Choice Equity Broking Private Limited

# Q1FY25 Quarterly Result Review

21 August 2024

# India Automobiles Sector

Choice

Aug 21 , 2024

| Company | CMP (INR) | TP (INR) | Upside/ Downside (%) |
|---|---|---|---|
| Maruti Suzuki | 12,221 | 14,338 | 17 |
| Hero Motocorp | 5,285 | 5,478 | 4 |
| TVS Motors | 2,632 | 2680 | 2 |
| Eicher Motors | 4,914 | 5,192 | 6 |
| M&M | 2,769 | 3,005 | 9 |
| Ashok Leyland | 260 | 270 | 4 |
| Uno Minda* | 1,168 | 1122 | -4 |
| Endurance Tech | 2,524 | 2,452 | -3 |
| Bajaj Auto | 9,852 | 10,321 | 5 |
| Lumax Ind. | 2,805 | 3,310 | 18 |
| Lumax Auto | 532 | 587 | 10 |
| Fiem Industries | 1,449 | 1569 | 8 |
| Gabriel India | 537 | 548 | 2 |
| MSWIL | 72 | 72 | 0 |
| Suprajit Engg. | 576 | 576 | 0 |
| Sansera Engg. | 1,498 | 1,557 | 4 |

**Target achieved, will review rating & TP post Q2FY25 result*

***CMP as on 21st Aug 2024*

**During the quarter, the performance of automobile stocks under coverage grew 12%+ over last year led by healthy growth in 2W OEMs. The healthy growth in the 2W segment was supported by recovery in the rural market and premiumisation play. Whereas, growth in the PV segment was lower than the 2W segment due to low single digit volume growth. Currently the growth in PV is moderating, and inventory levels remain high with an increase in discounts activities. Upcoming festive sales will be a key monitorable. The 2W segment did well, with recovery visible in rural and semi-urban markets, and the premiumisation theme continued to perform strongly. CVs, as expected, lagged, but the second half is projected to be better than the first half. The revenue for the companies under our coverage grew by 12.4% YoY, and EBITDA saw a jump of 27.3% YoY, largely due to RM cost reduction and operating leverage benefits. The EBIDTA margin expanded by 167bps YoY and 23bps QoQ. 2W OEMs experienced revenue growth of 15.1% YoY basis whereas PV OEM saw a 11.0% YoY growth and component manufacturers registered a growth of 18.3% YoY. On the margin front, OEM saw a margin expansion 189bpsYoY/41bps QoQ and ancillary companies margin was flat 4bps YoY/-118bps QoQ. Overall, retail sales during Q1FY25 for PV was 932k units (+5.6%YoY), 2W was 4.57mn units (+12.9%YoY) and CV was 207k units (+1% YoY).**

- Going forward, we expect the automobile sector to witness a mixed trend. In PV, due to high base effect we expect low single digit but to beat this low single digit growth OEMs have to sell higher ASP vehicles to offset the base effect. For 2W and tractor, on the back of expectation of normal monsoon these are the segments expected to do well in FY25 and for CV, due to postponement of buying a new vehicle as election outcome, we expect some pent up demand to trigger in H2FY25.
- For auto ancillary space, we remain positive on premiumisation and Make in India theme to playout well in FY25 as well and expect auto ancillary companies under our coverage to continue benefiting from the trend of premiumisation and technological upgrades, as well as the EV transition, which is evident from their product offerings.
- Our top picks in the auto space are Fiem Industries, MSIL, Hero MotoCorp and Gabriel India Ltd.

**Top Picks:**

**1. Fiem Industries Ltd.| Rating: BUY | Target Price – Rs. 1,569**

- **Winning new business PV segment:** In PV segment, successfully delivered the first product for Mercedes. Also received second order for development of headlamp and tail lamp for new project. Company has received 3 order and also having 3 RFQ. Further company also won new business for headlamp solution from high end European car makers from development & design stage where production to start from Q4FY25 at initial level, any fresh capex won't be required.
- Further, Management expects FY25 topline to grow by 15-20% backed by new launches by OEM increasing revenue share from PV segment. Management also guided a capex of Rs.250cr-Rs300cr over next 2-3 years which is over and above regular maintenance of Rs.40-45cr.
- **Outlook:** The stock is driven by continued dominance in the E-2W lighting segment, healthy free cash flow generation, and the addition of new clients, diversification into PV segment (won new order from EU OEM and domestic OEM) and partnership with Gogoro. We expect FIEM to see better than industry growth in coming year backed by product diversification and capacity expansion. We roll forward valuation to FY26 to arrive at TP of Rs 1569 with BUY rating. (18X of FY26E EPS).

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**2. Maruti Suzuki India Ltd.| Rating: BUY| Target Price – Rs. 14338**

- **Scaling up the more efficient vehicles**: Looking ahead, MSIL plans to launch its first BEV (Battery Electric Vehicle) by 2025, with a total of six EV models anticipated by FY31, accounting for 15-20% of total sales. The powertrain mix is expected to consist of 15% BEV, 25% hybrid, with the remainder coming from fuel-efficient ICE (Internal Combustion Engine) vehicles, such as CNG, biogas, flex-fuel, and ethanol-blended fuel models. This strategic mix not only supports MSIL's market dominance but also aligns with broader carbon footprint reduction goals.

