Diwali Picks 2024

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Company name	Sector	CMP (Rs.)	Category	Target price (Rs.)	Potential upside (%)
Bajaj Auto Ltd.	Automobile	10,501	Large Cap	12,483	18.9
Bharat Dynamics Ltd.	Defence and Aerospace	1,114	Mid-Cap	1,501	34.7
ACC Ltd.	Cement	2,301	Large Cap	2,795	21.5
Somany Ceramics Ltd	Building Materials	698	Small-Cap	965	38
TCS Ltd.	Information Technology	4,078	Large Cap	4,664	14.3
HCL Technologies Ltd.	Information Technology	1,843	Large Cap	2,105	14.2
EFC (I) Ltd.	Real Estate	488	Small-Cap	855	75
Granules India Ltd	Pharmaceuticals	590	Mid-Cap	723	22.5
Global Health Ltd	Healthcare Delivery	1,047	Mid-Cap	1,246	19
Ugro Capital Ltd	BFSI	247	Small-Cap	345	39

Note: CMP as on 21-10-2024

Bajaj Auto Ltd.

Bajaj Auto, established in 1945, is one of India's leading automotive manufacturers, renowned for its expertise in producing two-wheelers and three-wheelers. Headquartered in Pune, Maharashtra, the company has played a pivotal role in shaping the Indian automotive landscape, evolving from a small enterprise to a global powerhouse. Bajaj Auto has expanded its global footprint, exporting vehicles to over 70 countries, reinforcing its status as a key player in the international automotive market. It is India's No.1 motorcycle exporter with two out of three bikes sold internationally carrying a Bajaj badge. The company is also the world's largest manufacturer of three-wheelers.

- The company is observing strong demand for the CNG+Petrol hybrid 125cc bike "Freedom" and anticipates further growth for both the electric vehicle (EV) and CNG models "Chetak" and "Freedom." This shift is attributed to key economic factors, including Total Cost of Ownership (TCO), resale value, and driving range. Additionally, the network of CNG stations is expected to expand, supporting this transition.
- New model launches under the Chetak EV umbrella and expansion of network from the current 250+ exclusive stores and 3000+ Bajaj motorcycle stores along with new launches in the E-3W to drive growth for the EV portfolio. For Q2FY25 Chetak achieved market share of 19% compared to 10% for the previous year. Triumph's partnership with Bajaj has seen success with new launches, including the Speed 400, which drove domestic sales up 50% quarter-on-quarter to nearly 10,000 units. Triumph's success along with strong sales of Pulsar portfolio helped the company achieve strong growth in the 125cc+ segment.
- The company is experiencing strong growth in green fuel 2W and 3W exports, particularly from the LATAM region, with a 20% growth rate. Its export strategy includes launching new models in expanding markets and strengthening its distribution network. Brazil's demand remains stable, with plant capacity set to scale to 35,000 units per month by January. Management anticipates exports in Q3 FY25 will surpass Q2 levels, with a projected 10% QoQ growth from the LATAM region, although currency challenges remain a key factor.
- **Outlook & Valuation:** We remain optimistic about Bajaj Auto's growth trajectory in the medium to long term, supported by several key factors: 1) a growing focus on exports to drive sales; 2) increasing demand for the 125cc 2W "Freedom"; 3) strong demand for the 2W EV "Chetak"; and 4) an aggressive marketing push for CNG-based 2-wheelers and electric variants. 5) With the rising contribution of premium products like Triumph, solid growth in the EV portfolio (2W+3W), and improving profitability from "Chetak," we recommend BUY rating on the stock. We value the stock using an SOTP-based methodology, arriving at a target price of Rs. 12,483 (30x Sep-FY27E core EPS + KTM stake + cash).

Rating matrix	
CMP (Rs.)	10,501
Face value (Rs.)	10
MCAP (Rs. cr)	2,93,235
Rating	BUY
Target price (Rs.)	12,483
Upside potential (%)	18.9
52 week H/L (Rs.)	12,772 / 5,238
Sector	Automobile

Shareholding pattern (%)

Particulars	Jun-24	Mar-24
Promoter	55.06	55.06
FII	14.19	14.53
DII	8.73	8.47
Public	22.02	21.94

Consolidated financial performance snapshot

(Rs. Cr)	FY24	FY25E	FY26E	FY27E
Net Sales	44,685	54,730	64,668	75,491
EBITDA	8,823	10,837	13,063	15,400
PAT	7,479	8,846	10,580	12,401
EPS (Rs.)	264.1	316.9	379.0	444.2
RoE (%)	30.1	29.4	28.6	27.1
RoCE (%)	33.0	33.7	34.0	32.5
P/E (x)	39.8	33.1	27.7	23.6
P/B (x)	12.0	9.7	7.9	6.4
EV/Sales (x)	6.7	5.4	4.5	3.9
EV/EBITDA (x)	33.7	27.1	22.3	18.9

Source: CEBPL

Bharat Dynamics Ltd

Bharat Dynamics Limited(BDL) is a government-owned defence company. It is primarily focuses on the manufacturing and development of munitions, missiles, and defence systems for the Indian Armed Forces and other customers. Some of the key products and services include:-Missiles: Production of various types of missiles, including surface-to-air missiles, anti-tank guided missiles, and other tactical and strategic missile systems. Ammunition: Manufactures a wide range of ammunition for different types of weapons used by the armed forces. Counter measure Systems: BDL develops and produces counter measure systems to protect military platforms from incoming threats like anti-aircraft and anti-ship missiles etc.

