INSTITUTIONAL RESEARCH

Long term compounders

Decadal economic trends present opportunities

India's GDP is expected to double from its current level of USD 3.57trn (in FY24E) to USD 7trn in 2030. This will be a result of inherent demographic advantages along with consistent policy support. We observe that there are decadal economic trends underway in the country, which are fueling the business growth of companies in various sectors. These trends are:

- **Rising discretionary spending pool and premiumization:** The middle class of the country is expected to get more populous and richer, driving demand for discretionary goods and services. From 158 mn households in 2018, the middle class is poised to grow to 300 mn by 2030, representing 78% of overall households.
- **Formalization of the economy:** Low-ticket discretionary sectors have a higher presence of unorganized players. However, consolidation is underway, led by factors such as rising affordability, technology upgradation, GST, RERA, e-way bill, internet penetration and the recently launched ONDC. This consolidation process is expected to benefit organized players across multiple sectors.
- **Digitization:** Internet penetration and data consumption in the country have climbed up very fast led by declining data costs. This has fueled the ambitions of aspiring entrepreneurs and given rise to a blossoming startup ecosystem (114 Unicorns so far). Policy supports such as UPI and ONDC are key reinforcing catalysts for these businesses. New age business models will continue to gain prominence and disrupt incumbents using the digital India stack.
- **Financialization of savings:** Rising financial literacy and pursuit of higher IRR with liquidity are leading investors to move away from real estate/ FDs to more sophisticated asset classes such as MFs, equity, LI, PMS/AIF/private credit and derivatives. Despite cyclical market volatility, Asset/wealth management, market intermediaries will continue to see healthy trend growth rates.
- **Capex/infrastructure investments:** The central government has been focusing on investment-led GDP growth in the country. Its impact can be witnessed in the sectors of defense, roads, railways, and renewable energy. Further, it aims to nudge the private sector to invest in capex, given their healthy balance sheets and optimistic long-term demand outlook. Electric vehicles, manufacturing, alternate energy and semiconductors are sectors with expected capex rise. Thus, sectors like capital goods, infrastructure and cement will benefit from the current capex cycle.
- **Green energy adoption:** India is on the cusp of shifting to a green energy ecosystem from a fossil fuels-dominated one. This will involve green energy capacity creation of 340 GW by 2030 at a projected expenditure budget of INR 20 trn. Renewables (Solar, Wind), Green hydrogen and EV are key beneficiaries.
- **Manufacturing/China plus one:** India can benefit immensely as global companies aim to diversify their supply chain and manufacturing away from China due to geopolitical tensions, trade war and rising labour costs. While it is a large lucrative growth opportunity, India must compete with other Southeast Asian countries to get its share in the business of the global giants. Auto ancillaries, Chemicals, Textiles, and Electronics manufacturing remain well poised to benefit from this trend.

To benefit from the tailwinds of the above-mentioned trends, we have identified a list of stocks from our coverage universe which can compound their earnings consistently over the next 3-5 years while maintaining healthy return metrics and balance sheets.

Recommended stocks (Multi cap):

Stocks	Market cap (INR Bn)
SBI Life Insurance	1,521
Tata power company	1,387
Cholamandalam Investment & Finance Company	1,011
Voltas	435
Dalmia Bharat	380
Brigade Enterprises	227
MCX India	201
Amber enterprises India	127
Happiest Minds Technologies	125
Neogen Chemicals	34

Recommended stocks (Mega cap):

Stocks	Market cap (INR Bn)
Reliance Industries Ltd	19,780
ICICI Bank Ltd	7,725
Larsen & Toubro Ltd	4,898
Maruti Suzuki India Ltd	3,900
NTPC Ltd	3,521
Ultratech Cement Ltd	2,806
Siemens Ltd	2,009

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Recommended stocks in Multicap category as per prevailing themes:

	Stocks	Themes
1	SBI Life Insurance	Financialization of savings
2	Tata power company Ltd	Green energy adoption
3	Cholamandalam Investment & Finance Company Ltd	Financialization of savings
4	Voltas Ltd	Rising discretionary spending pool
5	Dalmia Bharat Ltd	Capex/infrastructure investments
6	Brigade Enterprises Ltd	Rising discretionary spending pool
7	MCX India	Financialization of savings
8	Amber enterprises India Ltd	Manufacturing/ China plus one
9	Happiest Minds Technologies Ltd	Digitization
10	Neogen Chemicals Ltd	Manufacturing/ China plus one

Furthermore, we have listed down seven additional ideas from the mega-cap space (Market cap> INR 2trn) which in our view offer secular growth stories with healthy RoEs, thereby presenting themselves as low-risk high-visibility growth compounders. All these companies are the leaders in their sectors and best suited to take advantage of the tailwinds of the sectors. Our top picks from the mega-caps category are listed below:

Top picks (mega-caps category):

