Retail Research

For Private Circulation Only

21st October, 2024

Investment aur Trust, Dono

Brighten up your investment portfolio with these

Diwali Picks 2024

Diwali Picks 2024

SBI Securities
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Company	CMP	Target	Upside
Coal India	₹ 492	₹ 593	20.5%
Macrotech Developers	₹ 1,161	₹ 1,398	20.4%
Bharti Hexacom	₹ 1,507	₹ 1,747	16.0%
Glaxosmithkline Pharma.	₹ 2,659	₹ 3,195	20.1%
Nippon Life India Asset Management	₹ 702	₹ 825	17.5%
Escorts Kubota	₹ 3,815	₹ 4,408	15.5%
Chalet Hotels	₹ 873	₹ 1,106	26.7%
Newgen Software Technologies	₹ 1,258	₹ 1,475	17.3%
Titagarh Railsystems	₹ 1,197	₹ 1,510	26.1%
PG Electroplast	₹ 617	₹ 735	19.1%
Arvind Fashions	₹ 601	₹ 725	20.7%
Kilburn Engineering	₹ 431	₹ 532	23.5%

Note: CMP is based on closing price as of 18th October 2024

Performance of previous year's Diwali Pick stocks

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Our Diwali picks of 2023 have delivered astonishing returns with a 100% strike rate. All 10 recommendations have achieved their target prices thus delivering on an average 27.2% return with an average holding period of 4 months (120 days). This translates into an annualized average return of a whopping 81.6%.

Performance of Diwali Picks - 2023

Sr No.	Company Name	Date of report	Rec. Price	Target Price	Booked Profit	% Return	Days to target	Highest price during the period	Highest price Date	Return % assuming highest price
1	Praj Industries	01-Nov-23	536.0	633.0	746.0	**39.2**	244.0	826.7	30-Sep-24	**54.2**
2	Titagarh Rail Systems	01-Nov-23	762.0	988.0	1,019.0	**33.7**	20.0	1,896.5	27-Jun-24	**148.9**
3	Mrs. Bectors Food Specialities	01-Nov-23	1,120.0	1,358.0	1,488.0	**32.9**	218.0	2,196.0	20-Sep-24	**96.1**
4	Goodluck India	01-Nov-23	850.0	1,072.0	1,110.0	**30.6**	72.0	1,345.0	18-Sep-24	**58.2**
5	Kalyan Jewellers India	01-Nov-23	289.0	364.0	375.0	**29.8**	65.0	786.0	23-Sep-24	**172.0**
6	Polycab India	01-Nov-23	4,922.0	5,877.0	6,350.0	**29.0**	194.0	7,607.2	15-Oct-24	**54.6**
7	Maruti Suzuki India	01-Nov-23	10,391.0	12,000.0	12,491.0	**20.2**	154.0	13,675.0	01-Aug-24	**31.6**
8	ICICI Bank	01-Nov-23	915.0	1,081.0	1,093.0	**19.5**	124.0	1,361.4	20-Sep-24	**48.8**
9	Kolte-Patil Developers	01-Nov-23	479.0	570.0	570.0	**19.0**	64.0	584.0	09-Jan-24	**21.9**
10	Ultratech Cement	01-Nov-23	8,422.0	9,800.0	9,957.0	**18.2**	41.0	12,138.3	27-Sep-24	**44.1**
		Average return (%)				**27.2**				**73.0**

Summary – SAMVAT 2080

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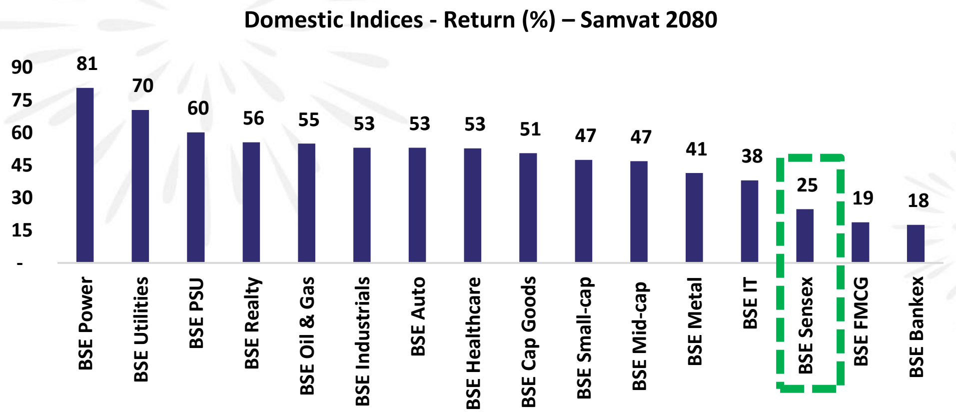
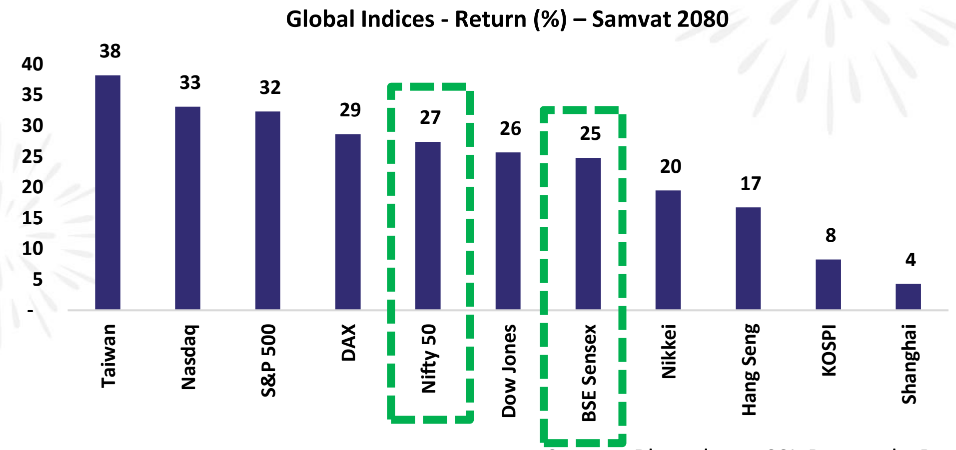
Stellar Returns Across Sectors in the past 1 year



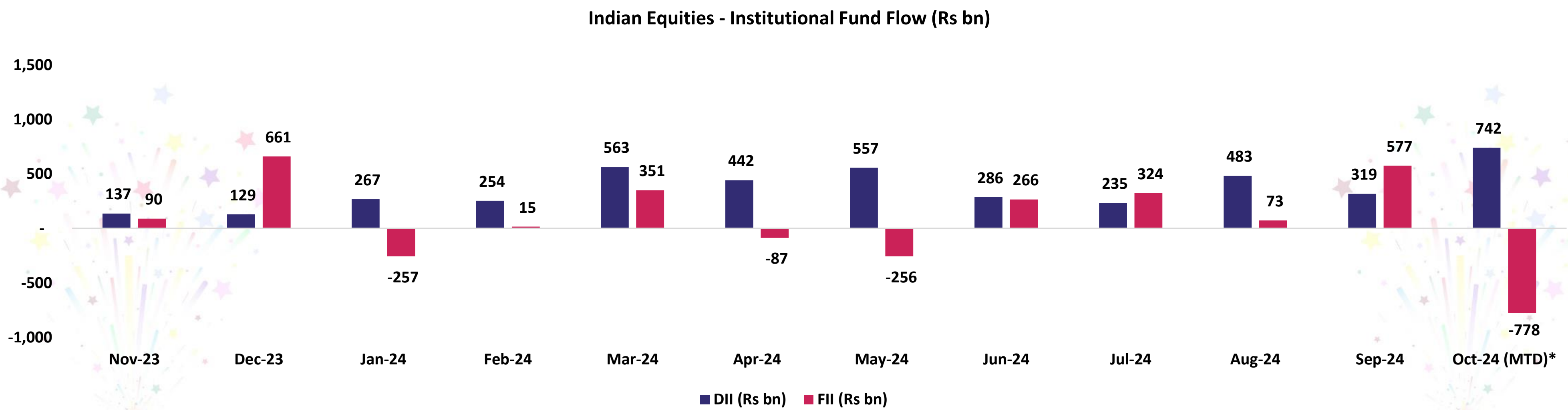
Source: Bloomberg;
Data Period: 10th Nov'23 - 17th Oct'24

Rally Across all the Major Global Indices



Source: Bloomberg, SSL Research; Data Period: 10th Nov'23 - 17th Oct'24

Fund Flows (Rs bn) – Aggressive selling by FIIs in 1st half of Oct'24; Countered by robust DII flows



*till 18th Oct'24
Source: NSDL/BSE

Summary – SAMVAT 2080

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- **Nifty 50 & Sensex scaled record highs during Samvat 2080:** During Samvat 2080, all the key global equity markets were on a roll and Indian benchmark equity indices were one of the best performing equity markets globally. During the year, Nifty50 and Sensex successfully conquered levels of 26,000 and 85,000 respectively in the midst of big events like interim & final Union Budget for FY24-25, general election in India, inflationary pressure in the developed world and rising geo-political conflicts. Between Diwali of 2023 and 17th Oct 2024, Nifty 50 and Sensex have delivered fabulous returns of 27% and 25% respectively. Broader markets considerably outperformed as BSE 500/BSE Midcap/BSE Small cap index posted gains of 35%/47%/47% respectively. Rally was seen across the board as companies from sectors like Railway, Defence, PSU, Power, Metals, Capital goods, Realty, Oil & Gas delivered astonishing returns.