- **Outlook:** The long term growth story of the company is led by: 1) a large distribution network (3,863 sales outlets, 5000 service touch-points); 2) largest low emission product portfolio offering; 3) new/refresh launches in the Hybrid/ SUV and EV segment; 4) capacity expansion to (4mn units by 2030-31), 5) growing export volume (addition of newer model from UV segment) and increasing Nexa distribution network in rural market. We value the stock based on FY26E EPS to arrive at a TP of Rs. 14,338 with the BUY rating (27x FY26E EPS).

**2. Hero MotoCorp Ltd.| Rating: BUY| Target Price – Rs. 5478**

- The 125 cc segment's market share rose from 13% to 20% due to a surge in demand for Glamour, Super Splendor, and Xtreme 125. The reintroduction of the Glamour Magnetic has seen strong support, especially in Andhra Pradesh and Telangana. Super Splendor's mileage campaign, "66km/l," has driven customer interest significantly. Meanwhile, the Xtreme 125 has successfully brought new customers into dealerships, with capacity expansion underway to meet the high demand. Further, the production capacity of Xtreme 125R is being increased from 25,000 to 40,000 units per month over the next few months in response to excellent customer demand.

- **Outlook:** HMCL is expected to benefit from rural recovery on expectation of normal monsoon, traction in entry level bikes by new customers. Further as a long term strategy road map such as showroom revamp, upgradation of portfolio will support volume growth better than industry. We like to retain our positive view on HMCL due scaling up the EV portfolio and premium product portfolio with Harley, Mavrick, Karizma, XPulse and Xtreme. We recommend BUY rating on the stock with TP of Rs.5478 (18x of FY26E EPS).

- **3. Gabriel India Ltd.| Rating: BUY| Target Price – Rs. 548**

- **Diversification into Sunroof to reduce single product dependency:** GIL has a leadership position in the suspension systems, supplying and catering to all segments such as 2W, 3W, PV, CV, and railways and is also having support from parent Anand Group. In order to foray into a new edge product which is agnostic to power terrain technology and healthy growth prospectus, GIL has forayed into Sunroof system. The demand for sunroofs remains robust.

- The price difference between panoramic and normal sunroofs is almost double and current import content is 50-60%. The company has technical collaboration and alliance with Inalfa Roof Systems for manufacturing sunroofs in the domestic automotive market. The company is clocking a production of 8000+ units/month. In recent development, JV formation has been rejected by DPIIT to form a JV, hence the current structure is running on royalty basis where Gabriel is paying royalty charges of 5%. Management expects to get the JV approval from PN3 very soon.

- **Outlook:** The stock is supported by: 1) the key beneficiary of increasing demand from SUV category; 2) foray into high growth and power terrain technology agnostic product like sunroof system (content per vehicle is 5-6x of shock absorber); 3) scaling up the technological capabilities; 4) steady revenue visibility in the aftermarket (export leading the show); 5) increasing share of business in PV segment; and 6) winning new orders from E-2W OEM and expanding capacity. We rate the GIL with ADD rating with a TP of Rs.548, based on 24x on FY26E EPS.