- **Significant A2A missiles systems triggers near to medium term:** We are expecting the company will get Rs 60-70bn worth Astra weapon system contract for supplying of nearly 450-500nos Astra-Mk1 BVR missile system, which is the best in its class of weapon systems in the world, in the category of air to air missiles with a formidable range exceeding 100 kilometers. Additionally, an agreement with European missile manufacturer i.e. MBDA will establish a facility in India for the final assembly, integration, and testing of the ASRAAM missiles. Expecting significant order from the IAF in the coming year FY26-27, specially to arm the LCA Tejas Mk-1A fighter jet. The Jaguar aircraft of the IAF were the first to be equipped with this cutting edge missile. Now it replace the ageing Matra Magic-R550 missiles. The IAF is envisions the ASRAAM to its entire fleet includes Sukhoi-30MKI, Rafale, Tejas for close quarter defence capabilities. ASRAAM presents a lucrative export opportunity for India. The combination of advanced technology, local manufacturing competitive pricing could make it a compelling option for the nations.
- **Rising Export Opportunity:** Bharat Dynamics Limited with over five decades of manufacturing expertise, has expanded its wings into the international defense market. The company offers a diverse range of advanced weapons systems, including the Akash Surface to Air Missile, Astra Air to Air Missile, Smart Anti Airfield Weapon, Helina Air to Surface Weapon, and various torpedoes and anti tank guided missiles like Nag, Konkurs M, and Milan-2T. The company has successfully exported Light Weight Torpedoes & Akash system, BDL is now attracting global interest for its other advanced products, showcasing its growing role in international defense supply and its capability to meet diverse global defense needs. In recent times the company has signed a contact with Armenia to supply Akash Air Missile Systems with worth of INR 50-60 bn, and also the company receives interest from other countries like Brazil, Egypt, etc.
- **Huge order inflow to pick up from FY25-26:** BDL is inline with capability building to carter future growth. We expect order execution to pick up from H2FY25 onwards led by various order execution such as in the near term, the company expects execution of program such as Astra-Mk1, SAAW, ULPGM, Drone fired Bombs, SPIKE ER, 70 MM 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 in FY27 supported by association with DRDO and in House R&D and Foreign Collaboration.
- **View Valuation:** 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 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 195bn as on 1st April 2024 stands 8.2x of FY24 revenue will support the growth story of the company. We value the company at a PE of 60x on FY26E EPS and arrive at a target price of **INR 1,501** on the stock.

Rating matrix	
CMP (Rs.)	1114
Face value (Rs.)	5
MCAP (Rs. cr)	40,835
Rating	Outperform
Target price (Rs.)	1501
Upside potential (%)	34.7
52 week H/L (Rs.)	1,794/450
Sector	Defence

Shareholding pattern

Particulars	Jun-24	Sep-24
Promoter	74.93	74.93
FII	3.06	2.94
DII	9.52	8.46
Public	12.49	13.67

Consolidated financial performance snapshot

(Rs. cr)	FY23	FY24	FY25E	FY26E
Net Sales	2,489	2,369	2,841	3,831
EBITDA	408	537	601	874
PAT	352	613	684	917
EPS (Rs.)	10	17	19	25
RoE (%)	11.0	16.8	17.0	19.9
RoCE (%)	10.3	12.9	13.0	17.1
P/E (x)	149	86	77	57
P/B (x)	16	14	13	11
EV/Sales (x)	20	20	18	13
EV/EBITDA (x)	119	90	85	58

Source: CEBPL

ACC Ltd.