- **Street managed to overcome multiple headwinds:** Domestic equity markets were resilient during the year despite multiple events and setbacks like (a) coalition government from Jun'24 onwards v/s full majority earlier (b) increase in short term / long term capital gains tax from 15%/10% earlier to 20%/12.5% respectively (c) escalation in geo-political tensions and pursuant volatility in commodity prices (d) increase in populist measures by State governments to woo the voters and (e) inflationary macro environment with flip-flop by global central banks on commencing interest rate cuts on one hand and Japan going in the other direction with tightening of monetary policy.

- **Robust domestic inflow in equity markets has been the biggest driver for the buoyant domestic equity market:** India's domestic equity inflows remained on strong footing with gross MF SIP inflow at record highs of Rs 24,509 cr in Sep'24, up 52.8% YoY. Net equity inflow in mutual fund during Nov'23-Sept'24 period grew by robust 165.6% YoY to Rs 3.1 trillion. DIIs have been pumping money consistently since last 14 months and have invested Rs 4.4 trillion during Nov'23-Oct'24 (till 18th Oct'24) period. During Nov'23-Sept'24 period, Indian capital markets have added 4.3 cr demat accounts taking the total tally to record highs of 17.5 cr.

Summary – SAMVAT 2080

- **Above average monsoon and healthy water reservoir levels augur well for farm sector:** Monsoon for 2024 ended 8% above long-term average rainfall and was well distributed. Except East & North-East (-14%), all other regions received excess rainfall.

- Moreover, pan India live storage available in 155 reservoirs is 157.7 BCM, which is 87% of the total live storage capacity of these reservoirs. The current year's storage is nearly 120% of last year's storage and 115% of normal storage. Except Northern region (-19%), all other regions have excess water levels as compared to normal storage. This augurs well for the Rabi crop and is likely to help in further taming food inflation.

- **Easing monetary policy and escalation in geopolitical tension:** US FED started the interest reversal cycle as it reduced interest rate by 50 bps in Sep’24 FOMC meeting for the first time in 4 years. The European Central Bank has cut interest rates by a cumulative 75 bps in CY24 as inflation subsides in the Eurozone. With controlled inflation, upbeat economic data and decent corporate earnings, the US is expected to have a soft landing. During the year, geopolitical tensions further escalated in Middle East thereby leading to disruption in global trade. This coupled with stimulus package from China to kick-start its economic growth led to high volatility in commodity prices.

Indian Macros - Solid As A Rock!!!

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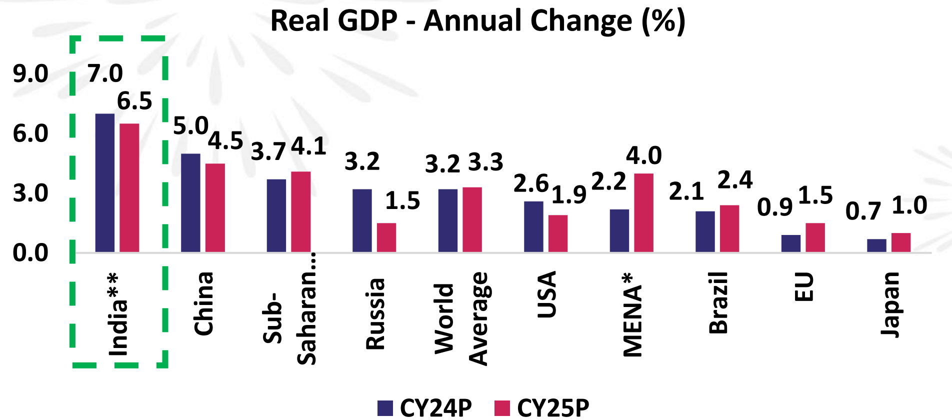
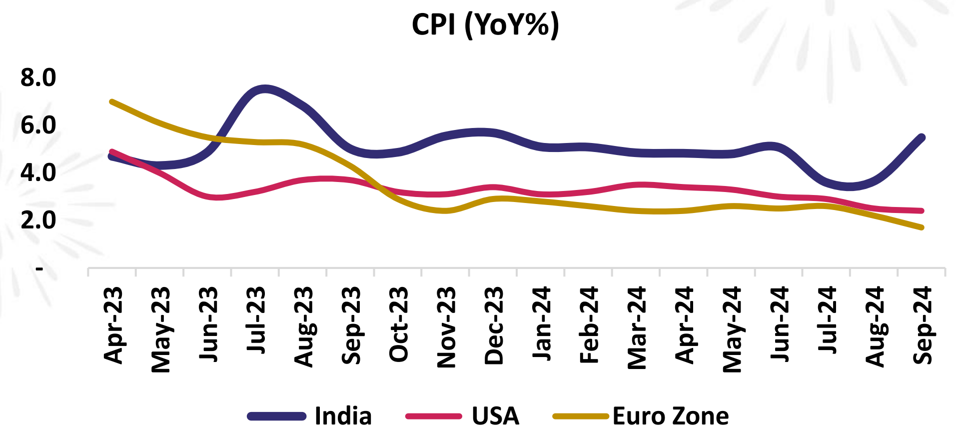
India – One of the Fastest Growing Economies in the World



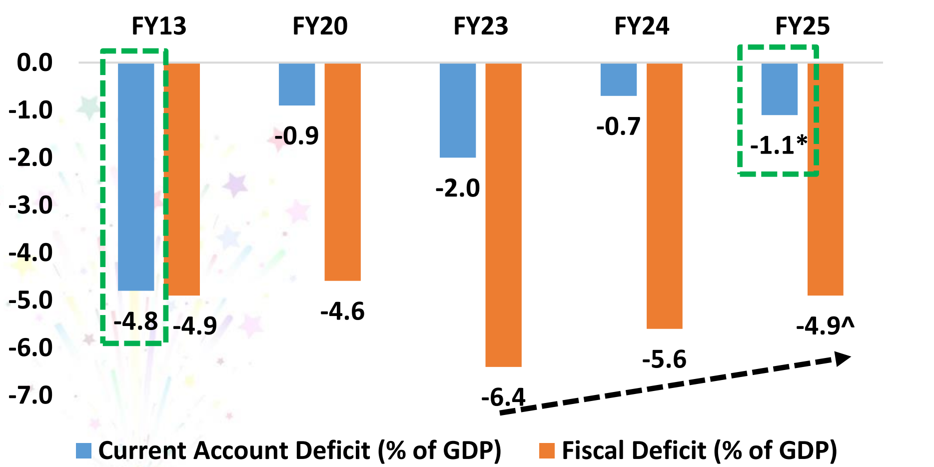
*Middle East and North Africa, **Fiscal year basis. Source: IMF, SSL Research

Inflation – Steady Decline across India and Developed Economies



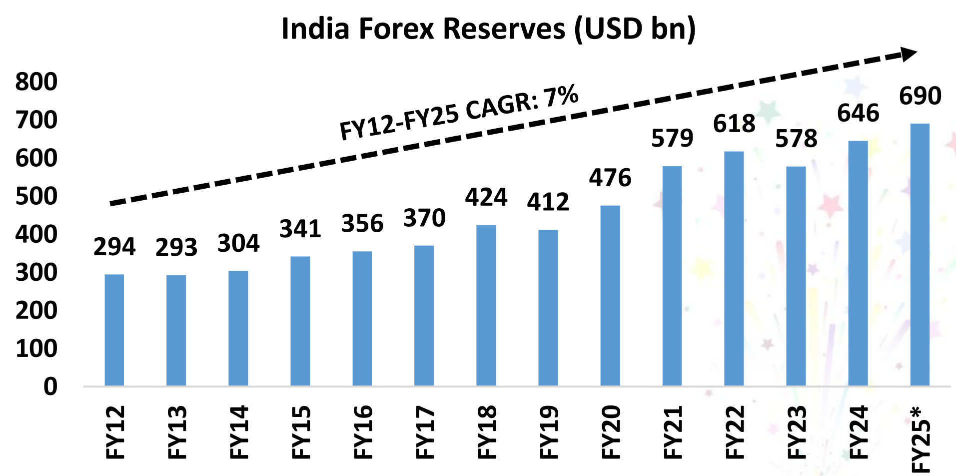
Source: Bloomberg

From Fragile 5 in FY13 to Top 5 Economy in FY24 – Manageable Twin Deficits



* As of Jun'24 ^ Projected for FY25 Source: Bloomberg, SSL Research

4th Largest Forex Reserves Globally; Covers 11 months of Imports



* As of Oct'24 Source: RBI

Indian Macros - Solid As A Rock!!!

