Retail Research

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01st November, 2023

SBI Securities

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Top Stock Recommendations To Brighten Up Your Portfolio

Diwali Picks 2023

Diwali Picks 2023

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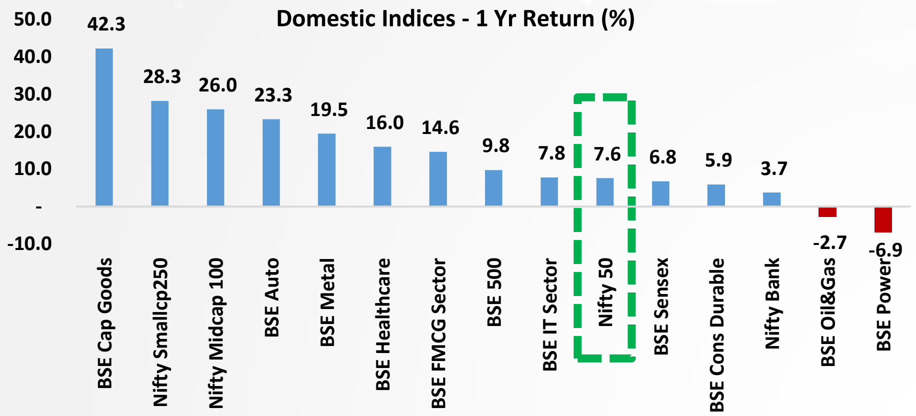
Company	CMP	Target	Upside
ICICI Bank Ltd	₹ 915	₹ 1,081	18%
Maruti Suzuki India Ltd	₹ 10,391	₹ 12,000	15%
UltraTech Cement Ltd	₹ 8,422	₹ 9,800	16%
Polycab India Ltd	₹ 4,922	₹ 5,877	19%
Kalyan Jewellers India	₹ 289	₹ 364	26%
Praj Industries Ltd	₹ 536	₹ 633	18%
Titagarh Rail Systems Ltd	₹ 762	₹ 988	30%
Mrs Bectors Food Specialities	₹ 1,120	₹ 1,358	21%
Kolte Patil Developers Ltd	₹ 479	₹ 570	19%
Goodluck India Ltd	₹ 850	₹ 1,072	26%

Note: CMP is based on price as of 31st Oct 2023 closing

Summary – SAMVAT 2079

Humongous outperformance by broader markets…

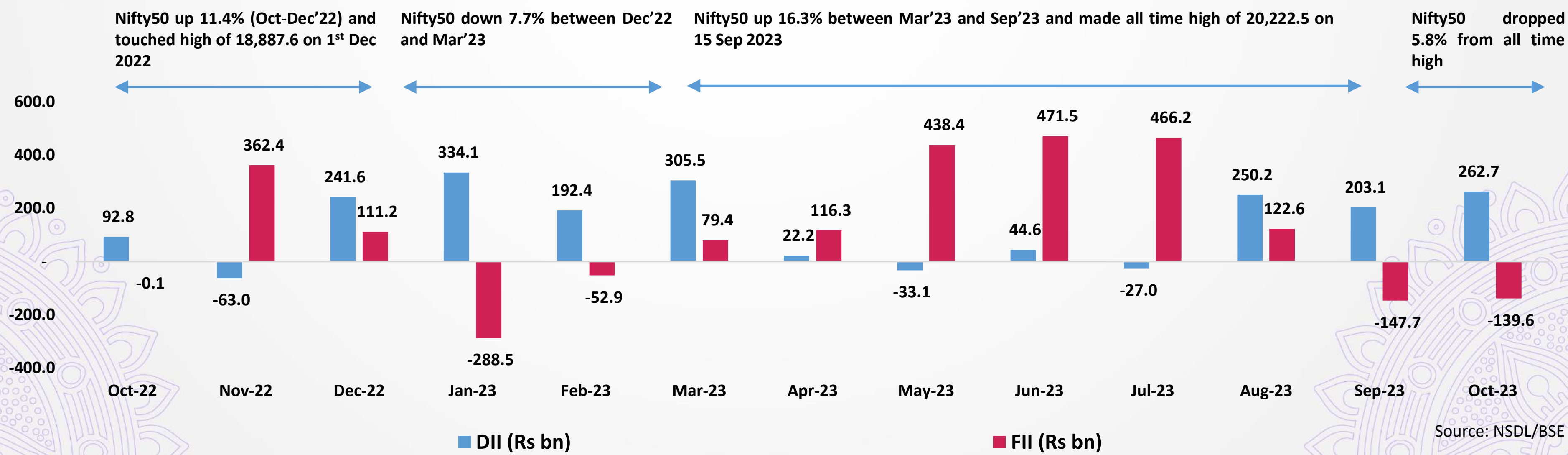


Source: Bloomberg, SSL Research; Data Period: 24th Oct22 - 31st Oct23

Nifty50 marginally underperformed its peers during last 1 year

Source: Bloomberg, SSL Research; Data Period: 24th Oct22 - 31st Oct23

Fund Flows (Rs bn) - Patchy FII flows; Selling absorbed by DIIs



Source: NSDL/BSE

Summary – SAMVAT 2079

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Humongous outperformance by broader markets: During last 1 year, Indian benchmark equity indices have marginally underperformed their emerging and developed market peers, albeit, the broader markets have delivered strong returns across the board. During the last 1 year (24th Oct'22 to 31st Oct'23), Nifty50/Sensex have delivered 7.6%/6.8% return respectively while Nifty Smallcap 250 and Nifty Midcap 100 index have delivered 28.3% and 26.0% returns respectively.

Key sectoral Gainers/Losers: BSE Capital Goods (+42.3%), BSE Auto (+23.3%) and BSE Metals (+19.5%), whereas BSE Oil & Gas and BSE Power closed in red with loss of 2.7% and 6.9% respectively.

Global & local headwinds failed to deter market mood: Indian equity markets were resilient (although volatile with 4 consecutive negative monthly closing between Dec'22 to Mar'23 period followed by 6 consecutive positive monthly closing on Nifty between Apr'23 to Sep'23 period) amid persistent geopolitical tensions, rising interest rate environment, banking crisis in US with shutdown of Silicon Valley Bank and volatile crude/food prices. Global investors continue to stay positive on India, led by conducive business environment in the backdrop of stable political & macro setup.

Fund Flows supportive for the market: During last 1 year, FIIs, despite selling in the last three months (Aug'23-Oct'23), are net buyers to the tune of Rs 1.48 trillion (1st Oct'22 to 27 Oct'23). DIIs on the other hand bought Rs 1.83 trillion during the same period thanks to robust monthly SIP inflows (> Rs 16,000 cr per month).

High frequency data suggests upbeat outlook : The front-loading of government capex along with the recovery of private investment backed by an improved balance sheet, has boosted the overall investor sentiment. The high-frequency data like healthy credit growth, rising freight and passenger traffic, upbeat GST and direct tax collection, robust auto sales data, and recovery in rural demand have been key for overall buoyancy in the equity market.