- **Expansion plan remains strong:** ACC Ltd has recently launched a 16.3 MW WHRS at Ametha, increasing their total WHRS capacity to 46.3 MW. Progress on additional WHRS facilities at Chanda (18 MW) and Wadi (21.5 MW) is on track, with commissioning expected in Q2FY25E, which will bring the total capacity to 86 MW, accounting for 25% of the company's total power needs. Additionally, ACC Ltd has strategic plans to expand the Sindri grinding unit, aiming to increase cement capacity by 1.6 mtpa by Q4FY25E. This project is already in progress, with the EPC contract awarded and activities underway. Further expansion initiatives are planned for the Salai Banwa grinding unit, targeting a 2.4 mtpa capacity increase by Q1FY26E, and brownfield expansions at the Bhatinda grinding unit in Punjab and the Marwar grinding unit in Rajasthan are also set to be commissioned in the coming quarters.
- **Realisation is expected to rebound:** As of October, prices remain aligned with the Q2FY25 average. However, we expects a recovery in cement prices during H2FY25E, supported by improving demand and market conditions. WE anticipates H2FY25E will perform better than H1FY25. This anticipated recovery driven by increased construction activity and seasonal demand.
- **Focus on reduction of total cost:** The company is focusing on increasing the share of WHRS in its energy mix. As of September 2022, the WHRS capacity was 40MW, which the company plans to increase to 186MW by the end of FY25E. Currently, the WHRS capacity stands at 165MW. The share of green power, currently at 18.4%, is expected to improve to approximately 31% by FY25E and 60% by FY28E. This shift to greener energy sources is projected to reduce the overall cost of power by 33%, which will positively impact EBITDA. Specifically, the power cost is expected to decrease by INR90/t by FY28E. Additionally, the company is focusing on reducing freight and forwarding costs. To achieve this, they are targeting three key areas: reducing heat dispersion, optimizing warehouse operations, and improving railroad mix efficiency. One of their specific goals is to reduce the average primary road lead distance by approximately 100 km over time.
- **Valuation and 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.

Rating matrix	
CMP (Rs.)	2,301
Face value (Rs.)	10.0
MCAP (Rs. cr)	43,209.8
Enterprise value (Rs. cr)	41,704
Rating	BUY
Target price (Rs.)	2,795
Upside potential (%)	21.5%
52 week H/L (Rs.)	2,844/ 1,803

Shareholding pattern

Particulars	Sep-24	Jun-24
Promoter	56.69%	56.69%
FII	5.50%	5.64%
DII	24.43%	24.82%
Public	13.38%	12.85%

Consolidated financial performance snapshot

(Rs. cr)	FY24	FY25E	FY26E	FY27E
Net Sales	19,952	21,454	24,772	28,569
EBITDA	3,058	2,950	3,644	4,409
PAT	2,124	1,805	2,344	2,830
EPS (Rs.)	113	96	125	151
RoE (%)	13.3	10.1	11.6	12.3
RoCE (%)	16.7	14.1	15.9	16.1
P/E (x)	20.2	23.8	18.3	15.2
P/B (x)	2.7	2.4	2.1	1.9
EV/Sales (x)	2.0	1.9	1.6	1.3
EV/EBITDA (x)	13.1	13.7	10.8	8.6
P/S (x)	2.2	2.0	1.7	1.5

Source: CEBPL

Somany Ceramics Ltd

Somany Ceramics Limited, a leading player in the ceramics industry, stands out for its strong market presence and innovative product offerings, including ceramic tiles, sanitary ware, and bath fittings. The recent launch of the Somany Max Coverstone Collection, which blends cutting-edge technology with diverse designs, underscores the company's commitment to innovation and sustainability, positioning it well for future growth. With a robust brand reputation, a diversified product range catering to both residential and commercial markets, and a focus on eco-friendly solutions, Somany Ceramics presents a compelling investment opportunity in the growing building materials sector.

- **One of the major player in the Indian tile industry:** Somany Ceramics is another major player in the domestic tile sector aided by their Its strength lies innovative approach, advanced manufacturing technologies, and a strong distribution network that covers both domestic and international markets. Tiles industry expected to grow by 13.6% over CY23 to CY25E to Rs 707bn and Exports account for 30% of this market, approximately Rs 179bn. Exports anticipated to double by CY25 to Rs 304bn, 45% of the industry is dominated by unorganized players. To fuel upcoming demand Company has increased the manufacturing capacity of tiles from 61.7mn in FY2020 to 75.6mn in FY24. Somany has delivered 6% volume CAGR over FY19 to FY24 and we expected to deliver 11% volume CAGR over FY24 to FY27E.
- **Expanding its Manufacturing Capacity:** Somany Ceramics has started operations at its new modern manufacturing plant in 3QFY24 at Morbi, Gujarat. The machines are Equipped with the latest technology from SACMI-ITALY, a top name in tile machinery, this SOMANY MAX plant can produce 4 million square meters of tiles each year. As a result, tile production capacity has expanded to approximately 80 (msm). This plant operated at 35% in 1QFY25, This plant anticipated to break even when it reaches a 60-65% production rate. As capacity utilization increases over the next few quarters, the operating margin from this plant is expected to gradually improve. SOMC has partnered with the Murarka Group in Nepal to set up a 3.5 MSM tile manufacturing unit with an investment of ₹1.25 billion. The facility is expected to begin operations in 2H FY25.
- **Better Product mix and Efficient Operations Drive Growth:** SOMC expects double-digit revenue growth for coming years, significantly outpacing the industry's growth by 5%. Margins to improve by 1-1.5% due to higher utilization of new max plant and better product mix driven by a greater contribution from high-margin GVT Tiles. The Bathware segment is also expected to see double-digit growth, contributing to overall revenue.
- **View and Valuation:** We expect SOMC to registered a healthy Revenue/EBIDTA/PAT growth of 11/13/23% CAGR over FY24-27E and RoCE expansion from ~14.2% in FY24 to ~17.4% in FY27E. We ascribe a multiple of 22x on FY26E EPS to arrive at a TP of Rs.965 with a rating of “OUTPERFORM”.

