ICICI Direct
Research

SAMVAT 2081
Muhurat Picks

Muhurat Pick – 2024

October 24, 2024

Dear customers,

Wishing you all a Happy and Prosperous Diwali!

Indian equity, have faced some jitters in last 1 month, amid the heavy FII selling of close to ₹ 1 lakh crore amid escalated geopolitical tensions and talks of incremental flows into China given the stimulus. Nonetheless, Positive catalysts such as a) robust corporate earnings (likely to grow at 14% CAGR over FY24-26) and b) Favorable growth-Inflation dynamics of India (~6-7% sustainable GDP growth with comfortable inflation of sub ~5%), continues to present Indian equity as superior proposition in this global backdrop.

Our one year forward, Nifty target is at 27500 (22x FY26 EPS) with sectoral preference towards Capital Goods/Infra, Private Banks (and AMCs) and select Auto, IT and Pharma pack.

Keeping the key filter of quality and growth visibility, we continue to see reasonable opportunities across the market spectrum. Investors are advised to utilize equities as a key asset class for long term wealth generation by investing in quality companies with strong earnings growth and visibility, stable cash flows, RoE and RoCE.

Company	Buying Range	CMP	Target Price	Potential Upside	Market Cap	P/E(x)		ROCE(%)		ROE(%)	
	₹	₹	₹	%	₹ Crore	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sansera Engineering	1,490-1,590	1,580	2,000	27%	9,754	34.4	25.7	11.6	13.9	9.9	11.8
PCBL	435-470	447	600	34%	16,884	32.1	22.5	13.7	16.5	14.0	17.7
NCC	275-300	286	400	40%	17,947	17.9	13.2	22.0	25.8	13.3	15.6
Tech Mahindra	1,680-1,750	1,735	2,000	15%	1,69,783	36.4	25.0	18.2	25.1	15.1	21.3
Tata Power	410-450	437	530	21%	1,39,445	33.3	28.8	9.5	9.7	12.5	12.9
NATCO Pharma	1,300-1,390	1,347	1,680	25%	24,123	13.5	15.5	29.9	22.8	24.4	17.8
HDFC AMC	4,385-4,580	4,435	5,500	24%	94,731	40.0	34.3	30.9	32.8	33.5	35.9

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Sansera Engineering (SANEN) — Buying Range (₹ 1,490-1,590)

- Sansera Engineering is a leading auto component manufacturer of precision forged components (engine, non-engine) for end application in primarily auto domain. Its portfolio also includes forged components in Auto Tech agnostic domain, drive train components in EV domain and structured parts in non-auto space (Aerospace, Defence, Off-Road, etc.).
- Sansera realizes 76% of its sales from Auto-ICE segment (scooter segment exposure at 6%) while it realizes rest ~12% of sales each from Auto Tech Agnostic & EV segment and non-auto segment. With higher ICE exposure, SEL is actively working on de-risking itself with a goal to reduce auto-ICE share of sales to 60% while augmenting share of tech agnostic-auto and non-auto share of sales to 20% each in coming years.
- Sansera has seen a notable rise in revenues from international markets, with exports share in total revenue up from ~22% in FY23 to ~25% as of FY24. Significantly, global constitutes ~63% of its pending orderbook as of Q1FY25 (peak annual revenue of ₹1,700 crore, realizable in ~3 years). With established capabilities & capacities in place, SEL is well transforming itself to be a precision engineering company on global scale
- With fresh capital infused, new tie-ups in non-auto space including plans for new greenfield facility, we bake in 18.5% revenue CAGR over FY24-27E. **We have a positive view on Sansera and assign BUY rating on the stock with a target price of ₹2,000 i.e. 28x PE on FY26-27E avg EPS. Risk:** 1) Slower than expected sales growth due to geopolitical issues affecting exports 2) Margins Pressure due to fluctuation in commodity cost

Particulars (₹ crore)	FY24	FY25E	FY26E	FY27E	3 Year CAGR (FY24-FY27E)
Net Sales	2,811.4	3,239.2	3,834.2	4,682.9	18.5%
EBITDA	479.8	565.2	709.3	913.2	23.9%
EBITDA Margin (%)	17.1	17.5	18.5	19.5	
Net Profit	185.7	276.3	370.3	501.7	39.3%
EPS (₹)	34.6	45.0	60.4	81.8	33.2%
P/ E (x)	44.7	34.4	25.7	19.0	
RoNW (%)	13.8	9.9	11.8	13.9	
RoCE (%)	14.0	11.6	13.9	16.8	