India – Island of Stability amidst the Global Chaos

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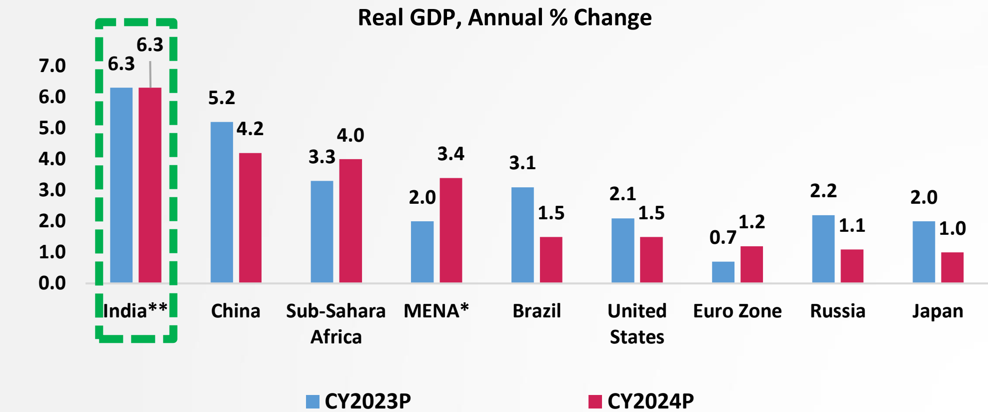
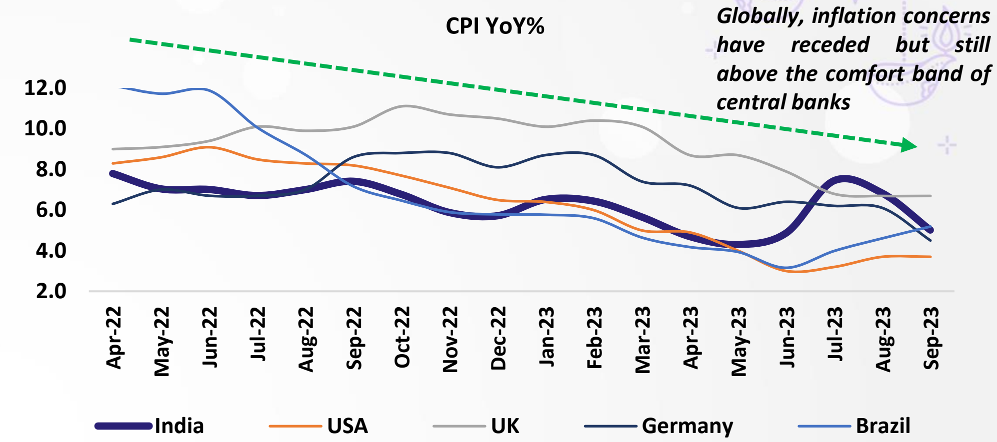
India – The Bright Star – Fastest Growing Economy in the world



*Middle East and North Africa, **Data and forecasts are presented on a fiscal year basis.

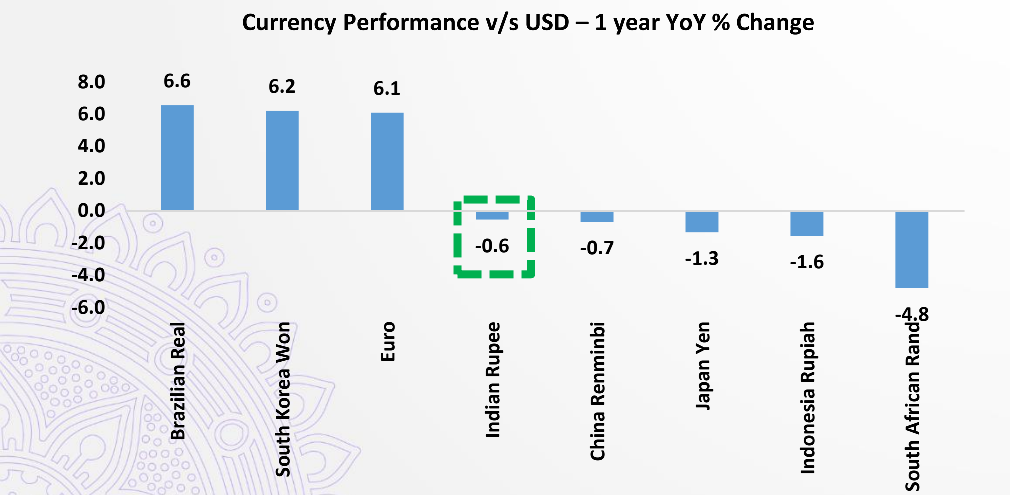
Source: IMF, SSL Research

Inflation – India is witnessing better inflation adjusted growth rates



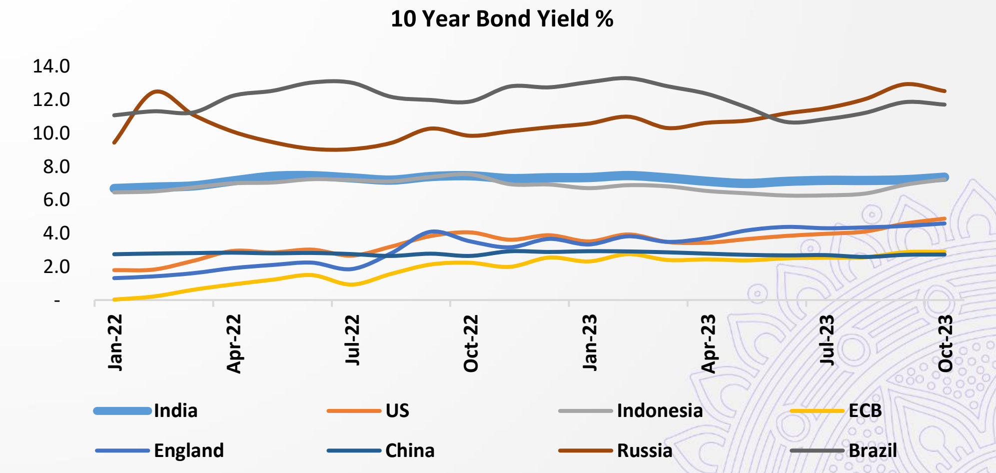
Source: Bloomberg, SSL Research

USDINR – Relatively on strong footing...Backed by robust forex reserves



Source: Bloomberg, SSL Research

Global benchmark interest rates at elevated levels



Source: Bloomberg, SSL Research

India – Island of Stability amidst the Global Chaos

1. **GDP Growth:** Indian economy will be the fastest growing amongst the large economies with 6.3% YoY growth in real GDP for FY24 and FY25 each. Growth is being supported by government capex especially in infrastructure while private sector capex is picking up in sectors such as cement, renewables, chemicals and metals.

2. **Inflation:** India offers better inflation adjusted growth opportunities as compared to other large economies. Sep'23 CPI at 5.02%, eased from 6.83% in Aug'23. The full year FY24 target by RBI is unchanged at 5.4% though central bank is watchful on recent geopolitical development and El-Nino effect on rabi sowing.

3. **Currency**: Thanks to India's strong forex reserve ($ 583.5 billion as of 27th Oct'23), Indian rupee remained stable when compared with other emerging economies. The strength of the Indian economy is reflected in the relative outperformance of the Indian Rupee relative to the USD which depreciated just 0.6% YoY despite volatile crude oil prices.

4. **Interest rate**: RBI's MPC has lifted the repo rate by 250 bps to 6.5% between May'22 to Feb'23. Since then, the central bank has maintained status quo with liquidity withdrawal stance.