1. **GDP Growth:** Indian economy will be the fastest growing amongst the large economies with 7.0% and 6.5% real GDP growth for the year FY25 and FY26 respectively (as per IMF estimates). The growth is underpinned by focus of government on capex led growth model, healthy corporate balance sheet, strong tax to GDP ratio and support to manufacturing sectors by multiple measures like ease of doing business and production linked incentive schemes.

2. **Fiscal Prudence:** Government of India is adhering to its fiscal glide path and is targeting levels of 4.9% of GDP in FY25E and 4.5% in FY26E. India's current account deficit is likely to be in the manageable range of 1.1-1.2% of GDP for FY25 (vs -0.7% in FY24, -2.0% in FY23 and -4.8% in FY13) despite of likely increase in import of gold post custom duty cut.

3. **Healthy Forex Reserves:** India's robust forex reserve at $690 bn (as of Oct'24) is the fourth largest globally and offers ~11 months of import cover. Healthy forex reserves coupled with FPI inflows in the domestic bonds (post inclusion in JP Morgan Emerging Markets Bond Index) has ensured that Indian rupee is relatively stable as compared to other emerging economies. FTSE Russell has recently announced inclusion of India's sovereign bonds to its Emerging Markets Government Bond Index (EMGBI) in Sept'25. This will lead to further increase in inflows into India's bond market.

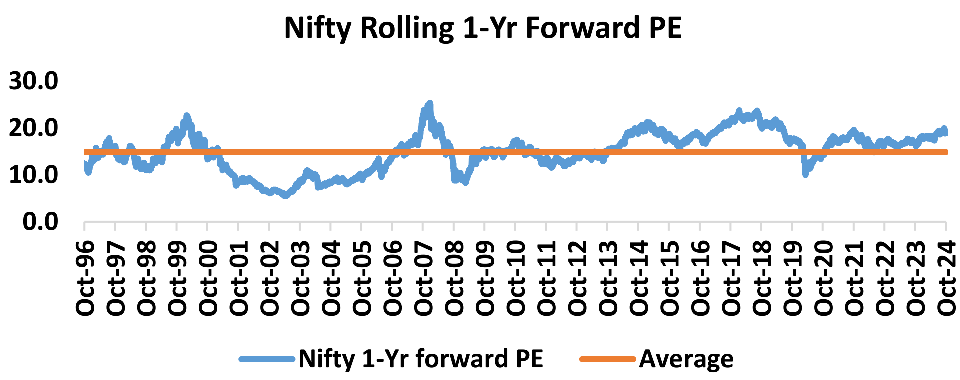
4. **Inflation under control; Monetary policy stance changed to neutral from liquidity withdrawal:** India's CPI, after peaking out at 7.4% in Jul'23, now stands at 3.7% which is the lowest reading in 5 years. We expect the monetary policy stance to shift from liquidity withdrawal to gradual interest rate reduction. In the recently concluded MPC meeting, RBI has left policy rate unchanged while the monetary policy stance changed to neutral from withdrawal of liquidity. We believe, this may be gradual step towards easing of policy rates.

5. **Robust Tax Collection:** Monthly GST collection has been consistently above Rs 1.7 trillion since Mar'24 and is on track for its annual target of Rs 25.8 trillion (net to Centre). Overall FY25E tax collection target of Rs 25.8 trillion seems to be achievable with FY25E nominal GDP growth estimate of 10.5% YoY.

Source: Company Presentation

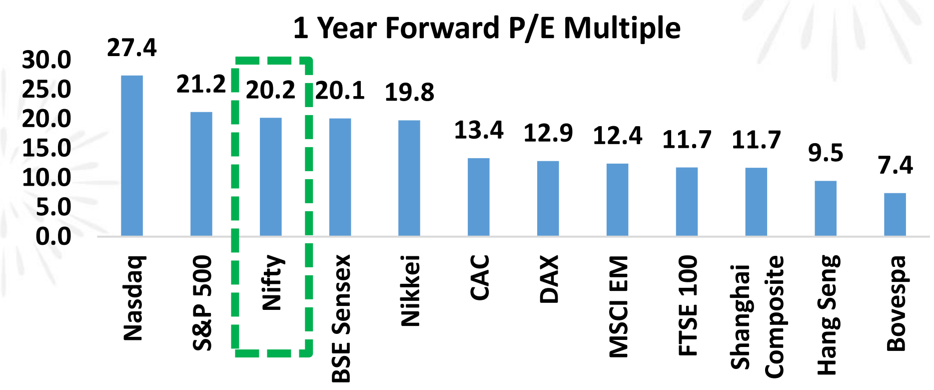
Valuation – Relatively expensive supported by 2-digit earnings growth

Valuation neither Cheap nor in Euphoric Zone



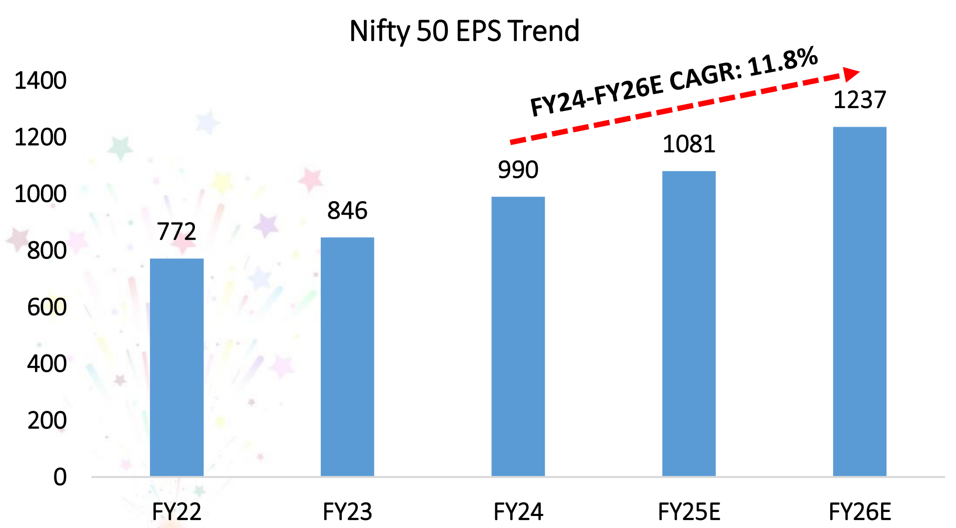
Source: Bloomberg, SSL Research

India trading at Relatively Premium Valuation



Source: Bloomberg, SSL Research

Earnings Growth Momentum likely to Moderate



Source: Bloomberg, SSL Research

Summary

- Nifty'50 is currently trading at a P/E ratio of 20.2x of its 1 Yr forward consensus earnings
- On a relative basis, Nifty'50 is trading at a premium valuation to the MSCI EM and China.
- The Nifty EPS is expected to grow at a CAGR of 11.8% between FY24A-FY26E.

Looking Forward - SAMVAT 2081
India – Year of Consolidation & Base Formation!!! Time to conserve the profits rather than taking aggressive leveraged bets!!!

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- **Low 2-Digit Earnings Growth for Nifty50 companies:** Nifty50 companies are likely to report 11.8% earnings CAGR during FY24-FY26E period to Rs 1,081 and Rs 1,237 in FY25E and FY26E respectively. Nifty50 has reported 26% earnings CAGR during FY20-FY24 period and data is clearly indicating that earnings growth momentum is slowing down. Nifty50 has delivered fabulous returns of 28% CAGR during FY20-FY24, thereby mimicking the strong earnings growth coupled with expansion in valuation multiples.

- If we track broader markets, NSE500 companies have reported robust 20% earnings CAGR during FY20-FY24 period. During FY25E and FY26E, a sample of top 200 companies by M-Cap are likely to report EPS growth of 10% and 18% YoY respectively implying 2-year earnings CAGR of 14%. This also implies that earnings growth momentum for broader markets is also slowing down. NSE500 has also delivered fantabulous returns of 32% CAGR during FY20-FY24 period.

- **Valuations neither in euphoric zone nor cheap:** On valuation front, Nifty50 is trading at FY25E/FY26E PE multiple of 20.2x/19.0x which is slightly higher than its long-term average PE and is also commanding significant premium to other EMs. The premium valuations are likely to sustain given the stable macros, policy and reform initiatives of the government and demographic tailwinds.

- **Inflation has peaked; Interest rate cuts likely for next 2-3 years; Domestic macros on strong footing:** As of now, data indicates that inflation has peaked out in most of the developed and emerging economies and various indicators likes employment, consumer spending etc are showing signs of slowdown in major economies like US, China, Europe etc. As the global central bankers adopt loose monetary policy, most of the economies are likely heading towards soft landing. If central banks globally are able to finely balance inflation and growth, then emerging markets like India are likely to benefit from stable commodity prices, healthy exports coupled with structural uptick in domestic consumption. Strong macros on domestic front like low debt/GDP ratio, controlled twin deficit, record high forex reserves with 11 months of import cover, stable currency, buoyant tax collection, robust capex by government and robust capex pipeline by the private sector, etc in the backdrop will ensure that India continues to be one of the most attractive investment destinations for global investors too.

