Choice
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Diwali Picks 2023

Samvat 2080: Diwali Picks 2023

Company name	Sector	CMP (Rs.)	Category	Target price (Rs.)	Potential upside (%)
Yatharth Hospital & Trauma Care Services Ltd.	Healthcare Delivery	372	Small Cap	523	40.6
Bharat Dynamics Ltd.	Defence and Aerospace	1,038	Small Cap	1346	29.5
Lumax Auto Technologies Ltd.	Auto Ancillary	366	Small Cap	457	24.8
Mahindra Lifespace Developers Ltd.	Real Estate	495	Small Cap	594	20.6
Dalmia Bharat Ltd.	Cement & Cement Products	2,109	Large Cap	2,515	19.5
L&T Technology Services	Information Technology	4,270	Large Cap	5,090	19.2
TCS Ltd.	Information Technology	3,389	Large Cap	4,040	19.0
Bharat Electronics Ltd.	Defence and Aerospace	138	Large Cap	151	12.9

Note: CMP as on 06-11-2023

Yatharth Hospital & Trauma Care Services Ltd.

Yatharth Hospital and Trauma Care Services Ltd (YHTCSL) incorporated in Feb 2008, is a super speciality hospital with 1,405 beds across 4 facilities spread across Noida, Greater Noida, Noida Extension, and Jhansi. Noida Extension and Greater Noida are the 8th and 10th largest private hospitals in the Delhi NCR, respectively, in terms of the number of beds in FY23. YHTCSL has acquired the Orchha facility (305-bedded) multi-speciality hospital that started operation on April 10, 2022, and it is one of the largest hospitals in the Jhansi-Orchha-Gwalior region in terms of bed capacity.

- The company is introducing new specialities with high-margin which will change the product mix. The general medicine segment is a low-margin business with a revenue share of 50% in FY21 and subsequently improved to 31% in FY23, supporting to improvement 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. While the Noida and Greater Noida hospitals will continue to offer the current oncology services for the treatment of cancer, YHTCSL aims to become the Noida Extension Hospital the center of excellence for complete oncology therapy. At the consolidated level, the current ALOS of the company is 4.6 days which is on a higher side compared to other players in the industry but the management is comfortable to maintain in the near future as they are moving into super-specialities.
- 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. The company is planning to align its marketing strategies, especially digital marketing which will be targeting towards international patients. The Greater Noida Hospital which started the operation in 2010 but increased its bed capacity from 100 to 400 in 2018 is moving towards maturity now, which will contribute to the ARPOB growth. As the company is moving towards the super-specialty segment which will also be a contributor to higher ARPOB. Increased hospital maturity and an increase in international patients will translate to an improved ARPOB.
- Yatharth is Expanding its presence into other regions which will de-risk from its regional concertation. The recent acquisition of the fourth Hospital in Jhansi Orchha in Madhya Pradesh (305 beds to the current capacity) indicates that YHTCSL is open to expanding its presence in regions other than Delhi-NCR and aiming to improve its presence into new geographies. YHTCSL also looking for inorganic growth opportunities across Uttar Pradesh, Haryana, Punjab, and Madhya Pradesh for both types of acquisition-O&M and 100% equity purchase, with at least 300-400 bed size

Valuation: We like YHTCSL due to 1) A leading super-speciality hospital in the Delhi-NCR, 2)Diversification into new specialities 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.

Rating matrix	
CMP (Rs.)	372
Face value (Rs.)	10
MCAP (Rs. cr)	3105.6
Enterprise value (Rs. cr)	3335
Rating	OUTPERFORM
Target price (Rs.)	523
Upside potential (%)	40.6
52 week H/L (Rs.)	426.5/ 304
Sector	Healthcare Delivery
Category	Small Cap

