Choice Equity Broking Private Limited

Q2FY24 Quarterly Result Review

20 NOV 2023

India Automobiles Sector

Choice

Nov 20, 2023

In Q2FY24, this time, it consists of only half of the festive season. Despite that, companies under over coverage registered a healthy 16% YoY revenue growth. In a similar time frame, softening RM prices and price increase gives headroom to improve the margin for few players and for certain players to regain their market share in the festive season. Overall, retail sales during Q2FY24 for PV was 0.93mn units and 2W was 3.8mn units and till 19th November, festive to festive retail sales for PV and 2W was up by 8.7% and 16.5% YoY respectively. The revenue for the companies under our coverage grew by 16% YoY, and EBITDA saw a whopping 38% YoY growth, largely due to RM cost reduction and operating leverage benefits. The EBIDTA margin expanded by 236bps YoY and 185bps QoQ. 2W OEMs experienced revenue growth of 8.2% YoY basis whereas PV OEM saw a 21% YoY growth and component manufacturers registered a growth of 14% YoY.

Second Half for Automotive sector expected to be better than H1FY24 as peak festive sales fell in Oct-Nov period and RM cost continued to remain flat. We expect PV OEMs to lead the growth on the revenue front. For 2W segment, 125+CC is doing better and OEMs with premiumisation product portfolio could do better as in 2W industry buying pattern has shifted towards higher CC segment. Additionally, export volume is rebounding but still has a long way to go.

We 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 MSIL, Lumax Industries and Sansera Engineering.

Top Picks:

1. Maruti Suzuki India | Rating: ADD | Target Price – Rs. 11,891

- **View and Valuation:** MSIL's profitability improvement is led by RM benefit, increase in ASP due to higher share of UV and benefit of operating leverage. Going forward, a favourable product mix and increasing share of exports (where ASP is higher than domestic portfolio) will further improve the MSIL profitability. We remain positive on long term growth story led by: 1) a large distribution network (3,719 sales outlets, 4,726 service touch-points); 2) largest low emission product portfolio offering; 3) new/refresh launches in the UV and EV segment; 4) capacity expansion (to 4mn units by 2030-31); and 5) growing export volume (addition of newer model from UV segment). We expect MSIL's revenue/PAT to grow at a CAGR of 16%/24% over FY23-26E. We introduce FY26 and roll forward valuation to Sep-25E EPS and arrive at a TP of Rs. 11,891 with the ADD rating (26x Sep-FY25E EPS).

2. Lumax Industries | Rating: OUTPERFORM | Target Price – Rs. 2,974

- Chakan plant is operational from Q3FY24 and company expects revenue of around Rs.4-5bn in FY25 and Rs.6bn in FY26 and further Phase-II will commence operation from H2 of FY26. Peak revenue of phase-II would be around Rs8-10bn over next 2-3 years. We expect this new plant will set the stage for Lumax Industries to grow better than industry and also help to increase margin trajectory in the 10-12% band as the new plant is more efficient compared to other existing facilities.

- **View:** We have a positive view on the long term growth story of Lumax Industries led by: 1) its strong relationship with the majority of auto OEMs; 2) healthy demand in the PV segment; 3) increasing capacity in PV segment (will add incremental annual revenue of Rs.5-6bn from FY25 onwards); 4) localization of electronic facility levers for margin expansion; and 5) addition of new clients and models. We ascribe a target price of Rs.2,974 (17x of FY25E EPS) and maintain OUTPERFORM.

Company	CMP (INR)	TP (INR)	Upside/ Downside (%)
Maruti Suzuki	10,524	11,891	13
Hero MotoCorp	3,335	3,477	4
TVS Motors	1,748	1786	2
Eicher Motors	3,865	4,210	9
M&M	1,585	1,743	10
Ashok Leyland	174	202	16
UNO Minda	642	629	-2
Endurance Tech	1,632	1,766	8
Bajaj Auto	5,632	5,733	2
Lumax Ind.	2,441	2,974	22
Lumax Auto .	370	457	23
Fiem Industries	1,913	2,098	10
Gabriel India*	403	404	0
M. Sumi Wiring	60	67	13
Suprajit Eng.	374	416	11
Sansera Eng.	831	1,030	24