# India Defence Sector

Choice

Aug 20, 2024

- In Q1FY25, the performance of Defence companies under our coverage was mixed bag, where DPSUs are performed better than component suppliers. Even though historically a weak quarter for the industry. The defence industry witnessing supply chain disruption due to civil unrest across globe. In this quarter most of the companies met expectations and reported satisfactory top-line growth, and but in margins front witnessed marginal growth. The revenue for the quarter of companies under our coverage grew by 12.7% collectively on YoY basis, and EBITDA increased to 24.9% YoY, led by strategic long term contract of raw material and cost control measures taken by the companies. Hence, benefitted the overall performance of the companies. The EBITDA margin for the coverage companies expanded marginally by 202.8bps YoY. But in PAT front jumped significantly stood 60.9% on YoY, margins expanded 715bps on YoY basis, led by cost control measures. Overall, in this quarter defence companies performed better than our expectation but surprised in bottom line.
- India's defense sector has experienced extraordinary growth in exports during the first quarter of FY24-25, with a notable 78% increase, reaching INR 6,915cr compared to INR 3,885cr in the same period last year. This surge highlights India's growing presence in the global arms market, driven by strong domestic production and strategic policy reforms. The Economic Survey FY23-24 reveals record-breaking defense exports of USD 2.5 billion (INR 20,915 crore) for FY23-24, a 25% increase from the previous fiscal year, showcasing a consistent upward trend since FY17. Domestic production also grew significantly, reaching INR 1.27 trillion, the government's focus on boosting indigenous manufacturing. Key contributors to this success include around 100 domestic companies exporting a diverse range of military products. The Ministry of Defence underscores the strategic importance of these achievements in advancing India's self-reliance and global competitiveness. Looking ahead, India aims to reach a defense export target of INR 50,000cr within five years, with plans to expand product ranges and international collaborations, continuing the impressive growth trajectory.
- We are confident about this sector, because this sector is shifting from a strategic sector to an economic sector, contributing to the economic growth of the country. The Atmanirbhar Bharat initiative aims to reduce dependence on foreign OEMs and promote through indigenous procurement of defence equipment. Over the next 5-10 years, the government will support Defence PSUs and private industry in achieving a self-sustaining defence industry. The sector is expected to see healthy spending, platform acquisitions, and increased dispatches, with the Indian Defence market remaining a prime revenue source. We are expecting MoD will continue to acquire platforms from domestically, and this sector will witness healthy spending in the coming years, acquisition of new platforms and modernization of existing platforms, which will lead to an increase in dispatches in the coming years.
- As we entered into the second quarter of FY25, we are positive about the growth story of Defence manufacturing companies driven by the Government of India's push for localization. We expect defence companies under our coverage to continue benefiting from the trend of platform acquisition and technological upgrades, 1. Direct beneficiaries of GOI's self reliance on defence sector, 2. Rising defence spending across all segment (Naval, Army, Air Force), 3. Expanding geographical presence, 4. Focusing on system level integration in-house, 5. The company's healthy order book, will drive the growth stories of the companies. Our top picks in the defence space are DCX Systems Limited, Bharat Electronics Limited and Bharat Dynamics Limited.
- In conclusion, the Indian Ministry of Defence is making significant strides in strengthening its defense manufacturing and indigenization efforts. This will boost the nation's indigenous defence capability and foster growth in the defence companies.

| Company | CMP (INR) | TP (INR) | Upside/ Downside (%) |
|---|---|---|---|
| **Defence Sector** | | | |
| HAL | 4,731 | 5,326 | 13 |
| BDL | 1,321 | 1,501 | 14 |
| Astra Micro | 883 | 948 | 7 |
| BEL | 305 | 346 | 13 |
| Data Patterns | 2,881 | 3,035 | 5 |
| Apollo Micro S | 106 | 163 | 54 |
| Centum Electronic | 1,519 | 1,776 | 17 |
| DCX Systems Ltd | 345 | 470 | 36 |

**Target achieved, will review rating & TP post Q2FY25 result*

***CMP as on 21st Aug 2024*

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- **Top Picks:**

### 1. DCX Systems Ltd.| Rating: OUTPERFORM | Target Price – Rs.470

**View and valuation:** DCX has also established a joint venture to enhance its overall profitability. The JV with ELTA focuses on railway products, with production slated to commence in FY25 under a product development category that offers significantly higher margins compared to the build-to-print (BTP) category. Additionally, the backward integration with Raneal Advanced Systems for PCB assembly is projected to boost margins by approximately 100-150 basis points. The company is also exploring opportunities for further expansion in the domestic defence sector. We anticipate that DCX's Revenue/EBITDA/PAT will grow at compound annual growth rates (CAGR) of 19%/31%/32%, respectively, over FY24-26, driven by the ELTA JV, backward integration, and new orders in both export and domestic defence markets. We maintain our positive view on DCX Systems with an "**Outperform**“ rating, setting a target price of **Rs.470**, based on a **30x** (PE) ratio for **FY26E EPS**.

### 2. Bharat Electronics Ltd.| Rating: BUY | Target Price – Rs.346

**View and valuation:** BEL is well positioned to gain from the growing list of Indigenization procurement and winning new order on defense electronics such as high end electronics related to defence, industrial and various civil projects. Despite trading at rich valuation, we continue to maintain our positive stance on the BEL due to its position as the sole supplier of various equipment and systems and ongoing innovation in diverse products from tri forces. We have a positive outlook on BEL, supported by- 1. BEL is the direct beneficiaries of GOI's self reliance on defense sector, 2. Rising defense spending across all segment ( Navy, Army, Air Force), 3.Diversified business opportunities like Defence, Civil aerospace, Railway, etc. 4.Focusing on system level integration, and strong order book. We maintain our rating "**ADD**" with a TP of **Rs.346** valuing it on (**45x of FY26E EPS**). Assigning a higher multiple on account of promising domestic defence manufacturing opportunities and increasing gamut of ToT.