Shareholding pattern

Particulars	Aug-23
Promoter	66.33%
FII	4.26%
DII	7.45%
Public	21.96%

Consolidated financial performance snapshot

(Rs. cr)	FY22	FY23E	FY24E	FY25E
Net Sales	400.9	520.3	655.6	791.6
EBITDA	110.8	133.8	171.8	216.1
PAT	44.1	65.7	98.1	117.4
EPS (Rs.)	6.7	10.0	11.4	13.7
RoE (%)	46.6	43.9	22.2	15.5
RoCE (%)	24.4	26.6	18.7	19.1
P/E (x)	58.3	39.2	26.2	21.9
P/B (x)	22.0	14.1	4.8	4.1
EV/Sales (x)	6.9	5.3	3.7	3.2
EV/EBITDA (x)	25.1	20.6	14.2	11.5
P/S (x)	6.4	4.9	3.9	3.3

Source: Choice Broking

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. Electronic Warfare Systems:

- **Long term revenue visibility, supported by 8.2x Order book:** BDL is currently enjoying an 8.2x order book of its FY23 revenue which is comprised of various strategic programs like LRSAM, QRSAM, Akash systems, Astra missiles, laser guided rocket, etc. Currently, BDL has a healthy order book position of Rs.204.08bn as on 31st May 2023 that gives us comfort to medium to long term revenue growth, which will keep the production lines engaged in the years ahead. Given the immense potential of BDL products for exports, the Company expand its foot prints in the global market to gain decent market share and BDL has already made forays into the Export Market by exporting the Light Weight Torpedoes & Akash missile system to a friendly foreign country.
- **Sole supplier of defensive and offensive platforms:** BDL has working appx. 25-30 upgraded version of existing platforms, most of the platforms are under gone trails phase and it is expected to complete in short term and most of the platforms are import banned from Govt. of India. BDL has expecting massive order from MoD during the period of FY24 to FY26. Furthermore, through indigenization initiatives, BDL has achieved indigenization levels of more than 80% to 90% in most of the products. In recent years, the Company has been outsourcing to the extent of 60% across its projects barring critical items and weapon system integration. Further with the increase in Make- In India push company is benefiting around 15-20% increase in revenue.
- Over FY23-26E, we are forecasting a double digit growth in the business with improving profitability. Standalone top-line is expected to increase by 14.0% CAGR to Rs. 41.86bn in FY26E. EBITDA margin is likely to expand, mainly on account of economics of scale and cost control measures. Earning is likely to grow by 21.6% CAGR with expansion in the RoE, which is expected at 17% in FY26E.

Valuation: BDL, with its over five decades of missile and allied defence equipment manufacturing experience, developed skill sets, and state-of-the-art infrastructure. 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 a 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 materialised 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.204.08bn as of 31st May-2023 (**~8.2x of FY23 revenue**) will support the the growth story of the company. We have **"OUTPERFORM"** rating on the stock with a target price of **Rs.1,346 (32x of FY26E EPS).**

Rating matrix	
CMP (Rs.)	1,038.0
Face value (Rs.)	10.0
MCAP (Rs. cr)	19,042.9
Enterprise value (Rs. cr)	15,222
Rating	OUTPERFORM
Target price (Rs.)	1,346.0
Upside potential (%)	29.5%
52 week H/L (Rs.)	1,278.0 / 786.8
Sector	Defence
Category	Large Cap

Shareholding pattern

Particulars	Jun-23	Sep-23
Promoter	74.93%	74.93%
FII	3.36%	3.09%
DII	13.78%	12.81%
Public	7.92%	9.17%

Consolidated financial performance snapshot

(Rs. cr)	FY22	FY23	FY24E	FY25E
Net Sales	2,817.4	2,489.4	2,959.9	3,461.5
EBITDA	726.1	408.2	533.5	687.9
PAT	499.9	352.2	460.0	583.2
EPS (Rs.)	28.6	19.2	25.1	31.8
RoE (%)	17.3%	11.0%	13.1%	14.7%
RoCE (%)	21.0%	10.3%	12.6%	14.9%
P/E (x)	40	59	45.3	35.7
P/B (x)	6.9	6.5	5.9	5.3
EV/Sales (x)	6.7	6.8	6.4	5.5
EV/EBITDA (x)	26	42	36	27
P/S (x)	7.4	8.4	7.0	6.0

Source: Choice Broking

Lumax Auto Technologies Ltd.