Valuation

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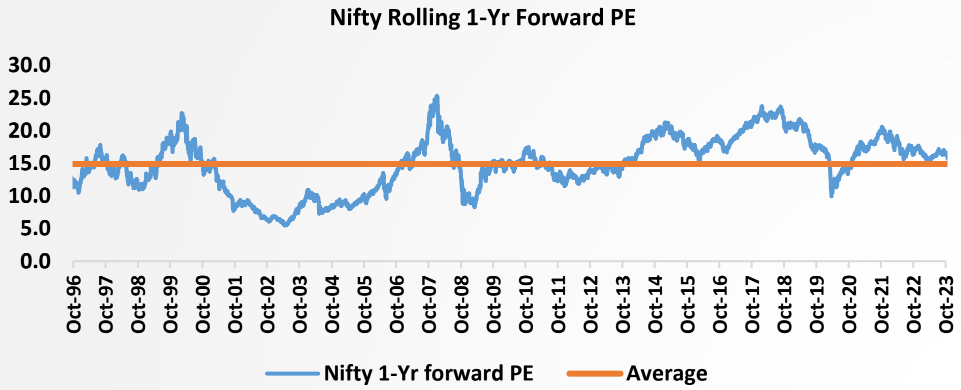
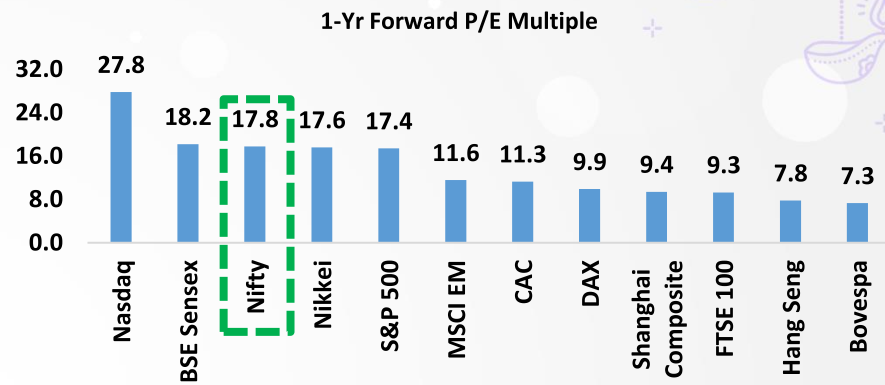
Nifty50 trading close to historical long term average mean valuation



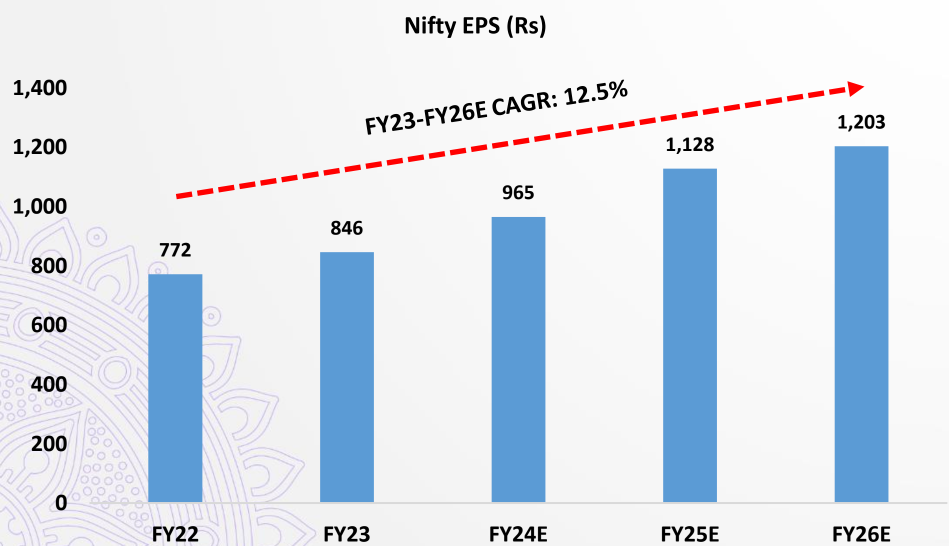
Source: Bloomberg, SSL Research

....Trading at relatively premium valuation to its peers



Source: Bloomberg, SSL Research

...supported by double-digit earnings growth



Source: Bloomberg, SSL Research

Summary

- Nifty50 is currently trading at 17.8x 1 year forward PE, which is neither cheap nor expensive. Long term average 1 year forward PE multiple for Nifty50 has been in the range of 15x-16x.
- On a relative basis, Nifty50 is trading at a premium valuation. However, it is likely to maintain its premium valuation in back drop of double digit earnings growth, healthy return ratio, stable political and macro environment.
- Nifty50 EPS is expected to grow at a CAGR of 12.5% between FY23A-FY26E.

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SAMVAT 2080 – India – Emerging Global Economic Powerhouse

- **India – Emerging Global Economic Powerhouse**: As per the latest World Economic Outlook – Oct'23 report by IMF, India's FY24 GDP growth estimate has been revised upwards by 0.2% to 6.3% and will be the fastest-growing economy in the world. As per S&P Global Market Intelligence, India's nominal GDP is likely to leap from $3.5 trillion (Global Rank: 5th) in 2022 to $7.3 trillion (Global Rank: 3rd) by 2030, led by (A) Large and fast growing middle class (B) Digital transformation led by JAM Trinity - (Jan Dhan, Aadhar, and Mobile) and (C) Robust FDI flows across wide range of manufacturing and service industries.

- **Favourable macro set-up coupled with inclusion of Indian government bonds in JP Morgan Emerging Market Debt Index to ensure stability in USDINR over next 1 year:** India's macro set-up is on a relatively stronger footing with Debt/GDP ratio at 84%, no change in government's borrowing program in 2HFY24 ahead of Lok Sabha election next year, robust tax collection – (1HFY24 direct and GST tax collection up 22% and 11% YoY respectively) and forex reserves to the tune of $583.5 bn (8-10 months of import cover). Moreover, inclusion of Indian government bond with 10% weightage in JP Morgan's emerging market debt index from June 2024 can attract passive inflows of $20-23 bn in the first year. All the above factors augurs well for stability of USDINR (-0.6% change during last 1 year) over next 1 year, especially in the backdrop of global uncertain environment and strengthening US Dollar Index. Stability in the currency offers comfort to both FII and FDI investors from medium to long term perspective.

- **Healthy Earnings Growth for Nifty50 companies coupled with decent valuations:** Nifty50 companies are likely to report healthy 12.5% earnings CAGR during FY23A-FY26E period. Nifty50 is trading at FY24E/FY25E P/E multiple of 19.8x/16.9x which is neither expensive nor cheap.

- **Strong domestic fund flows likely to support market at lower levels:** Monthly SIP contribution in equity mutual funds is at record high (~Rs 16,000 cr in the month of Sep'23) and is up 22% YoY during the Apr'23-Sep'23 period at Rs 90,312 cr. This coupled with demat account count breaching 12 cr mark will attract fund flows from DIIs and retail investors at lower levels, in case of any deep correction due to an unknown factor.

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

Key Risk Factors

1 Escalation of geopolitical tension

The ongoing war between (Ukraine – Russia) and (Israel-Hamas) coupled with probability of few more countries joining the war is likely to have negative impact on global inflation due to supply chain disruption. The risk appetite may drop and money could chase safer asset classes. We have already seen the impact in the form of spike in bond yields, buoyant crude oil prices, correction in equity markets & strengthening of Dollar.

2 Higher interest rate for longer period of time

US FED, despite raising policy rates 11 times since Mar'22 (highest in 22 years), the tone still remains hawkish in the backdrop of stubborn inflation and relatively resilient US economy. RBI's MPC too raised repo rate by 250 bps since May'22 to 6.5% and reiterated the liquidity withdrawal stance. Interest rates are likely to remain higher for longer period of time.

3 Unfavorable State and General election result outcomes

Unfavourable outcomes of upcoming state election in 5 states (MP, Rajasthan, Chhattisgarh, Mizoram and Telangana) in Nov'23 and General election in May'24 could potentially impact the investor sentiments.

4 Premium valuation

Indian equity markets along with the US are trading at a relatively premium valuation. At current Nifty50 level of 19,080, the P/E ratio of index is at 19.8x/16.9x of FY24E and FY25E Nifty earnings respectively based on Bloomberg consensus earnings. MSCI EM Index is trading at 11.6x of its 1 Year Forward earnings.

Key Events to Track…

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1 **State Assembly Elections**

The 5 States viz. Mizoram (7th Nov), Chhattisgarh (7th and 17th Nov – 2 phase), Madhya Pradesh (17th Nov), Rajasthan (23rd Nov) and Telangana (30th Nov) will go to the polls in the month of Nov’23 with the counting scheduled for all the 5 states on 3rd Dec’23.

2 **Central Bank Meetings**

Markets will closely await the monetary policy outcomes of key central banks such as the US FED, ECB, RBI and BoE.

