Prabhudas Lilladher

POWERING YOUR FINANCIAL GROWTH

Diwali Picks

Hi

Happy Diwali

Samvat 2079 has seen NIFTY making new lifetime highs in an increasing uncertain and volatile global environment. Bharat (India) is the fastest growing economy globally and is riding on the multiple levers of demographic dividend, huge domestic market, Make in India, Unicorns and Infrastructure development. Global geopolitical situation remains grim and Israel war has added to already crippled global order due to Russia Ukraine war. Strong resilience of US economy despite high inflation is likely to keep policy rates high which can impact the FPI inflows in near term. We expect next few months to remain volatile given impact of EL Nino on inflation, global volatility in commodities and interest rates. Domestic demand is showing a clear divergence with strong demand from upper sections of population while the lower/ lower middle section seems under pressure. Consumer wallet spends are changing as discretionary categories are growing faster than staples and small ticket items. Bharat is the largest democracy globally and is shortly going to elect government. Lok Sabha elections are going to be the most important event for next 12 months given the growth momentum Bharat has caught up in the past decade. We believe return of a strong majority govt will re-rate the markets meaningfully from current levels.

Large Cap Picks

Hindalco Industries, ICICI Bank, Maruti Suzuki, Max Healthcare Institute, Siemens and Titan Company

Mid & Small Cap Picks

Greenpanel Industries, Navin Fluorine International, Navneet Education, R R Kabel, Safari Industries (India), Sunteck Realty and Zee Entertainment Enterprises

Model Portfolio Performance

	Model Portfolio Return	Nifty Returns	Outperformance
Since Nov'18	84.53%	76.43%	8.10%
Since Last Report – 10-Oct-23	-4.01%	-3.56%	-0.45%
Since Apr’23	8.5%	7.24%	1.24%

Large Cap Picks

Hindalco Industries (HINDL IN) | CMP: Rs475 | TP: Rs557 | MCap: Rs1,054.9bn

We believe HNDL is well placed amongst the metals space as a) Novelis (~70% of cons. EBITDA) is expected to witness gradual improvement in per ton EBITDA to USD525/t over the next few quarters, led by resilient developed economies and gradual improvement in consumer demand from China; b) Novelis has prioritised capex (USD2.5bn) on fully integrated 600ktpa Greenfield capacity at USA to cater to domestic flat rolled product (FRP) market; which would drive volume growth from FY26E; c) recent fall in thermal coal prices and opening of captive coal mines will benefit India business post FY26; and d) rising focus on high margin value added downstream products (e.g. ongoing FRP expansion) would drive domestic volume growth from FY26. The stock trades at EV of 5.1x/4.6x FY25E/FY26E EBITDA. Recommend 'Buy' with TP of Rs557 assigning 6.5x EV/EBITDA multiple to Novelis FRP and 5x to India business.

ICICI Bank (ICICIBC IN) | CMP: Rs933 | TP: Rs1,280 | MCap: Rs6,516.0bn

ICICI Bank continues to deliver strong earnings driven by a beat on all parameters. Core PPoP performance has been superior to peers as it witnessed a healthy CAGR of 22.5% over FY19-23 driven by margin increase without diluting credit standards. Balance sheet is stronger than ever as (1) share of BB & below pool has been declining (from 1.5% to 0.7% YoY) (2) buffer provisions at 1.2% is best-in-class and (3) CAR/CET-1 is strong at 17.6%/16.8%. Likely core RoA/RoE for FY25/26E is 2.0%/17.0% (vs 1.7%/15.3% for HDFCB). ICICIB is currently valued at 2.2x/1.9x on FY25/26E core ABV. Maintaining multiple at 3.0x, our SOTP based TP is Rs1280. Reiterate 'BUY'.

Maruti Suzuki (MSIL IN) | CMP: Rs10,285 | TP: Rs12,485 | MCap: Rs3,106.1bn

MSIL is well poised for revenue CAGR of ~13% over FY23-FY26E led by stable industry demand, healthy order book, new launches, higher ASPs, and improving supply chain which provides good visibility of demand for near to medium term. Recent model launches by MSIL have positively impacted average selling prices (ASPs), profit margins, and the proportion of high-end models. MSIL's plans to continue to introduce higher priced models in the SUV space and expand the smart hybrid technology to other models. MSIL holds a strong position in the CNG segment (MS of ~70% in FY23), which is poised for high growth as India focuses on clean energy. MSIL is expected to launch its first EV in FY25. MSIL should also benefit from improving margins (~350bps over FY23-26E) led by a shift towards higher-priced SUVs, stable input costs, price increases and higher capacity utilization. We estimate ~25% EPS CAGR over FY23-26E. The stock is currently trading at 21.7x FY25E. We have a 'BUY' rating on the stock.

