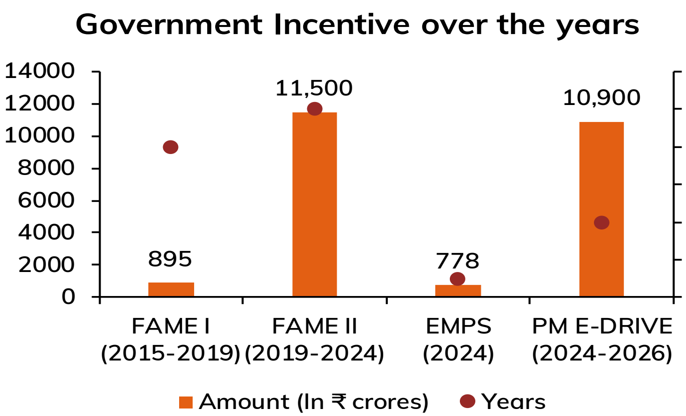


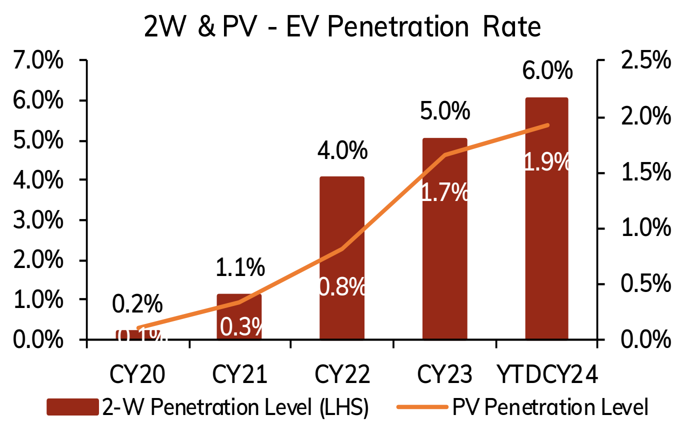


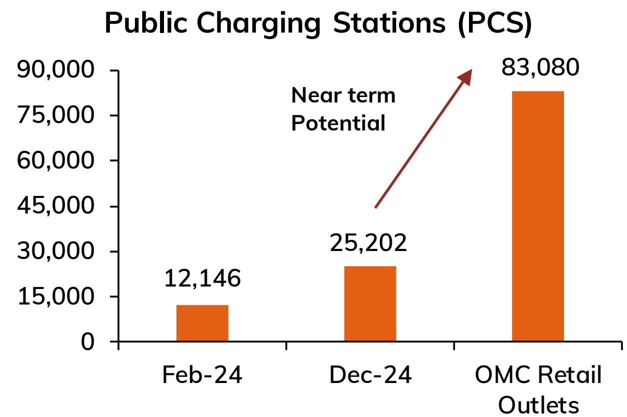
Source: JATO Dynamics, Newsprint, ICICI Securities

Electrification at inflection point!

- In CY24, electrification gained momentum domestically amidst exciting product launches by OEM's, falling battery prices resulting in the more affordable offerings by EV players and refreshed demand incentive scheme i.e. **PM Electric Drive Revolution in Innovative Vehicle Enhancement (PM E-DRIVE) Scheme** (allocates ₹10,900 crore over 18 months i.e. October'24 to March'26).
- With record product launches over next 12 months including flagship launch by Maruti Suzuki, Hyundai, Tata Motors, Bajaj Auto among others across PV & 2-W space, we expect electrification to gain strength and **target double digit penetration in CY25E**.
- Interestingly, new models are evolving to make EV ownership more affordable for consumers with notable ones being Swappable batteries & Battery as a service (BAAS). Swappable battery ecosystem comes with an advantage of quick & convenient charging.







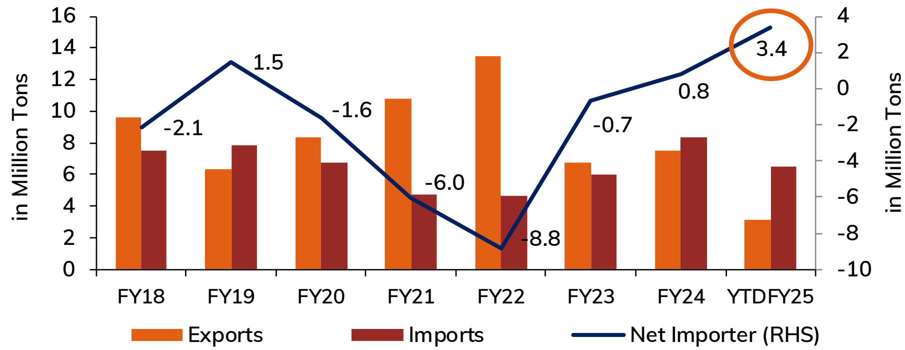
- Progress has also being made on EV charging infrastructure front, wherein, number of public charging stations (PCS) has increased from 12,146 units in Feb 2024 to 25,202 in Dec 2024. Notably, Oil Marketing Companies (OMC's) are driving the EV charging ecosystem domestically and account for ~50% of PCS. With total fuel retail outlets at OMC's pegged at ~83,000 units and healthy allocation of ~₹ 2,000 crore under PM E-drive scheme for improving charging infrastructure, we believe Electrification is at the inflection point supported by both government incentives as well as private sector capex. **Major beneficiaries in electrification theme are Tata Motors and Mahindra & Mahindra in OEM space and Exide Industries, PCBL & Sansera Engineering in auto ancillary space.**

Source: Vahan Database, Bureau of Energy Efficiency, PIB.gov.in, ICICI Securities

Steel: Higher Import Duty to offer a much-needed relief!