Lumax Auto Technologies Ltd (LATL) incorporated in 1981 is a part of the D.K. Jain Group of companies. The company is a leading auto component manufacturer with a well-diversified product portfolio. It is engaged in the business of manufacturing and supplying of Automotive Lamps, Plastic Moulded Parts, and Frame Chassis to 2, 2, and 4-wheeler segments. It has Partnerships with 7 Global players like Yokowo (Japan), JOPP (Germany), and few others.

- LATL is witnessing an increased share of business from clients. In the PV segment, the company is witnessing orders for the supply of gear shifters, plastic parts and air filter assemblies from OEMs such as Maruti Suzuki, M&M, and Tata Motors for their new models. The company has also received order for the supply for chassis (to KTM) and plastic parts from Bajaj Auto and HMSI, in the 2W segment.
- **New Products and Aftermarket sales:** LATL's new products such as Instrument Panels, Cockpits & Consoles, Headliner & Overhead Systems, Telematics, Gearshift Towers, and Antennas carry a healthy growth prospect in the medium to long term as these products are getting better traction in the market. These products will help to increase content per vehicle and drive the company's growth. Hence, OEM is also increasing the penetration of the latest features and technology in their new launches or refresh models. In addition, the company is aggressively focussing on aftermarket sales by increasing its retail presence. This will help LATL to benefit from increased revenue per client and a richer product mix. Further with IAC India acquisition which is largely catering to premium and technical product management, it is confident to deliver better than industry growth and also leverage this partnership to cross-sell products like power window switches and interior lighting which will lead to high content per vehicle.
- **Healthy order book:** LATL's current order book stood around Rs.9.6bn (Rs.6.5bn IAC India) of which 60% order is from PV segment. IAC India is also looking to do brownfield expansion for M&M for new EV models; FY24 total capex: Rs.1.4bn, of which IAC's share would be around Rs.550mn, and the remaining would be for the rest of the entity.
- **Improved Product mix:** LATL's product mix improved in FY23 as PV segment contributed 29% to its revenue as compared to 20% in FY22 and two-wheeler segment contributed 37% to its revenue in FY23 compared to 43% in FY22.

Outlook and Valuations: We have a positive view on the LATL given: 1) its diversified product portfolio; 2) improving PV share post IAC India acquisition; 3) improving demand for the automatic gear shifter; and 4) healthy growth in the aftermarket segment (looking to launch a new product in the 2W segment) to bode well for LATL to register healthy growth over FY23-FY25E and to outperform the industry growth. We value LATL based on 17x of FY25E EPS with a TP of Rs.457 and recommend **OUTPERFORM.**

Rating matrix	
CMP (Rs.)	366
Face value (Rs.)	2
MCAP (Rs. cr)	2,566
Rating	BUY
Target price (Rs.)	457
Upside potential (%)	24.8
52 week H/L (Rs.)	469 / 201
Sector	Auto Ancillary

Shareholding pattern

Particulars	Jun-23	Sept-23
Promoter	55.98%	55.98%
FII	18.24%	17.97%
DII	6.85%	6.75%
Public	18.93%	19.30%

Consolidated financial performance snapshot

(Rs. cr)	FY22	FY23	FY24E	FY25E
Net Sales	1,508	1,847	2,779	3,245
EBITDA	151	200	338	408
PAT	69	93	147	183
EPS (Rs.)	10.3	14.0	21.5	26.9
RoE (%)	12.8	14.0	18.5	19.3
RoCE (%)	16.8	11.9	19.2	23.1
P/E (x)			17.0	13.6
P/B (x)			3.1	2.6
EV/Sales (x)			1.0	0.8
EV/EBITDA (x)			8.3	6.4

Source: Choice Broking

Mahindra Lifespace Developers Ltd.