Max Healthcare Institute (MAXHEALT IN) | CMP: Rs577 | TP: Rs610 | MCap: Rs560.3bn

The company showed phenomenal growth in past two years and we expect this momentum to continue given 1) strong expansion plans (+1100 additional beds by FY25E end), 2) improving payor mix (15% revenue contribution from institutional by FY25E vs 18.4% now) and 3) scale up in labs. Operational efficiency has also been commendable, especially in competitive markets like NCR. We expect 15% EBIDTA CAGR over FY23-25E. We ascribe 27x EV/EBIDTA based on FY25E. Recommend 'BUY'

Siemens (SIEM IN) | CMP: Rs3,368 | TP: Rs4,241 | MCap: Rs1,199.0bn

Siemens is a technology driven company focused on industries, infrastructure, digital transformation, transport as well as transmission and generation of electrical power. Healthy demand for decarbonization & energy efficiency solutions such as waste heat recovery, biomass, modernization & upgradation of power plant, steam turbine, from high growth sectors such as data centres, railways, chemicals & pharma, e-mobility, smart infra, intralogistics, building automation, etc. augurs well for Siemens in medium to long run. Siemens has been focusing on product localization, improving business mix and cost optimization, which will improve margin profile going forward. We remain positive on SIEM from a long-term perspective given 1) its strong and diversified presence across industries through focus on electrification, digitization & automation products, 2) product localization, 3) strong balance sheet, 4) healthy public & private capex and 5) focus on cost efficiencies. 'Accumulate' with TP of Rs4,241 valuing at PE of 60x SY25E.

Titan Company (TTAN IN) | CMP: Rs3,275 | TP: Rs3,312 | MCap: Rs2,914.3bn

We remain positive on TTAN as a play on consumer shift towards organized players in jewellery, eyecare, watches and emerging segments. Titan continues to consolidate in the Jewellery segment and is creating next levers of growth in Eyewear (Titan Eye+), Jewellery (Caratlane and Mia), Dress material (Taneira) and Wearables (Titan and Fastrack). We expect strong growth in 2H24 led by soft gold prices and upcoming marriage season. We expect premium valuations to sustain given strong growth outlook and emerging lifestyle play. We estimate 17% EPS CAGR over FY23-26E. Retain 'ACCUMULATE'

Mid & Small Cap Picks

Greenpanel Industries (GREENP IN) | CMP: Rs337 | TP: Rs464 | MCap: Rs41.3bn

We have BUY on Greenpanel (GREENP) with target price of Rs464 based on 21x Sep'25 EPS. The company is well-positioned for growth and value creation given its 1) leading position in domestic MDF segment, 2) strong growth prospects in domestic MDF demand, 3) planned capacity increase of 35% over FY23-26 and 4) extensive distribution network. Although with higher RM prices, margins will be impact in FY24, however, we expect better growth & margins for FY25 onwards. We estimate FY23-26E Revenue/EBITDA/PAT CAGR of 8.8%/6.4%/7.2%, with MDF volume CAGR of 11.7%. GREENP's MDF volume growth guidance of +3-4% with MDF EBITDA margin of 22-23% for FY24, even after 4.7% decline in MDF volume in H1FY24 (considering improvement in volume in H2FY24). MDF dom. realizations are expected to be stable in near future. Plywood is expected to deliver flat volume growth in FY24 despite severe fall in vol. (-29.2%) in H1FY24. We believe GREENP's performance should further improve through focus on increasing utilisation of expanded capacity, asset turns and better FCF generation.

Navin Fluorine International (NFIL IN) | CMP: Rs3,539 | TP: Rs4,007 | MCap: Rs175.4bn

Navin Fluorine is completing a dedicated Rs5.4bn agrochem intermediate project by Dec'23 and launching fifth molecule from its MPP project next year. Along with this, demand of HFO is expected to normalize next year and debottlenecking of 25% by CY24 end is expected to drive earnings post that. We expect EPS to rise from Rs75.7 in FY23 to Rs133.6 in FY26. Valuing it at 30x FY26 EPS, we recommend a Buy rating on the stock with a target price of Rs4,007.