Rating matrix	
CMP (Rs.)	698
Face value (Rs.)	2
MCAP (Rs. cr)	2.862
Rating	Outperform
Target price (Rs.)	965
Upside potential (%)	38
52 week H/L (Rs.)	873/561
Sector	Building Materials

Shareholding pattern

Particulars	Jun-24	Sep-24
Promoter	55.01	55.01
FII	1.63	1.78
DII	23.53	23.52
Public	19.83	19.68

Consolidated financial performance snapshot

(Rs. cr)	FY24	FY25E	FY26E	FY27E
Net Sales	2,591	2,862	3,170	3,531
EBITDA	253	271	318	365
PAT	97	115	145	180
EPS (Rs.)	23.6	28.0	35.5	43.9
RoE (%)	12.9	14.8	16.1	16.9
RoCE (%)	14.2	14.8	15.9	17.2
P/E (x)	29.1	24.6	19.4	15.7
P/B (x)	3.9	3.4	2.9	2.5
EV/Sales (x)	1.2	1.1	1.0	0.9
EV/EBITDA (x)	12.2	11.6	9.8	8.3

Source: CEBPL

TCS Ltd.

Tata Consultancy Services (TCS) is an IT services, consulting and business solutions organization that has been partnering with many of the world's largest businesses in their transformation journeys for over 56 years. TCS has over 601,000 of the world's best-trained consultants in 54 countries. The company generated consolidated revenues of $29.1bn in the fiscal year ended March 31, 2024. TCS, with its full services capability and industry specific contextual knowledge, has always remained relevant to clients and stayed close to them in the past technology cycles. With over half of the workforce trained in AI/ML and Gen AI, TCS continues to be clients' trusted transformation partner.

- TCS reported revenues for Q2FY25 at $7.67bn, a growth of 5.5% YoY cc led by growth in Energy, Resources and Utilities and Manufacturing vertical and India, MEA, Asia Pacific and Latin America geographies. In USD terms, reported revenue was up 2.2% QoQ and 6.4% YoY. In INR terms, revenue stood at INR642.6bn, up 2.6% QoQ and 7.7% YoY. Q2FY25 order book TCV stood at $8.6bn (within the management's comfortable guidance band of $7bn-9bn) with North America TCV at $4.2bn; BFSI TCV at $2.9bn and Consumer Business TCV at $1.2bn. Net CFO stood at 100.2% of net income in Q2.
- Demand outlook continues to remain cautious as seen in the last few quarters. Key business themes seen across industries are cost optimization, vendor consolidation, customer experience transformation, supply chain modernization, risk and resiliency. Management is confident of FY25E to be better than FY24. Financial services in North America is showing signs of improvement. Manufacturing continues to see a strong demand environment with robust deal pipeline. Smart manufacturing and software-defined vehicles are the two major long-term trends. Under Life Science & Healthcare, we expect the headwinds to stabilize in Q3 and return to growth in Q4.
- Adjusted operating (EBIT) margins came in at 24.1% for the quarter (down 60bps sequentially and 20bps YoY). Margin impact was due to strategic investments in talent and infrastructure to ensure sustainable growth. Margin improvement levers are identified as improving productivity, utilization and pyramid rationalization (for short term) and improved realization (pricing) and growth acceleration (for long term). Company aspires its margin band to be between 26-28% going ahead.
- Company is investing significantly to create a large footprint in emerging growth markets. A near all-time high TCV and client interest in GenAI shall provide growth. We have introduced FY27E and expect Revenue/EBIT/PAT to grow at a CAGR of 10.3%/12.3%/12.2% respectively over FY24-FY27E. We maintain our rating to BUY with a revised target price of INR4,664 implying a PE of 30x on Sep-FY27E EPS of INR167.

Rating matrix	
CMP (Rs.)	4,078
Face value (Rs.)	1.0
MCAP (Rs. cr)	14,75,564
Enterprise value (Rs. cr)	14,68,438
Rating	BUY
Target price (Rs.)	4,664
Upside potential (%)	14.3%
52 week H/L (Rs.)	4,585 / 3,313

Shareholding pattern

Particulars	Jun-24	Sep-24
Promoter	71.77%	71.77%
FII	12.35%	12.66%
DII	11.0%	10.86%
Public	4.82%	4.66%

Consolidated financial performance snapshot

(Rs. cr)	FY24	FY25	FY26E	FY27E
Net Sales	2,40,893	2,59,487	2,87,631	3,23,358
EBITDA	58,353	63,487	71,469	82,583
PAT	45,908	49,489	56,242	64,805
EPS (Rs.)	126	137	155	179
RoE (%)	51.0	53.8	58.5	64.3
RoCE (%)	58.6	61.4	66.2	73.0
P/E (x)	32.7	30.1	26.6	23.0
P/B (x)	16.9	16.2	15.5	14.7
EV/Sales (x)	6.2	5.7	5.2	4.6
EV/EBITDA (x)	25.4	23.4	20.8	18.0
P/S (x)	6.2	5.7	5.2	4.6

Source: CEBPL

HCL Technologies Ltd.