### 3. Bharat Dynamics Ltd.| Rating: REDUCE | Target Price – Rs.1501

**View and valuation**: BDL is inline with capability building to carter future growth. We expect order execution to pick up from FY25 onwards led by various order execution such as in the near term, the company expects execution of program such as Astra Mk-1, SAAW, ULPGM, Drone fired Bombs, SPIKE-ER, 70MM LGR orders by FY25 and QRSAM, NAG ATGM, Advanced Torpedo, MIGM, GRAD Rockets by FY26. Post that the company expects Akash-NG, VLRSAM, MPATGM, Heavy weight Torpedo, AMOGHA-III ATGM, MISTRAL, ASRAAM orders by FY27, supported by association with DRDO and in House R&D and Foreign Collaboration

We have a positive outlook on BDL, as it is catering the strategic needs of the MoD Indian defence forces, supported by 1. Sole supplier of offensive, as well as defensive systems domestically, 2. Upcoming big ticket project are in the pipeline and it is expected to materialize from FY25 onwards, 3. Increasing exports opportunity, talks are under way with 4-5 friendly countries, 4. Diversified product portfolio across armed forces, 5. The company's humongous order book, which stood at ~Rs 195 bn as on 1st April 2024 (~8.2x of FY24 revenue will support the growth story of the company. We like to ascribe "**REDUCE**" rating due to expensive valuation on the stock with a target price of **Rs.1501 (60x of FY26E EPS).**

# India Building Materials Sector

August 21, 2024

| Company | CMP (INR) | TP (INR) | Upside/ Downside (%) |
|---|---|---|---|
| Hindware Home | 380 | 458 | 21 |

*Target achieved, will review rating & TP post Q2FY25 result

**CMP as on 21st Aug 2024

**Volume Growth:** In Q1FY25, the Plastic Pipes industry experienced a 13% YoY growth driven by strong demand from the agriculture/Infra and real estate sectors, as well as restocking was lower due to Volatile PVC prices. Hindware achieved the second highest volume growth in the industry at 24%, reaching 10,188 MT. While Apollo Pipes reported highest volume growth in the industry with 25%. The industry leader, Supreme Industries, reported a 20% volume growth. Finolex Industry volume growth de-grew by 2% on YoY basis and Astral/Prince Pipes volume grew by 16/14% respectively.

**Realisation:** The average realization for plastic pipe companies decreased by 7% to Rs 143/kg. Hindware's Pipes segment saw a 16% YoY drop in realization to Rs 160/kg. PVC prices grew by 7% YoY to Rs 91/kg. However we saw there is sharp fall from July onwards, Now PVC prices stands at Rs 84/kg vs Rs 91 at 1QFY24.

**EBIT/MT :**Hindware's EBIT/MT decreased by 24% YoY to Rs 3,337 driven by a lower contribution from CPVC. The average EBIT/MT for plastic pipe companies fell by 4% YoY to Rs 12,329.

**Capex Plan:** The capex at Roorkee (Uttarakhand) is on track, it will increase the capacity by 12,500MT. post this the total capacity will be 66,500MT P.A.

**Bathware Revenue:** Revenue down by 10% YoY to Rs 3.2 billion. Cera's revenue down by 5% to Rs 3.5 billion, despite subdued demand. The Tiles players like Somany and Kajaria reported sales of Rs 910 million and Rs 605 million respectively for 1QFY25.

**Margins:** EBITDA margins for the bathware business down by 370bps YoY basis 13%. For Cera, EBITDA margins declined by 190 basis points to 14.1%.

**Outlook:** We maintain a positive outlook on Hindware Home Innovation, driven by new product launches in the bathware segment, capacity additions in the piping segment, strong brand recognition, and aggressive branding expenditures."

Based on these factors, Hindware home innovation is our top picks for investment in the building materials sector.

**Top Picks:**

**1. Hindware Home Innovation: Rating: BUY | Target Price – Rs.458**

- **Outlook:** HHIL to witness healthy Revenue/EBITDA/PAT growth of 6/19/32% CAGR over FY23-26E backed by 1) Strong position in bathware 2) greater presence in Pipes & fittings and consumer appliance 3) Strong brand call 4) strong distribution reach and better product offerings **Further its upcoming new facility in Roorkee and strong presence in Bathware segment will likely to improve the overall profitability of Hindware Home's (improvement in margin by 345bps over FY23 to FY26E from 8.5% to 12%. We like to maintain our** BUY rating on the stock led by with **a TP of Rs. 458 (23x of FY26 EPS)**.

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# India - Information Technology Sector

Choice

Aug 21, 2024

In Q1FY25, IT companies reported performance that was broadly in line with expectations, yet it showcased only modest growth in both revenue and operating margins. This muted performance reflects the prevailing challenges within the demand environment, characterized by cautious spending by clients amid ongoing macroeconomic uncertainties. Discretionary tech spending remains weak, impacting overall revenue growth. For Tier 1 IT companies, revenue growth ranged from a decline of -1.9% to an increase of +3.3% on a QoQ basis in USD terms, while Tier 2 companies experienced more varied results, with revenue growth ranging from a decline of -3.2% to a gain of +2.5% QoQ. This variability in revenue growth underscores the uneven impact across different sectors, with certain industries struggling more than others. Specifically, the Hitech, Telecom, and Consumer sectors saw more pronounced revenue softness, whereas sectors like Manufacturing, Travel, and Healthcare demonstrated more robust performance. Despite the overall subdued performance, there are notable positive developments, particularly in the BFSI (Banking, Financial Services, and Insurance) sector, where there is increasing client interest in high-priority IT projects. This growing demand in BFSI has led to robust deal wins, with a higher number of longer-duration contracts, and a slight improvement in the conversion of TCV to revenue compared to previous quarters.

