MOTILAL OSWAL
FINANCIAL SERVICES

Fundamental Diwali Picks

SAMVAT 2080

Outlook

Dear Investors,

India's equity market reached new highs in Sep'23 and ended Samvat 2079 (24-Oct-22 to 6-Nov-23) on a healthy note. Nifty-50 breached the 20k level and gained 10% in this period, while Nifty Mid/Smallcap outperformed with gains of 30%/36%. Resilient economic conditions, healthy corporate earnings, FII inflows (Mar-Aug'23), all-time high SIP level, and retail participation drove the market. Further, a moderation in inflation and expectations that global interest rates may have peaked in the last few months supported equities.

Key events in Samvat 2080:

- Several state-level elections that are scheduled in Nov-Dec'23, followed by the General Election in May 2024.
- Global factors such as economic growth, interest rates, bond yields, inflation, geopolitical issues, etc.
- Nifty earnings, which are expected to maintain their healthy growth at 18% CAGR over FY23-25.

Outlook:

Despite global uncertainties, India remains a shining star and is expected to maintain its outperformance. Nifty is trading at a 12-month forward P/E of 17.6x, which is at a 13% discount to its 10-year average, thus providing comfort. We believe that over the next couple of quarters, sector rotation could be an important driver along with the overall market uptrend. We also believe valuations will become an important factor in stock selection to drive outperformance in portfolios.

Our last year's Diwali picks have done well, with some of our ideas, such as L&T (+58%), IDFC First (+48%), Lemon Tree (+38%) generating superior returns compared to Nifty's gain of 10%. We present below our key themes and ideas for Samvat 2080.

Key Themes

Credit Growth

- India's credit growth remains healthy at 15%-16%, which is positive for banking and financial services.
- Retail loan growth remains healthy, led by robust growth in Credit Cards/Auto/Home loans
- Comfortable valuations along with healthy asset quality

Discretionary Spending

- Big events such as the ICC Cricket World Cup and the festive season can act as positive catalysts to stimulate consumer demand.
- We believe several sectors in Consumer Discretionary will witness a demand uptick; such as:
  - Auto
  - Hotels
  - Jewelry

Construction & Real Estate

- Government's focus on infrastructure development is benefitting construction and allied sectors such as Cement, Industrial, Cap Goods, etc.
- Real estate players stand to benefit with residential demand in the top-8 cities scaling to nine-year highs.

High Growth Niche Sectors

- India's consumption boom and capex drive are providing impetus to several niche segments, which may be small now but have huge growth potential
- Electronic Manufacturing Services (EMS)
- New Age FinTech

Top Picks

- SBI
- Titan
- M&M
- Cipla
- Indian Hotels
- Dalmia Bharat
- Kaynes Tech
- Raymond
- Spandana Sphoorty
- Restaurant Brands Asia

You can invest in our Diwali Picks at one go via the Stock Basket
Log in to the MO Investor/Trader app < Research Advice < Basket

Source: MOFSL Research

Top Picks - Summary

Company	Wtg	M.Cap	CMP	Target Price	Upside	EPS CAGR (%)	RoE (%)		P/E (x) *P/BV (x)	
	(%)	(INR b)	(INR)	(INR)	(%)	FY23-25E	FY24E	FY25E	FY24E	FY25E
SBI*	10%	5,126	574	700	22	18.4	19.1	18.3	1.3	1.1
Titan	10%	2,900	3,270	3,900	19	27.6	30.9	32.5	70.9	54.6
M&M	10%	1,850	1,492	1,770	19	20.4	21.8	20.3	17.3	15.9
Cipla	10%	972	1,203	1,450	21	18.9	14.6	14.3	25.4	22.5
Indian Hotels	10%	560	395	480	22	20.7	14.6	14.9	45.9	38.7
Dalmia Bharat	10%	394	2,105	2,800	33	32.8	5.3	7.2	46.7	32.7
Kaynes Tech	10%	143	2,455	3,100	26	64.5	16.1	20.5	85.2	55.4
Raymond	10%	125	1,890	2,600	38	18.4	20.2	17.3	16.5	14.3
Spandana Spoorty*	10%	65	902	1,100	22	-	15.1	16.3	1.8	1.5
Restaurant Brands Asia	10%	58	116	135	16	-	-13.5	3.1	-	-

** P/BV for Banks and Financials, P/E for others; Data as on 6-Nov-2023; Source: NSE, MOFSL estimates*

Top Picks - Rationale

State Bank of India

- **SBI** has strengthened its balance sheet by creating higher provisions. It raised its PCR (including TWO) to 92% in 2QFY24 and held a higher (~99.5%) provision coverage on Corporate NPAs.
- Among PSU banks, SBIN remains the best play, with a healthy PCR, Tier I of ~12%, strong liability franchise, and improved operating profitability.