**Target achieved, will review rating & TP post Q3FY24 result*

**CMP as on 17th Nov 2023*

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3. Sansera Engineering | Rating: OUTPERFORM | Target Price – Rs. 1,030

- SEL has already started production of aluminium forged components, and all the existing lines are fully booked, with plans to add more lines. SEL also won a new order in the light-weighting segment from a UK-based PC manufacturer which is expected to start SOP from H2FY24. In the 2W segment, premiumization continues to increase, and some of SEL's customers are aggressively adding premium content to their vehicles like HD and Triumph. The new capex is largely towards the light-weighting products. We expect the light-weighting and premiumization trend to continue supporting better-than-industry growth..
- **Outlook & Valuation:** Given the shift in the industry such as preference to higher CC segment from lower CC in 2W and addition of more premium components with light-weighting material, auto industry is poised to register healthy growth going forward. SEL is transforming itself from an automotive to a non-automotive and xEV-agnostic products supplier by its ability to adopt the changes. In the medium to long term, we expect SEL will experience substantial revenue growth led by: 1) an increasing proportion of revenue being generated by the non-automotive segment; 2) securing new orders for engine-agnostic components; 3) rise in the share of aluminium components; and 4) revival in the export business, which will aid in margin expansion in the coming quarters. We expect revenue/EBIDTA/PAT to grow at a CAGR of 16%/21%/27% over FY23-25E and value the stock based on 23x FY25E EPS and arrive at a TP of Rs.1030 with Outperform rating.

India Defence Sector

Choice

Nov 20, 2023

Company	CMP (INR)	TP (INR)	Upside/ Downside (%)
Bharat Dyn.	2,126	2,427	14
Astra Micro.	1,125	1,346	20
Hindustan Aero.	558	651	17
Bharat Elect.	146	151	3
Data patt.	1,828	2,174	19
Apollo Micro	154	163	6

**CMP as on 17th Nov 2023*

In Q2FY24, the performance of our Defence Coverage companies was moderate in terms of revenue growth and muted margin. The revenue for the quarter of companies under our coverage grew by 6.9% YoY/32.6% QoQ, and EBITDA increased to 4.3% YoY, largely due to stable raw material cost. The EBIDTA margin contracted despite topline growth increase in the, unfavorable product mix & staff costs. The EBITDA margin for the coverage universe expanded by -65.6bps YoY and 664bps QoQ. We have seen improvement in overall PAT grew by 13.5% YoY/58.7% QoQ and PAT margins expanded by 122bps YoY, mainly because of cost control measures. Overall, in this quarter defence companies performed slightly better than our expectation but in margins and revenue front.

During the last quarter Defence Acquisition Council gives green signal to procurements of new platforms cum modernization program worth ~Rs.722.6bn, some of them are: 1) Acquisition of two upgraded Dornier Aircraft for Indian Coast Guard from HAL. 2) Five Fleet Support Ships for Indian Navy for aerial surveillance capability of maritime areas. 3) Upgradation of Mi-17 V5 Helicopters with upgraded Electronic Warfare (EW) Suite for Armed Forces, procured form BEL. 4) DAC approves AoN for nine capital acquisition proposals for the Armed Forces worth Rs.450bn. Procurement of Light Armoured Multipurpose Vehicles, Integrated Surveillance & Targeting System and Next Generation Survey Vessels. Proposals for avionic upgradation of Dornier Aircraft; procurement of Dhruvastra, Short Range Air- to-Surface Missile & 12 Su-30 MKI Aircraft and should aim for a minimum 60-65% indigenous content. Lastly 26 Rafale Marine aircraft from France to boost Indian Navy's operational capabilities, cost negotiation is under process.

We are expecting MoD will continue to acquire platforms domestically, we are expecting the defence sector to witness healthy spending over next 5-6 years, acquisition of new platforms and modernization of existing platforms, which will lead to an increase in spending in the coming years. In coming quarter Indian Defence market will continue to grow on back of execution and delivery of projects like LCA Mk1A, LCH, LUH and HTT-40, Naval fleets, upgraded Bombs & Missiles, and modernization of platforms will drive the demand for near future.