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India – Year of Consolidation & Base Formation!!! Time to conserve the profits rather than taking aggressive leveraged bets!!!

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- **Strong domestic liquidity coupled with tightening capital market regulations is likely to act as saviour during drawdown:** Gross Monthly SIP contribution in equity mutual funds continues to scale fresh record highs (Rs 24,500 cr in the month of Sep'24) and is up 48.3% YoY during the Apr'24-Sep'24 period at Rs 1,33,925 cr. This, coupled with the total demat accounts breaching the 17 cr mark in Sep'24, will attract fund flows from DIIs, PMS/AIFs/Family Office and retail investors at lower levels, in case of any deep correction due to an unknown factor. Spate of IPOs and QIPs, especially from the large companies, can drain out significant liquidity which can keep the secondary markets sideways for some time. Capital market regulator is gradually tightening the regulations and these measures will go long way in ensuring that no major froth is created in the system. Moreover, new clients who have joined capital market bandwagon are likely to stay in the system for long term.

- **Bumper kharif harvest and strong rabi season to drive rural recovery starting 2HFY25:** India's consumer sector which has been in the doldrums for the last 2.5 years due to multiple factors such as high inflation, sub-par monsoon, slowdown in the IT sector is showing signs of gradual revival led by the rural belt. The monsoon in 2024 was above normal which coupled with higher acreage and MSPs should boost farm incomes and trigger recovery across rural focused sectors such as automobiles, tractors, FMCG, discretionary consumption especially jewellery, consumer durables and building materials. The expected recovery in the Indian IT sector should also lead to more hiring in the sector which will boost urban consumption especially in segments such as QSR, apparel, footwear, travel and tourism.

- **Our View:** Nifty50/Nifty Next 50/Nifty Midcap/Nifty Smallcap/NSE 500 have delivered compounded return of 28%/31%/43%/44%/32% during FY20-FY24 period. Taking into account the holistic view, we believe that, SAMVAT 2081 can be the year of consolidation for first few months followed by likely beginning of uptrend post next Union Budget 2025-26 which is likely to be presented in the month of Feb'25. Meanwhile, in the short term, markets are likely to remain choppy on the back of multiple events like US elections and pursuant global trade policies, ongoing geo-political tension, outcome of state elections and government policies (reform-led or populist).

- **We believe that SAMVAT 2081 is likely to be bottoms-up stock pickers market. Investors should adopt trading/investment strategy so as to preserve the wealth created post Covid pandemic and temper down return expectations for the next 6-12 months. New investors should adopt gradual and well spread-out capital deployment strategy for next 3-6 months so as to reap benefits in the second half of Samvat 2081.**

- **Sector to focus on: Consumption, Auto, BFSI (Banks, AMCs, Insurance, NBFC, Stock market intermediaries), Real Estate, Travel & Tourism, Engineering & Cap Goods, Railway Wagons, Telecom and fast growing sectors like Renewables, EMS, etc.**

Key Risk Factors

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1 **Geopolitics continues to dominate headlines**

The world is facing geopolitical risks on multiple fronts viz Middle-East, Russia-Ukraine, China-Taiwan, North and South Korea, etc. Risk of advance tools like cyberattack and biological warfare cant be ruled out. These risks can potentially derail the soft-landing hopes as central bankers begin to cut interest rates. The spike in crude oil prices and movement of liquidity towards safer haven (Gold) and USD can lead to risk-off sentiment in equity and other risky asset classes.

2 **US Presidential Election**

The upcoming US Presidential Elections will rule the investment decisions of investors in near term. The new government's immigration policy, tariff structure, and corporate taxes could potentially impact movement of capital and world currency markets.

3 **State Election Outcome**

Maharashtra, home to India's commercial capital Mumbai and Jharkhand will undergo assembly elections in the month of Nov'24. While recent election outcome in Haryana was a sigh of relief for market, upcoming state election outcomes will be a big event to be tracked.

4 **Volatile FII Flows**

With recent unleashing of Chinese stimulus, the market witnessed massive outflow during 1st half of Oct'24. For YTD 2024, FIIs have net bought Rs 22,800 cr, however Oct'24 MTD saw a net outflow of Rs 77,800 cr. The volatility in FIIs movement can keep market choppy. The huge outperformance of India over other emerging markets, including China, makes Indian indices overvalued in the near term.

Key Events to Track

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1 **US Presidential Election**

The US Presidential elections will be held on 5th Nov followed by the outcome on 6th Nov.

2 **State Assembly Elections**

The States of Maharashtra and Jharkhand will go to the polls in Nov'24 followed by Delhi in Feb'25.

3 **Global Central Bank Meetings & Chinese Fiscal Stimulus**

The trajectory of future rate cuts in USA, Europe and UK will be keenly watched given the dimming growth outlook in these economies, high debt levels and the persistent geopolitical tensions. In India, RBI is expected to begin its interest rate reduction cycle. China is expected to unveil a raft of fiscal stimulus measures to pump the economy

4 **Budget 2025**

The Union Budget 2025 in Feb'25 will be keenly tracked for any major policy announcements especially in key sectors such as Defence, Infrastructure, Rural and Agriculture.

Coal India

CMP:	**₹ 492**
Target:	**₹ 593**
Upside:	**20.5%**

STOCK DATA	
Bloomberg Code	COAL IN
NSE Code	COALINDIA
BSE Code	533278
Mcap (Rs cr)	3,03,052
52 Week High/Low (Rs)	505/303
Del. Volume in lakh (3M/12M)	49.9/55.2

Rs cr	FY23A	FY24A	FY25E	FY26E
Net Sales	1,38,252.0	1,42,324.0	1,46,570.6	1,57,905.9
EBITDA	44,232.0	47,971.0	47,813.5	52,617.2
PAT	31,723.0	37,369.0	36,126.4	39,467.4
OPM (%)	32.0%	33.7%	32.6%	33.3%
RoE (%)	52.1	45.2	38.8	34.5
PE (x)	9.5	8.1	8.6	7.9
P/BV (x)	5.0	3.7	3.0	2.4

Source: Company, NSE, Bloomberg, SSL Research

Note: CMP as of 18th Oct 24 closing

Coal India Ltd, a 'Maharatna company', operating under the aegis of the Ministry of Coal, Government of India, is a prominent player in the global energy landscape. The company operates 84 mining areas spread across eight states and currently owns 313 mines, including 168 open cast, 131 underground and 14 mixed mines. It operates 12 coal washeries including 10 coking coal and 2 non coking washeries with a total operable washing capacity of ~29.35 million tonnes (mnt).

Investment rationale:

Volume guidance: During FY24, CIL achieved highest ever production/offtake of 773.6 mnt/753.5 mnt. For FY25/FY26, the company has set an ambitious production target of 838 mnt/1 billion tonnes (bt). Total production/dispatches during Apr'24-Aug'24 stood at 290.4 mnt/310 mnt (+3.2% YoY/1.4% YoY), of which ~81% was supplied to the thermal power industry. The company expects favourable demand from key sectors such as power and steel.

Infrastructure Building (First mile connectivity projects): CIL has taken steps to upgrade the mechanized coal transportation and loading system under 'First Mile Connectivity' (FMC) projects. 72 FMC projects of 837.5 MTPA capacity is being built in four phases which would require a total capex of Rs 24,750 cr. These projects will enable the company to augment mechanized evacuation from 151 MTPA (as on Aug'19) to 988.5 MTPA by FY29.

Cost Control Initiatives: The company has 131 underground mines (UG) which employs around 36.73% of the workforce contributing 3.24% of total production. The company is taking action to close the unviable mines in a phased manner. Production from 19 underground mines has already been suspended from FY21-FY24. This will aid the company in reducing cost thereby driving productivity.

Diversification into non-coal minerals: Recently, CIL ventured into graphite mining by becoming the preferred bidder for the Khattali Chotti graphite block located in Alirajpur district of Madhya Pradesh. Graphite is vital for various industrial applications such as manufacturing lithium-ion batteries, which are pivotal for the expanding electric vehicle market and energy storage systems. India currently imports about ~69% of its graphite requirements spanning natural, synthetic and end use products. The company's move into graphite mining is apt given the market demand for graphite is expected to increase by 25%-27% CAGR by FY35.

Reasonable valuation: At current price, the stock is trading at FY25E/FY26E EV/EBITDA multiple of 5.7x/5.2x of its Bloomberg consensus earnings estimate. CIL's dividend yield is 5.2%, which offers cushion during significant correction in the stock price.