HCL Technologies Ltd. is a leading global IT services company, which is ranked amongst the top five Indian IT services companies in terms of revenues. HCL Tech has focused on transformational outsourcing, and offers an integrated portfolio of services including software-led IT solutions, remote infrastructure management, engineering and R&D services and BPO.

- HCL Tech reported Q2FY25 revenues at $3,445mn, up 1.6% QoQ and 6.2% YoY in cc terms . In USD terms, reported revenue was up 2.4% QoQ and 6.8% YoY. INR revenue stood at INR288.6bn, up 2.9% sequentially and 8.2% YoY. This growth was well distributed across verticals, geographies, and offerings. Q2FY25 Order Book TCV (new deal wins) stood at $2,218mn. PAT for the quarter came in at INR42.4bn (+10.5% YoY). EPS stood at INR15.6. Free Cash Flow of $2,388mn (on LTM basis) was 119% of net income.
- The Services business delivered impressive performance with a 5.9% YoY growth in cc, while digital revenue increased by 7.8%, driven by cloud transformation and cybersecurity, making up 38.5% of services revenue. The software segment showed strong growth of 9.4% YoY in cc, highlighting the increasing importance of its products in the digital economy. Management reports significant traction in AI and GenAI opportunities, as clients seek tangible benefits. They anticipate growth across all verticals (with green shoots visible in financial services) and geographies in Q3, with emerging markets driving growth in ROW geography. Furlough patterns in Q3 are expected to mirror last year's, and discretionary spending is projected to remain stable. As a result of higher-than-expected Q2 revenues, the company has raised its growth guidance for FY25E to 3.5-5% YoY in cc.
- HCLT is well-positioned to capitalize on emerging opportunities in the GenAI sector with its AI Force digital suite, which enhances workflow optimization, operational flexibility, efficiency, and service quality for clients. The increasing adoption of GenAI technologies is likely to boost demand for cloud services and data standardization, aligning with HCLT's strengths. Key offerings like AI Force and AI Foundry, supported by a global network of GenAI labs, are delivering significant value to clients worldwide.
- Operating margins for the quarter rose to 18.6%, up 149bps sequentially and 14bps YoY due to improved share from software business. Margins shall keep improving in Q3 as well due to seasonality in software business. Management expects margins to remain range-bound in the 18-19% range for FY25E.
- The company remains committed to achieving business growth in a sustainable and responsible manner. Their deal pipeline is robust, featuring opportunities in Data & AI, Digital Engineering, SAP migration, and efficiency-driven programs. We have introduced FY27E and expect Revenue/EBIT/PAT to grow at a CAGR of 10.5%/13.5%/13.7% respectively over FY24-FY27E. We upgrade our rating to BUY with a revised target price of INR2,105 implying a PE of 27x on Sep-FY27E EPS of INR78.

Rating matrix	
CMP (Rs.)	1,843
Face value (Rs.)	2.0
MCAP (Rs. cr)	4,99,993
Enterprise value (Rs. cr)	4,86,271
Rating	BUY
Target price (Rs.)	2,105
Upside potential (%)	14.2%
52 week H/L (Rs.)	1,885 / 1,212

Shareholding pattern

Particulars	Mar-24	Jun-24
Promoter	60.82%	60.82%
FII	19.65%	18.45%
DII	14.95%	15.77%
Public	4.35%	4.68%

Consolidated financial performance snapshot

(Rs. cr)	FY24	FY25E	FY26E	FY27E
Net Sales	1,09,913	1,17,206	1,29,456	1,48,284
EBITDA	20,025	21,453	24,323	29,304
PAT	15702	17315.4	19098.7	23070.2
EPS (Rs.)	57.99	63.95	70.53	85.20
RoE (%)	24.0	25.4	26.8	21.1
RoCE (%)	19.5	20.0	22.1	27.5
P/E (x)	32.0	29.0	26.3	21.8
P/B (x)	5.0	4.8	4.7	4.5
EV/Sales (x)	4.5	4.2	3.8	3.3
EV/EBITDA (x)	24.5	22.9	20.2	16.7
P/S (x)	4.6	4.3	3.9	3.4

Source: CEBPL

EFC (I) Ltd.

EFC Ltd is a real estate management company headquartered in Pune. It's principal business is to provide managed office spaces for startups, small and medium-sized businesses, and large corporations. EFC operates through 3 major verticals: Office Rentals, Interior and Furniture & Fixture Trade It has recently forayed into Furniture manufacturing, in which will complement its existing managed office business and also supply to third parties.