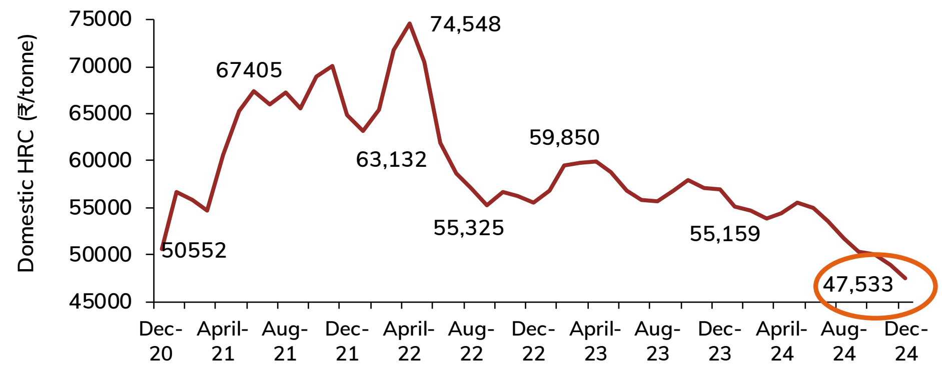
ICICI direct Research

Steel imports has reached 8 years high of 6.5 million tonne (MT) turning India a net importer of 3.4 MT in Apr-Nov'24



Source: Ministry of Steel

Domestic prices have declined to the lowest levels in past 4 years. Anticipated to find the support soon!



Source: Bloomberg

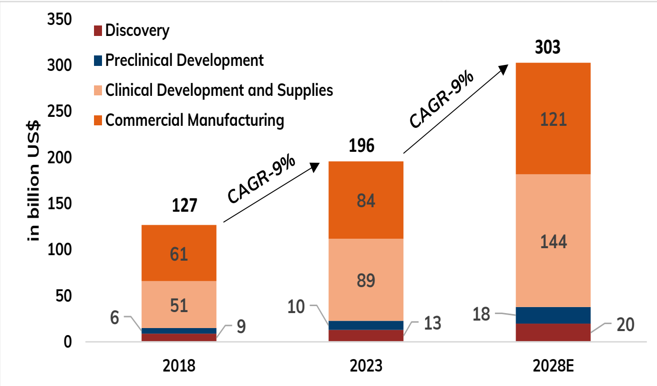
Domestic steel prices are anticipated to bottom out as the steel ministry proposes measures to protect the interest of industry given lower realisation impacting profitability & future capex plans. It has proposed imposing safeguard duty & initiated anti-dumping probe on imports. To evaluate the impact (rise in profits), we have analysed imposition of safeguard duty for JSW Steel

Particulars	Units	FY26E	Scenario 1	Scenario 2
Safeguard Duty	%	-	5%	10%
Estimated Increase in Realization	₹/ton	-	1,500	3,000
Standalone EBITDA/tonne	**₹/ton**	**11,534**	**13,034**	**14,534**
Consolidated EBITDA	₹ crore	35,239	39,583	43,927
Expected Increase in EBITDA	**%**	**-**	**12%**	**25%**
Consolidated PAT	₹ crore	12,374	15,510	18,645
Expected Increase in PAT	**%**	**-**	**25%**	**51%**

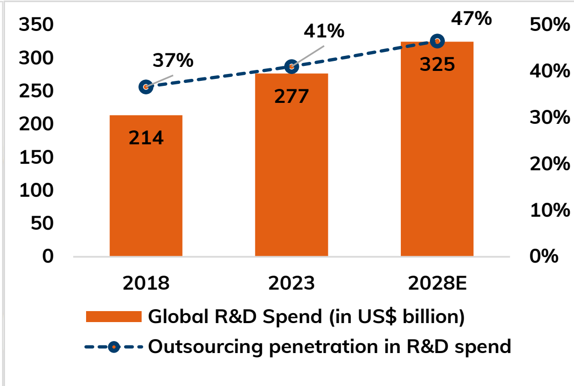
- **Scenario 1:** With the imposition of 5% safeguard duty, JSW Steel could potentially hike steel prices by ₹1500/tonne, driving a ~12% increase to our FY26E EBITDA estimates. This, in turn, could enhance PAT by ~25%, a big boost to its overall earnings
- **Scenario 2:** With the imposition of 10% safeguard duty, a realization increase of ₹3,000/tonne is projected. This would improve our EBITDA and PAT estimates by ~25% and ~50%, respectively.
- **With Domestic steel sector currently witnessing healthy demand and ambitious expansion plans aimed to double capacity by end of the decade, imposition of safeguard duty could act as a catalyst of profitability growth for the industry.**

CRDMO: Structural theme getting strengthened with specific tailwinds…

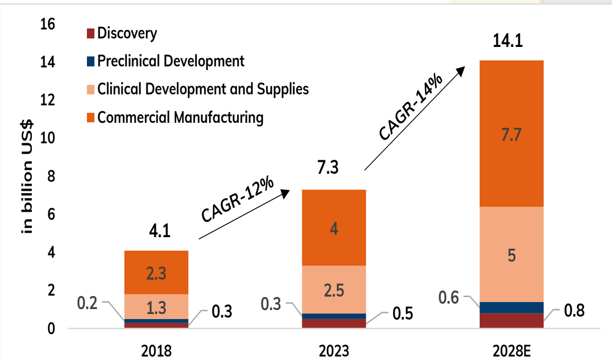
After digesting Covid-induced volatility, the global Contract Research Development and Manufacturing Organization (CRDMO) segment is getting back to normal and converging with the pre-Covid momentum.