MLDL was formed in 2001 through a merger of Gesco Corporation Ltd and Mahindra Realty & Infrastructure Developers Ltd. The company was renamed Mahindra Gesco Developers Ltd in 2003 and then Mahindra Lifespace Developers Ltd in 2007. It is a subsidiary of Mahindra & Mahindra, engaged in the real estate and infrastructure development business in India. It operates through Projects, Project Management and Development; and Operating of Commercial Complexes segments. The company's development portfolio comprises residential projects under the Mahindra Happinest brand; integrated cities under the Mahindra World City brand; and industrial clusters under the Origins by Mahindra brand

- **Aiming for Rs. 80-100bn sales in near to medium term:** To pursue the future product pipeline, the company has categorized deal opportunities into 3-4 categories: Mega deals above Rs. 5000 crores, Cat-A Rs. 2000-5000 crores (2-3 deals), Cat-B Rs. 1000-2000 crores (5 deals), Cat-C Rs. 500-1000 crores (15 deals), which will spread over outright, JDA, and other structures. The current GDV value is around Rs. 5500 crores.
- **Thane Project:** The company received land conveyance and, as per the new IITT policy, it provides higher FSI and a favorable residential/commercial sales mix (50:50). The company expects the total project value to be around Rs.80 billion (compared to the earlier expectation of Rs. 40 billion). The project is expected to launch by early FY25. We believe the successful delivery of the Thane project will be a key turning point for MLDL. As per our assumption, it is highly possible as Thane's real estate market is one of the fastest growing markets in the MMR region.
- **IC&IC velocity picked up:** During the quarter MLDL leased 9.9acr land in the IC&IC segment, management expects the IC&IC segment leased velocity to improve however it's a lumpy business in nature. The Ahmedabad company is waiting for good deals and will look at sales in a single parcel or looking for anchor investors instead of leasing the park in pieces. The company's long-term plan remains to monetize the IC and IC business.
- The management expects the second half will be better as companies looking to launch 3-4 launches in the near term and some of them are in the big ticket segment like Borivali and Malad. On a full-year basis, the company is looking to launch around 8-9 projects.
- **Outlook & Valuation:** Currently MLDL is restructuring the team internally to focus on each business segment separately and at the same time moving in a direction to ramp up the launch pipeline in Tier-I cities (MMR, Bangalore, and Pune) and expanding into plotted development category (fast-moving projects with comparatively better IRR). We maintain our positive view on the MLDL given the upcoming launches in the mid-income and Premium housing segment, plotted development, new projects in the premium Mumbai market with society redevelopment, healthy debt profile, expanding geography, strong brand visibility, and strong parentage background (categorizes MLDL in the growth gem category at the group level). We recommend **OUTPERFORM** rating with a SoTP-based target price of Rs. 594.

Rating matrix	
CMP (Rs.)	495
Face value (Rs.)	2
MCAP (Rs. cr)	7,544
Rating	BUY
Target price (Rs.)	594
Upside potential (%)	20.6
52 week H/L (Rs.)	599 / 316
Sector	Realty

Shareholding pattern

Particulars	June-23	Sep-23
Promoter	51.2%	51.19%
FII	11.45%	11.87%
DII	19.86%	20.18%
Public	17.48%	16.77%

Consolidated financial performance snapshot

(Rs. cr)	FY22	FY23	FY24E	FY25E
Net Sales	393.6	606.6	2001.4	2105
EBITDA	(89.5)	(110.1)	(400.2)	(77.8)
PAT	71.5	(153)	(57.4)	(23.7)
EPS (Rs.)	5	1	5	8
RoE (%)	4.6	1.1	(22)	5.2
RoCE (%)	0.8	(0.1)	(20.4)	(2)
P/E (x)	99.2	496	99.2	62
P/B (x)	4.3	4.2	5.1	4.96
EV/Sales (x)	19.5	12.7	3.84	3.65
EV/EBITDA (x)	(85.9)	(69.9)	19.2	98.9
P/S (x)	393.6	606.6	2001.4	2105

Source: Choice Broking

Dalmia Bharat Ltd.

Dalmia Bharat Limited (DBL) is a leading Indian cement company established in 1939, headquartered in New Delhi. It is the fourth-largest cement manufacturer in India with a current capacity of 43.7 million metric tons. Operating in 10 states with 15 manufacturing units, DBL specializes in super-specialty cement for various applications and is the largest producer of Portland Slag Cement (PSC). Its subsidiary, Dalmia Cement (Bharat) Limited, boasts a low global carbon footprint in the cement industry.