Looking ahead, the medium to long-term outlook for the IT sector remains positive, driven by ongoing digital transformation and the rising adoption of Generative AI (Gen AI) solutions. While the near-term revenue growth is expected to remain subdued through the first half of FY25, improvements are anticipated in the latter half of the fiscal year. This anticipated growth is supported by the expected ramp-up of recently signed deals and an increase in traction for GenAI-based solutions, which are becoming increasingly critical for enhancing productivity across various industries. IT companies are also focusing on improving their operating margins by enhancing their employee management strategies, including optimizing the employee pyramid and rationalizing wage hikes. Attrition rates have stabilized, which should alleviate some of the supply-side pressures and support operational efficiency. Additionally, companies are investing in reskilling their workforce to align with new-age technologies, which is expected to bolster their competitive edge. The gradual return of non-essential expenses such as travel and administrative costs, as more employees return to the office, is also factored into the overall financial outlook. As these dynamics unfold, IT companies are well-positioned to improve performance and margins in the latter part of FY25, driven by a combination of new deal momentum, technological advancements, and strategic operational improvements.

**Top Picks:**

- **Allied Digital Services Ltd.: BUY |Target Price: INR 265**
  **Outlook:** At the end of FY24, it had an order book of INR14bn to be executed in next 3-4 years, however, it does not include renewal and annuity business. Management maintains its revenue target of INR10bn by FY27E to be driven by recovery in global business demand in next 4-6 quarters, good traction in Smart/Safe city projects from Government and other large projects in the pipeline. It is in advanced stages of communication with implementing one of the smart city projects, to be announced in next 2-3 quarters. Company's experience in designing, implementing, and maintaining data centers is a strong advantage. It is poised for 20% CAGR for FY26E as it is into two growth sectors viz. smart/safe cities and data centers. We downgrade our rating to BUY and arrive at a revised target price of INR265 implying a P/E of 17x on FY26E EPS of INR15.7.

- **IndiaMART InterMESH Ltd.: BUY |Target Price: INR 3,480**
  **Outlook:** Company added ~2,000 customers in Q1 and continues to see more than anticipated churn in silver category, while gold and platinum customers continue to have a very low churn and grow healthily in terms of numbers and ARPU. Company may start guiding on net customer additions once the churn improvement is seen. As the customer growth picks up, the margin expansion will normalize to 33-34% for FY25E with the help of operating leverage and lower sales and marketing cost. Growth will be driven by new sales, service and marketing head, focus on tier1 and tier 2 suppliers and ARPU growth in gold and platinum segment. We maintain our BUY rating and arrive at a revised TP of INR3,480 implying a P/E of 37x on FY26E EPS of INR94.

| Company | CMP (INR) | TP (INR) | Upside/ Downside (%) |
|---|---|---|---|
| TCS | 4,552 | 4,225 | -7 |
| Infosys | 1,873 | 1,885 | 1 |
| Wipro | 526 | 558 | 6 |
| HCL Tech | 1,677 | 1,615 | -4 |
| Tech Mahindra | 1,605 | 1,570 | -2 |
| LTI Mindtree | 5,713 | 5,715 | 0 |
| Mphasis | 3,037 | 3,140 | 3 |
| Coforge | 6,090 | 6,665 | 9 |
| Persistent | 4,913 | 4,560 | -7 |
| L&T Tech. | 5,424 | 5,380 | -1 |
| Tata Elxsi | 6,927 | 7,449 | 8 |
| Cyient | 2,012 | 1,810 | -10 |
| KPIT Tech. | 1,830 | 1,980 | 8 |
| Happiest Minds | 801 | 848 | 6 |
| IndiaMart | 2,911 | 3,480 | 20 |
| Datamatics | 563 | 590 | 5 |
| Allied Digital Ser | 225 | 265 | 18 |

**Target achieved, will review rating & TP post Q2FY25 result*

***CMP as on 21st Aug 2024*

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# India Building Materials Sector

Choice

Aug 21st , 2024

**Volume Growth:** In Q1FY25, cement companies experienced a decrease in volume compared to the previous quarter. This decline was influenced by heatwaves in certain parts of the country, muted government construction activities due to general elections, and an unusual monsoon season. Demand for cement is expected to remain weak due to the ongoing monsoon season. The companies we monitor reported a YoY growth in sales volume of approximately 4.8%, but a QoQ decline of about 7.7%. Revenue for these companies fell by around 1.6% YoY and 10.6% QoQ.

**Realisation:** In Q1FY25, cement prices in India saw a significant decline, affecting market dynamics. Prices have been consistently weak over the past 7-8 quarters, with average Pan-India prices dropping by 3% to 4% QoQ. June exit prices were another 3% lower compared to the Q1 average. Cement prices are expected to remain soft through the monsoon quarter, with a potential price increase anticipated starting in Q3FY25E. Due to continued weak demand, prices in the East and South regions declined by 4% YoY, while the North, Central, and West regions experienced a 3% YoY decrease.