3 **Budget 2024 – Vote on Account**

The Union Budget 2024 in Feb’24 will be Vote-on-Account as the term of the current Lok Sabha ends in mid 2024 ahead of the general elections. The new government post the 2024 elections will present the new Budget.

4 **General Elections 2024**

India will head to the Lok Sabha elections to elect a new government. The polls are likely to be scheduled during Apr’24-May’24.

Performance of previous year's Diwali Pick stocks

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- Domestic equity market, after reaching all-time high in Sep'23, remained volatile given the weak global cues amid renewed geopolitical tension, high interest rates and volatile commodity prices.
- The Nifty'50 and Nifty'500 during Oct'22-Oct'23 have delivered ~11.2%/12.3% return respectively.
- Our Diwali picks of 2022 have delivered strong return with 4 out of 7 stocks achieving their targets. Of the 3 open stock recommendations, 2 are still positive with 5% and 2% return in Whirlpool India and HDFC Bank. Sumitomo Chemical India is down by 24.7% from the recommended price due to global slow down in the agro chemical industry.
- We expect all the three open calls to deliver healthy returns in the medium to long term.

Performance of Diwali Picks - 2022

Sr No.	Company Name	Date of report	CMP (Rs)	Recommended Price (Rs)	Target Price (Rs)	Booked Profit at (Rs)	% Return	52 W High Price (Rs)	52 W High Date	% Return with respect to 52 W High Price
1	Bank of Baroda	17-Oct-22	196.9	131.0	155.0	168.3	28.5	219.7	18-Sep-23	67.7
2	United Spirits Ltd	17-Oct-22	1,022.0	824.0	987.0	1,036.4	25.8	1,098.0	17-Oct-23	33.3
3	Mold-Tek Packaging Ltd	17-Oct-22	920.3	829.0	999.0	1,027.0	23.9	1,110.0	3-Feb-23	33.9
4	ITC Ltd	17-Oct-22	433.8	332.0	405.0	411.0	23.8	499.7	24-Jul-23	50.5
5	Whirlpool of India Ltd	17-Oct-22	1,649.9	1,566.0	1,895.0	-	5.4	1,733.0	12-Oct-23	10.7
6	HDFC Bank Ltd	17-Oct-22	1,469.2	1,439.0	1,705.0	-	2.1	1,757.5	3-Jul-23	22.1
7	Sumitomo Chemical India Ltd	17-Oct-22	383.4	509.0	596.0	-	-24.7	540.8	27-Oct-22	6.2

Source: NSE, SSL Research. Note: CMP as 27th October 2023

ICICI Bank Ltd.

CMP:	₹ 915
Target:	₹ 1,081
Upside:	18%

STOCK DATA	
Bloomberg Code	ICICIBC IN
NSE Code	ICICIBANK
BSE Code	532174
Mcap (Rs cr)	6,41,315
Del. Volume in lakh (3M/12M)	62.8/68.3

Rs cr	FY22	FY23	FY24E	FY25E
NII	47,466.0	62,129.0	72,669.0	82,233.4
Net Profit	23,339.5	31,896.5	38,166.5	42,247.8
NIM (%)	4.0	4.5	4.4	4.3
RoA (%)	1.8	2.1	2.2	2.1
RoE (%)	17.4	20.1	17.4	16.8
GNPA %	3.60	2.81	2.62	2.55
PCR %	78.9	82.9	81.0	78.5
PE (x)	27.1	19.9	16.7	15.2
P/BV (x)	3.7	3.2	2.8	2.4

Source: Company, Capitalise, NSE, Bloomberg, SSL Research

Note: CMP as of 31st Oct 23 closing

ICICI Bank Ltd is the second largest private sector bank in India. The bank currently operates with total branch network of 6,248 as of Sep'23 along with ATMs and CRM networks of 16,927. Retail book comprises of 55% of overall loan book. The bank owns few marquee businesses like Life Insurance, General Insurance, Stock Broking, AMC etc through its subsidiaries.

Investment rationale:

Healthy 2QFY24 performance: The bank has reported NII and Net profit growth of 23.8%/35.6% YoY to Rs 18,307.9 cr and Rs 10,261.0 cr respectively. The Advances and deposits were up 18.3%/18.8% YoY to Rs 11.1 trillion and Rs 12.9 trillion respectively. CASA deposits were up 3.9% YoY to Rs 5.3 trillion while CASA ratio stands at 41% for 2QFY24. NIM/RoA for the quarter stands at 4.5%/2.4% respectively. While NIM dropped 30 bps QoQ, the bank has been able to maintain RoA of 2.4% similar to 1QFY24.

Strong asset quality: The bank has registered meaningful improvement in asset quality since 2019. It's GNPA reduced from 6.7% in FY19 to 2.5% as of Sep'23 while PCR ratio increased from ~70% to 83% during the same period. The asset quality improvement is attributed to resolution of corporate accounts, lower restructuring and higher recoveries and upgrades.

Well capitalized balance sheet: As of Sept'23, the bank's capital adequacy ratio (CAR) stood at 15.9%, well above the regulatory limit indicating strong capital position for the bank. The bank's strong profitability which has grown at a 5-Yr CAGR of 36.3% (FY18-FY23) also aids its capital buffers. The bank is well prepared to grow loan book by 18-20% per annum in medium to long term.

Near term outlook: The asset quality is expected to remain stable while the growth momentum will be maintained going ahead. The marginal drop in NIM during 2QFY24 by 30 bps was due to the repricing of the deposit as CASA market became more challenging. The change in product mix (focus on credit card/MSME/PL) however will help to post similar NIM and RoA for FY24. The opex ratio may remain at elevated level given the investment in infrastructure (branch expansion) and higher employee attrition rates. However, we believe higher business growth visibility will help to cushion the impact on RoA and profitability.

Reasonable valuation: At current price, the stock is trading at P/BV multiple of 2.8x/2.4x of its FY24E/FY25E book value respectively.

Key Risks: Increase in cost of funds due to competition to mobilise low cost deposits; Elevated Operating Expense, Volatile global financial markets; Slowdown in credit demand from corporates, MSME and retail segment.

Maruti Suzuki India Ltd.

SBI Securities
Investment aur Trust, Dono

CMP:	**₹ 10,391**
Target:	₹ 12,000
Upside:	15%

STOCK DATA	
Bloomberg Code	MSIL IN
NSE Code	MARUTI
BSE Code	532500
Mcap (Rs cr)	3,13,930
Del. Volume in lakh (3M/12M)	2.82/2.74

Rs cr	FY22	FY23	FY24E	FY25E
Net Sales	88,296	1,17,523	1,38,743	1,66,000
EBITDA	5,747	11,019	14,800	17,582
Net Profit	3,766	8,049	11,036	12,712
EBITDA Margin (%)	6.5	9.4	10.7	10.6
RoE (%)	7.0	13.3	16.9	17.4
P/E (x)	83.3	39.0	27.9	24.1
P/BV (x)	5.8	5.2	4.5	4.0

Source: Company, Capitalise, NSE, Bloomberg, SSL Research

Note: CMP as of 31st Oct 23 closing

Maruti Suzuki India Ltd (MSIL) is India's leading passenger car maker. It was incorporated in 1981 and has over 4 decades of experience in the Indian automobile industry. The company also exports its products to more than 90 countries. Its popular models include WagonR, Swift, Baleno, Ertiga, XL6, Brezza and Grand Vitara. The company has also recently launched 2 new models in the SUV segment called Fronx and Jimny.

Investment rationale:

Market leader in Passenger Vehicle industry in India: MSIL holds a 42% market share among all passenger vehicles in India. The company is also the largest car manufacturer in India with a cumulative capacity of 22.5 lakh units. It is further adding 10 lakh unit capacity at Kharkhoda in Haryana, the production of which will start in 2HFY24. The company plans to have a total capacity of over 40 lakh units and a market share of 50% by FY30.