- In FY24, Dalmia Bharat plans a total capex of INR 65,000 million. Out of this, INR 35,000 million will be allocated to JP Cement, and the remaining INR 30,000 million will fund organic expansion, including projects in Northeast India and Rohtas Cement Works. The company has recently commercialized 2 million metric tons (mnt) of new grinding cement capacity in Sattur, Tamil Nadu, and increased clinker capacity by 0.5 mnt in Ariyalur, Tamil Nadu. Additionally, it is setting up 2.9 mnt of cement grinding capacity in the South, to be completed by March '24, and plans for an extra 0.9 mnt capacity shortly. Future expansions include 2.4 mnt in the Northeast by FY26 and 0.5 mnt in Rohtas Cement Works, Bihar. The acquisition of JP Cement assets is underway and expected to conclude by the end of this financial year. Dalmia Bharat aims to achieve 75 million metric tons per annum (MnTPA) cement capacity by FY27 and a long-term goal of 110-130 MnTPA by FY31, representing a 14-17% Compound Annual Growth Rate (CAGR) in capacity addition.
- In Q2FY24, Dalmia Bharat Ltd. reported consolidated volumes of 6.2 million metric tons, a 6.9% increase YoY and an 11.4% decrease QoQ. The consolidated revenue for the quarter was INR 31,490 million, up 6.0% YoY and down 13.1% QoQ. Realization for the quarter came at INR5,079/t, down 0.8% YoY and 1.9% QOQ. EBITDA/t was INR 950/t, showing a 45.4% YoY increase and a 9.0% QoQ increase, mainly due to reduced power, fuel, and freight expenses. Adjusted PAT for the quarter was INR 1,239 million, up 148.3% YoY and down 13.9% QoQ. EPS for the quarter stood at INR 6.3, and the Net Debt/EBITDA ratio was 0.59x.
- Furthermore, there was a notable price increase of INR 40-50 and 30 per bag in the East and South region respectively. The company achieved a higher proportion of trade sales, reaching 68% in the quarter. This increase was mainly due to price hikes in the southern region along with rise in sales of low-carbon cement.
- The management anticipates a robust cement upcycle in India, with demand expected to grow at 8%-9%. The company is focusing on cost optimization and significant capex to drive growth. Based on our FY26E estimates, we project a CAGR of 6.0% in revenue, 22.0% in EBITDA, and 15.0% in PAT from FY23 to FY26E. Our target EV/EBITDA multiple remains at 12x, leading to a target price of INR 2,515. Consequently, we have upgraded our rating to **ADD.**

Rating matrix

CMP (Rs.)	2.109
Face value (Rs.)	2
MCAP (Rs. cr)	39,522
Enterprise value (Rs. cr)	44,282
Rating	ADD
Target price (Rs.)	2,515
Upside potential (%)	19.5
52 week H/L (Rs.)	2,424/ 1,643
Sector	Cement & Cement Products
Category	Large Cap

Shareholding pattern

Particulars	Jun-23	Sep-23
Promoter	55.86%	55.85%
FII	13.91%	14.13%
DII	8.82%	9.42%
Public	21.41%	20.59%

Consolidated financial performance snapshot

(Rs. cr)	FY22	FY23	FY24E	FY25E
Net Sales	11,282	13,540	13,863	14,773
EBITDA	2,429	2,315	2,741	3,521
PAT	1,156	1,057	801	1,266
EPS (Rs.)	62.5	55.7	43.3	68.4
RoE (%)	7.3	6.7	4.8	7.1
RoCE (%)	7.2	5.9	6.7	8.9
P/E (x)	34.3	34.9	48.5	30.7
P/B (x)	2.5	2.3	2.4	2.2
EV/Sales (x)	3.3	2.7	2.9	2.7
EV/EBITDA (x)	15.2	15.9	11.2	9.4
P/S (x)	3.5	2.7	2.6	2.9

Source: Choice Broking

L&T Technology Services Ltd.

L&T Technology Services Limited (LTTS) is a global leader in Engineering and R&D services, boasting 1,145 patents and 102 innovation centers for 57 of the top global ER&D spenders. Their expertise spans engineering design, product development, smart manufacturing, and digitalization, with a focus on disruptive technologies like 5G, AI, Collaborative Robots, Digital Factory, and Autonomous Transport.