We are optimistic on 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 company. Our top picks in the defence space are Hindustan Aeronautics Limited, Bharat Dynamics Limited, Astra Microwave Products Limited.

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- **Top Picks:**

1. Hindustan Aeronautics Ltd.| Rating: OUTPERFORM | Target Price – Rs.2427

View and Valuation: We have a positive outlook on HAL, as the company faces limited competition from the private sector due to the high capital intensity and long gestation periods for developing manufacturing capabilities in the sector supported by: 1) Strategic diversification into civilian sector, 2) Some big ticket

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future orders with new orders anticipated for LUH, LCH, Su 30 and HTT 40 in the near to medium term, 3) Strategically positioned itself as a sole supplier domestically, 4) Make collaboration with foreign giants like– Safran, Airbus, 5) The company's huge order book, would support the the growth story of the company. We increase our Revenue/EPS estimates for FY 25 26 by 3 5 respectively on account of partner with Airbus for RoH. We roll forward our valuation to FY 26 E and recommend **OUTPERFORM** rating on the stock with a TP of Rs.**2427** valuating it on **22x of FY26E** EPS.

2. Bharat Dynamics Ltd.| Rating: OUTPERFORM | Target Price – Rs. 1346

View and Valuation: BDL is evolved as the Premier Organization of GOI, with its over five decades of missile and counter measure systems in defence equipment manufacturing experience. Under its diversification program, BDL is poised to enter into the manufacturing of wide variety of weapon/systems in defensive and offensive platforms. We have positive outlook on BDL, because 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 started to materialized from H2FY24 onwards, 3) Huge exports opportunity, talks are under gone with 4-5 friendly countries, 4) Diversified product portfolio across armed forces, 5) The company's humongous order book, which stood at Rs.200bn as on Sep 2023 8.2x of FY23 revenue will support the growth story of the company. Currently we are having **OUTPERFORM** rating on the stock with a target price of Rs.**1346** valuating it in **32x of FY26E** EPS.

3. Astra microwave Products Ltd.| Rating: OUTPERFORM | Target Price – Rs. 651

View and Valuation: We are positive about the growth story of ASTM due to its position as long standing supplier of various equipment and systems, ongoing innovation in diverse products. We have a positive outlook on ASTM, supported by 1) Huge addressable market (Rs.240-250bn), 2) Military modernization across all segment (Army, Air, Force), 3) Diversified business model, 4) The company's healthy order book, would support the growth story of the company. We maintain our **OUTPERFORM** rating on the stock with a TP of Rs.**651** valuating it on **35x of FY26E** EPS. Increasing the multiple given the expectation of new order in coming quarters like radar for Tejas MK-1A, Sukhoi 30MKI up gradation program.

India Building Materials Sector

Choice

Nov 20, 2023

In Q2FY24, cement companies experienced a decrease in volume growth on a QoQ basis, despite a higher realization. The most significant increase in pricing during the quarter occurred in South India, followed by the western and central regions. However, prices in the North region remained relatively stable. Our covered companies demonstrated a robust margin performance, primarily driven by lower power and fuel costs. However, the sales volume for the companies we cover increased by ~13.1% YoY, but it declined by ~9.5% on a QoQ basis. Revenue for our covered companies grew by ~14.6% YoY but decreased by ~9.6% QoQ. The decline in quarterly revenue can be attributed to lower sales volume, primarily impacted by plant maintenance shutdowns and adverse effects of the heavy monsoon season. EBITDA for our covered companies witnessed a substantial YoY growth of ~74.7% but experienced a QoQ decrease of ~11.8%.

Looking ahead, we anticipate a sustained and robust demand for cement companies, driven by factors such as strong real estate demand, increased government spending on infrastructure, housing, and residential projects, a surge in individual home buyers' demand, and a decline in construction costs. Furthermore, the upcoming 2024 general elections are expected to lead to higher spending by the central government, providing an additional boost to cement demand in the current financial year. Realization has already begun to improve and is expected to continue on an upward trajectory. These combined factors contribute to a positive outlook for the cement industry in the upcoming year. While the industry remains optimistic, cement companies are strategically focusing on premium products and cost reduction initiatives. Expansion plans are actively pursued to fortify their market position. Fortunately, there has been a reduction in the total cost per ton incurred by the companies, primarily attributed to lower power and fuel costs, as well as reduced freight costs. This reduction has led to an increase in EBITDA per ton, highlighting a positive trend in the financial performance of these companies. Based on these factors, Dalmia Bharat Ltd. , Birla Corporation Ltd. and JK Lakshmi Cement Ltd. are our top picks for investment in the cement industry.

