



PL Capital
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Samvat 2080 has been one of landmark years with NIFTY and yellow metal making new lifetime highs, NDA forming 3rd successive Govt in India and widespread geopolitical uncertainty. India remains the fastest growing economy as growth drivers like young population, "Make in India" and Infrastructure development continue to power growth. Although US FED has cut interest rates, rising concerns on state of US and Chinese economy and geopolitical uncertainty is making Gold as a preferred currency. India continues to face climatic and democratic challenges, thus delaying interest rate cuts. Weather patterns are affecting crops and keeping food inflation high while election freebies can cripple growth. Although rural demand has been showing signs of recovery, urban demand remains volatile. Next few months are crucial given US presidential elections, state elections in India, demand scenario in festival and wedding season and food inflation trends in India. Markets have been holding strong due to sustained DII inflows even as FII flows have been very patchy and negative. We believe froth in small caps, primary markets is coming off, and larger mid-caps and large caps are likely to outperform. Focus on businesses with strong moats will help investors preserve capital and generate returns in coming year.

Large Cap Picks

Ambuja Cement, Bharat Electronics, Cipla, ICICI Bank, LTIMindtree, Max Healthcare Institute and Reliance Industries

Mid & Small Cap Picks

DOMS Industries, Praj Industries and Safari Industries (India)

Model Portfolio Performance

	Model Portfolio Return	Nifty Returns	Outperformance
Since Nov'18	153.5%	130.2%	23.3%
Since Last Report – 11-Oct-24	-0.9%	-0.9%	0.0%
Since Apr'23	49.1%	40.0%	9.1%



Large Cap Picks



Ambuja Cement (ACEM IN) | CMP: Rs555 | TP: Rs756 | Mcap: Rs1,219.3bn

ACEM is focused on led by 1) maximizing throughput from existing facilities 2) 17.6mtpa addition via inorganic route in past 2 years and 3) organic capacity addition of 6mtpa by end FY25 and another 33mtpa by end FY27 to achieve targeted 140mtpa by FY28E. ACEM is working towards cost savings of ~Rs500/t to be achieved by FY28E led by i) improving green power mix (incl. WHRS), ii) captive coal mines, iii) long term procurement of critical RM, and iv) logistical synergies aided by addition of railway wagons and improving plant network across India. ACEM seems well placed given strong balance sheet and excellent execution. We estimate 25%/21% EBITDA/PAT CAGR over FY24-27E. Stock trades at EV/ EBITDA of 10.4x and 9.3x on FY26E/27E.

Bharat Electronics (BHE IN) | CMP: Rs269 | TP: Rs341 | Mcap: Rs1,963.8bn

BEL is a formidable play on indigenization in defence and thriving non- defence portfolio. BEL has a Rs500bn potential order pipeline over the next 2 years (ex. QRSAM) from major defence programs like LORA missile system, MRSAM & MFSTAR system for Shivalik frigates, Talwar frigates, Next Gen Corvettes, combat weapon systems/ sonar for P75I submarines, and Su-30 upgrades with HAL. We believe new orders can push the backlog from current ~Rs767bn (3.7x TTM revenue) to Rs900bn by FY27E. BEL's non-defence business is witnessing opportunities across rail & metro (Kavach - Rs200-300bn over 5/6 years from FY2026), civil aviation (ATMS), smart cities, cyber security, and IT infrastructure. We expect BEL to report Revenue/Adj. PAT CAGR of 16.0%/15.9% over FY24-27E.

Cipla (CIPLA IN) | CMP: Rs1,487 | TP: Rs1,680 | Mcap: Rs1,200.9bn

We continue to remain positive on key segments growth including India & US given 1) Strong traction in respiratory & other portfolios, 2) Potential of double-digit growth in domestic formulations and 3) Sustainability of current US revenues. We believe delay in some key launches like gAdvair and gAbroxane will be offset by ramp-up in gRevlimid and gAlbuterol while new launches like gLanreotide are likely to further aid US revenues. We expect 10% EPS CAGR over FY24-26E. At CMP, stock is trading 23.5x FY27E EPS. Any further FDA escalation to Indore unit and price erosion in key products in the US will be the main risk to our call.

ICICI Bank (ICICIB IN) | CMP: Rs1,252 | TP: Rs1,520 | Mcap: Rs8,790.5bn

ICICI Bank balance sheet profile is strong since (1) CET-1 is adequate at 16% (2) Provision buffer is best-in-class at ~1% of loans (3) despite higher than system loan growth, LDR is 83-86% and (4) LCR is adequate at 122.7%. Opex intensity is likely to reduce given NIM compression; we see a 13.6% CAGR in opex (21% over FY22-24). While Core PAT growth could be 8.7%/12.7% in FY25/26e due to NIM compression. Post NIM stabilisation, core earnings growth could be 17% YoY for FY27E, which could provide RoA/RoE of 2.16%/16.8%. ICICI trades at P\ABV 2.46 on FY27.