- LTTS has achieved widespread growth across all its five segments, with particular strength in the Transportation and Plant Engineering segment. Management is actively investing in training and building capabilities while collaborating with major U.S. chip companies to develop next-generation chips and software for Software Defined Vehicles (SDV) to capitalize on upcoming spending trends. In the Transportation segment, a substantial deal pipeline and discussions about new technologies in aerospace are expected to drive growth. In the Plant Engineering segment, customers are focused on investments related to shale, low-carbon energy, carbon capture, and renewables, positioning themselves for more sustainable fuels and continued capacity expansion in the Fast-Moving Consumer Goods (FMCG) industry, which is expected to boost growth in Q3 and beyond. The Industrial Products segment faced some challenges due to delayed decision-making, but growth is anticipated in digital products and digital manufacturing. In the Telecom and Hi-tech segment, the company has focused on new-generation chipsets designed for AI and cloud computing workloads, which has contributed to growth despite challenges. Additionally, significant deal wins in the Next-Gen sector and opportunities in the Media and Medical fields are expected to support ongoing growth.
- In Q2FY24, LTTS reported revenues of $288.1 million, showing a 3.2% increase quarter-on-quarter (QoQ) and a 1.4% rise year-on-year (YoY) in constant currency (CC), or a 2.9% QoQ and 1.8% YoY increase in USD terms. In Indian Rupees (INR), the combined revenue was INR 23,865 million, reflecting a 3.7% QoQ growth and a substantial 19.6% YoY increase. During the quarter, LTTS secured a total of seven deals valued at $10 million or more across all industry segments, including six deals worth $15 million each. The Profit After Tax (PAT) for the quarter was INR 3,159 million, marking an 11.5% YoY increase, with earnings per share (EPS) at INR 29.8. Additionally, the Board has declared an interim dividend of INR 17 per share.
- LTTS is actively investing in Software Defined Vehicles (SDVs), AI, and cybersecurity, with plans to train nearly 2,000 employees in these areas over the next few quarters. Their partnerships with hyper-scale companies and chip manufacturers are enabling them to create AI solutions and services that cater to the needs of industries such as automotive, manufacturing, and medical. While the deal pipeline remains positive, recent weeks have introduced increased uncertainty, leading the management to adopt a more cautious approach. As a result, they have revised their revenue guidance for FY24E to a range of 17.5-18.5% growth in constant currency. We expect LTTS to deliver a Revenue/EBIT/PAT CAGR of 21%/20%/21% resp. over FY23-FY26E. We recommend to **ADD LTTS** with a target price of INR5,090 implying a PE of 26x on FY26E EPS of INR196.

Rating matrix	
CMP (Rs.)	4,230
Face value (Rs.)	2.0
MCAP (Rs. cr)	44,722
Enterprise value (Rs. cr)	44,332
Rating	ADD
Target price (Rs.)	5,090
Upside potential (%)	20.3%
52 week H/L (Rs.)	4,859 / 3,218
Sector	Information Technology
Category	Large Cap

Shareholding pattern

Particulars	Jun-23	Sep-23
Promoter	73.80%	73.77%
FII	5.31%	5.89%
DII	10.37%	10.77%
Public	10.51%	9.55%

Consolidated financial performance snapshot

(Rs. cr)	FY22	FY23	FY24E	FY25E
Net Sales	6,570	8,014	9,661	11,631
EBITDA	1,415	1,711	1,908	2,325
PAT	961	1,174	1,310	1,638
EPS (Rs.)	91.1	111.0	124.0	155.0
RoE (%)	25.1	25.7	23.4	23.5
RoCE (%)	22.5	34.2	31.4	31.0
P/E (x)	46.6	31.0	27.4	21.9
P/B (x)	30.4	55.2	69.5	106.0
EV/Sales (x)	6.6	4.3	3.4	2.7
EV/EBITDA (x)	30.8	28.8	29.8	29.3
P/S (x)	6.8	4.5	3.8	3.1

Source: Choice Broking

Tata Consultancy Services Ltd. (TCS)

Tata Consultancy Services (TCS) is a leading IT services and consulting company with over 55 years of experience. They offer a range of services and solutions, including cutting-edge technology and engineering, through their innovative Location Independent Agile delivery model, known for its excellence in software development. TCS collaborates with major global businesses in their transformation efforts. A part of the Tata group, India's largest multinational business group, TCS has over 608,000 of the world's best-trained consultants in 55 countries.