**EBITDA/t:** In Q1FY25, cement companies saw a decline in EBITDA/t on both a YoY and QoQ basis, with decreases of approximately 7.1% and 18.1%, respectively, primarily due to lower realizations. This decline was further driven by higher freight and other expenses during the quarter. Management indicates that fuel costs have now stabilized, and they anticipate only a slight reduction in fuel consumption costs for Q2 FY25E. Additionally, companies are actively working to increase the share of Waste Heat Recovery Systems (WHRS) and are making efforts to reduce lead distances to lower freight expenses.

**Robust Capex Plan:** In Q1FY25, major Indian cement companies such as UltraTech, Ambuja, Shree Cement, Dalmia Bharat, and Ramco Cements announced significant capital expenditure plans to expand production capacities, improve logistics, and invest in energy-efficient technologies. These investments, driven by optimism in the infrastructure and housing sectors, are intended to strengthen their market positions and meet growing domestic demand. The companies are focusing on completing their ongoing capacity expansion projects within the planned timelines. ACC-Ambuja aims to reach approximately ~100mtpa by FY26E and around ~140mtpa by FY28E. UltraTech plans to increase its capacity by approximately 11.8 mtpa in FY26E and 20.1 mtpa in FY27E, targeting a total capacity of around 183.5 mtpa by FY27E. Shree Cement is aiming for a capacity expansion to approximately 62mnt by March 2025E, 65mnt by September 2025E, and ultimately around 75mnt by March 2027E. Dalmia Bharat is committed to reaching a cement capacity of around 75mtpa by FY27E, with a long-term goal of achieving 110-130mtpa by FY31E, reflecting a 14-17% CAGR in capacity addition. Birla Corp is targeting a capacity of approximately 25mnt by FY26E.

**Outlook:** Cement companies are optimistic about the rising demand for cement, driven by the government's ongoing emphasis on infrastructure and housing development. Management expects the industry to grow at a rate of approximately 8-9% in the near future. Companies are focused on improving pricing strategies and increasing the market share of high-end products, while also prioritizing cost reduction efforts. However, demand for cement is expected to be subdued in Q2 due to the monsoon season, with prices also likely to remain weak during this period. Collectively, these factors paint a positive picture for the cement industry in the coming year.

Based on these factors, ACC Ltd, JK Lakshmi and Birla Corporation Ltd. are our top picks for investment in the cement industry.

| Company | CMP (INR) | TP (INR) | Upside/ Downside (%) |
|---|---|---|---|
| Ultra T Cement | 11,201 | 12,225 | 9 |
| ACC | 2,325 | 2,795 | 20 |
| Ambuja | 629 | 707 | 12 |
| Shree Cement | 24,808 | 24,765 | 0 |
| Dalmia Bharat | 1,755 | 2,005 | 14 |
| Ramco C. | 813 | 855 | 5 |
| J K Cements | 4,300 | 4,396 | 2 |
| Birla Corp. | 1,306 | 1,480 | 13 |
| NUVOCO | 340 | 373 | 10 |
| Grasim Ind. | 2,685 | 2,780 | 4 |
| JK Lakshmi | 792 | 913 | 15 |

**Target achieved, will review rating & TP post Q2FY25 result*

***CMP as on 21st Aug 2024*

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**Top Picks:**

**1. ACC Ltd: Rating: BUY | Target Price – Rs.2,795**

- **Outlook: :** India's cement demand is expected to maintain a growth rate of 7-8%, largely propelled by investments in infrastructure and extensive residential housing projects. The company is targeting to double its capacity to 140mnt by FY28E, a significant increase from its current capacity of 89 mnt. The company's strategy revolves around cost optimization, with a concerted effort to reduce costs to fuel its growth trajectory. As per our FY26E estimates we expect Revenue/EBITDA to grow at a CAGR of 5.7%/13.1% respectively over FY24-FY26E. We maintain our rating to **BUY** and arrive at a target price of INR2,795 implying a EV/EBITDA multiple of 13.0x on FY26E EBITDA.

**2. JK Lakshmi Ltd: Rating: BUY | Target Price – Rs.913**

- **Outlook:** The outlook for the cement sector appears extremely promising in the coming year, supported by the government's emphasis on infrastructure development and increased budgetary allocations for the sector. The company's management remains committed to its ambitious capex plans, aiming to reach a capacity of 30 million tons by FY30E. Furthermore, Additionally, management is optimistic about securing a position among the top five companies in terms of EBITDA/t. We expect Revenue/EBITDA to grow at a CAGR of 5.6%/14.0% respectively over FY24-FY26E. Our target EV/EBITDA multiple is 9.0x (unchanged) on FY26E EBITDA, hence we ascribe a target price of INR913, with **BUY** rating.