- **Strong and well established Client base**: EFC's ability to deliver high-quality and flexible workspaces has attracted a clientele of marquee names such as Conneqt Business Solutions, Tech Mahindra, Eureka Outsourcing, Mahindra Finance, 3i Infotech and many other industry leaders. The company closed its single largest contract with Co-Forge for developing 100,000 sqft of commercial space. These high profile partnerships have not only solidified EFC's reputation but have also contributed significantly to its growth and market leadership, building a strong brand image in the flexible workspace market. EFC was recently awarded a significant Design and Build contract with Tata Consultancy Services (TCS) on August 26th 2024. This new contract builds on it's successful track record with TCS, reflecting their continued confidence in EFC's capabilities
- **Furniture Manufacturing segment to drive profitable growth**: : EFC's manufacturing facility in Pune has cutting edge machinery and high tech QC led and is strategically subdivided into 5 dedicated manufacturing shop floors. With plant and machinery configured for peak efficiency, production trials are slated to begin during August 2024 with commercial production set to be launched by September 2024. EFC is going to focus on the residential and commercial segments in this division for its own office spaces and for external clients too. Foray into Furniture Manufacturing will allow EFC to capitalize on cross synergies with its managed office portfolio through backward integration leading to cost savings and improved efficiencies. It will also improve the overall margin profile in the long run as this division should yield around 35-40% EBITDA margins
- **Establishing itself as an Integrated Player**: EFC's plans to scale up its Design Build and Furniture manufacturing vertical considerably along with it's Managed office space business. As EFC establishes a heathy mix with all 3 verticals contributing equally, its revenue concentration risk from the flex space market would reduce improving its overall risk profile.. In addition, EFC is further looking to diversify its revenue sources by following the Real Estate Investment Trust (REIT) model by launching it's own SM REIT, in which it would act as a sponsor to the fund. EFC has also Incorporated EFC Investment Manager Private Limited, through which they are looking to make strategic investments through a Special Purpose Vehicle(SPV) to develop IT parks and other Commercial properties
- **Outlook & Valuation**: EFC's plan to scale up all 3 business verticals – Managed office space, Design and Build and Furniture manufacturing will establish itself as an integrated player with diverse revenue streams and also able to capitalize on the cross synergies from these 3 verticals. The furniture manufacturing division starts contributing meaningfully from Q2FY25 as the large capacities go live and will be scaled up in FY26. With the market already for EFC as 60-70% capacity utilization will be met from internal furniture requirement only and then will start pursuing the B2B model. We assign a multiple of 20x on FY26E EPS, and arrive at the TP of INR 855 with an OUTPERFORM rating.

Rating matrix	
CMP (Rs.)	488
Face value (Rs.)	2
MCAP (Rs. cr)	2429
Rating	OUTPERFORM
Target price (Rs.)	855
Upside potential (%)	75
52 week H/L (Rs.)	618 / 223
Sector	Realty

Shareholding pattern

Particulars	Sep-24	June-24
Promoter	45.58%	45.58%
FII	5.36%	5.45%
DII	2.03%	1.78%
Public	47.05%	47.2%

Consolidated financial performance snapshot

(Rs. cr)	FY23	FY24	FY25E	FY26E
Net Sales	103.2	419.5	752.1	1316.5
EBITDA	55.4	182.6	236.9	397.3
PAT	3.8	63.2	90.7	212.9
EPS (Rs.)	8.3	14.1	18	43
RoE (%)	5.2	14.7	17.4	29
RoCE (%)	15.7	19.1	21.6	32.8
P/E (x)	61	36	28	12
P/B (x)	22.7	5.7	4.7	3.4
EV/Sales (x)	17	5.7	3.1	1.7
EV/EBITDA (x)	32	13	10	5

Source: CEBPL

Granules India Ltd

Granules India, founded in 1984, has become a high-growth, vertically integrated pharmaceutical company with a solid track record and an expanding global presence. It operates through three segments: Active Pharmaceutical Ingredients, Pharmaceutical Formulations Ingredients, and Finished Dosages, with a diverse portfolio across various therapeutic areas. The company is known for its cost-efficient, vertically integrated operations and maintains a strong presence in North America and Europe, accounting for 86% of the revenue in FY24. Granules also has nine facilities certified by regulatory authorities including the US FDA, EDQM, and WHO.