- Management is cautious due to slower discretionary spending and anticipates a tougher H2 compared to H1. Europe showed positive signs, and the order book in Europe seems promising for the long term. The expected Total Contract Value (TCV) for the quarter has been raised to a range of $9-10 billion from the previous range of $7-9 billion. Clients are prioritizing business agility, cost optimization, and exploring innovative uses of Gen AI. They are also focused on transforming their operating models, consolidating vendors, and adopting Enterprise IT as a Service. Management aspires to a margin band between 26-28% going ahead. Net margin came in at 19% for Q2FY24.
- TCS reported Q2FY24 revenues of $7.2 billion, with 4.8% YoY growth in USD terms. In INR, revenue was INR 596.9 billion, up 7.9% YoY. Q2FY24 order book TCV reached $11.2 billion, driven by North America and BFSI orders. The book-to-bill ratio was 1.6, and Net CFO was INR 118.2 billion. In Q2, revenue growth was offset by a reduction in the revenue base due to completed transformation projects. Notable growth areas included the UK (10.7% YoY), Energy, Resources, and Utilities (14.8%), Manufacturing (5.8%), and Lifesciences & Healthcare (5%). Management expressed caution in North America and Continental Europe. Middle East and Africa saw strong growth at 15.9%, while Latin America and Asia Pacific grew at 13.1% and 4.1%, respectively.
- The LTM attrition rate decreased to 14.9%, down by 290 basis points sequentially. The workforce currently stands at 608,985 employees, with a net reduction of -6,333 employees. The company has adjusted its hiring strategy, maintaining it below departures to boost productivity and improve project results. Management is actively recruiting and training freshers and trainees to invest in their development.
- Strong demand for services, commitment to long-term projects, and a willingness to experiment with new technologies boost confidence in long-term growth. We expect FY26 revenue, EBIT, and PAT to grow at a CAGR of 8.3%, 9.5%, and 9%. We recommend to **"ADD" TCS** with a target price of INR 4,040, implying a PE of 25x on FY26 earnings of INR 162.

Rating matrix	
CMP (Rs.)	3,389
Face value (Rs.)	1.0
MCAP (Rs. cr)	12,26,093
Enterprise value (Rs. cr)	12,20,503
Rating	ADD
Target price (Rs.)	4,040
Upside potential (%)	19.2%
52 week H/L (Rs.)	3,680 / 3,070
Sector	Information Technology
Category	Large Cap

Shareholding pattern

Particulars	Jun-23	Sep-23
Promoter	72.30%	72.30%
FII	12.46%	12.47%
DII	9.80%	10.01%
Public	5.38%	5.17%

Consolidated financial performance snapshot

(Rs. cr)	FY22	FY23	FY24E	FY25E
Net Sales	1,95,772	2,28,907	2,41,627	2,63,883
EBITDA	57,075	62,709	64,343	71,701
PAT	55,705	60,356	63,608	70,980
EPS (Rs.)	104	115	129	145
RoE (%)	47.8	51	49.8	51.2
RoCE (%)	53.3	58.1	55	57.8
P/E (x)	32.1	24.8	23.4	20.9
P/B (x)	15.3	13.1	12.9	12.9
EV/Sales (x)	6.9	5.1	4.9	4.4
EV/EBITDA (x)	23.62	18.74	18.24	16.36
P/S (x)	7.0	5.2	4.9	4.5

Source: Choice Broking

Bharat Electronics Ltd.