LTI Mindtree (LTIM IN) | CMP: Rs5,935 | TP: Rs7,360 | Mcap: Rs1,756.8bn

With improving macro dynamics, the selective business units are on a path of recover that is evident through broad-based recovery in multiple business units with BFS (33% of revenue) reported healthy and sustainable growth in the recent quarter. LTIM is well positioned to capture the discretionary as well as non-discretionary spends. As we are already transitioning through this phase, LTIM should win disproportionately through robust front-end and rigorous sales engine capabilities. The near-term margins are likely to be under pressure due to continued investments in S&M and margin levers being utilised fully, however, as the growth returns it would start capitalizing on those investments and improve its earnings growth. We project a 9.7% CAGR in USD revenue and a 13.7% CAGR in earnings over FY24-FY27E.

Max Healthcare Institute (MAXHEALT IN) | CMP: Rs919 | TP: Rs975 | Mcap: Rs893.2bn

Max Healthcare reported phenomenal growth (18% EBITDA CAGR) over FY22-24, despite negligible capacity additions. We expect pick-up in the growth momentum given 1) strong expansion plans (+3,500 additional beds over FY24-28E), 2) improving payor mix and 3) benefits of acquisitions like recently added unit in Lucknow, Nagpur and Noida. Will play out in FY26 and FY27. Operational efficiency has also been commendable, especially in competitive markets like NCR. We expect 25% EBITDA CAGR over FY24-27E.

Reliance Industries (RELIANCE IN) | CMP: Rs2,677 | TP: Rs2,942 | Mcap: Rs18,112.9bn

While Reliance's core business is likely to remain muted with weak refining and petchem outlook in near term, gas production is expected to remain stable at ~28-30 mmscmd with a realization of ~US\$10/mmBtu. Jio's ARPU rose 7% QoQ to Rs195 and should improve over the next 2 quarters too due to the tariff hike undertaken by the company. Retail is also likely to continue its steady performance. On a consol basis, we estimate an EBITDA of Rs1,538/1,700/1,836bn for FY25/26/27E with 12% EPS CAGR over FY25-27E. Our estimates are not factoring in numbers of new energy business where RIL is investing Rs750bn. Demerger of Retail/ Jio Platforms and more clarity of new energy businesses will improve outlook.



Mid & Small Cap Picks



DOMS Industries (DOMS IN) | CMP: Rs2,704 | TP: Rs3,349 | Mcap: Rs164.1bn

In an industry dominated by unorganized players, competitive edge of DOMS stems from 1) superior brand recall 2) ability to offer innovative products (erasers, two-dooz sharpeners & grove pencils) 3) cost competitiveness arising from backward integration 4) strong distribution reach with 125,000+ retail touch points and 5) superior R&D capabilities & technical know-how given the collaboration with FILA. DOMS has a diversified stationary & arts material portfolio and has outlined a capex plan of Rs4.5bn over 2 years to expand capacity in writing instruments, watercolour pens, markers & highlighters at Umbergaon. Recent entry into diapers market with plans to enter into ancillary categories like footwear, apparels, confectionaries, and sports gears & accessories widens the addressable target market for DOMS providing growth optionality. We expect revenue/PAT CAGR of 26%/28% over FY24-FY27E. The stock is trading at 50.9 FY27E EPS.

Praj Industries (PRJ IN) | CMP: Rs737 | TP: Rs804 | Mcap: Rs135.5bn

Praj's market leadership (50%+ share) in building ethanol plants in India positions it well to capture opportunities arising out of global mandates to blend ethanol in petrol & diesel, such as India's ethanol blending target of 20% by FY26 (vs ~15% currently). Furthermore, Sustainable Aviation Fuel (SAF) blending is driving prospects of converting ~20 ethanol plants in USA to low-carbon over the next 4 years at an opportunity size of \$10-20mn per plant. Praj's new facility in Mangalore (Praj GenX) is dedicated to modular solutions & equipment for ETCA with revenue potential of ~Rs20bn per annum. Additionally, Praj's bio-technology leadership in Compress Biogas (CBG) augurs well for its order prospects given the government's target to establish 5,000 CBG plants in India (vs ~113 today). We expect Praj to report Revenue/Adj. PAT CAGR of 21.2%/26.5% over FY24-27E, with potential margin upside from growing share of exports. The stock trades at 24.8 on FY27E earnings.

Safari Industries (SII IN) | CMP: Rs2,278 | TP: Rs3,005 | Mcap: Rs111.1bn

Safari is one of India's fastest-growing luggage brands, with sales/EBITDA CAGR of 21.2%/20.9% over FY24-26E and a market share of 26% in FY24 (up from 10% in FY15). This growth is led by expanding distribution network, new SKUs, and entry into additional product categories. Safari is set to double its hard luggage capacity from ~6.5 lakh to ~13 lakh pieces per month with a greenfield expansion in Jaipur, expected to commence by 3QFY25E. This will help meet rising demand and alleviate pricing pressures. We believe the new plant will enhance cost competitiveness and help Safari compete in the price-sensitive mass segment. The capacity expansion and entry into the premium segment are likely to boost gross margins, which we expect to rise to 46.2%/47.0% in FY25E/FY26E, as the share of indigenous manufacturing increases. We expect EPS CAGR of 23% over FY24-27. The stock trades at 42.2x FY26 and 34.8x FY27 EPS.