Wide product portfolio: MSIL caters to consumers across the income range with presence across multiple price points starting from the Rs 5-8 lakh price segment to Rs 20 lakh+ segment. The company has a wide and diverse product portfolio across hatchbacks, sedans and utility vehicles. It offers its vehicles with multiple fuel and powertrain options such as petrol, CNG and hybrid. The company is a leader in CNG passenger vehicles and has exited the diesel category completely. MSIL has a market share of 74% in CNG vehicles sold in India. The company is also planning to launch other powertrain options such as flex fuel and CBG as and when the fuel infrastructure is available in India.

Good response to recent SUV launches: MSIL has launched a number of SUVs in the last 15 months including the revamped Brezza, Grand Vitara, Ertiga, Fronx and Jimny. These have received good response from the consumers. The company's market share in SUVs stands at 23.3%. Higher share of premium SUVs in the overall sales mix have led to improvement in margins for the company boosting profitability. Over the last 3 years, sales have grown at a CAGR of 16% for MSIL while profit has compounded at a rate of 27%.

Foray into Electric Vehicles: MSIL plans on launching its maiden electric vehicle in FY25. It plans to have a portfolio of 6 battery EVs in its portfolio by FY30. The company is also looking at backward integration by setting up a battery manufacturing capacity adjacent to the EV facility.

Reasonable valuation: At current price, MSIL is trading at an attractive valuation with P/E multiple of 27.9x/24.1x FY24E/FY25E Bloomberg consensus earnings, offering favourable risk-reward ratio.

Key Risks: Volatile commodity prices, supply chain disruptions, demand slowdown, higher competitive intensity

Ultratech Cement Ltd

SBI Securities
Investment aur Trust, Dono

CMP:	₹ 8,422
Target:	₹ 9,800
Upside:	16%

STOCK DATA	
Bloomberg Code	UTCEM IN
NSE Code	ULTRACEMCO
BSE Code	532538
Mcap (Rs cr)	2,43,337
Del. Volume in lakh (3M/12M)	1.9/1.9

Rs cr	FY22	FY23	FY24E	FY25E
Net Sales	52,599.0	63,240.0	71,484.4	78,130.5
EBITDA	11,514.0	10,620.0	13,815.5	16,085.9
Net Profit	7,334.0	5,073.0	7,747.4	9,295.3
EBITDA Margin (%)	21.9	16.8	19.3	20.6
RoE (%)	17.8	21.1	22.8	22.1
P/E (x)	33.1	48.0	31.8	26.4
P/BV (x)	4.8	4.5	4.0	3.6

Source: Company, Capitalise, NSE, Bloomberg, SSL Research

Note: CMP as of 31st Oct 23 closing

Ultratech Cement Ltd (UCEM) is the largest cement manufacturer in India (25% market share) with total pan India installed grey cement capacity of 132.5 MTPA (2QFY24). Besides, it also sells white cement, wall putty, ready mix concrete and construction chemicals. It has captive limestone and coal reserves which helps in lowering cost of production. It has an installed Waste Heat Recovery System (WHRS) capacity of 262 MW and 429 MW of renewable power capacity which helps it to lower its fuel cost.

Investment rationale:

Healthy set of results for 2QFY24: Consolidated Sales/EBITDA/PAT grew 15.3%/36.7%/68.8% YoY to Rs 16,012 cr/Rs 2,551 cr/Rs 1,280 cr respectively. Total sales volume grew 16% YoY to 26.7 mn tonne. Sales realization remained flat at Rs 5,349 per tonne. EBITDA and PAT margin improved 249 bps/254 bps YoY to 15.9% and 8.0% respectively. Logistics cost decreased by 2% YoY and 4% QoQ to Rs 1,219/tonne. Energy cost decreased by 10% YoY and 4% QoQ to Rs 1,555/tonne. Raw material cost declined by 4% YoY and QoQ to Rs 634/tonne. Consolidated EBITDA/tonne was at Rs 956 in 2QFY24 v/s Rs 808 in 2QFY23.

Expansion plans in place to encash on growth opportunity in India: In 2QFY24, the company commissioned cement capacity of 2.5MTPA (West Bengal and Gujarat), taking total grey cement capacity to 132.5 MTPA in India. By Jun'25, the total cement capacity is likely to be at 159.7 MTPA and the board has approved Rs 13,000 cr capex plan to add 21.9 MTPA cement capacity in a phased manner from FY26 onwards. Management is confident of achieving total cement capacity of 200 MTPA by 2028.

Medium term growth outlook: Cement volumes are likely to grow by 9-10% for industry for FY24. Average pan-India cement prices are up 7-8% v/s its June exit prices. The prices should likely hold for the remaining part of the year as well. Capacity utilization for Ultratech during the quarter was at 75% and the company sound optimistic on the demand scenario and expect higher utilization to continue in coming quarters.

Lean Balance Sheet, Robust Cash Flow and Healthy Profitability: As of Sept'23 quarter, Ultratech's net debt/equity ratio stands at comfortable levels of 0.2x and the company is generating annual OCF to the tune of ~Rs 9,000 cr. This provides comfort that Ultratech will be able to execute capacity expansion plan without stretching the balance sheet.

Ultratech commands robust margins (EBITDA/tonne of Rs 956) and is likely to expand further led by improving share of premium products (21.7% share in 2QFY24), improvement in clinker conversion ratio (1.44 in 2QFY24 vs 1.41 in 2QFY23) and optimum fuel mix.

Valuation: During FY23-FY25 period, Sales/EBITDA/PAT is expected to grow at CAGR of 11.2%/23.1%/35.4% to Rs 78,130.5 cr/Rs 16,085.9 cr/Rs 9,295.3 cr. At current price, the stock is trading at FY24E/FY25E EV/EBITDA multiple of 18.1x/15.6x.

Key Risks: Slowdown in cement demand; higher fuel costs; slower than expected capacity addition

Polycab India Ltd.

SBI Securities
Investment aur Trust, Dono

CMP:	₹ 4,922
Target:	₹ 5,877
Upside:	19%

STOCK DATA	
Bloomberg Code	POLYCAB IN
NSE Code	POLYCAB
BSE Code	542652
Mcap (Rs cr)	74,708
Del. Volume in lakh (3M/12M)	2.2/1.7

Rs cr	FY22	FY23	FY24E	FY25E
Net Sales	12,203.8	14,107.8	17,467.2	20,244.1
EBITDA	1,262.6	1,842.9	2,420.1	2,805.3
Net Profit	917.3	1,282.3	1,694.7	1,966.5
EBITDA Margin (%)	10.3	13.1	13.9	13.9
RoE (%)	17.8	21.1	22.8	22.1
P/E (x)	80.2	57.5	43.9	37.8
P/BV (x)	13.3	11.1	9.2	7.7

Source: Company, Capitalise, NSE, Bloomberg, SSL Research

Note: CMP as of 31st Oct 23 closing

Polycab India Ltd. is India's largest cable and wire manufacturing company. Apart from wires and cables, the Company also manufactures and sells FMEG (Fast Moving Electrical Goods) products such as electric fans, LED lighting and luminaires, switches and switchgear, solar products and conduits & accessories.

Investment rationale:

Market leader in wires and cables; Global footprint in more than 70 countries: Polycab is India's largest and amongst the top 10 manufacturer of wires and cables globally. The company has three business verticals viz 1) Wires and Cables, 2) FMEG and 3) Other (EPC). It manufactures and sells a diverse range of wires and cables for numerous applications. In 2014, it diversified into FMEG while in 2009, it entered into engineering, procurement and construction 'EPC' business, which includes the design, engineering, supply, execution and commissioning of power distribution and rural electrification projects. The company exports its products to over 70 countries across the globe.