A **Navratna PSU** Bharat Electronics Limited (BEL) was established in 1954 under the Ministry of Defense, GoI. BEL is a multi-product, multi-technology, multi-unit conglomerate which designs, manufactures, and supplies. It operates in two segments namely Defence and Non-defence segment. On defense it designs, manufactures, and supplies state-of-the-art products and systems in a wide variety of fields including Radars, Missile Systems, Military Communications, Naval Systems, Electronic Warfare & Avionics, C4I Systems, Electro Optics, Tank Electronics & Gun/Weapon System Upgrades, and Electronic Fuzes in the Defence segment and in Non-defence segment includes areas such as Electronic Voting Machines, Homeland Security & Smart Cities, Satellite Integration & Space Electronics, Railways, Artificial Intelligence, Cyber Security, Software as a Service, Energy Storage Products, besides Composite Shelters & Masts.

- **Strong order book providing visibility of 3-4 years revenue:** In Q2FY24 order book stood at Rs.687bn. (3.9x of FY23 revenue), of which defence share stood at ~85-90% of the order book. The order book shows ~+5% growth in Q2FY24. Management expects to achieve at least Rs.200bn+ order in FY24. In H1FY24 BEL already received an order worth Rs.150bn. This order consists of and major orders like LRSAM- Rs.70bn, Akash Prime- Rs.37bn, Himshakti – Rs.20bn, Battle Surveillance system- Rs.20bn, etc. and this order book execution time frame is 3-4 years. Management has not counted a few large ticket orders Like QRSAM, MRSAM which is under the pipeline and may award in the near term to medium term.
- **Platforms acquisition and Modernization drives the company's core business:** In recent times lots of defence platforms acquisition is going across all forces, like (war ships, fighter jets, tanks, underwater platforms, UAVs etc.), and these platforms can deliver in medium to long term. In modernization front MoD has planning to modernize to equipped with upgraded electronics to all the existing platforms like tanks, EW systems, Radars etc. some of the Projects are under pipeline which include, fuses- Rs.40bn, NGOPV- Rs.25bn, BMP Tank Up-gradation program- Rs.30bn, EW systems- Rs.20bn. These orders can be materialized by end of this year or may be next financial year.
- Over FY23-26E, we are forecasting a double digit growth in the business with improving profitability. Consolidate op-line is expected to increase by 10.3% CAGR to Rs. 233.7bn in FY26E. EBITDA margin is likely to expand, mainly on account of cost control measures. Earning is likely to grow by 10.2% CAGR with expansion in the RoE, which is expected at 24% in FY26E.

Valuation: We like the growth story of BEL due to its position as the sole supplier of various equipment's and systems, ongoing innovation in diverse products. We have a positive outlook on BEL, supported by 1) BEL is the direct beneficiaries of GOI's self reliance on defence sector,2) Rising defence spending across all segment (Naval, Army, Air Force), 3) Diversify it business to civilian segment, 4) Focusing on system level integration, 5) The company's healthy order book stood **Rs.687bn. (3.9x of FY23 revenue)**, would support the the growth story of the company. We have **"ADD"** rating on the stock with a TP of **Rs.151**, valuating it on **28x of FY26E EPS.**

Rating matrix	
CMP (Rs.)	138
Face value (Rs.)	1.0
MCAP (Rs. cr)	99,339.9
Enterprise value (Rs. cr)	91,212
Rating	BUY
Target price (Rs.)	151
Upside potential (%)	12.9%
52 week H/L (Rs.)	142.2 / 87.0
Sector	Defence
Category	Large Cap

Shareholding pattern

Particulars	Jun-23	Sep-23
Promoter	51.14%	51.14%
FII	17.35%	17.19%
DII	24.84%	24.19%
Public	6.68%	7.49%

Consolidated financial performance snapshot

(Rs. cr)	FY22	FY23	FY24E	FY25E
Net Sales	15,368.2	17,734.4	19,333.8	21,267.2
EBITDA	33,40.9	40,85.9	44,44.7	49,75.6
PAT	23,54.5	29,40.4	32,00.0	35,70.8
EPS (Rs.)	3.3	4.1	4.4	4.9
RoE (%)	19.5%	21.5%	21.5%	22.4%
RoCE (%)	23.9%	26.4%	26.6%	27.8%
P/E (x)	41	33	30	27
P/B (x)	7.9	7.0	6.5	6.1
EV/Sales (x)	5.9	5.1	4.6	4.2
EV/EBITDA (x)	27	22	20	18
P/S (x)	6.3	5.5	5.0	4.6

Source: Choice Broking

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