Key Risks: Regulatory challenges; Increase competition from private players

Macrotech Developers

SBI Securities
Investment aur Trust, Dono

CMP:	**₹ 1,161**
Target:	**₹ 1,398**
Upside:	**20.4%**

STOCK DATA	
Bloomberg Code	LODHA IN
NSE Code	LODHA
BSE Code	543287
Mcap (Rs cr)	1,15,547.4
52 Week High/Low (Rs)	1,650/702
Del. Volume in lakh (3M/12M)	7.3/8.2

Rs cr	FY23A	FY24A	FY25E	FY26E
Net Sales	9,470.4	10,316.1	13,434.4	16,130.3
EBITDA	2,066.2	2,675.7	3,824.5	4,815.5
PAT	489.5	1,554.2	2,540.7	3,312.4
OPM (%)	21.8	25.9	28.5	29.9
RoE (%)	4.0	10.3	13.5	15.1
PE (x)	236.1	74.3	45.5	34.9
P/BV (x)	9.1	6.6	5.7	4.9

Source: Company, NSE, Bloomberg, SSL Research

Note: CMP as of 18th Oct 24 closing

Macrotech Developers Ltd (Lodha) is among the largest real estate developers in India having core business of developing residential real estate with presence across luxury, premium, mid-income and affordable segments. It is focused on residential development in the MMR (10% market share), with some projects in Pune and Bengaluru as well. It has a market leading position in Mumbai and Thane. Lodha has created several iconic landmarks across the MMR notable among which are The World Towers, Lodha Altamount, Lodha Park, Lodha New Cuffe Parade and Palava City.

Investment rationale:

Leading real estate developer with strong brand name: Lodha has a track record of 4 decades in the real estate development across residential, commercial and warehousing segments. It has a premium brand positioning and a very high recall. Lodha has delivered more than 95 million sq. ft. of real estate and is currently developing over 103.1 mn sq. ft. under its ongoing and planned portfolio as of FY24.

Diversified portfolio with gradually building annuity income pool: It has a diversified portfolio with ~40 operating projects contributing to sales. The company is gradually building its annuity income pool such as Office & Retail, Facilities Management and Digital Infrastructure (warehousing & industrial). Lodha has a target to reach net annuity income of ~Rs 500 cr by FY26 and ~Rs 1,500 cr by FY31. As of Jun'24, it has Office & Retail assets with rent potential of ~Rs 350 cr per annum.

Strong financial profile: The company generates strong operating cash flows in the range of Rs 2,500-2,700 cr which gives ability to grow and deleverage. Ove the last 5 years, the company has reduced its gross debt by Rs 15,683 cr from Rs 23,363 cr in FY19 to Rs 7,680 cr in FY24. The company aims to have a conservative leverage with net debt/equity ceiling of 0.5x.

Near term guidance: The company aims to grow its pre-sales by 20% CAGR over FY24-26E to ~Rs 21,000 cr and grow RoE by ~300 bps to ~20% by FY26. The company has a robust launch pipeline of 18 projects for FY25 with estimated Gross Development Value (GDV) potential of Rs 11,980 cr.

Reasonable valuation: At current price, the stock trades at FY25E/FY26E Price-to-Presales ratio of 6.6x/5.5x respectively. Looking at he healthy growth guidance, we believe the fair value of the stock lies at Rs 1,398 per share for medium to long term.

Key Risks: Delay in project execution; Slower-than-expected collections and sales velocity; Significantly high debt-funded investments

Bharti Hexacom

CMP:	**₹ 1,507**
Target:	**₹ 1,747**
Upside:	**16.0%**

STOCK DATA	
Bloomberg Code	BHARTIHE IN
NSE Code	BHARTIHEXA
BSE Code	544162
Mcap (Rs cr)	75,258
52 Week High/Low (Rs)	1,568/755
Del. Volume in lakh (3M/12M)	2.4/6.8

Rs cr	FY23A	FY24A	FY25E	FY26E
Net Sales	6,579.0	7,088.8	8,453.4	10,020.7
EBITDA	2,785.7	3,058.2	3,858.2	4,673.8
PAT	549.2	504.4	1,193.2	1,715.1
OPM (%)	42.3	43.1	45.6	46.6
RoE (%)	14.0	11.4	23.9	29.5
PE (x)	137.2	149.3	63.1	43.9
P/BV (x)	17.9	16.2	14.1	12.0

Source: Company, NSE, Bloomberg, SSL Research

Note: CMP as of 18th Oct 24 closing

Bharti Hexacom Ltd is a telecom service provider operating in Rajasthan and North-East states. Bharti Airtel Ltd currently holds a 70% stake in the company as of Sep'24.

Investment rationale:

Established Leadership and Large Customer Base: The company operates in Rajasthan and in the North East telecommunication circles comprising the states of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura. As of Mar'24, the company has a customer base of 28 Mn.

Solid infrastructure network: Over the years, the Company has deployed an extensive network infrastructure and continuously expands it to meet the growing demand for connectivity and high-speed data. The company had 25,704 network towers along with Mobile broadband (MBB) base stations of 79,835 as of Mar'24

Leverage from the parent; Acquired 15 MHz spectrum: The Company's relationship with Bharti Airtel yields significant synergies, including access to digital infrastructure, an experienced management team, and more. In the first spectrum auction during 1QFY25, the company purchased about 15 MHz of spectrum in the sub-gigahertz and in the mid-band range. The total cost to the company was about Rs.1,000 cr. This acquisition will enhance the service offerings in the long term.

Strong 1QFY25 earnings; Tariff repairs helped in decent ARPU growth: Along with industry, Bharti Hexacom also took up the tariff hike in the prepaid segment. ARPU as of Jun'24 stood at 205 which is close to it's parent Bharti Airtel at 211. During 1QFY25 the company reported 13.6%/5.5%/101.9% YoY growth in Revenue/EBITDA/PAT at Rs 1,910.6 cr/ Rs 875.6 cr/ Rs 511.2 cr respectively. Profit growth was aided by an exceptional gain of Rs 318.3 cr on favourable Supreme Court judgement regarding waiver of interest on the tax treatment of adjusted revenue linked Variable License Fee payable to the telecom department.

Valuation : For FY24-FY26E, we expect Revenue/EBITDA/PAT to grow at a CAGR of 18.9%/23.6%/84.4% respectively to Rs 10,020.7 cr/ Rs 4,673.8 cr/ Rs 1,715.1 cr respectively. At CMP, the stock is trading at a PE multiple of 63.1x/43.9x of its FY25E/FY26E earnings respectively.

Key Risks: High capex requirement in infrastructure rollout; Price sensitive market (ARPU is one the lowest in the world); Regulatory risks.

GlaxoSmithKline Pharmaceuticals

CMP:	**₹ 2,659**
Target:	**₹ 3,195**
Upside:	**20.1%**

STOCK DATA	
Bloomberg Code	GLXO IN
NSE Code	GLAXO
BSE Code	500660
Mcap (Rs cr)	45,446
52 Week High/Low (Rs)	3,088/1,385
Del. Volume in lakh (3M/12M)	0.6/1.0

Rs cr	FY23A	FY24A	FY25E	FY26E
Net Sales	3,251.7	3,453.7	3,699.8	4,148.2
EBITDA	804.3	908.7	1,064.7	1,200.1
PAT	608.6	733.6	846.4	965.1
OPM (%)	24.7	26.3	28.8	28.9
RoE (%)	27.6	41.7	43.8	43.1
PE (x)	74.7	62.0	55.1	47.1
P/BV (x)	26.1	25.6	22.6	19.8

Source: Company, NSE, Bloomberg, SSL Research

Note: CMP as of 18th Oct 24 closing

GlaxoSmithKline Pharmaceuticals Ltd (GSK) is a subsidiary of GSK Plc, UK a global pharmaceutical and healthcare provider. The company operates in India under three business verticals – i) general medicine (GenMed), ii) vaccines and iii) specialty. GSK holds around 23.5% market share in the self-pay vaccine market and operates 7 brands which are in the Top 100 in the Indian pharmaceutical markets as of FY24.

Investment rationale:

Continued traction in vaccine business: The company is market leader in vaccines with Boostrix and Infanrix holding 89% and 50% market share respectively as of FY24. In 1QFY25, the overall vaccine segment slowed down to 8% YoY, however sales of its key brands Havrix and Boostrix grew in double-digits. Shingrix vaccine grew 17% QoQ in 1QFY25 and is now administered to ~7,000 patients per month.

GenMed business growth driven by large brands: GenMed business which contributed ~79% of 1QFY25 revenue grew 10% driven by better volumes in key brands such as Augmentin, Calpol and T-Bact. Future growth in GenMed is expected to be driven by oncology brands (Zejula and Jemperli) which are expected to be commercialized in FY25.

Digital acceleration to boost base business: GSK transformed and optimized its GenMed business in 3QFY24 through increased omnichannel activation and field force rationalization. The company re-drew its strategy for reach and coverage to healthcare providers and moved to an objective prescriber centric model. Through this strategy the company saw engagement and reach towards healthcare professionals increasing 2.0x - 2.5x in the short term.

Robust future plans: The company plans to deliver double-digit growth in the upcoming years and plans to impact the lives of over a billion Indians. The company plans to deliver exceptional new launches for driving innovation growth led by the adult shingles vaccine brand Shingrix. The company expects its base business to maintain its EBITDA margin in the range of 28%-29% complemented by its continued momentum in its base business.

Valuation: For FY24-FY26, we expect Revenue/EBITDA/PAT to grow at a CAGR of 9.6%/14.9%/14.7% to Rs 4,148.2 cr/Rs 1,200.1 cr/Rs 965.1 cr respectively. At CMP, the stock is trading at P/E multiple of 55.1x/47.1x of its FY25E/FY26E earnings respectively.