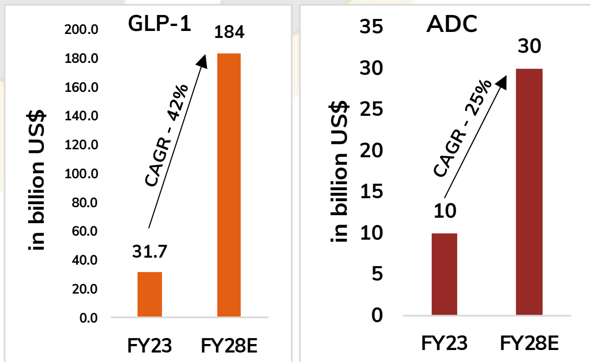
Global CRDMO expected momentum



Growing R&D outsourcing trend



India CRDMO expected to outperform global trend



Potential growth for GLP-1 and ADCs

Source: Novo Nordisk AR, Divi's AR, Sai Life Sciences RHP, ICICI Direct Retail Research

Key tailwinds which are likely to steer the growth in CRDMO industry-

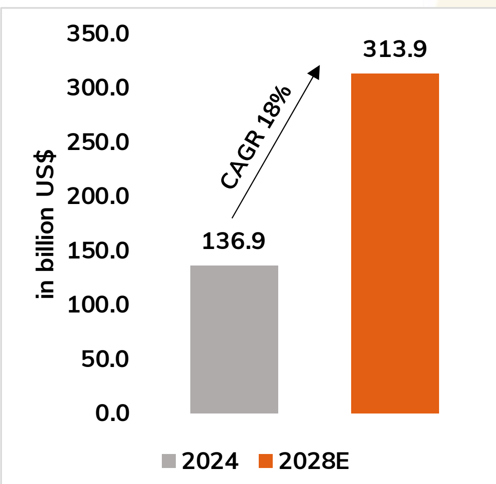
- **Possible opportunities emerging due to impending vacuum on account of Novo Nordisk's acquisition of second largest global CRDMO player Catalent.**
- **Likely improvement in the US biotech funding scenario.**
- **Continuation of calibrated China rebalancing drive (irrespective of passage of Biosecure Act).**
- **Extended focus on some of the upcoming blockbuster themes such as weight loss drugs (GLP-1) and Targeted cancer therapies(ADCs).**

Indian players, we believe are well poised to capture this opportunity with a focused offerings and a calibrated capex.

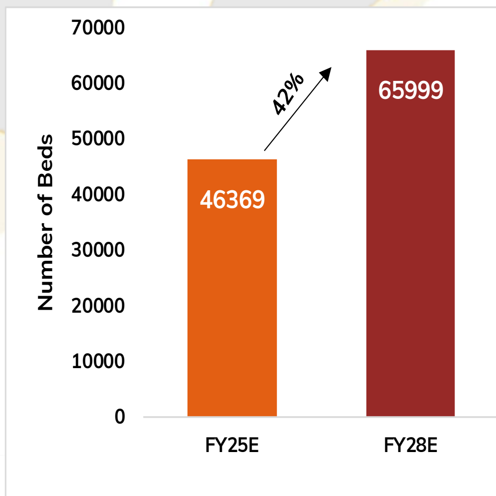
The GLP-1 theme among peptides could be the next big thing in global healthcare especially the repurposing for obesity management (from diabetes care). Global estimates suggest a US$ 184 billion revenue by FY28E and the CRDMO players (including Indian companies) are preparing to grab a significant pie form this. Similarly the targeted cancer therapy Antibody Drug Conjugates (ADC) is also shaping well globally to attract CRDMO players for outsourcing.