**3. Birla Corporation Ltd: Rating: BUY | Target Price – Rs.1,480**

- **Outlook:** Cement demand in Q2FY25 is expected to be impacted by the monsoon. The company will continue to improve operations at the Mukutban facility, with a focus on the Maharashtra market to leverage tax incentives. The strategy is to increase market share for premium products in Maharashtra, Gujarat, and Rajasthan, where there is significant growth potential. Additionally, management anticipates growth in line with the industry's overall expansion. We expect Revenue/EBITDA to grow at a CAGR of 7.2%/11.5% respectively over FY24-FY26E. Our target EV/EBITDA multiple is 8.5x on FY26E EBITDA, hence we ascribe a target price of INR1,480, maintaining our rating to **BUY.**

# India Pharm & Healthcare Sector

Choice

Aug 21, 2024

| Company | CMP (INR) | TP (INR) | Rated |
|---|---|---|---|
| **Healthcare** | | | |
| Apollo Hospitals | 6,752 | 7,219 | 7 |
| NH | 1,257 | 1,405 | 12 |
| HCG | 364 | 370 | 2 |
| Fortis* | 526 | 497 | -6 |
| Global Health | 1,080 | 1,246 | 15 |
| Rainbow Child. | 1,209 | 1,345 | 11 |
| Max Healthcare | 868 | 964 | 11 |
| Yatharth Hos. | 494 | 517 | 5 |
| **Pharmaceutical** | | | |
| Ajanta Pharma | 3,078 | 2,758 | 3,078 |
| Alkem Labs | 5,790 | 6,234 | 5,790 |
| Cipla Ltd | 1,595 | 1,702 | 1,595 |
| Concord Biotech | 1,610 | 1,691 | 1,610 |
| Divi's labs* | 4,901 | 5,000 | 4,901 |
| Dr Reddy Labs | 7,062 | 7,512 | 7,062 |
| IPCA labs* | 1,406 | 1,410 | 1,406 |
| Laurus | 444 | 475 | 444 |
| Lupin | 2,118 | 2,237 | 2,118 |
| Marksans Pharma | 220 | 215 | 220 |
| Piramal Pharma* | 188 | 180 | 188 |
| Sun Pharma | 1,765 | 1,835 | 1,765 |
| Zydus | 1,206 | 1,319 | 1,206 |

- In Q1FY25, the pharmaceutical companies within our coverage demonstrated strong growth across all key metrics. Revenue increased by an average of 11.4% YoY and 4.6% QoQ, driven by exceptional performances from IPCA Labs (+31.8% YoY), Zydus Lifesciences (+20.8% YoY), Divi's Labs (+19.1% YoY), and Marksans Pharma (+18.1% YoY). The sector experienced a normalization in price erosion, now in single digits, alongside robust demand in the U.S. and European markets, bolstered by new product launches. Many companies continued to outperform the IPM, showing strong demand in both generics and branded generics. EBITDA margins for these companies grew by an average of 166bps YoY and 240bps QoQ. Looking ahead, we expect these companies to benefit from sustained demand in the U.S. and Europe, driven by upcoming new product launches, while the domestic business continues its growth trajectory. Margins are anticipated to improve further, supported by easing price erosion and supply chain costs.
- During Q1FY25, our healthcare delivery companies delivered an impressive performance, with average revenue growth of 14.5% YoY and 4.4% QoQ. This strong growth was primarily driven by Yatharth Hospital (+37.1% YoY), Max Health (+19.1% YoY), and Apollo Hospitals (+15.1% YoY), fueled by increases in ARPOB and occupancy. Average EBITDA margins for the coverage companies saw a modest 52bps YoY expansion but declined slightly by 120bps sequentially, due to increased costs associated with the commencement of new facilities. Looking ahead, we expect companies to benefit from an improved payor mix, higher international patient revenue, and growth in bed capacity, and occupancy.

**Top Picks:**

**1. Zydus Lifesciences: Rating: BUY | Target Price – Rs. 1,319**

- **India Formulations:** The formulations segment generated revenue of INR 13,758 mn, reflecting a 12% YoY growth, primarily driven by strong volume growth in pillar brands and innovative products, contributing 22.8% to total sales. The company launched 10 new products, including 3 first-in-India launches, and outpaced the IPM in key therapies such as Cardiology, Gynecology, Dermatology, Respiratory, Anti-infectives, and super-specialty areas like Oncology and Nephrology. The company maintained its leadership in the Nephrology segment and remained the fastest-growing Indian company in Oncology. The food and nutrition segment also saw a recovery, posting double-digit growth.
- **Outlook and Valuation:** The growth trajectory is supported by double-digit expansion in all key markets and a projected high-teens top-line growth for the upcoming year. This includes the launch of new products, leveraging the innovation portfolio in India, and scaling up the specialty business in the US. There is also potential for further margin improvement at the current level, especially with no competition for Asacol. The stock is valued based on a FY26E EPS of INR 55, applying a PE multiple of 24x, which results in a target price of INR 1,319. We maintain our **BUY** rating on the stock.