Key risks: Shifts in regulatory environments; Sudden increase in raw material prices; Inclusion of key products in NLEM.

Nippon Life India Asset Management

CMP:	₹ 702
Target:	₹ 825
Upside:	17.5%

STOCK DATA	
Bloomberg Code	NAM IN
NSE Code	NAM-INDIA
BSE Code	540767
Mcap (Rs cr)	44,541
52 Week High/Low (Rs)	749/345
Del. Volume in lakh (3M/12M)	6.1/6.2

Rs cr	FY23A	FY24A	FY25E	FY26E
Net Sales	1,512.0	2,036.0	2,451.2	2,736.4
EBITDA	957.0	1,386.0	1,362.7	1,598.4
PAT	723.0	1,107.0	1,251.4	1,435.5
OPM (%)	47.8	54.4	51.1	52.5
RoE (%)	20.6	27.8	32.0	34.8
PE (x)	60.6	40.0	34.5	30.4
P/BV (x)	12.5	11.1	10.7	10.2

Source: Company, NSE, Bloomberg, SSL Research

Note: CMP as of 18th Oct 24 closing

Nippon Life AMC, the fourth-largest asset management company (AMC) in India by quarterly average assets under management (QAAUM), has a 30-year track record and manages an AUM of Rs 6 trillion. With over 1,04,300 distributors, 26.3 million investor folios, and 1,046 employees across 263 locations, it has one of the largest investor base in the industry, holding 37.4% of unique investors as of Jun'24. Its retail AUM share stands at 27%, matching the industry average. The AMC commands 17.8% market share in ETF.

Investment rationale:

Increasing contribution of Equity & ETF AUM; Strong momentum in SIP Book: Nippon Life AMC has seen impressive growth in its share of Equity & ETF AUM to 49.8% / 26.8% in Jun' 24 from 44.5% / 23.5% in Mar'23. Additionally, the company has experienced strong momentum in SIP flows, with a 63% growth in folios at 8.4 mn and a 64% rise in AUM at Rs 1.2 trillion in 1QFY25. Going forward, focus of the company is on increasing contribution of higher-margin segments like equity to further boost its profitability.

AUM growth likely to be in double digit: AUM growth for Nippon Life AMC is likely to be 20%+ CAGR during FY24-26E period. Given the granularity of the business and with Nippon AMC boasting of a strong retail franchise, the company will be able to maintain a strong net sales growth. In addition, MF penetration in India is low as % of GDP at 17% vs global average of 65%.

Strong investment in distribution network will drive growth: As a non-bank-owned AMC, Nippon Life AMC continues to invest in technology and infrastructure, focusing on expanding into smaller cities (B-30 locations) and leveraging digital customer acquisition to extend its distribution reach. Nippon Life AMC works with over 104,000 mutual fund distributors and 97 banks. Its Rural and Emerging Market Group (REMG) focuses on expanding into B-100 markets, ensuring growth in smaller towns across India. Operating expenses, excluding ESOP costs, are projected to grow between 12%-13% in FY25.

Product Pipeline and International Expansion: The management plans to launch new products, focusing on passive investments such as ETFs and index funds. Internationally, strong equity inflows from various regions are anticipated to continue, while the company is also expanding resources in its alternative investment business.

Reasonable valuation: At current price, the stock is trading at P/E multiple of 34.5x/30.4x of its FY25E/FY26E consensus EPS Bloomberg estimates.

Key Risks: Yield Compression and deterioration in the market share of equity

Escorts Kubota

CMP:	**₹ 3,815**
Target:	**₹ 4,408**
Upside:	**15.5%**

STOCK DATA	
Bloomberg Code	ESCORTS IN
NSE Code	ESCORTS
BSE Code	500495
Mcap (Rs cr)	42,245
52 Week High/Low (Rs)	4,422/2,647
Del. Volume in lakh (3M/12M)	1.1/1.1

Rs cr	FY23A	FY24A	FY25E	FY26E
Net Sales	8,429.0	8,850.0	9,977.8	11,342.5
EBITDA	770.0	1,167.0	1,371.8	1,583.5
PAT	637.0	1049.0	1266.1	1407.6
OPM (%)	9.1	13.2	13.7	14.0
RoE (%)	7.8	11.4	12.5	12.9
PE (x)	78.6	39.9	29.6	25.8
P/BV (x)	5.2	4.6	4.2	3.8

Source: Company, NSE, Bloomberg, SSL Research

Note: CMP as of 18th Oct 24 closing

Escorts Kubota Ltd (EKL) is one of India's leading tractor manufacturers specializing in farming and construction equipment manufacturing. The company has over seven decades of experience in manufacturing and sale of agri-machinery, construction and material handling equipment, and railway equipment.

Investment rationale:

Large diversified product portfolio: EKL has a wide product portfolio ranging from 12 HP to 120 HP tractors. The company has 6 manufacturing plants (excluding JVs and subsidiaries) out of which 3 plants are for tractor manufacturing with a capacity of over 1.2 million units per annum. It is also one of the largest pick-and-carry hydraulic mobile crane players in the domestic market with a capacity of 10,000 units. It also manufactures brake systems, couplers, suspension systems, shock absorbers, and rail fastening systems for railways.

Widespread distribution network: EKL has 1,200+ dealers with a pan India presence. The company is continuously taking initiatives to grow its presence in the Southern and Western markets of the country, thus establishing itself as a truly pan-India player. The merger with Kubota India will further strengthen its presence in the Southern India market where EKL currently is not a strong player.

Emerging as an export hub: EKL through its partnership with Kubota Ltd is looking to grow its exports by leveraging Kubota Corp's wide global network. It currently exports its tractors to 63 countries. Starting 3QFY25, EKL plans to introduce export specific products for the European market. Kubota Corp too is looking at increasing the sourcing from India to 15-20% of its global procurement by 2030 vs ~9% currently.

Favourable base: The domestic tractor industry volumes have been flattish since FY21 due to multiple headwinds such as irregular rainfall, low crop prices impacting farmer incomes and rise in overall tractor costs. All these factors are now expected to reverse in 2HFY25 raising the prospects of a cyclical recovery for the industry. Tailwinds such as bumper kharif output, prospects of a strong rabi season and higher MSPs on all the major crops are expected to boost farmer income and drive tractor demand. The tractor industry is expected to grow in mid to high single digit in FY25E.

Reasonable valuation: At current price, the stock is trading at FY25E/FY26E P/E of 29.6x/25.8x respectively. Multiple triggers such as expanding product portfolio, strengthening of the distribution network, increased sourcing by Kubota Corp for its global operations and healthy demand environment are expected to drive 16% CAGR earnings growth over FY24-26E.

Key Risks: Delayed recovery in the industry; Slowdown in exports

Chalet Hotels

SBI Securities
Investment aur Trust, Dono

CMP:	**₹ 873**
Target:	**₹ 1,106**
Upside:	**26.7%**

STOCK DATA	
Bloomberg Code	CHALET IN
NSE Code	CHALET
BSE Code	542399
Mcap (Rs cr)	19,059.4
52 Week High/Low (Rs)	958/535
Del. Volume in lakh (3M/12M)	0.8/1.2

Rs cr	FY23A	FY24A	FY25E	FY26E
Net Sales	1,128.5	1,417.3	1,802.5	2,122.2
EBITDA	452.8	584.6	807.2	997.3
PAT	183.3	278.2	379.4	536.5
OPM (%)	40.1	41.2	44.8	47.0
RoE (%)	12.7	16.4	14.7	15.0
PE (x)	104.0	68.5	50.2	35.5
P/BV (x)	12.4	10.3	5.8	4.9

Source: Company, NSE, Bloomberg, SSL Research

Note: CMP as of 18th Oct 24 closing

Chalet Hotels Ltd (CHL) is the hospitality arm of India's leading real-estate developer K Raheja Corp Group. It is the owner, developer, asset manager and operator of hotels and resorts in the Mumbai Metropolitan Region (MMR), Hyderabad, Bengaluru, National Capital Region (NCR), Lonavala and Pune. It also has significant interests in commercial assets located in MMR and Bengaluru.

Investment rationale:

Diversified asset portfolio: CHL has diversified portfolio of assets comprising of hospitality, commercial space and residential real estate. It derives majority revenue from hospitality segment and has 10 operational hotels with 3,052 room keys as of Jun'24. Commercial assets comprise of 2.4 mn sq. ft. of leasable space consisting of The Orb – Retail & Office Tower, CIGNUS Powai Tower I and CIGNUS Whitefield Bangalore Tower I & Tower II. Residential real estate comprises of 1 mn sq. ft. with unsold inventory of 0.3 mn sq. ft. (100 units) as of Jun'24. Healthy cash flows from the commercial real estate space helps in sustaining overall cash position of the company.

Tie-up with high-end international hotels: The company has strong tie-ups with renowned international hospitality brands such as Marriott International Inc. and Accor Hotels. Properties such as JW Marriott, The Westin, Four Points by Sheraton, Courtyard and Lakeside are managed under the brands of Marriott International Inc. Novotel property is managed under the Accor brand.