Strong brand; FMEG to turn EBITDA positive by FY25: The company has a strong brand visibility as it spends heavily on advertisement and sales promotion. During FY23, Polycab spent Rs 124.4 cr which is 151% higher than FY22. During 1HFY24, it has already spent Rs 70.8 cr (+95% YoY). The FMEG business currently contributes 15% of total sales and is expected to turnaround by 2025 with EBITDA margin of 10%.

Solid performance during 2QFY24: The revenue and profit were up 26.6%/58.8% YoY to Rs 4,217.7 cr and Rs 429.8 cr respectively. EBITDA margin was up 170 bps/30 bps YoY/QoQ to 14.4% due to judicious price revision, better operating leverage, and favourable product mix. FMEG business was muted during the quarter due to weak consumer sentiment and price erosion in the lighting business. Segmental EBIT continued to be in the negative territory due to high fixed costs and A&P spending.

The guidance of Rs 20,000 cr turnover by 2026 is expected to be upgraded: The management has guided for Rs 20,000 cr revenue by FY26. The management during the earnings conference call revealed that the guidance will be revisited in next 2-3 quarter and there is a possibility that the same will be upgraded. The company will do capex of Rs 600-700 cr each during FY24 and FY25. The EHV transmission line cables plant is expected to be operational by FY26.

Financial and valuation : During FY23-FY25E period, Sales/EBITDA/PAT is expected to grow at a CAGR of 19.8%/23.4%/23.8% to Rs 20,244.1 cr/Rs 2,805.3 cr/Rs 1,966.5 cr respectively. At CMP, Polycab India Ltd is trading at a P/E multiple of 43.9x/37.8x FY24E/FY25E Bloomberg consensus earnings.

Key Risks: Input cost pressures; Slowdown in consumption; Slowdown in government infrastructure spending; Increase in competitive intensity

Kalyan Jewellers India Ltd.

SBI Securities
Investment aur Trust, Dono

CMP:	₹ 289
Target:	₹ 364
Upside:	26%

STOCK DATA	
Bloomberg Code	KALYANKJ IN
NSE Code	KALYANKJIL
BSE Code	543278
Mcap (Rs cr)	29,738
Del. Volume in lakh (3M/12M)	17.7/16.5

Rs cr	FY22	FY23	FY24E	FY25E
Net Sales	10,817.9	14,071.5	17,719.0	22,037.2
EBITDA	814.5	1,080.8	1,340.6	1,643.0
Net Profit	224.0	431.9	633.2	832.1
EBITDA Margin (%)	7.5	7.7	7.6	7.5
RoE (%)	7.5	12.8	16.1	18.1
P/E (x)	132.2	68.5	46.8	35.6
P/BV (x)	9.4	8.1	7.0	5.9

Source: Company, Capitalise, NSE, Bloomberg, SSL Research

Note: CMP as of 31st Oct 23 closing

Established in 1993 by Mr. T.S. Kalyanaraman, **Kalyan Jewellers India Ltd (KJIL)** is one of India's largest jewellery companies. Its product basket includes wide range of gold, studded and other jewellery products across price points and caters to multiple use cases ranging from special occasions such as weddings to daily wear.

Investment rationale:

Pan India presence: The company is one of the country's largest jewellery companies with pan India presence along with operations in the Middle-East. As of Jun'23, the company has 161 showrooms (including Candere) in India and 33 showrooms in Middle East. It derives 48% of revenues from South India and balance from non-South regions. Further, it has 32% presence in the metro cities.

Wide range of product offerings catering to diverse set of customers: The company offers various types of products which meets the requirement of different set of customers. It offers wedding jewellery under the brand name of Muhurat for wedding customers and different jewelleries under the brand names of Mudhra, Rang/Aishwaryam/Nimah, Tejasvi, Ziah, Hera for Mid to High-end customers/Value conscious customers/Wedding, Mid to High-End customers respectively. Apart from this, the company has launched a number of sub-brands to cater to different customer segments and occasions.

Growth strategy for FY25: KJIL targets same store sales growth of mid to high single digits. It will focus more on capital efficient franchise store strategy to accelerate RoCE from the current levels of 17%. In terms of expansion, the company will increase its presence in high margin non-South India region. For international expansion, the company plans to do calibrated expansion in Middle East on the back of healthy business traction which will be largely funded from its capital-light franchise store strategy.

Improved financials: The company has delivered strong execution over the past several years with adj. PAT improving from Rs 142.3 cr in FY20 to Rs 456.9 cr in FY23 reflecting CAGR growth of 47.5% over FY20-23. The return ratios have also shown meaningful improvement with RoE/RoCE growing to 13.5%/17.4% in FY23 from 6.7%/11.7% in FY20 respectively. Financial position has also improved with net D/E of 0.7x as of Mar'23 vs. 1.3x in FY20.

Reasonable valuation: During FY23-FY25E period, Sales/EBITDA/PAT is expected to grow at a CAGR of 25.1%/23.3%/38.8% to Rs 22,037.2 cr/Rs 1,643.0 cr/Rs 832.1 cr respectively. At CMP, Kalyan Jewellers is trading at FY24E/FY25E P/E of 46.8x/35.6x respectively.

Key Risks: Demand slowdown, Increase in competitive intensity, Volatility in gold prices

Praj Industries Ltd

SBI Securities
Investment aur Trust, Dono

CMP:	₹ 536
Target:	₹ 633
Upside:	18%

STOCK DATA	
Bloomberg Code	PRJ IN
NSE Code	PRAJIND
BSE Code	522205
Mcap (Rs cr)	9,839
Del. Volume in lakh (3M/12M)	6.7/4.3

Rs cr	FY22	FY23	FY24E	FY25E
Net Sales	2,343.3	3,528.0	4,065.5	4,536.7
EBITDA	193.8	307.8	396.1	454.6
Net Profit	150.2	239.8	300.3	342.9
EBITDA Margin (%)	8.3	8.7	9.7	10.0
RoE (%)	17.5	24.1	25.8	24.5
P/E (x)	66.0	41.4	33.4	29.0
P/BV (x)	10.9	9.2	7.8	6.7

Source: Company, Capitalise, NSE, Bloomberg, SSL Research

Note: CMP as of 31st Oct 23 closing

Praj Industries Ltd is a leading engineering company offering bouquet of sustainable solutions for bioenergy, high purity water, critical process equipment, breweries and industrial waste water treatment. The company has team of 90+ technologists, 300+ patent filings and 4 world class manufacturing facilities located in Maharashtra and Gujarat. Praj offers a complete range of solutions in conceptualization, technology, design, plant engineering, project installation, and commissioning of the plant.

Investment rationale:

Good revenue visibility given the healthy order book position: The company has an order book of Rs 3,960 cr as of Sept'23 qtr which is more than 1x of its TTM 2QFY24 consolidated revenue thus offering good revenue visibility in near term. During 2QFY24, the order inflow was to the tune of Rs 1,063 cr, with 68% from Bioenergy, 22% from Engineering, and 10% from HiPurity segment.

Strong Industry Tailwind: Energy transition and climate action is emerging as a strong development agenda globally. Government of India has advanced the target of 20% Ethanol Blending Program (E20) program with petrol to 2025 from 2030 to reduce the country's oil import bill and pollution. The target of E20 blending would demand ethanol production of ~1000 cr litres by FY26 from 540 cr litres in FY23 for blending purposes. This translates to Rs 12,000-14,000 cr of capex requirement. Players like Praj are likely to be key beneficiary of such capex program.

Dominant player in installation of Brewery and Beverages plants: The company has 39 years of experience and has 70% market share in India in brewery plants. It has experience in installing projects in more than 100 countries across different continents. During FY23-FY28 period, Beer market in India is likely to grow at CAGR of 8.1% to Rs 622 billion and Praj is likely to be the key beneficiary in medium to long term.