Top Picks:

- **Dalmia Bharat Ltd. : Target Price – 2,515**

Outlook: The management expresses confidence in India entering a robust cement upcycle, projecting a demand growth of 8%-9%. The company is strategically focusing on cost optimization and has undertaken significant capital expenditures to drive future growth. With a commitment to achieving a cement capacity of 75 million metric tons per annum (MnTPA) by FY27, the management is working towards a long-term goal of reaching 110-130 MnTPA by FY31, indicating a CAGR of 14-17% in terms of capacity addition. According to our estimates for FY26E, we anticipate a CAGR of 6.0% for Revenue, 22.0% for EBITDA, and 15.0% for Profit After Tax (PAT) over the period from FY23 to FY26E. Maintaining an unchanged target EV/EBITDA multiple of 12x, we have set a target price of INR 2,515, leading us to upgrade our rating from Neutral to ADD.

- **Birla Corporation Ltd. : Target Price – 1,450**

Outlook: The company envisions a stable pricing environment in the December quarter, acknowledging a potential impact on demand in key markets like Madhya Pradesh and Rajasthan due to state elections. Despite this, momentum is expected to endure, buoyed by the Central Government's investments in infrastructure, welfare projects, and the thriving housing sector. However, the demand for jute and jute products is projected to remain subdued for a while. Birla Corporation Ltd. is strategically emphasizing premium products, increasing their share from 51% in Q2FY23 to 54% in the current quarter. This focus on premium products has resulted in a notable 25% sales growth.

Company	CMP (INR)	TP (INR)	Upside/ Downside (%)
Ultratech Cement	8,791	8,940	2
ACC	1,848	2,045	11
Ambuja Cements	421	450	7
Shree Cement	26,200	27,490	5
Dalmia Bharat	2,208	2,515	14
Ramco Cements	1,007	1,045	4
J K Cements	3,509	3,745	7
Birla Corporation	1,313	1,450	10
NUVOCO Vistas	351	385	10
Grasim Industries	1,971	2,100	7
JK Lakshmi	813	895	10

**CMP as on 17th Nov 2023*

The company anticipates stable or slightly lower prices wsignificant downside risk. In our introduced FY26E estimates, we anticipate a CAGR of 8.6% for Revenue and 30.5% for EBITDA over the period from FY23 to FY26E. With a target EV/EBITDA multiple of 9x on SeptFY26E EBITDA, we assign a target price of INR 1,450, maintaining our rating at ADD.

- **JK Lakshmi Cement Ltd. : Target Price – 895**

Outlook: The Cement outlook for the upcoming year appears highly positive, driven by the government's emphasis on Infrastructure Development and increased budgetary allocation to this sector. The company's management maintains its guidance of achieving 12-15% volume growth for FY24, with an additional expectation that EBITDA per ton will reach INR 1,000 for FY25. Actively expanding its capacity, the company aims to surpass its target of 30 mmt. In this pursuit, the company plans to invest INR 5,000 mn in capital expenditure for both FY24 and FY25, allocating an additional INR 7,000 mn for Udaipur Cement Works Ltd in FY24. JK Lakshmi Cements Ltd. is also establishing a new Cement Grinding Unit in Surat with a capacity of 1.35 mntpa. In our introduced FY26E estimates, we anticipate a CAGR of 8.8% for Revenue and 21.8% for EBITDA over the period from FY23 to FY26E. With a target EV/EBITDA multiple of 8.5x on FY26E EBITDA, we assign a target price of INR 895, maintaining an ADD rating.