		Market cap (INR Bn)	Revenue CAGR (FY24-FY27E)	EPS CAGR (FY24-FY27E)	RoE (FY25)	P/E (FY25)	Debt/Equity (FY25)
1	Reliance Industries Ltd	19,780	9.2%	16.4%	9.6%	24	0.2
2	ICICI Bank Ltd	7,725	16.0%	13.7%	17.3%	18	NA
3	Larsen & Toubro Ltd	4,898	13.7%	21.3%	17.4%	29	1.26
4	Maruti Suzuki India Ltd	3,900	12.4%	11.5%	17.5%	28	Net cash
5	NTPC Ltd	3,521	4.0%	8.7%	13.2%	16	1.25
6	Ultratech Cement Ltd	2,806	12.0%	21.2%	14.0%	31	0.1
7	Siemens Ltd	2,009	16.2%	16.6%	16.8%	75	Net cash

Source: Bloomberg; HSIE Research

Financial snapshot (multicap category):

		Market cap (INR Bn)	Revenue CAGR (FY24-FY27E)	EPS CAGR (FY24-FY27E)	RoE (FY25)	P/E (FY25)	Debt/Equity (FY25)
1	SBILIFE*$	1,521	15.8%	14.9%	26.5%	2.5*	NA
2	Tata Power	1,387	9.0%	18.7%	12.4%	32	1.6
3	CIFC#$	1,011	25.8%	31.6%	20.4%	23	NA
4	Voltas	433	12.0%	51.0%	13.6%	53	0.1
5	Dalmia Bharat	380	14.4%	20.9%	5.6%	40	0.4
6	Brigade Enterprise	227	8.0%	5.0%	8.7%	91	0.9
7	MCX	201	29.9%	105.5%	30.2%	38	NA
8	Amber Enterprises	127	20.0%	58.0%	11.7%	50	0.6
9	Happiest Minds Technologies	125	18.5%	21.9%	18.1%	44	0.3
10	Neogen Chemicals	34	26.6%	43.8%	13.5%	45	0.9

 # in case of CIFC, Revenue refers to Net Interest Income in the case of CIFC
**In case of SBI Life, Revenue refers to Annualized Premium Equivalent, EPS refers to Net VNB, ROE refers to Net VNB margins, P/E refers to multiple of Embedded value*
$ For SBI Life and CIFC, revenue and EPS CAGR are for FY24E-FY26E
Source: Bloomberg; HSIE Research

Investment rationale (multicap category):

	Investment rationale	Key risks
SBILIFE	▪ Stable APE growth, VoNB margins and well-diversified product mix, ▪ Higher operating leverage on account of exclusive SBIN distribution, resulting in lower costs and higher margins. ▪ Largest individual agency (except LIC) supporting granular growth.	▪ Dependent on SBIN for products distribution, with open architecture distribution costs may rise.
Tata Power	▪ A diverse power sector player with 14GW of generational assets (39% renewable) expected to go up to 19GW (54% renewable) in next three years once ongoing capex gets commissioned. ▪ Improving ESG rating of the company with clear focus on increasing share of renewables in the portfolio ▪ Expected long term resolution of Mundra power assets due to being best cost-efficient producer. ▪ 4.3GW cell and module manufacturing plant for solar energy ramping up ▪ Ambition of growing transmission assets to 10,000 Ckt Km+ in five years from current capacity of 4606 Ckt Km operational and 1255 Ckt Km under construction ▪ Expected to spend INR 600bn towards capex during FY24-27, across generation, transmission and distribution which is 2x of amount spent during FY20-23. 45% allocation towards renewable capacity creation.	▪ Delay in execution of capex projects. ▪ Resolution of Mundra power assets getting delayed or turning out unfavourable
CIFC	▪ Strong parentage offers significant tailwinds in terms of accessibility and cost of capital ▪ Gradual transition to diversified NBFC - contribution of flagship vehicle financing business trending lower ▪ Operating efficiencies and range-bound credit costs (100-120bps of AUM) to reflate incremental RoAs by 20-30bps ▪ Best-in-class NBFC franchise likely to deliver potent combination of 20%+ AUM CAGR and RoE of 18-20%	▪ Dependence on FinTech partnerships to drive growth in new businesses could come under pressure on the back of the RBI's clampdown on unsecured lending