Hospitals- Riding on improving macros besides premiumization theme

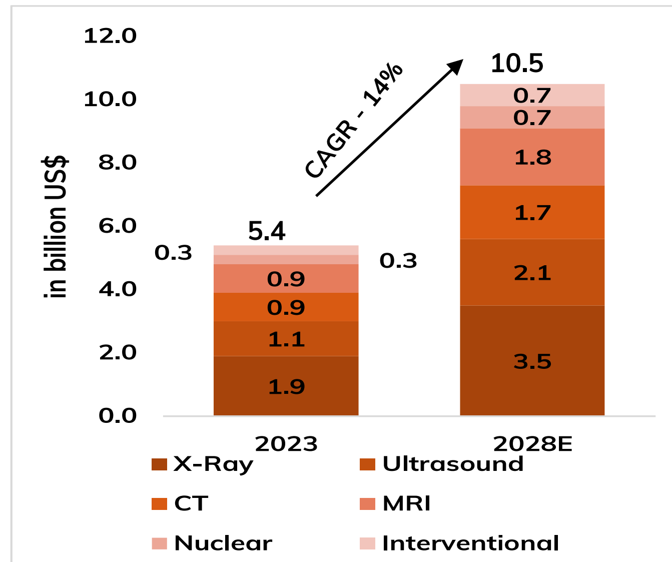
- The Hospitals sector is slated to grow at ~18% CAGR between 2024-28E to US$ 314 bn, as the chain of → rising disposable income → sedentary lifestyle → changed disease pattern → better diagnostics → improving health insurance coverage is likely to have positive implications on the hospital revenues.
- Considering the potential and approaching saturation in existing capacities, most of the players are venturing into a new capex phase (42% planned beds addition by 11 listed hospitals over the next 3-4 years).
- We also notice growing trends towards high end procedures / surgeries among hospitals in synch with change in disease pattern where a paradigm shift is visible from communicable to non-communicable disease.
- Expected growth in the radiology diagnostics is likely to support early detection of critical diseases and hence timely hospitalization.
- We expect accelerated growth trend in health insurance especially in the backdrop of Covid besides growing awareness and a higher quest for quality treatment in quality hospitals.



Expected growth in Indian Hospitals



Planned bed Capacity



Expected growth in radiology market

Top Picks

Mahindra & Mahindra (MAHMAH) Target Price: ₹ 3,600 (18% Upside)

- Mahindra & Mahindra (M&M) is a conglomerate with presence in auto, IT, NBFC, logistics, hospitality, real estate among others. At standalone level it is India's largest tractor manufacturer (41.6% FY24 market share) & 2nd largest CV, 4th largest PV maker (27.2%, 10.9% FY24 market share)
- M&M is currently outperforming the domestic PV space driven by successful launches such as Thar Roxx, XUV 3XO, XUV 700 & Scorpio-N, which have quickly resonated with customers, driven by cutting-edge technology & value offering. Amid healthy demand for SUV's, M&M plans aggressive product launch strategy, including 9-ICE SUV's & 7 BEV's by 2030. To cater these new age technology vehicles, M&M has outlined a capex plan of ~₹ 27,000 crore over FY25-27E. Of this, ₹12,000 crore is earmarked specifically for EV space, with the goal of BEV constituting ~20%-30% of its SUV sales by 2027.
- Above normal monsoon, healthy water reservoir levels & increase in government spending in rural space are expected to benefit the domestic tractor industry which is anticipated to achieve its long-term volume CAGR of 5-7% starting FY25E. Low penetration of farm mechanization in India at ~47% vs. its peers, presents a significant growth opportunity for M&M.
- We prefer M&M amidst its consistent positive surprise on new product launches, ability to grow ahead of market and persistent focus on capital efficiency (RoE>=18%). We value M&M at SOTP-based target price of **₹3,600** (15x FY26E standalone EV/EBITDA; 25% hold co. discount to investments, ₹615/share value accrued for its Electric PV arm). **Key Risk**: (i) lower than expected operating leverage (ii) delay in new product launches

Particulars (₹ crore)	FY24	FY25E	FY26E	FY27E	3 Year CAGR (FY24-FY27E)
Net Sales	98,763	1,12,661	1,26,130	1,37,983	11.8%
EBITDA	12,919	16,340	18,690	20,745	17.1%
EBITDA Margin (%)	13.1	14.5	14.8	15.0	
Net Profit	10,718	11,773	13,487	15,045	12.0%
EPS (₹)	90	99	113	126	12.0%
P/ E (x)	34.1	31.0	27.1	24.3	
RoNW (%)	20.5	19.2	18.8	18.1	
RoCE (%)	16.3	18.5	18.5	18.0	

KNR Constructions (KNRCON) Target Price: ₹ 390 (24% Upside)

- KNR Constructions is a leading company in the highways sector having executed 6,000+ lane km of projects across 12 states, alongwith established presence in irrigation and urban water infrastructure management. It has order book of ₹5606 crore, 1.4x book to bill, as of Q2FY25
- KNR anticipates to capitalise on the accelerated tendering process, guiding for order inflows to the tune of ₹5000-6000 crore from here on and has identified 80-85 tenders (ticket size of ₹ 600-1800 crore) to be awarded by NHAI. It would also bid for AP and Telangana development projects with ~₹20,000 crore worth of contracts to come up for bidding in H2. Post a weak FY25, we expect a sharp jump in FY26 & FY27 revenues, resulting in ~9.6% CAGR over FY24-27E at ₹ 5383 crore.
- KNR enjoys a debt free standalone balance sheet with cash of ₹247 crore as of Q2FY25. We highlight that it has targeted to monetize 4 HAM projects by September 2025. It has invested approx. ₹500-550 crore in the 4 HAM assets. It has an overall equity requirement of ₹992 crore for the 8 existing HAM projects and has already infused ₹556 crore. The additional equity requirement of ₹436 crore is to be infused over next ~2.5 years, likely to be funded through internal accruals.
- We like KNR as it enjoys a strong execution track record, healthy balance sheet and strong return ratio. We believe that KNR could capitalise on the accelerated ordering process during H2 which could drive order inflows and sharply improve growth visibility. We value on SoTP basis at target price **of ₹ 390/share Key Risks** (i) lower order inflows (ii) execution delays