- **Strategic Shift to Finished Dosage segment:** Granules FD segment has demonstrated strong performance, with a 5-year CAGR of 22% and an increase in revenue share from 47% in FY19 to 65% in FY24. This growth reflects a strategic shift towards high-value formulations, compensating for a decline in API sales. This elevated share may continue for a few quarters until Paracetamol API performance stabilizes, with a long-term expectation of FD share remaining above 70%. The transition aims to enhance supply chain value and improve margins.
- **Backward Integration to Boost Margins:** Vertical integration has always been the core strength and focus of the company. Granules' green pharma initiative, CZRO, emphasizes full supply chain decarbonization by integrating green energy and green molecule platforms, supporting sustainable backward integration for Paracetamol and Metformin. These backward integration efforts are also expected to improve the company's margins. Gross margin is projected to grow from 55% in FY24 to 58-60% in FY25E. Additionally, EBITDA margin is forecasted at 22% in FY25E, reflecting an improvement of approximately 260 basis points compared to FY24.
- **North America's growth trajectory to continue:** In FY24, Granules derived 66% of its revenue from North America, which increased to 74% in Q1FY25 due to a decline in European sales, particularly in Paracetamol API/PFI. The company expects continued growth in the US, driven by new launches in both prescription (Rx) and over-the-counter (OTC) segments, alongside business development in new dosage forms. Granules is also prioritizing the OTC business by partnering with brand owners and leading retailers in the US to expand its market presence.
- **Outlook and Valuation:** Granules is expected to benefit from its strategic shift towards the FD segment, stabilizing Paracetamol API sales in Europe, backward integration efforts, the operationalization of its new FD facility, and new product launches, particularly in North America. We project the company's Revenue/EBITDA/PAT to grow at a CAGR of 15%/22%/27% from FY24-27E. We value the company at a PE of 21x on FY27E EPS and arrive at a target price of **INR 723** on the stock.

Rating matrix	
CMP (Rs.)	590
Face value (Rs.)	1
MCAP (Rs. cr)	14,470
Rating	Outperform
Target price (Rs.)	723
Upside potential (%)	22.5
52 week H/L (Rs.)	724/319
Sector	Pharmaceuticals

Shareholding pattern

Particulars	Jun-24	Sep-24
Promoter	38.87	38.87
FII	20.39	19.49
DII	14.11	14.85
Public	26.61	26.80

Consolidated financial performance snapshot

(Rs. cr)	FY23	FY24	FY25E	FY26E
Net Sales	4,512	4,506	5,073	5,872
EBITDA	913	856	1,096	1,304
PAT	517	405	557	679
EPS (Rs.)	21.3	16.7	23.0	28.1
RoE (%)	18.2	12.6	14.7	15.2
RoCE (%)	18.7	14.6	16.7	17.4
P/E (x)	28	36	26	21
P/B (x)	5.1	4.5	3.8	3.2
EV/Sales (x)	3.4	3.4	3.0	2.6
EV/EBITDA (x)	16.6	17.9	14.0	11.7

Source: CEBPL

Global Health Ltd

Global Health Limited is one of the biggest private multispecialty tertiary care providers in the North and East regions of India in terms of bed capacity and operating revenues with key specialties in cardiology and cardiac science, neurosciences, oncology, digestive and hepatobiliary sciences, orthopaedics, liver transplant, kidney, and urology. The organization operates a network of numerous hospitals under the "Medanta" brand, including ones in Gurgaon, Indore, Ranchi, Lucknow, and Patna, as well as one hospital that is currently being built in Noida.

- **Medanta enters Mumbai with a 500 bed facility:** The company has been awarded 2.2 acres of prime land in Oshiwara, Mumbai, by MHADA for INR 125.11 crores in a public auction. The company plans to build a super-specialty hospital on this site, with an expected capacity of over 500 beds. The project is estimated to cost around INR 12,000 mn and is anticipated to commence operations in 3-4 years. The company is currently in the process of acquiring the necessary approvals to complete the transaction, and the facility will be developed as a pure greenfield project.
- **Medanta Expands in NCR**: Noida Hospital aims to enhance its dominance in the NCR region. The greenfield project, which features a 550-bed capacity, has completed 97% of its superstructure work and is scheduled to commence operations with 300 beds by Q4FY25/Q1FY26. Further, to bolster its presence in the NCR, the company has partnered with DLF to establish a joint venture for a 400-bed super-specialty hospital in South Delhi. Medanta will operate the hospital and have control over its operations, while DLF will act as a strategic investor. With this expansion, Medanta's bed count in the NCR region is expected to rise to approximately 2,400. This growth is anticipated to further elevate Medanta's ARPOB, given that a reputed hospital nearby operates with an ARPOB in the 65-70k range.
- **Indore and Patna Facilities:** The company has experienced strong demand and growth at its Patna hospital, which recently added 18 dialysis beds. It plans to increase its capacity by adding 56 ICU beds and 18 chemo care beds in Q2FY25, with an additional 50 beds scheduled for H2FY25. Meanwhile, the Lucknow hospital is set to introduce 300 beds in collaboration with a real estate partner, covering all major super specialties.
- **Outlook & Valuation:** We forecastthat Medanta's revenue and EBITDA will grow at a CAGR of 21.6% and 23.0%, respectively, for FY24-26E. The company is in a capex phase, planning to invest INR 1,000-1,200 crore over the next two years, which may impact margins, when the Noida facility begins operations. Based on these factors, we value the stock at 27x EV/EBITDA for FY26E, resulting in a target price of INR 1,246 per share and a BUY rating.