India Information Technology Sector

Choice

Nov 20, 2023

Company	CMP (INR)	TP (INR)	Upside/ Downside (%)
TCS	3,502	4,040	15
Infosys	1,438	1,655	15
Wipro	395	445	13
HCL Tech*	1,309	1,300	-1
Tech Mahindra	1,203	810	-33
LTIMindtree	5,519	5,845	6
Mphasis*	2,325	2,390	3
Coforge*	5,675	5,595	-1
Persistent*	6,387	6,175	-3
L&T Tech.	4,454	5,090	14
Tata Elxsi*	8,307	8,076	-3
Cyient	1,733	1,900	10
KPIT Tech.*	1,537	1,375	-11
Happiest Minds	848	920	8
IndiaMart.	2,607	3,135	20
Datamatics Glob.	612	650	6

**Target achieved, will review rating & TP post Q3FY24 result*

**CMP as on 17th Nov 2023*

During Q2FY24, the large IT players posted a muted revenue growth/ marginal de-growth sequentially amidst weak demand environment. The top players are cautious due to slower discretionary spends and expect H2 to be weaker than H1. As a result, they have trimmed their revenue guidance for FY24E. Deal wins during the quarter were quite robust. Geographically, Europe performed better than Americas. Gross margins were marginally down YoY due to impact of salary hikes whereas it was slightly up QoQ due to negative net hiring of employees. Average EBIT margin of large players stood healthy at ~16.7% with Tech Mahindra lagging at 4.6%. Net hiring for large players exceeded negative 50,000 for the quarter whereas mid-size players continued hiring as per project requirements. Mid-size players such as Persistent and Coforge have reported revenue growth of 2.5-4% QoQ on the back of new deal wins in Next-gen services. Gross margins were seen as mixed sequentially and deteriorating YoY attributable to elevated employee expenses on back of industry trending attrition rates. Clients continue to prioritize business agility and cost optimization initiatives even while exploring innovative uses of Gen AI.

Going forward, strong pipeline and mega deal wins within areas like infra, production support, cyber security and business operations will provide better medium term revenue visibility. Also, large investments in AI, cyber security and related technologies shall act as a revenue booster. The management expects contribution from GenAI FY25E onwards and find turnaround in IT sector. More efficient utilization of hired resources, pyramid rationalization and operational efficiencies may lead to improved margins. Lower than expected US inflation may boost tech spending in US and hence, we continue to believe that our coverage universe will remain a strong beneficiary of the ongoing global tech upcycle.

Top Picks:

- **IndiaMart InterMesh Ltd.: Target Price: INR 3,135, Upside: 20.2%**

  Outlook: IndiaMart did a price change in their silver subscription in Q1. As a result of which it will have a temporary impact on their new customer acquisitions for next two quarters. In addition to the price increase impact on the gross customer addition, company has also seen more than anticipated churn on the increased customer base in the Silver bucket. As a result, the net customer addition was limited to only 2,000 in this quarter, deviating from the guidance of 7,000-8,000 per quarter. As the impact of this price change stabilizes and the improvement in churn happens, company will guide on the net customer addition. The company is confident of maintaining similar collection and revenue run rate for next few quarters and of achieving 28-30% EBITDA margins by the end of FY24E on the back of operating leverage. IndiaMart continues to make investments in strengthening their organization to leverage the growth opportunities. We have incorporated FY26E and expect a Revenue/EBIT/PAT CAGR of 20.3%/26.5%/28.7% over FY23-FY26E. We maintain our ADD rating and arrive at a revised TP of INR3,135 implying a P/E of 40x on FY25E EPS of INR78.4.

- **TCS Ltd.: Target Price: INR 4,040, Upside: 15.3%**

  Outlook: Q2FY24 order book TCV stood second highest ever at $11.2bn led by robust North America order book at $4.5bn and BFSI order book at $3.03bn. However, management is cautious of slower discretionary spends and expects H2 to be worse than H1. Order book in Europe appears to be good for long term. Quarterly TCV expectation range has been upgraded to $9-10bn range from earlier $7-9bn range. Clients are focused on operating model transformation, vendor consolidation and Enterprise IT as a Service. Management aspires the margin band between 26-28% going ahead. The resilience of demand for services, commitment to long tenure programs and the continued appetite for experimentation with Gen AI and other new technologies boosts confidence in longer-term growth prospects. We have introduced FY26E and expect Revenue/EBIT/PAT to grow at a CAGR of 8.3%/9.5%/9% respectively over FY23-FY26E. We upgrade our rating to ADD with a revised target price of INR4,040 implying a PE of 25x (unchanged) on FY26E EPS of INR162.