New Initiatives: The company is at the forefront when its comes to future fuels and is working on 2G ethanol (processing a wide range of agri residue such as rice straw, wheat straw, bagasse, corn stover and corn cobs, soft wood and empty fruit bunches to produce bioethanol and renewable chemicals), Renewable Natural Gas, Marine Biofuels, Sustainable Aviation Fuel (SAF) etc. The technology for SAF is in the final leg of optimization and commercial offering and it is proven to significantly reduce carbon emissions when blended with Aviation fuel.

Established track record: During FY20-FY23 period, Sales/EBITDA/PAT has reported CAGR of 47.4%/57.2%/50.5% at Rs 3,528 cr, Rs 318 cr and Rs 240 cr. RoE/RoCE has expanded to 22%/29% in FY23 from 10%/12% in FY20. As of FY23, the company is net debt free. With healthy order book in hand and robust order inflows underpinned by strong industry tailwinds, we believe, Praj will continue to deliver healthy operational and financial performance for next 3-4 years.

Valuation: At current price, the stock is trading at 33.4x/29.0 of its FY24E/FY25E Bloomberg consensus estimates which looks reasonable given the strong market position of the company and a decent order book position.

Key Risks: Sluggish order inflow; Slow execution; Change in government's ethanol blending policy

Titagarh Rail Systems Ltd.

CMP:	₹ 762
Target:	₹ 988
Upside:	30%

STOCK DATA	
Bloomberg Code	TITAGARH IN
NSE Code	TITAGARH
BSE Code	532966
Mcap (Rs cr)	9,685
Del. Volume in lakh (3M/12M)	6.4/5.1

Rs cr	FY22	FY23	FY24E	FY25E
Net Sales	1,467.5	2,780.5	3788.7	4709.2
EBITDA	164.9	264.3	387.4	482.6
Net Profit	77.8	134.6	234.3	305.6
EBITDA Margin (%)	11.2	9.5	10.2	10.2
RoE (%)	9.2	14.0	20.6	21.3
P/E (x)	-	70.0	40.3	30.9
P/BV (x)	11.5	10.1	8.1	6.4

Source: Company, Capitalise, NSE, Bloomberg, SSL Research

Note: CMP as of 31st Oct 23 closing

Titagarh Rail Systems 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:

Healthy 2QFY24 performance (Standalone): Revenue stood at Rs 935 cr (+54% YoY/+3% QoQ). EBITDA stood at Rs 115 cr (+109% YoY/+8% QoQ). EBITDA margin improved by 321 bps/65 bps YoY/QoQ to 12.3% vs 9.1% in Q2FY23. PAT stood at Rs 71 cr (+4.9% YoY and net loss of Rs 11.9 cr in 2QFY23). **Segmental Results a)** Freight Rail Systems**:** Revenue stood at Rs. 801 cr (+67% YoY/+7% QoQ). EBIT stood at Rs 108 cr (+109% YoY/+11% QoQ). EBIT margin expanded by 273 bps YoY/48 bps QoQ to 13.5% vs 10.8% in 2QFY23. **b)** Passenger Rail Systems: Revenue stood at Rs 134 cr (+7% YoY/-18% QoQ). EBIT stood at Rs 4 cr (-17% YoY/-44% QoQ). EBIT margin contracted by 76 bps YoY/120 bps QoQ to 2.7% vs 3.4% in 2QFY23.

Robust Order Book & Capex: Order Book as on 30th September'23 stood at Rs 28,212 cr. Break-up was as follows: (a) Freight Rolling Stocks (FRS) – Rs 14,342 cr (51%) and (b) Passenger Rolling Stocks (PRS) – Rs 13,870 cr (49%). The management has guided a capex of Rs 600 – Rs 700 cr over the next three years.

Freight Rolling Stock: The management re-iterated the execution of wagon rolling stock is now stabilized at 600-700 wagons per month and is expected to be 1,000 wagons per month by end of FY24. The company achieved the highest ever dispatch of wagons (i.e. 759 wagons) in the month of Sept'23. The management alluded EBITDA margin to sustain around 10%-11%.

Passenger Rolling Stock: The management alluded to reach its first production target of 15-20 coaches by mid of FY25 and reach full capacity of 70-75 coaches within 3 to 3.5 years. Current capacity utilization – 20-25%. The total passenger rolling stock opportunity (Metro projects) is worth Rs 500bn – Rs 700bn. The company aims to gain market share with the ramp-up of capacity going ahead. It is the only company with both stainless steel and aluminium body production technology.

Indian Railway Tender: Titagarh is well placed in new floated tender by Indian Railways for 20,000 wagons. The management stated that this is only for one type of wagon & it expects other tenders to come out as well in the due course of time.

Reasonable valuation: At the current price, the stock is trading at a P/E of 39.3x/30.1x to its FY24E/FY25E of Rs.18.9/Rs.24.7 EPS based on Bloomberg consensus estimates.

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

Mrs. Bectors Food & Specialities Ltd.

SBI Securities
Investment aur Trust, Dono

CMP:	₹ 1,120
Target:	₹ 1,358
Upside:	21%

STOCK DATA	
Bloomberg Code	BECTORS IN
NSE Code	BECTORFOOD
BSE Code	543253
Mcap (Rs cr)	6,591
Del. Volume in lakh (3M/12M)	1.1/1.2

Rs cr	FY22	FY23	FY24E	FY25E
Net Sales	988.2	1,362.1	1,632.7	1,891.8
EBITDA	122.5	174.9	242.8	288.6
Net Profit	57.1	90.1	137.7	166.9
EBITDA Margin (%)	12.4	12.8	14.9	15.3
RoE (%)	12.7	17.8	22.9	22.9
P/E (x)	115.2	73.2	47.9	39.4
P/BV (x)	14.0	12.1	10.0	8.3

Source: Company, Capitalise, NSE, Bloomberg, SSL Research

Note: CMP as of 31st Oct 23 closing

Mrs. Bectors Food Specialities Ltd (MBFSL) is one of the leading companies in the premium and mid-premium biscuits segment under the brand 'Mrs. Bector's Cremica' and is the largest exporter of biscuits from India. The company is also a leading premium bakery player under the brand 'English Oven', which is also amongst the fastest growing premium bakery brand in India.

Investment rationale:

Strong presence in North-India to expand to other regions: 'Mrs. Bector's Cremica' is one of the leading biscuit brands in the premium and mid-premium segment in Punjab, Himachal Pradesh, Ladakh and Jammu & Kashmir. The company intends to leverage its strong presence in North India to expand presence in the other regions of India.

One of the fastest growing premium bakery brand in India: MBFSL is a premium bakery player in India with the products sold under the brand name English Oven growing faster than industry between FY15-23. It is also an exclusive preferred supplier to many of the country's well-known QSR franchises, cloud kitchens and multiplexes. It is one of the two key vendors in India working with institutions for the supply of processed and semi-processed dough-based offerings. The company enjoys strong relationship with key institutional customers and is planning to introduce new category of products such as frozen buns, dessert jars, brownies, etc.

Commercialisation of expanded capacity in 2HFY24 and FY25 to drive the volume growth: MBFSL is adding 2 additional biscuit lines in Punjab to meet the growing demand with a total estimated cost of Rs 75 cr. The expected timeline of this project is 2QFY24. The company has also received approval for construction of building plan for its biscuit line at Dhar, MP which is expected to get ready in FY25. In its bakery segment, the company is adding bakery plant in NCR with an estimated cost of Rs 32.7 cr and estimated completion timeline of 3QFY24. Apart from this, MBFSL has also purchased land in Khopoli, Maharashtra for its bakery expansion which is expected to be commissioned by FY25.

Healthy financials: MBFSL has healthy balance sheet with net D/E of 0.1x as of Mar'23. It has improved its working capital days from 33 days in FY20 to 25 days in FY23. The company has also grown its sales and profit at a CAGR of 21% and 44% over the last 3 years. The Biscuits and Bakery segment have grown at a CAGR of 21% and 23% respectively in the last 3 years. During FY23-FY25E period, Sales/EBITDA/PAT is expected to grow at a CAGR of 17.8%/28.4%/36.1% to Rs 1,891.8/ Rs 288.6 and Rs 166.9 cr respectively

Reasonable valuation: At current price, the stock is trading at a reasonable valuation with P/E multiple of 47.9x/39.4x of its FY24E/FY25E Bloomberg consensus earnings.