- **Titan**, with a 7% market share in jewellery industry, is at the forefront in terms of growth among organized players.
- Emerging businesses, fragrances & fashion accessories, and Indian dress wear are expected to record double-digit growth.

TITAN COMPANY

Top Picks - Rationale

Mahindra

- **M&M** has one of the highest exposures to the rural market (~65% of volumes), which is likely to recover considering the rural cash flows.
- M&M's reorientation of its SUV business to maintain its DNA and brand positioning has led to a robust demand momentum for its SUVs.
- We expect a 16% volume CAGR in Passenger UVs over FY23-25.

- **Cipla's** robust ANDA pipeline with complex products (inhalers, peptides, injectable, etc.) should drive consistent growth in the US generics segment.
- This along with a steady outperformance in branded generics market (of India/SA) would enable 19% earnings CAGR over FY23-25E.

Cipla

IHCL THE INDIAN HOTELS COMPANY LIMITED

- RevPAR growth for **Indian Hotels** has been strong in Oct'23, and is displaying a healthy demand visibility for Nov'23. Management has guided for a double-digit RevPAR growth in FY24.
- A favourable demand-supply scenario, and a rebound in foreign tourist arrivals should boost occupancy going forward.

Top Picks - Rationale

Dalmia Bharat

- **Dalmia Bharat** is benefiting from: 1) a robust increase in cement prices, particularly in the East, where prices have risen by INR40-50/bag, and 2) an improvement in demand.
- We expect ~11% volume CAGR over FY23-26, and estimate EBITDA/t of Rs 1,045/ 1,150/ 1,250 in FY24/FY25/FY26 driven by a reduction in opex (operating efficacy and softening fuel prices).

- **Kaynes** is a prominent end-to-end and IoT-enabled integrated electronics manufacturer, with strong order book growth (96% CAGR over FY20-23) and a higher share of Box Build (~40% in 1HFY24) and PCBA (54%).
- We estimate 41%/56% CAGR in revenue/Adj. PAT over FY23-FY26, driven by healthy order book and a better margin profile (increasing mix of high value order).

KAYNES TECHNOLOGY

Top Picks - Rationale

- **Raymond** in last 2-3 years has strengthened its leadership team & restructured its group. Demerger and promoter's capital infusion strengthened balance sheet.
- It has a collection of established brands like Raymond, Park Avenue, ColorPlus, Ethnix which it plans to grow through capex-light franchisee mode.

- **Spandana Sphoorty** has pivoted from consolidation to the growth phase to pursue customer acquisition-led growth, with addition of 350k borrowers (up 180% YoY) in 2QFY24.
- With reinforced processes, it is now ready to capitalize on the strong opportunity in the MFI sector. We estimate a 34% AUM CAGR over FY23-FY26, and an RoA/RoE of 4.4%/17% in FY26.

SPANDANA

SPANDANA SPHOORTY FINANCIAL LIMITED

- **Restaurant Brand Asia** has has worked on its products, new categories and value segment to attract traffic in the last couple of years. We see its business well on track to see a turnaround in the next 2-3 years.
- With an aggressive store addition (17% CAGR over FY23-26), RBA is well placed to deliver a strong 26%/45% CAGR in revenue /EBITDA over FY23-26E for India business.

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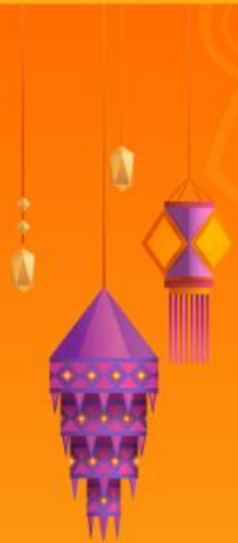

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and a prosperous New Year

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