**2. Cipla: Rating: BUY | Target Price – Rs. 1,702**

- **India Business:** The India business reported revenues of INR 28,984mn (+4.6% YoY /19.9% QoQ). With respiratory expanding by 9%, cardiac by 11%, and urology growing by 15%, chronic therapies outperformed the market. The portfolio's overall chronic mix increased by 106bps to 61.5%. The transition of the India Trade Generics Business into a new distribution model will enable the company to enhance supply chain management. In the upcoming years, the management aims to outpace the IPM. The majority of the capital allocation will be in India with a focus on respiratory therapy.
- **Outlook & Valuation:** Cipla's top objective for One India going forward is to grow ahead of the market in the branded prescription segment, strengthening the wellness portfolio, commercial execution in the US market, and margin expansion by 100bps in FY25. We expect Revenue/EBITDA/PAT CAGR of 10.6%/13.6%/15.8% during FY24-FY26E. We value the stock at 24x FY26E EPS to arrive at a target price of **INR 1,702** with a **BUY** rating.

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### 3. Max Healthcare: Rating: BUY | Target Price – Rs. 964

- **Launched Max Dwarka, Delhi:** Max Super Specialty Hospital in South West Delhi (Dwarka) commenced commercial operations with a 303-bed capacity. Operated under an O&M contract with M/s Muthoot Hospital Pvt Ltd, which owns and constructed the facility, this hospital boasts cutting-edge technology, including advanced imaging and surgical robots. The current focus is on expanding its international patient base and expects most TPA and insurance empanelment to be completed by the end of August 2024. Additionally, a stand-alone oncology block with bunkers is under construction, and the hospital anticipates offering radiation therapy to oncology patients by early FY26. Company expects to break-even in this facility within 6-8 months.
- **Outlook & Valuation:** Max Healthcare is seen favorably due to several strategic factors. 1) a significant capital expenditure cycle is anticipated to enhance ROCE over the next 3-5 years; 2) a rising proportion of international patients; 3) the company's focus on advanced specializations, such as robotics, and an improved payor mix are expected to drive higher revenue and margins; and 4) Max Healthcare is expanding its bed capacity and experiencing growth from both new and existing facilities, contributing to its positive outlook. We value the stock based on the SOTP methodology to arrive at a price target of INR 964 and recommend a **BUY** rating on the stock.

### 4. Rainbow Children’s Medicare: Rating: BUY | Target Price – Rs. 1,345

- **Commencement of 3 spoke models:** For the first time, Rainbow has launched three-spoke hospitals with a total of 280 beds across Hyderabad, Bangalore, and Chennai, bringing the total capacity to 2,000 beds. Additionally, a new block has been added to the existing hospital in Hyderabad, and an outpatient clinic has been opened in Hennur, Bengaluru.
- **An uptick in Inpatient and Outpatient volume:** During the quarter, the company experienced solid growth in IPD volumes, which increased by 10.2% YoY to 21,289. Similarly, OPD volumes grew by 12.3% YoY to 3,10,990. Management expressed optimism about sustaining and surpassing this growth momentum in the coming quarters as the new hospitals ramp up their operations.
- **Outlook & Valuation:** We remain positive on the company due to its focus on increasing bed capacity, occupancy, and IPD/OPD volumes, as well as expanding IVF services across existing and upcoming hospitals. The company is expected to achieve late-teen top-line growth, supported by a strong capex plan that will further boost its bed capacity. Factoring all the rationales, we value the stock at 23x EV/EBITDA on FY26E and arrive at a target price of **INR 1,345** with a **BUY** rating on the stock.

### 5. Apollo Hospitals: Rating: BUY | Target Price – Rs. 7,219

- **Healthcare Services:** Hospital revenue grew by 15% YoY and 2.9% QoQ to INR 26,373 mn, driven by an 11% YoY increase in inpatient volumes and a 4% contribution from price and case mix. Occupancy stood at 62%, and ARPP grew by 3%. EBITDA increased in line with revenue, rising 15% YoY to INR 6,217 million, with a stable margin of 23.6% compared to last year. Revenue from insurance patients saw a 17% YoY increase. The company’s plan to operationalize four new hospitals, adding 1,500 beds in key markets, is progressing as scheduled. Improved occupancy is anticipated with the pickup in the insurance patients, and a better ARPOB is expected in Q2FY25.
- **Outlook & Valuation:** The positive outlook on Apollo Hospitals Enterprise Limited (AHEL) is upheld based on several factors, including increased volume and bed capacity in the healthcare service business, improved share from international business, continuous addition of pharmacy stores, looking for inorganic growth opportunities in the digital business, and margin expansion on consolidated level. The stock is valued through a SOTP analysis, resulting in a target price of INR 7,219 with a **BUY** rating on the stock.

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| | |
|---|---|
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| **REDUCE** | The security expected to show downside or upside returns by 0% to 5% over the next 12 months |
| **SELL** | The security expected to show Below 0% next 12 months |

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