Rating matrix	
CMP (Rs.)	1,047
Face value (Rs.)	2
MCAP (Rs. cr)	28,615
Rating	Buy
Target price (Rs.)	1,246
Upside potential (%)	19
52 week H/L (Rs.)	1513/707
Sector	Healthcare Delivery

Shareholding pattern

Particulars	Jun-24	Sep-24
Promoter	33.04	33.04
FII	12.94	12.21
DII	10.57	11.11
Public	43.44	43.64

Consolidated financial performance snapshot

(Rs. cr)	FY23	FY24	FY25E	FY26E
Net Sales	2,694	3,275	3,766	4,844
EBITDA	612	799	887	1,208
PAT	326	478	513	739
EPS (Rs.)	12.2	17.8	19.1	27.5
RoE (%)	16.1	17.9	16.2	19.5
RoCE (%)	13.0	14.3	14.1	17.1
P/E (x)	87.6	59.8	55.8	38.7
P/B (x)	2.4	2.0	1.7	1.4
EV/Sales (x)	10.5	8.6	7.5	5.7
EV/EBITDA (x)	46.4	35.3	31.7	23.0

Source: CEBPL

Ugro Capital Ltd.

- UGRO Capital Ltd, a tech-driven NBFC, specializes in lending to the Micro, Small, and Medium Enterprises (MSME) sector, leveraging advanced technology to enhance its lending model. UGRO operates through a diverse product suite catering to various MSME segments and offers a mix of secured and unsecured loans, including business loans, machinery finance, and micro-enterprise loans. The company has built a scalable business model focused on delivering financial products efficiently through a combination of branch-led and digital channels, co-lending partnerships, and a data-tech approach.
- **Strong Growth in AUM and Earnings**: UGRO Capital has demonstrated impressive growth, with its Assets Under Management (AUM) reaching INR 9,047 Cr in FY24, reflecting a Compound Annual Growth Rate (CAGR) of 80% from FY20-24. The AUM reached 10200cr+ in Q2FY25. The company is well-positioned to continue its robust growth, targeting an AUM of INR 17,896 Cr by FY26E. Its lending model, powered by advanced data analytics and AI-driven credit scoring, ensures a lower risk profile, with Gross Non-Performing Assets (GNPA) controlled at 2.0% on the entire AUM. UGRO's focus on co-lending and partnerships has also enhanced capital efficiency, contributing to a rising return on assets (RoA) and return on equity (RoE), which are projected to reach 4.2% and 15.6%, respectively, by FY26E.
- **Operational Efficiency and Profitability:** UGRO's focus on optimizing operational efficiency has led to significant improvements in its cost-to-income ratio, which declined from 71.8% in FY22 to 54% in FY24. The company's investments in technology have not only enhanced its productivity—reflected in an AUM per branch of ₹603 million—but have also supported its ability to scale rapidly without a proportional increase in costs. This operational leverage is expected to continue driving profitability, with net interest income (NII) growing at a 55% CAGR from FY24-26E and pre-provisioning operating profit (PPOP) growing at 72% CAGR over the same period.
- **Superior Asset Quality and Risk Management:** UGRO Capital has maintained superior asset quality by combining its traditional underwriting practices with its proprietary GRO Score, a data-driven credit assessment tool that uses over 25,000 parameters from banking, GST, and bureau data. This has led to a substantial reduction in default rates, and the company's Stage 3 assets remain controlled at 2% on entire AUM, well below industry peers. UGRO's focus on secured lending, which makes up 69% of its loan portfolio, further enhances its risk management, ensuring resilience even during periods of economic volatility.
- **Outlook and Valuation:** UGRO Capital is well-positioned to capture the growing demand for MSME credit, with its scalable and tech-driven business model driving sustainable growth. The company's diversified revenue streams, combined with its strong focus on capital efficiency through co-lending partnerships, provide a solid foundation for long-term profitability. We project UGRO to achieve an Earnings Per Share (EPS) CAGR of 42% from FY24-26E. Based on these factors, we assign a Price-to-Book (P/ABV) multiple of 1.83x on FY26E Adjusted BVPS and arrive at a target price of INR 345, with an OUTPERFORM rating.

Rating matrix	
CMP (Rs.)	247
Face value (Rs.)	10
MCAP (Rs. cr)	2296
Rating	OUTPERFORM
Target price (Rs.)	345
Upside potential (%)	39
52 week H/L (Rs.)	314/213
Sector	BFSI

Shareholding pattern

Particulars	Sep-24	June-24
Promoter	2.2	2.2
FII	20.4	20.3
DII	2.8	2.6
Public	73.3	73.6

Consolidated financial performance snapshot

(Rs. cr)	FY23	FY24	FY25E	FY26E
AUM	6081	9046	12798	17896
NII	189	265	379	635
PPOP	140.6	295	456	729
PAT	39.8	119.3	202.1	400.3
NIM	5.56	5.26	5.50	7.05
GNPA(%)	2.46	3.09	3.88	3.99
RoA (%)	1.11	2.25	2.78	4.23
RoE (%)	4.08	9.85	11.06	15.6
EPS (Rs.)	5.7	16.4	22.1	29.0
P/B (x)	1.74	1.58	1.54	1.23

Source: CEBPL

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