Particulars (₹ crore)	FY24	FY25E	FY26E	FY27E	3 Year CAGR (FY24-FY27E)
Net Sales	4,091.0	3,592.2	4,506.1	5,382.9	9.6%
EBITDA	701.0	609.2	809.2	966.7	11.3%
EBITDA Margin (%)	17.1	17.0	18.0	18.0	
Adj. PAT	441.0	329.3	515.6	631.2	12.7%
Adj. EPS (₹)	15.7	11.7	18.3	22.4	
P/ E (x)	18.4	23.8	17.6	14.4	
EV/EBITDA (x)	12.6	13.7	10.3	8.4	
RoNW (%)	13.7	9.1	12.5	13.3	
RoCE (%)	22.1	14.8	17.2	18.2	

Piramal Pharma (PIRPHA) Target Price: ₹ 320 (26% Upside)

- Piramal Pharma Limited (PPL) operates in 3 major segments CRDMO, Complex hospital generics (CHG) and Consumer healthcare. PPL owns 17 development and manufacturing facilities across India, US and UK with capabilities in sterile, API, formulations, drug discovery and manufacturing of nutrition products..
- Piramal's innovative CRDMO segment is witnessing signs of improvement in biotech funding besides good demand for differentiated offerings with increase in customer enquiries and visits. In Complex Hospitals Generics, the current momentum is driven by volume growth in inhalation anesthesia portfolio in the US and emerging markets. In India Consumer Business, the growth is driven by new launches and continuing traction in power brands.
- Despite likely delay in the enactment of US Biosecure Act for want of passage in the US Senate, we do not see growth related issues as the China rebalancing by global innovators is likely to continue. Other levers such as global consolidation in the CRDMO space, improving US biotech funding and extended focus on some of the blockbuster themes (GLP-1, ADCs) are likely to maintain the orderbook momentum.
- The guidance for FY30E for US$ 2 billion revenues and around 25% EBITDA margins is irrespective of the positive implications of the Biosecure Act and hence provide better visibility
- We value PPL at **₹ 320** based on SoTP valuations, i.e. 21x FY27E CDMO EBITDA, 17x FY27E CHG EBITDA, 1.5x FY27E Consumer Healthcare Sales, and 10x PAT from AbbVie JV. **Key risks** – (i) Higher sensitivity of CRDMO business in overall performance, (ii) Price Erosion and supply issues in CHG.

Particulars (₹ crore)	FY24	FY25E	FY26E	FY27E	3 Year CAGR (FY24-FY27E)
Net Sales	8,171.2	9,312.6	10,575.7	11,820.8	13.1%
EBITDA	1,196.3	1,369.1	1,830.9	2,273.4	23.9%
EBITDA Margin (%)	14.6	14.7	17.3	19.2	
Net Profit	17.8	75.0	457.4	746.5	247.4%
Adj. EPS (₹)	0.6	0.6	3.5	5.7	
P/ E (x)	1,866.7	443.5	72.7	44.6	
EV/EBITDA (x)	31.3	27.6	20.2	15.9	
RoNW (%)	1.0	0.9	5.5	8.2	
RoCE (%)	5.0	5.6	8.1	11.1	

Narayana Hrudayalaya (NARHRU) Target Price: ₹ 1,600 (23% Upside)

- Narayana Hrudayalaya's network comprises 19 hospitals (including operated hospital), two heart centres, 18 primary healthcare facilities (including clinics and information centres) and a multi-speciality hospital in Cayman Islands.
- The performance over the last few quarters has been slightly muted mainly on account of decline in Cayman hospital performance as the company is in the process of establishing a second hospital in the country and there will be realignment of operations.
- The company is targeting aggressive capex (+₹ 3000 crore in the next 2-3 years) in cities such as Bengaluru and Kolkata where it has strong presence and brand loyalty. The second hospital in Cayman is also likely to commence operations in H2FY25.
- While the capex phase would be by far the largest in the last ten years, we believe the company is far better poised (despite negative FCF in FY25-26) to fathom the impact on the balance sheet as the margins and the return ratios are in good shape.
- The management has reiterated focus on margins by way of judicious specialty and payor mix. The insurance foray is still in pilot phase and we need some more clarity and details to assess the performance, going ahead.
- We value NHL based on SoTP valuation of **₹ 1600** i.e. 22x FY27E Indian hospitals EBITDA and 15x FY26E Cayman hospital EBITDA
- **Key risks** - (i) Delay in capex Plan (ii) Slower than expected ramp-up at new Cayman hospital.