	Investment rationale	Key risks
Voltas	▪ Voltas has shed some market share (c.600bps over its peak) and margin (high-single-digit vs low teens) in the RAC segment (still a leader) on account of heightened competitive intensity (demand-supply mismatch). ▪ However, notwithstanding the near-term pressure, we believe the worst is over and expect recovery (albeit gradually) in both market share and margins given the company ▪ is scaling up presence in the south. ▪ expanding capacities and backward integration (INR 5bn capex) ▪ has a superior product range (launched 64 SKUs in FY23); ▪ has an extensive channel network (25,000+ touchpoints; 260+ EBOs); and ▪ is making brand investments to further leverage its strong legacy. ▪ Voltas-Beko JV is scaling up well and remains on target to achieve EBITDA break-even by FY25-26.	▪ Erratic rainfall in peak summer months (Mar-May) could negatively impact sale of Room AC. ▪ Increase in competitive intensity can dampen revenue and margin performance. ▪ Inability to recover lost market share in Room AC. ▪ General slowdown in consumption. ▪ Delay in project execution, collections and cost overruns can impact EMPS segment profitability.
Dalmia Bharat	▪ Aggressively expanding capacities both across its core markets (east and south) and into newer markets as per its plan to become a pan-India player. ▪ It is also liquidating its non-core assets which will further support its focus on grey cement. ▪ It has healthy operating metrics (Unit EBITDA >1000/MT+) and industry leading volume growth (9% vol CAGR during FY18-23E) and has higher growth visibility driven by large expansions. ▪ It is currently trading at 14/12/10/9x FY24/25/26/27E consolidated EBITDA and at replacement cost of ~USD 90/MT FY25E	▪ Weak pricing/ demand. ▪ Delay/ cancellation of JP acquisition. ▪ Higher competition among players to gain market share. ▪ Slow ramp-up of expanded capacity
Brigade Enterprise	▪ High quality Southern Indian focused mixed-use developer ▪ Rentals of Rs 7bn and Hospitality EBIDTA of Rs 1.6bn to provide stable profitability in case of any residential downcycle. ▪ Robust Rs 11bn of CFO generation annually and near net cash residential business to aid future growth.	▪ Slowdown in real estate demand ▪ Input cost inflation. ▪ Limited presence in Southern India ▪ Any increase in mortgage rate may impact demand negatively
MCX	▪ Options volumes to drive growth. We estimate 30% revenue CAGR from FY24-FY27E with 73% contribution from option revenue to total revenue in FY27E. ▪ New products and shorter-duration contracts to become next driver of growth. There is a healthy pipeline of new products to be launched which were pending due to technology transition and management uncertainty. ▪ Transition in technology will lead to improvement in profitability. We estimate EBITDA margins to be 72.6% in FY27E. ▪ We value company at target price of INR 4,100, based on a P/E of 33x FY26E core PAT + net cash ex SGF.	▪ Further delay in launch of new products ▪ Appointment of MD is taking longer than expected

<table>
<tr><th></th><th>Investment rationale</th><th>Key risks</th></tr>
<tr><td>Amber Enterprises</td><td>▪ Amber, a dominant EMS player in the room AC (RAC) industry (value market share at c.29%), has evolved from being a pure-play RAC player to a comprehensive, backward integrated and diversified B2B solutions provider to the HVAC and electronics space.
▪ Over the past decade, Amber's revenue/PAT both have grown at 23% CAGR, led by
o Sustained market share gains in RAC.
o Integrated manufacturing facilities offering 65-70% of BoM to customers (increasing wallet share); and
o Diversification into electronics and mobility HVAC.
▪ In the wake of the changing RAC industry landscape (more in-sourcing from brands), Amber has proactively realigned its strategy by shifting focus towards the supply of components (market share up 450bps since FY21 despite falling CBU sales).
▪ Moreover, its presence in high-growth electronics (expanding user base) and railway mobility (increasing wallet share) segments through its acquired subsidiaries provides additional growth levers.</td><td>▪ Seasonality and general slowdown in consumption.
▪ Further increase in in-sourcing by brands.
▪ Any adverse change in government policies.</td></tr>
<tr><td>Happiest Minds Technologies</td><td>▪ Happiest Minds has a large roster of marquee customers (59 enterprise clients with revenue of USD 1bn+).
▪ The company has a high potential to scale which is supported by its service portfolio, approval ratings, strong execution, and stable leadership.
▪ Verticalisation of the business will enable the company to better capture the 'EN' growth supporting client mining.</td><td>▪ High exposure to T1 client and EdTech vertical exposure are risks.
▪ Value destructive acquisition and inefficient capital allocation can risk the growth trajectory.</td></tr>
<tr><td>Neogen Chemicals</td><td>▪ The growth momentum in the legacy business will remain intact, owing to
o Ramp-up in the recently commissioned capacity in the organic chemicals business and
o Impending capacity augmentation in the organic and inorganic chemicals business.
▪ The electrolyte business will start contributing to the revenue from FY26E and will account for almost 60% of the total revenue by FY30E.
▪ NCL acquired a 100% stake in BuLi Chemicals India Private Limited from Livent USA Corporation, one of the global leaders in speciality lithium technology. This acquisition provides the company with 40 skilled employees, a 120MTPA capacity plant with proprietary technology to manufacture niche chemicals, and a strong pharma and agrochemical customer base. The acquisition has synergies with the company's legacy business and will aid in the growth of its CSM business by providing lithiation reactions.
▪ NCL's EBITDA/APAT will grow at a CAGR of 39/45% over FY23-28E while RoE will improve from 11% in FY23 to 31% in FY28E. We are maintaining BUY recommendation with Sep-24E based target price of INR 213</td><td>▪ Getting approval from customers for electrolyte material supply.
▪ Delay in signing contract for commercial supply will be a risk.
▪ Recently announced EV policy promote EV imports. This may postpone development of domestic infrastructure for EV manufacturing and thus batteries.</td></tr>
</table>

Disclosure:
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