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India Healthcare Sector

Choice

Nov 20, 2023

During the quarter, our coverage company's revenue increased by 11.5% annually and 4.2% sequentially, primarily due to stronger growth from IPCA (27% YoY), Lupin (21.5% YoY), Global Health (24.3% YoY), and Max (16.8% YoY). For our healthcare delivery companies, the increase in occupancy and shift in the case mix have been movers. In the pharma sector, due to stabilization of price erosion, which was in the lower single digits for the quarter, and an increase in the share from both existing and new product portfolios, the majority of our covered companies had a robust YoY growth. Most of our coverage companies continue to grow faster than the domestic industry, and their share of chronic therapies is getting better. The EBITDA Margin in the healthcare coverage improved by 119bps annually and was flattish sequentially. PAT increased by 9.5% QoQ and 20.4% YoY. Healthcare delivery companies will continue the beds addition in H2FY24 as well.

Top Picks:

1. Sun Pharma: Rating: ADD | Target Price – Rs. 1,272

- **India & US formulation business:** In India, half of the growth was in the form of volume. The company is focusing on improving its share of prescription, and market share of the products, and will continue to outperform the industry growth in the upcoming time as well. In the US, the growth was driven by specialty businesses including Illumya, Cequa (all-time high market share), and Winlevi, which got offset by the impact of Mohali and Halol facility issues. The potential for Winlevi is much higher in the coming quarters. The underlying business and prescription trend for the specialty portfolio remains strong.
- **Outlook & Valuation:** We understand the growth of the company will be driven by the continuous increase in the share of the specialty portfolio, and also the expansion of the specialty portfolio into new markets, increasing R&D spend will help to develop a strong specialty and generic R&D pipeline, and outperforming the industry growth in India. We expect the above drivers to yield Revenue/EBITDA/PAT CAGR of 11.4%/11.8%/12.1% between FY23-26E. We introduce FY26E and roll forward our valuation to Sep-FY25E EPS to arrive at a target price of INR 1,272 (valuing at 27x) and maintain our **ADD rating**.

2. Lupin Ltd: Rating: OUTPERFORM| Target Price – Rs. 1,451

- **India & North America business:** In India, the diabetes segment which was in de-growth mode, has now started recovering and is back to growth. The management expects to grow by double-digits in the year ahead and the investments made in expanding the field force will increase the productivity and build the growth rate for the company. The US was backed by the strength of the base business, the launch of Tritoprium, gSpriva, and strong performance in respiratory products. The run rate of +$200mn will be sustainable in the coming quarters and also focus on upscaling the portfolio of complex formulations, inhalation, injectables, and biosimilars.
- **Outlook & Valuation:** Future growth will be driven by the launch of tiotropium in the US market, India business which is expected to grow by double-digits, the focus on the complex generic segment, and benefiting from the cost optimization measures which will continue to improve the margin. The expected Revenue/ EBITDA/ PAT CAGR for FY23-26E is to be at 13.5%/34.4%/83.1% (low base). We introduce FY26E and value the stock based on FY26E EPS to arrive at a target price of **INR 1451** (valued at 25x) and improve our rating to **OUTPERFORM.**

3. Laurus Labs: Rating: ADD | Target Price – Rs. 437

- **API, Formulations & Synthesis business:** The revenues from the formulation segment improved sequentially due to a low base last year and higher off-take in the ARV business and growth in the developed markets portfolio. The API business performed well sequentially, which was driven by strong sales in the oncology segment (+119.7% YoY). The synthesis business was impacted because of a large supply contract execution in the last year. The management expects that the baseline projects will continue to accelerate and will lead to the upcoming growth