Particulars (₹ crore)	FY24	FY25E	FY26E	FY27E	3 Year CAGR (FY24-FY27E)
Net Sales	5,031.6	5,459.0	6,108.2	6,906.8	11.1%
EBITDA	1,162.2	1,177.3	1,382.2	1,659.7	12.6%
EBITDA Margin (%)	23.1	21.6	22.6	24.0	
Adj. PAT	797.8	751.5	819.8	1,085.0	10.8%
EPS (₹)	39.0	36.8	40.1	53.1	
P/ E (x)	31.3	33.2	30.5	23.0	
EV/EBITDA (x)	23.3	23.6	20.4	16.7	
RoNW (%)	27.7	23.4	20.5	21.4	
RoCE (%)	20.9	17.5	16.1	19.4	

ICICI direct Research

Aditya Birla Sun Life AMC (ADIAMC) Target Price: ₹ 985 (21% Upside)

- Aditya Birla Sunlife AMC (ABSLAMC) is the 6th largest AMC in India and 2nd largest non-bank affiliated AMC with MF AUM of ₹ 3.8 tn and a market share of 5.8%. Besides, it operates in alternatives segment which includes PMS/AIF, Offshore investments and real estate offerings.
- India's MF industry remains starkly under-penetrated as its AUM stands at ~20% of GDP vs global average of ~74%. Increasing per capita, financialization of savings and overall positive MF experience especially on SIP front, shall aid structural industry growth over medium to long term.
- ABSLAMC has a wide distribution network with presence across 19000+ pan India pin codes, 86000+ MF distributors and 340+ national distributors. The company has presence across 300+ locations of which 80% are in B-30 cities which bodes well from long term perspective. Coupled with strong brand and trust factor, the company is well-placed to capture the benefit of structural industry growth.
- The company has traditionally been a stronger debt market player while on equity side, it is taking measures such as expanding fund management team and increasing engagement at ground level. Given the higher yields in equity segment, it has the potential to earn better PAT margins, RoE going ahead.
- Relative valuations offer favorable risk-reward for ABSLAMC at current juncture. We assign BUY rating with a target price of **₹ 985**, valuing the stock at PE of 22x its FY27E EPS. **Key risks**: i) Lull or south trending market adversely impact flows to MF, ii) Regulatory risk iii) Market share loss in case equity fund performance stays sub-par or intensifying competition.

Particulars (₹ crore)	FY24	FY25E	FY26E	FY27E	3 Year CAGR (FY24-FY27E)
Revenue from operations	1,353	1,670	1,828	2,195	17.5%
PBT	1,008	1,272	1,398	1,721	19.5%
Net Profit	780	954	1,048	1,291	18.3%
EPS (₹)	27.0	33.1	36.4	44.8	
P/E (x)	30.2	24.7	22.5	18.2	
AUM /share (₹)	9,543	11,309	14,017	15,190	
P/AUM (%)	7.2	5.8	5.4	4.6	
RoE (%)	24.6	26.7	26.2	28.6	

Ramco Cements (RAMCEM) Target Price: ₹ 1,180 (22% Upside)

- Ramco Cements, primarily a south-region based cement manufacturer, has cement capacity of 24 mtpa at present, of which 84% is located in southern states (12.7 mtpa in TN, 7.2 mtpa in AP) and balance in Eastern region
- After a muted H1FY25, company's volume growth is expected to be improve substantially over H2FY25 & FY26-27E, led by demand pick-up (in its selling markets like TN, Karnataka, AP, Telangana, Odisha and WB etc) and upcoming brownfield expansion of 6 mtpa (total capacity to reach 30 mtpa by FY26E). We estimate company's volumes at ~8% CAGR over FY24-FY27E
- We also expect EBITDA/ton to improve in 2HFY25E and FY26/27E, driven by improvement in realizations, cost optimization through better power, fuel & freight cost management and positive operating leverage. We estimate EBITDA/ton to improve from ₹ 814/ton in FY25E to ₹ 1020/ton in FY27E
- Along with substantial improvement in operational performance, company remains focused on debt reduction, monetization of non-core assets and incurring lower capex for upcoming expansion
- Valuation at 11.4x EV/EBITDA ($106 EV/ton) on FY27E looks attractive considering the improving industry dynamics and strong growth ahead. We value the company at **₹ 1180/share** (based on 13.5x EV/EBITDA on FY27E)
- **Key Risks**: Slowdown in demand, delays in capacity expansions, increasing competition, increase in coal/pet-coke prices

Particulars (₹ crore)	FY24	FY25E	FY26E	FY27E	3 Year CAGR (FY24-FY27E)
Revenues	9,376	9,009	9,773	11,333	6.5%
EBITDA	1,565	1,553	1,820	2,350	14.5%
EBITDA margin (%)	16.7	17.2	18.6	20.7	
Net Profit	360	333	480	895	35.5%
EPS (Rs)	15	14	20	38	
P/E (x)	64.4	68.4	47.6	25.5	
EV/EBITDA (x)	17.6	17.8	15.2	11.3	
EV/ton ($)	144	137	109	106	
RoCE (%)	7.9	7.3	8.7	12.6	
RoE (%)	5.0	4.4	6.1	10.3	

Larsen and Toubro (LARTOU) Target Price: ₹ 4,262 (18% Upside)

- Larsen & Toubro (L&T) is India's largest engineering & construction (E&C) company, with interest in EPC projects, hi-tech manufacturing and services. The company primarily operates in infrastructure, heavy engineering, defence engineering, power, hydrocarbon, services business segments.
- Securing order inflows near the guidance range in Q2FY25, despite an unusually large Q2FY24 base speaks of the diversity of the company's operations. The company has order backlog of ₹510,402 crore up 13% YoY. The execution trends of Q2FY25, especially in infra, hydrocarbon and precision engineering space clearly indicated execution momentum which will help the company easily meet its revenue guidance. Given the order pipeline of ₹8.1 lakh crore, L&T expects to meets order inflow growth guidance for FY25E. Overall we expect Revenues and PAT to grow at CAGR of 14.7% and 15.1% over FY24-FY26E.
- L&T has reached ROE of ~16% and anticipates the same to reach 18% as per their strategic plan. it is banking on improvement of 1% each from 3 catalysts like a) Breakeven of Hyderabad Metro, b) Improvement in P&M segment margins and c) increasing payouts in forms of higher dividends or buybacks
- We believe given the backlog growth and pick up in execution there remains a strong probability of a beat on the revenue growth guidance. With continued focus on improvement of overall return ratios and aspiration of 18% ROE by 2026 looks a realistic one. We maintain BUY rating with target of **₹4262**. **Key Risks**: a)Slowdown in order inflows b) lesser than expected improvement in margins.