Robust room addition pipeline: CHL is building a pipeline to increase its hospitality keys by ~28% and office space by ~37% by FY27 to 3,917 keys and 3.3 mn sq. ft. from the present room keys and office space of 3,052 and 2.4 mn sq. ft. respectively. The company will also add franchise model to its portfolio with an addition of 385-390 keys of Taj at Terminal 3, Delhi Airport (likely commissioning in FY26) and 280 keys of Hyatt Regency at Airoli, Mumbai (likely commissioning in FY27). The total capex plan for the expansion is Rs 1,500 cr out of which Rs 650 cr will be utilised for commercial towers, Rs 600 cr for hotel additions and balance for repairs.

Healthy financial track record: CHL has demonstrated healthy operational performance with its Revenue/EBITDA/PAT growing at a CAGR of 9.6%/14.8%/29.1% respectively in last four years. EBITDA margin has improved ~700 bps from 34.4% in FY20 to 41.3% in FY24. Post QIP in Apr'24, the company's D/E has also improved significantly to 0.6x as of Jun'24 from 1.5x as of Mar'24.

Reasonable valuation: At current price, the stock trades at FY25E/FY26E PE multiple of 50.2x/35.5x respectively.

Key Risks: Cyclicality in hotel revenues; Geographical concentration; Rise in competition

Newgen Software Technologies

CMP:	**₹ 1,258**
Target:	**₹ 1,475**
Upside:	**17.3%**

STOCK DATA	
Bloomberg Code	NEWGEN IN
NSE Code	NEWGEN
BSE Code	540900
Mcap (Rs cr)	17,587
52 Week High/Low (Rs)	1,548/511
Del. Volume in lakh (3M/12M)	1.6/1.7

Rs cr	FY23A	FY24A	FY25E	FY26E
Net Sales	974.0	1,243.8	1,522.8	1,907.7
EBITDA	212.2	288.3	357.9	448.3
PAT	177.0	251.6	311.1	393.5
OPM (%)	21.8	23.2	23.5	23.5
RoE (%)	20.9	24.3	24.6	25.7
PE (x)	99.7	70.1	56.7	44.8
P/BV (x)	19.1	15.4	12.8	10.5

Source: Company, NSE, Bloomberg, SSL Research

Note: CMP as of 18th Oct 24 closing

Newgen Software Technologies Ltd is predominately a software product organization operating in the B2B segment. The company derives revenue from the sale of software licenses. It derives 60% of its business from license fees and the remaining 40% from services, implementation support etc.

Investment rationale:

A R&D focus company: The company is a R&D focus organisation primarily focused on software product development. It has 32 years of experience and is operating in 17 verticals primarily in Banking & FS, Insurance and Government. The company has filed 45 patents with 24 patents already granted. It's a highly competitive business. The deal size ranges between $ 0.7 to $ 2 million.

Diversified revenue base: The company has a diversified revenue base with evenly spread across different geographies. India/EMEA/USA/APAP (Ex-India) contributes 30%/33%/22%/15% revenue as of 1HFY25. It serves large enterprises in the areas of Banking, Insurance, Government and others. Banking and FS account for 72% of revenue.

Delivered strong performance during 2QFY25: Newgen has delivered strong performance with Revenue/EBITDA/PAT up 23.2%/45.1%/47.1% YoY to Rs 361.2 cr/ Rs 83.0 cr/ Rs 70.3 cr respectively. The company has delivered strong performance led by growth across all key markets in which it operates. EMEA (21% YoY), India (19% YoY), APAC (53% YoY) and US (17% YoY). The deal wins were up 22% YoY with strong growth in the India business. The company added 8 new customer logos during the quarter.

Ambitious target to achieve $ 500 million in the next 3-4 years: The growth outlook for the company is on strong footing. The management expects 20-25% CAGR growth in revenue in the medium term and has set an ambitious target to achieve a $500 million (~Rs 4,000 cr) revenue milestone in the next 3-4 years.

Valuation: For FY24-FY26, we expect Revenue/EBITDA/PAT to grow at a CAGR of 23.8%/24.7%/25.1% to Rs 1,907.7 cr/ Rs 448.3 cr/ Rs 393.5 cr respectively. At CMP, the stock is trading at a P/E multiple of 56.7x/44.8x of its FY25E/FY26E earnings respectively.

Key risks: Macroeconomic challenges; Cross currency risks; Operates in a highly competitive market.

Titagarh Rail System

CMP:	₹ 1,197
Target:	₹ 1,510
Upside:	26.1%

STOCK DATA	
Bloomberg Code	TWL IN
NSE Code	TITAGARH
BSE Code	532966
Mcap (Rs cr)	15,878
52 Week High/Low (Rs)	1,897/702
Del. Volume in lakh (3M/12M)	5.0/6.5

Rs cr	FY23A	FY24A	FY25E	FY26E
Net Sales	2,780.0	3,853.0	4,967.4	6,533.5
EBITDA	251.0	449.0	565.7	763.7
PAT	126.0	286.0	373.6	504.1
OPM (%)	9.0%	11.7%	11.4%	11.7%
RoE (%)	13.1	12.9	16.1	18.5
PE (x)	108.4	55.6	43.7	31.6
P/BV (x)	14.6	7.2	5.8	4.9

Source: Company, NSE, Bloomberg, SSL Research

Note: CMP as of 18th Oct 24 closing

Titagarh Rail Systems Ltd is a supplier of passenger rolling stock including metro coaches. The company's product range includes electric propulsion equipment such as traction motors and vehicle control systems. It also designs and manufactures wagons such as container flats, grain hoppers, cement wagons, clinker wagons and tank wagons. Its business is divided into four divisions: Railway Freight, Railway Transit, Engineering and Shipbuilding.

Investment rationale:

Freight Rail Systems: During 1QFY25, freight wagon's production was soft on account of severity of heat wave in Eastern India which further got aggravated by the general election season. However, the management is confident of achieving 950-1,000 wagons p.m. for the rest of FY25 and target of 12,000 remains intact. It expects its EBITDA margin to range between 12%-12.5%.

Passenger Rolling Stock (PRS): The management has restated substantial growth in PRS in FY26 and FY27 on back of Vande Bharat orders. Pune metro project is dispatched completely. It has begun the production of Bangalore metro in 2QFY25. The first train for Bangalore Metro will be dispatched in near term and the gradual ramp-up is well on track. The company is confident to achieve production of ~15-20 cars per month by 3QFY25/4QFY25 and further elevate to ~72 cars per month in next 3 years on the back of requirements from the Surat and Ahmedabad Metro and Vande Bharat projects (FY24: 3-4 cars per month). PRS margins are expected to be around 10% once the production levels sustain around 15 cars p.m. Margins will further expand by 4%-5% following the integration with propulsion systems.

Wheelsets JV: The JV (47:53) with Ramkrishna Forgings is well on track. The overall capex to be incurred is Rs 1,800 cr, in two phases. The total capacity that is being created by JV is around 2,00,000 wheels. Out of which, the JV has a long-term contract from railways for 20 years to supply 80,000 wheels per year. Balance (1,20,000) will be captively consumed or will be supplied to cater to market requirements.

Order Book: Total Order book as on Jun'24 consists of orders for ~23,000 wagons and 1,592 Metro and Vande Bharat coaches. Order book as on 30th Jun'24 stood at Rs. 14,117 cr, which is 3.7x of FY24 sales.

Reasonable valuation: At current price, the stock is trading at FY25E/FY26E P/E multiple of 43.7x/31.6x of its Bloomberg consensus earnings estimate. The company is well positioned to leverage on healthy growth prospects backed by (a) Growing demand, (b) Attractive rail value chain opportunities, (c) Higher Infrastructure spend and (d) Policy support.

Key Risks: Any slowdown in railway capex; Highly dependent on Indian Railways; Higher competitive intensity etc.

PG Electroplast

CMP:	₹ 617
Target:	₹ 735
Upside:	19.1%

STOCK DATA	
Bloomberg Code	PGEL IN
NSE Code	PGEL
BSE Code	533581
Mcap (Rs cr)	16,393
52 Week High/Low (Rs)	694/146
Del. Volume in lakh (3M/12M)	8.7/2.7

Rs cr	FY23A	FY24A	FY25E	FY26E
Net Sales	2,160.0	2,746.0	3,693.5	4,486.6
EBITDA	177.0	262.0	339.3	411.2
PAT	77.0	135.0	217.0	275.4
OPM (%)	8.2	9.5	9.2	9.2
RoE (%)	19.4	13.0	18.4	19.8
PE (x)	180.9	119.3	74.3	58.7
P/BV (x)	40.8	15.6	12.9	10.7

Source: Company, NSE, Bloomberg, SSL Research

Note: CMP as of 18th Oct 24 closing

PG Electroplast Ltd (PGEL) is a leading, diversified Indian Electronic Manufacturing Services (EMS) provider. PGEL specialises in Original Design Manufacturing (ODM), Original Equipment Manufacturing (OEM) and Plastic Injection Moulding, providing a range of solutions to India's consumer durables companies. It has 11 manufacturing units located across Greater Noida, Ahmednagar, Bhiwadi and Roorkee. The company's wholly owned subsidiary PG Technoplast Private Limited (PGTL) manufactures air conditioners, coolers and components for various consumer durable OEMs.