Company	CMP (INR)	TP (INR)	Upside/ Downside (%)
Ajanta Pharma	1,921	1,943	1
Alkem Labs	4,448	4,375	-2
Cipla Ltd.	1,249	1,335	7
Divi's Lab	3,601	3,932	9
Dr. Reddy Labs	5,612	6,033	8
IPCA Labs	1,081	1,150	6
Laurus	370	437	18
Lupin	1,196	1,451	21
Piramal Pharma	117	127	9
Sun Pharma	1,195	1,272	6
Zydus Lifescience	637	674	6
Apollo Hospitals	5,479	5,656	3
Narayana Hr	1,226	1,259	3
Healthcare Glob.	359	392	9
Fortis Healthcare	356	364	2
Global Health	903	890	-1
Rainbow Child.	1,085	1,239	14
Max Healthcare.	608	669	10
Yatharth Hospital	389	523	34

**CMP as on 17th Nov 2023*

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- **Outlook & Valuation:** The growth momentum in Laurus will be supported by, the on-going capex (of INR 10,000mn in FY24) which is majorly towards synthesis and bio division, contribution from the ImmunoACT, and margin improvement as they are taking cost saving measurements. FY25 remains a critical year of recovery for the company and expect to show gradual improvement on Revenue / Margin / PAT front. We introduce and roll forward our valuation to FY26. We value the stock at 22x FY26E EPS to arrive at a **target price of INR 437** with ADD rating.

4. Yatharth Hospital & Trauma Care: Rating: OUTPERFORM| Target Price–Rs. 523

- **Introducing new specialties with high margins will change the product mix:** The company is shifting its mix from general medicine which is low margin business with a revenue share of 50% of shares in FY21 and subsequently improved to 31% in FY23, supporting to improve of the overall margin profile. The Noida Extension Hospital is taking the lead which will soon begin providing a full range of oncology treatments, including radiation and PET lines.

- **Increased hospital maturity and an increase in international patients will translate to an improved ARPOB:** The strategic location and proximity to Asia's largest airport which is coming to Noida will help YHTCSL to improve the share of international patients and improve the ARPOB. The completion of Noida airport is expected to be completed in the next few years. As the company is moving towards the super-specialty segment which will also be a contributor to higher ARPOB.

- **Outlook & Valuation:** We like YHTCSL due to 1) A leading super-specialty hospital in the Delhi-NCR, 2) Diversification into new specialties where the margin is higher than the current margin, 3) expansion into other regions through inorganic growth, and 4) Focus on increasing the share of international patients and improving ARPOB. We expect Revenue / EBITDA / PAT to grow at a CAGR of 20.0%/ 23.2%/ 26.6% during FY23-26E. We ascribe an **OUTPERFORM** rating on the stock with a target price of **INR 523** and value the stock with 13x on FY26E EBITDA.

5. Rainbow Children's Medicare: Rating: OUTPERFORM| Target Price–Rs. 1,239

- **The sequential improvement in occupancy & ARPOB:** At the consolidated level, occupancy was reported at 51.4% from 40.9% in the previous quarter. The new hospitals reported an occupancy rate of 35%, which is indicative of the nascent stage of the growth trajectory. The management expects occupancies to be at least 50% for the rest of the year. During the quarter, ARPOB saw an annual growth of 16% which was driven by changes in the case mix, an increase in the share of international patients, and price optimization. ARPOB for matured hospitals saw a growth of 20.5% annually. ARPOB for new hospitals saw a slight growth of 2.1% annually. The management expects ARPOB to grow at a rate of 5-6% annually.

- **Expansion Plan:** The company has a significant expansion plan for the H2FY24, with the addition of 270 beds, the company is launching three new hospitals across Hyderabad, Bangalore, and Chennai, which will be the supporting pillar for the hub-and-spoke model in these cities. The net cash position of INR 472cr will be used to support the ongoing capex plan.

- **Outlook & Valuation:** We like RCML due to 1) the Hub and Spoke model of expansion (asset light) 2) Growth in the ARPOB which will be driven by a rise in international patients and change in the case mix, 3) Capex funding to be done through internal accrual, and 4) robust expansion plan. We value it at 20x EV/EBITDA on FY26E and maintain our target price of **INR 1,239** with **OUTPERFORM** rating on the stock.

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ADD	The security is expected to generate greater than 5% to less than 15% returns over the next 12 months
NEUTRAL	The security expected to show downside or upside returns by 5% over the next 12 months
REDUCE	The security expected to show less than -5% to greater than -15% over the next 12 months
UNDERPERFORM	The security is expected to generate returns in excess of -15% over the next 12 months

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