Particulars (₹ crore)	FY24	FY25E	FY26E	FY27E	3 Year CAGR (FY24-FY27E)
Net Sales	1,10,501	1,26,236	1,45,148	1,66,040	14.7%
EBITDA	9,295	9,685	11,642	13,780	19.3%
EBITDA Margin (%)	8.4	7.7	8.0	8.3	
Adj. PAT	7,794	9,372	10,776	12,427	15.1%
Adj. EPS (₹)	58.7	67.8	77.7	93.1	
P/ E (x)	61.5	53.2	46.4	38.8	
RoNW (%)	11.6	12.4	13.0	14.2	
RoCE (%)	8.7	8.5	9.8	11.0	

Techno Electric and Engineering (TECEEC) Target Price: ₹ 1,920 (23% Upside)

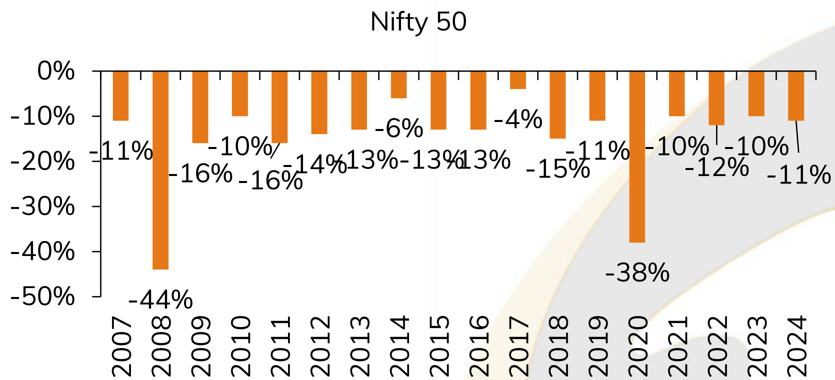
- Techno Electric & Engineering company (TEECL) is a power infrastructure company with interest in engineering, procurement and construction (EPC), asset ownership and operation and maintenance services in power generation, transmission and distribution, smart meter, FGD and the new age data center business.
- After achieving exceptional order intake of ₹7000 crore in FY24. The company has secured orders worth ~₹1000 crore in H1FY25, with a guidance of ₹2500 crore in FY25E. TEECL has unexecuted order book of ₹9726 crore as on H1FY25, with T&D/FGD/Smart metering/Data center comprising 60%/12%/26%/1% of order book. The healthy orderbook provides revenue visibility for 3 years. The company expects upto ₹1000/₹2500 crore worth orders from smart metering/ T&D annually.
- TEECL plans to build 36MW data center in Chennai, of which 5.6 MW is expected to commission soon, it also plans to build 15 MW data center in Kolkata.
- We believe the base EPC business (T&D, Smart meters , FGD) is in a sweet spot for next couple of years and with strong backlog, we expect the revenues to grow at CAGR of 35% over FY24-FY27E coupled with stable margins. The data center capex if executed efficiently and scaled up can create huge value for the company given it has the resources (₹ 2600 crore cash/liquid investments) and tailwinds for the same. Hence we assign premium valuations of 38x FY27E EPS and assign a target of **₹1920**.

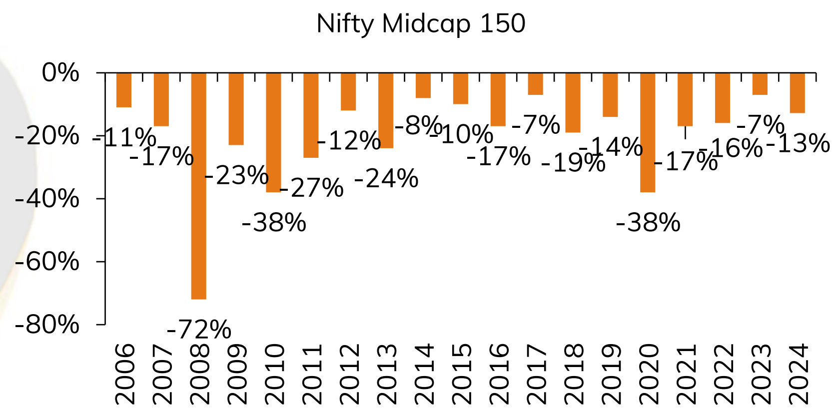
- **Key Risks:** a)Slowdown in order inflows b) Increase in material costs to impact margins