Investment rationale:

Strong demand trends in the RAC industry: The domestic RAC industry volume grew by 41% YoY in 1HCY2024 on back of unprecedented summer demand. Domestic contract manufacturers like PG Electroplast witnessed strong demand with higher capacity utilization leading to operating leverage. The RAC industry is currently sitting at low levels of inventory. Demand for RACs was higher even in 2QFY25 which is a seasonally weak quarter for the industry. The industry is expected to start building inventory for the next summer season from mid-November onwards which should generate strong demand for PGEL in 2HFY25.

Expansion into other product categories reduces seasonality: PGEL has successfully diversified into manufacturing of other consumer durables such as air coolers, washing machines and TVs which helps improve the capacity utilization during periods when the AC industry is seasonally weak. The plastic moulding products that the company manufactures for RACs and washing machines also finds applications in automotive and bathroom fittings which helps expand the total addressable market. It has recently transferred the TV business into a JV - Goodworth Electronics set up in partnership with the Jaina group. The JV will leverage the manufacturing capabilities of PGEL and sourcing relationships of the Jaina group thus creating a strong manufacturing entity.

Benefit from backward integration and PLI: PGEL is a beneficiary of the PLI scheme for White Goods which along with backward integration and state government incentives will help the company maintain margins in the high single digit to early double digit range. The company has also increased its share of backward integration to ~70% of the total bill of material of RAC. It manufactures all the major components such as the heat exchanger, cross flow fans, PCB assembly, copper tubing, sheet metal and plastic mouldings.

Strong customer relationships: PGEL is a supplier to leading brands such as Voltas, Daikin, Blue Star, Carrier, Voltas Beko, Whirlpool as well as retailers such as Croma and Reliance Digital. Its customer base in RACs has increased from 12 in FY22 to 30 in FY24 thus significantly reducing the customer concentration.

Valuation supported by high growth:. At current price, the stock is trading at FY25E/FY26E P/E of 75.5x/59.7x respectively. Premium valuations are likely to sustain given the high growth phase of the company, potential expansion into other categories such as IT hardware and backward integration benefit.

Key Risks: Decline in consumer demand for ACs, Higher insourcing by OEMs; Supply chain disruptions

Arvind Fashions

CMP:	₹ 601
Target:	₹ 725
Upside:	20.7%

STOCK DATA	
Bloomberg Code	ARVINDFA IN
NSE Code	ARVINDFASN
BSE Code	542484
Mcap (Rs cr)	8,001.9
52 Week High/Low (Rs)	640/299
Del. Volume in lakh (3M/12M)	6.6/3.5

Rs cr	FY23A	FY24A	FY25E	FY26E
Net Sales	4,069.5	4,259.1	4,753.2	5,415.9
EBITDA	423.0	510.5	619.4	760.3
PAT	87.0	137.1	127.7	214.6
OPM (%)	10.4	12.0	13.0	14.0
RoE (%)	10.5	14.3	12.0	17.4
PE (x)	92.0	58.4	62.7	37.3
P/BV (x)	8.8	8.0	7.1	6.0

Source: Company, NSE, Bloomberg, SSL Research

Note: CMP as of 18th Oct 24 closing

Arvind Fashions Ltd (AFL) is one of India's foremost lifestyle companies with a strong portfolio of renowned fashion brands. It has leadership status in the casual and denim segment catering to the fashion aspirations of the entire family. It has a wide range of products across various categories, age groups and market segments. It has a portfolio of licensed and in-house portfolio of brands such as U.S. Polo Assn., Tommy Hilfiger, Arrow, Calvin Klein and Flying Machine.

Investment rationale:

Asset light business model: AFL has an asset-light business model where it sources products from third-party vendors. The company's large scale of operations and strong supplier network enables it to negotiate better margins with its vendors and secure favourable arrangements. Further, the company largely follows the Franchise Owned Franchise Operated (FOFO) model for expansion which requires minimal capital.

Multi-channel distribution network: AFL has an extensive physical retail network consisting of 944 stores as of Jun'24 which are Exclusive Brand Outlets (EBO). In addition, its brands are also present across Multi-Brand Outlets (MBO), Large Format Stores (LFS) and online through its own websites and partnerships with leading e-commerce marketplaces. This omnichannel strategy enhances the reach and accessibility of brands, enabling it to unlock new opportunities and drive growth. AFL aims to open net 100 stores per annum.

Premiumisation strategy to aid growth: The company has started to focus on its five key brands to make each one of them above Rs 1,000 cr NSV (Net Sell Value) brands in the near future, excluding U.S. Polo Assn. which is already Rs 2,000 cr+ NSV. Also, the company will focus more on retail store expansion and increase its retail share to 50% by FY27 from 44% in Jun'25. AFL is also diversifying into adjacent categories such as kidswear, footwear, womenswear, innerwear and accessories by leveraging its strong brand equity.

Healthy 1QFY25 performance: AFL reported 10.2%/24.7% YoY growth in its Revenue/EBITDA at Rs 955 cr /Rs 116 cr respectively in 1QFY25 and reported net profit of Rs 14 cr vs. net loss of Rs 5 cr in 1QFY24. Retail LTL (like-to-like) growth was 1.5%. In adjacent categories, womenswear business recorded double-digit growth. EBITDA margin improved 100 bps YoY to 12% through higher gross margins & strong costs control.

Reasonable valuation: At current price, the stock trades at FY25E/FY26E Bloomberg consensus PE of 62.7x/37.3x respectively.

Key Risks: Weak demand environment; Intense competition; Inability to renew brand license

Kilburn Engineering

CMP:	**₹ 431**
Target:	**₹ 532**
Upside:	**23.1%**

STOCK DATA	
Bloomberg Code	KEL IN
NSE Code	KILBUNENGG
BSE Code	522101
Mcap (Rs cr)	1,951
52 Week High/Low (Rs)	500/182
Del. Volume in lakh (3M/12M)	0.8/0.9

Rs cr	FY23A	FY24A	FY25E	FY26E
Net Sales	221.5	329.5	494.2	617.8
EBITDA	34.7	76.4	98.8	123.6
PAT	30.1	50.5	74.1	92.7
OPM (%)	15.7	23.2	20.0	20.0
RoE (%)	33.7	28.1	23.3	17.8
PE (x)	74.8	44.6	30.4	24.3
P/BV (x)	21.4	8.9	5.9	3.4

Source: Company, NSE, Bloomberg, SSL Research

Note: CMP as of 18th Oct 24 closing

Kilburn Engineering Ltd is a small but leading manufacturer and supplier of industrial dryers used in multiple industries. It provides comprehensive solutions for various industries like tea, fertilizer, carbon black, soda ash, pharmaceuticals, dyes, pigments, and specialty chemicals

Investment rationale:

Market leader; 40 years of rich experience: The company is a leading supplier of industrial dryers having over 40 years of experience. It has 3,000 plus installations globally serving 15 plus industries viz Chemicals, Pharma, Oil & Gas, Cement, Petrochemicals, Power, Foods & FMCG etc.

Increasing product value chain; Recent acquisitions of ME Energy to further strengthen the market position: The company over the years has expanded its product value chain from a mere equipment maker to a complete full suite of pilot plant dryers. It has in-house facilities for metal cutting, welding, machining, etc. It recently acquired ME Energy, a leading provider of custom-built Energy Saving, Heating, and Cooling Systems, specializing in Thermal Engineering. The acquisition will help to offer wider product suites to clients and further enhance the value chain.

Preferential issue to fund the acquisition and repay debt: The company has recently raised ~Rs 300 cr through a mix of warrants and preferential issue of shares at Rs 425 per share. The company recently acquired Monga Strayfield for Rs 123 cr which will be funded through a mix of cash (Rs 103 cr) and Rs 20 cr share swap. The rest of the amount will be used for capex, repayment of debt, investment in subsidiary, and working capital needs

Order book at Rs 371 cr provides healthy revenue viability: The company as of Jun'24 has an outstanding consolidated order book of Rs 371 cr which is 1.1x of its FY24 sales. The overall order enquiry pipeline is Rs 2,000 cr and Kilburn has a strike rate of ~25%. The management has guided to achieve Rs 500 cr consolidated revenue in FY25 along with an EBITDA margin of 20% +. The organic growth for the next 3-5 years is expected to be 20-25% CAGR.

Valuation: For FY24-FY26E, we expect Revenue/EBITDA/PAT to grow at a CAGR of 36.9%/27.2%/35.4% respectively to Rs 617.8 cr/ Rs 123.6 cr/ Rs 92.7 cr respectively. At CMP, the stock is trading at a PE multiple of 30.4x/24.3x of its FY25E/FY26E earnings respectively.

Key risks: Geopolitical tension; Slowdown in manufacturing sector; Volatile raw material prices

Disclosures & Disclaimers

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