Key Risks: Demand slowdown, Increase in competitive intensity, Commodity inflation

Kolte-Patil Developers Ltd.

SBI Securities
Investment aur Trust, Dono

CMP:	₹ 479
Target:	₹ 570
Upside:	19%

STOCK DATA	
Bloomberg Code	KPDL IN
NSE Code	KOLTEPATIL
BSE Code	532924
Mcap (Rs cr)	3,646
Del. Volume in lakh (3M/12M)	1.4/1.2

Rs cr	FY22	FY23	FY24E	FY25E
Net Sales	1,117.5	1,488.4	1656.6	1886.6
EBITDA	186.2	189.3	294.7	353.6
Net Profit	79.4	102.5	175.7	223.3
EBITDA Margin (%)	16.7%	12.7%	17.8%	18.7%
RoE (%)	8.3	9.8	14.4	15.5
P/E (x)	45.8	35.5	20.7	16.3
P/BV (x)	3.8	3.5	3.0	2.5

Source: Company, Capitalise, NSE, Bloomberg, SSL Research

Note: CMP as of 31st Oct 23 closing

Kolte-Patil Developers Ltd. (KPDL) is a leading real estate company with dominant presence in the Pune residential market and growing footprint in Mumbai and Bengaluru market. The company has developed and constructed over 58 projects including residential complexes, integrated townships, commercial complexes and IT Parks covering a saleable area of ~26 million square feet across Pune, Mumbai and Bengaluru.

Investment rationale:

Healthy traction in Real Estate project: For FY23, the company recorded pre-sales value of Rs 2,232 cr, registering a growth of 28% YoY. It launched over ~3.3 mn. sq. ft across projects in Pune and Mumbai. For FY24 and FY25, the management has guided to achieve pre-sales value of Rs 2,800 cr and Rs 3,500 cr respectively, implying a CAGR of 25% during FY23-FY25. We expect the company to maintain mid-teens to high-teens margin for FY24.

As of 1QFY24, the company has acquired projects with GDV of Rs 8,000 cr. The break-up is as follows:- 1) Rs 5,000 cr in Pune, 2) Rs 2,000 cr in Mumbai and 3) Rs 1,000 cr in Bangalore. It further expects Pune to contribute 70% and Mumbai & Bangalore to contribute 30% to sales by FY25 thereby de-risking the geographical concentration.

Growth Strategy across various regions: (a) Pune – The company is entering new micro-markets to capture a larger share of Pune region with product offerings across affordable, MIG, HIG and super luxury segments (b) Mumbai – Entering new micromarkets of central suburbs of Mumbai and Navi Mumbai region with product offering in the range of Rs 1.5 cr – Rs 3.5 cr per unit and continues to focus on society redevelopment /JDA/JV/Structured Outright having more than Rs. 300 crore top-line potential per project. (c) Bangalore – Continues to improve visibility through product offerings in MIG segment.

Strong Financials: KPDL reported healthy 1QFY24 revenue of Rs 571 cr (+185.4% YoY). EBITDA came in at Rs 91 cr (+94.4% YoY) with EBITDA margin at 16.0% vs 23.4% in 1QFY23. Net profit stood at Rs 48 cr (+84.4% YoY). Realization stood at Rs 7,545 per sq ft vs Rs 7,260 sq ft YoY. Collections increased from Rs 474 cr to Rs 513 cr on YoY basis. Net debt to equity stood healthy at 0.01x vs 0.15x YoY.

Attractive Valuation: At the current price, the stock is trading at a P/E of 20.7x/16.3x to its FY24E/FY25E of Rs.23.1/Rs.29.4 EPS based on Bloomberg consensus estimates.

Key Risks: Slowdown in residential real estate sales; High Interest rates and Adverse regulatory norms etc.

Goodluck India Ltd.

SBI Securities
Investment aur Trust, Dono

CMP:	₹ 850
Target:	₹ 1,072
Upside:	26%

STOCK DATA	
Bloomberg Code	GLIN IN
NSE Code	GOODLUCK
BSE Code	530655
Mcap (Rs cr)	2,318
Del. Volume in lakh (3M/12M)	1.4/1.1

Rs cr	FY22	FY23	FY24E	FY25E
Net Sales	2,577.7	3,048.0	3565.0	4100.0
EBITDA	186.9	219.2	281.6	377.2
Net Profit	75.0	87.8	124.8	172.2
EBITDA Margin (%)	7.3	7.2	7.9	9.2
RoE (%)	16.1	14.2	17.5	21.3
P/E (x)	29.5	26.4	18.6	13.5
P/BV (x)	3.9	3.4	2.9	2.4

Source: Company, Capitalise, NSE, Bloomberg, SSL Research

Note: CMP as of 31st Oct 23 closing

Goodluck India Ltd is engaged in manufacturing and exporting of a wide range of ERW Steel Pipes (Black, Red Painted & Galvanized), Hollow Sections, CR Coils, CRCA Sheets and Pipes, Galvanized Coils, CDW Tubes, Forgings & Flanges, Telecom & Transmission Line Towers, Substation Structure, Bridges for Road & Railways and Road Safety Equipment's etc.

Investment rationale:

A leading manufacturer of wide range of Engineering Structure, Precision/Auto Tubes, Forging for Defence & Aerospace, CR Products and GI Pipes: The company has diversified businesses across value added product categories. Engineering includes Transmission & Telecom towers, Fabricated steel structures, Railway & Road Bridges, Forging comprise of Forged flanges, Gear rings, Gear shanks, Forged shafts, Railway products, Defence, Aerospace. Precision Tubes comprise of Auto Tubes, CDW/ERW Tubes, Boiler Tubes, Transformer Tubes, Air Heater Tubes while CR Sheets, Pipes & Tubes includes C.R Sheet/Coil, G.P.G.C Sheet/Coil, C.R.C.A Sheet/Coil, Pipes, etc.

Focus towards Value-added products: The company over the years has been generating EBITDA margin of mere 6-7% which remained very sticky due to limited industrial opportunity. The management is now focusing on new areas like Airport, High speed Trains, Railways bridges, Road safety products, Aerospace and Defence etc which are not a new application area for the company but will also provides better spread and margins. The management is confident to ramp up the current EBITDA margin of 6-7% to 10% over the next 2-3 years.

Expansion plan: The company is likely to spend Rs 200 cr as a part of capex over the next 2 years. The current capacity of 3,60,000 MT will be enhanced to 4,50,000 MT by FY25. With likely increase in cash flows, the management is confident to further deleverage the balance sheet by repaying partial debt and intend to repay the entire long-term debt of Rs 100 cr.

Guided for mid-teens growth in topline for next 3 years; Profit to grow faster: The company is likely to post mid-teens growth in topline from current Rs 3,048 cr FY23 to Rs 4,500 cr plus by FY26. However, earnings are likely to grow at a faster rate led by expansion in EBITDA margin and reduction in interest cost on account of deleveraging of balance sheet.

Attractive valuation; favorable risk-reward ratio: During FY23-FY25E period, Sales/EBITDA/PAT is expected to grow at a CAGR of 16.0%/31.2%/40.0% to Rs 4,100.0 cr/Rs 377.2 cr/Rs 172.2 cr respectively. At CMP, the stock is trading at a compelling valuation of 10.5x/7.8x FY24E/FY25E EV/EBITDA multiple and 18.6x/13.5x FY24E/FY25E P/E multiple respectively.

Key risks: Volatility in raw material though most contracts are back-to-back; High working capital requirement; Slightly leveraged balance sheet (Net D/E of 0.95x).

Disclosures & Disclaimers

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