Navneet Education (NELI IN) | CMP: Rs152 | TP: Rs205 | MCap: Rs34.3bn

We believe NCF implementation is likely to emerge as a key re-rating lever for Navneet as it would make second hand books market redundant and result-in significant volume delta. Substantial yield advantage is also expected, as repricing at higher level becomes easier post curriculum revamp. Turnaround in Indiannica business (expected to be profitable in FY24E), back ended recovery in GM amid softening paper prices, narrowing losses in Ed-Tech and impending benefits from NEP is expected to result in sales/PAT CAGR of 12%/35% over FY23-FY25E. Navneet trades at attractive valuations of 13.2x/11.6x our FY25E/FY26E EPS and we recommend a BUY with SOTP based TP of Rs205.

R R Kabel (RRKABEL IN) | CMP: Rs1,391 | TP: Rs1,624 | MCap: Rs133.1bn

We have a high conviction BUY on R R Kabel (RRKABL) with TP of Rs1768 valuing at 35x FY26 earnings. RR Kabel is one of the fastest growing consumer electrical company in India, that has reported revenue CAGR of 43.4% over FY21-23. Incorporated in Feb-95, the company has wide spectrum of products such as Wires & Cables, Switches, Fans, Lighting, Switchgears & Appliances. RR Kabel is 5th largest player in India's wires and cables market with ~5% value market share in FY23. It has highest revenue contribution from B2C sales channel in W&C business with ~74% of revenue. We believe RR Kabel is a play on several opportunities in the W&C segment given 1) strong brand with diverse product portfolio 2) well-structured capacity expansion plans, 3) increasing dealers /distribution network and 4) distribution led export business. Although the company has grown its FMEG portfolio inorganically, yet it expects to minimize losses in coming years by transitioning towards premium markets. In FMEG too, it has enhanced its brand presence, positioning and manufacturing capabilities to reduce losses. We estimate Revenue/EBITDA/PAT CAGR of 20.7%/38.8%/44.3% over FY23-26 led by 1) improving business mix 2) operating leverage & cost optimization 3) investments in brand building and 4) increasing distribution reach.

Safari Industries (India) (SII IN) | CMP: Rs4,297 | TP: Rs4,752 | MCap: Rs101.9bn

Over the last few years, Safari has been consistently gaining market share which stood at 23% in FY23. We believe the journey of market share gain is likely to continue as it has outlined a capex plan of Rs2.15bn which will double its HL capacity from ~6.5lac pieces per month to ~13lac pieces per month. In addition, rising share of own manufacturing will structurally elevate margin profile as it would reduce reliance on outsourcing and thereby 1) eliminate currency volatility 2) reduce freight and 3) result in accrual of manufacturing profit within the company in addition to trading profit. We maintain positive stance on Safari, as consistent gain in market share and rising share of indigenous manufacturing is likely to result in sales/PAT CAGR of 24%/31% over FY23-FY26E. Recommend BUY with a TP of Rs4,752.

Suntek Realty (SRIN IN) | CMP: Rs449 | TP: Rs565 | MCap: Rs63.1bn

SRIN's proven ability to market ultra-luxury projects, aggressive and multi-pronged land acquisition capabilities in various micro markets across Mumbai Metropolitan Region (MMR) is an interesting play on Mumbai's high value real estate market. 1) We expect company's pre-sales to grow 2x over next 3 years aided by ongoing projects and strong new launches pipeline. 2) Further given likely strong cash flow generation (Rs8-10bn over FY23-26E), we see SRIN to step up new project additions which will be a key catalyst for stock performance. 3) Adoption of asset light model has enabled the company to acquire scale without straining its balance sheet and this will likely continue in new project additions too. 4) We expect Revenue/EBIDTA CAGR of ~83%/123% over FY23-26E. Recommend 'Buy' rating with a TP of Rs. 565/share.

Zee Entertainment Enterprises (Z IN) | CMP: Rs275 | TP: Rs314 | MCap: Rs264.5bn

We believe the recent NCLT order has absolved uncertainty risk surrounding ZEEL:SPNI merger which was in a limbo for around 2 years. The proposed merger is a win-win situation and will likely 1) result in material synergies (~6-8% largely on the revenue side) 2) drive growth, as merged entity will have cash ammunition of ~US$1.7bn to fund digital ambitions and 3) reduce concerns surrounding board room decision risks (erstwhile promoters will only have one board seat). We believe this development is positive and warrants a re-rating, as it not only results in material synergies but also brings an end to governance concerns. Further, recent SAT order that overturned SEBI's ban on Punit Goenka to hold managerial position in listed entity is likely further expedite the merger process eliminating fears of delay. We expect sales CAGR of 9% over FY23-FY26E with EBITDA margin of 12.4%/18.1%/19.6% in FY24E/FY25E/FY26E respectively and recommend BUY with a TP of Rs314.