Particulars (₹ crore)	FY24	FY25E	FY26E	FY27E	3 Year CAGR (FY24-FY27E)
Net Sales	1,680.9	2,353.2	3,388.6	4,134.1	35.0%
EBITDA	226.9	317.7	474.4	578.8	36.6%
EBITDA Margin (%)	13.5	13.5	14.0	14.0	
Adj. PAT	269.7	379.0	504.4	587.9	29.7%
Adj. EPS (₹)	25.1	32.6	43.4	50.5	
P/ E (x)	63.4	48.8	36.7	31.5	

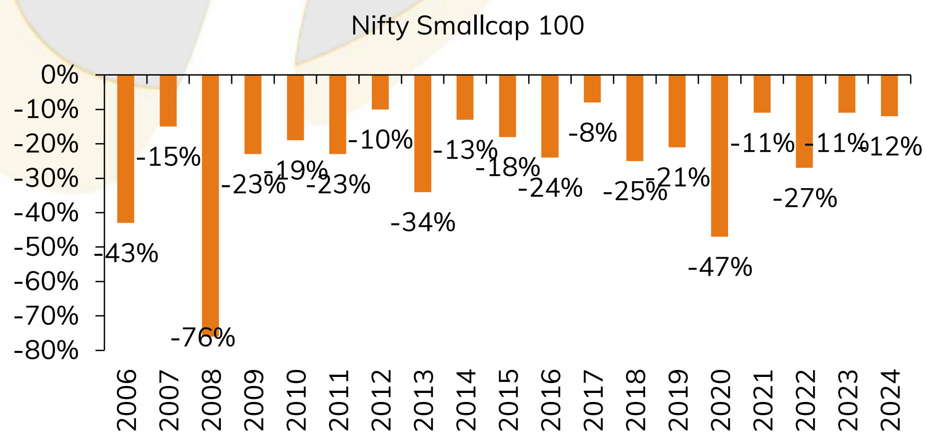
Risks: Corrections, a regular phenomenon ; Befriend it rather getting scared

Historically, Nifty 50 index has fallen by 10%-15% every year. Similarly Nifty Midcap 150 index has fallen in the range of 15%-25% while Nifty Smallcap 100 index has declined in the range of 20%-35%.



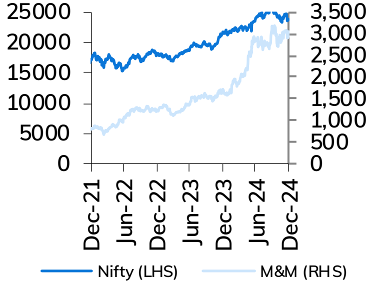


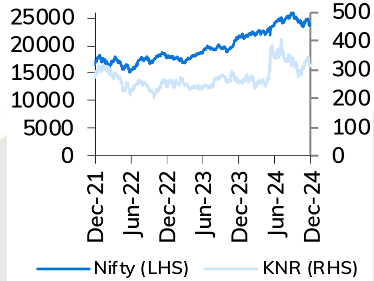
Correction from recent highs

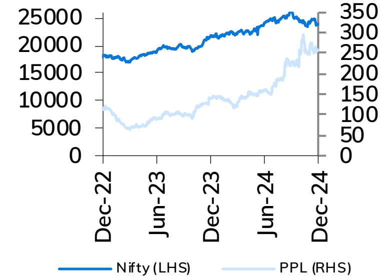


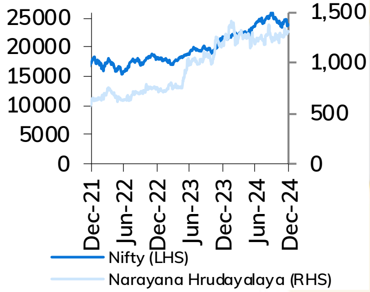
Source: Bloomberg, ICICI Direct Research

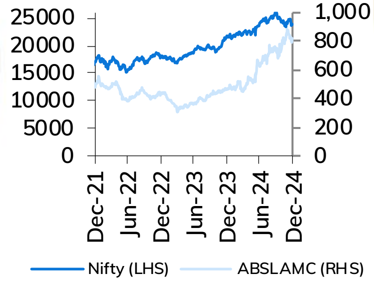
3-Year price chart of recommended stocks

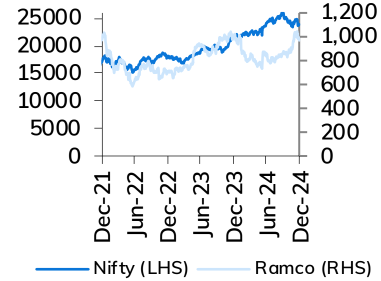


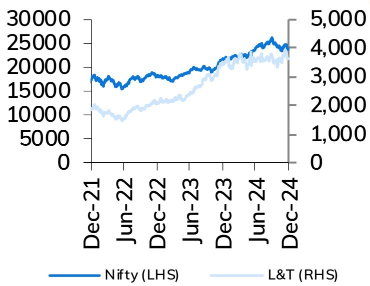


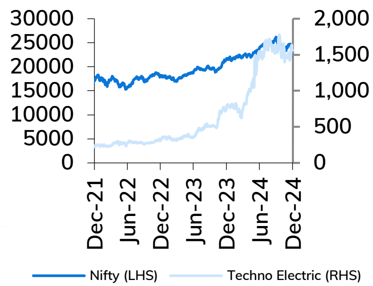












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