PCBL Ltd. (PHICAR) — Buying Range (₹ 435-470)

- PCBL Ltd is the leading manufacturer of carbon black, which is used as a reinforcing material in tyres. PCBL also derives ~11% of sales volume from specialty carbon black, which finds application in paints, plastics, etc.
- PCBL, has recently commissioned its new carbon black plant in Tamil Nadu with a nameplate capacity of ~1.5 lakh tonnes. Initially it expected to fully utilize this plant by FY26E end, however given the opportunity in the export markets, it now expects to hit peak utilisation levels in FY25E itself. Sensing further opportunity, it is now executing a brownfield expansion at this site & even discussing upon new greenfield plant, which shall ensure healthy double digit volume growth over the next few years.
- PCBL has, over years, with indigenous R&D developed grades in specialty carbon black domain, which is a high margin product (typically ~3-4x normal trye grade CB). Specialty grade carbon black volumes are slated to grow at a CAGR of 14% (higher than base business) over FY24-27E.
- PCBL's management in the recent analyst meet outlined its vision wherein Sales/EBITDA/PAT is expected to be 3x/4x/5x respectively over FY24-29E. RoE improvement is seen improving from 15% (FY24) to 25% (FY29E).
- **We have positive view on PCBL and assign BUY rating amid** (i) profitable organic growth at its base carbon black business (ii) turnaround in sight at Aquapharm (iii) big opportunity in sight in Nano Silica. We expect Sales/PAT at PCBL to grow at a CAGR of 21%/27% over FY24-27E. **We value PCBL at ₹600 i.e. 26x P/E on FY26-27E avg. EPS. Risk:** (i) delay in expansion plans (ii) pressure on margins amid rise in competition

Particulars (₹ crore)	FY24	FY25E	FY26E	FY27E	3 Year CAGR (FY24-FY27E)
Net Sales	6,419.8	8,835.4	10,174.5	11,371.0	21.0%
EBITDA	1,037.4	1,516.0	1,839.0	2,115.0	26.8%
EBITDA Margin (%)	16.2	17.2	18.1	18.6	
Net Profit	490.9	563.5	803.7	1,017.1	27.5%
EPS (₹)	13.0	14.3	20.4	25.8	
P/ E (x)	35.4	32.1	22.5	17.8	
RoNW (%)	15.1	14.0	17.7	19.6	
RoCE (%)	10.2	13.7	16.5	18.6	

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NCC Ltd. (NAGCON) **Buying Range (₹ 275-300)**

- NCC is a leading construction company with presence across varied verticals such as buildings, roads, water, mining etc. Standalone order-book is at ₹47625 crore, 2.5x TTM book to bill.
- NCC has indicated that, apart from overall opportunity, it expects improved order inflows prospects from Andhra Pradesh and Bihar, given the budget allocations. It has guided for an order booking of about ₹20,000 to ₹22,000 crore, excluding any order inflows from AP.
- The company's topline growth guidance is at 15% for FY25, albeit accelerated inflows could drive upgrade of the same going ahead, in our view. Given the robust orderbook, we expect healthy revenue CAGR of 15.6% over FY24-27E to ₹28,275 crore.
- The EBITDA margin guidance is 9.5-10% amidst the competitive bidding scenario, and with company focusing on revenue growth momentum in FY25 over margins. We bake in EBITDA margins at 9.5%/10.3%/10.5% in FY25/FY26 vs. 9% in FY24.
- Healthy Topline growth along with stable finance costs is likely to drive 25.9% earnings CAGR over FY24-27E. The strong earnings momentum will translate into return ratios improvement, with ROE's likely to expand to 16.2% in FY27 vs. 12.3% in FY24. Given the strong order book visibility and improving balance sheet strength, it is poised for healthy growth ahead. **We Value NCC at ₹400, at 18x FY26 P/E.**
- ***Key risks:*** *lower than expected order inflows, heightened competitive intensity impacting margins.*

(₹ crore)	FY24	FY25E	FY26E	FY27E	3 years CAGR (FY24-27E)
Net Sales	18,314	21,053	24,429	28,275	16%
EBITDA	1,648	2,000	2,504	2,955	21%
EBITDA Margin (%)	9.0	9.5	10.3	10.5	
Adj. PAT	837	1,019	1,384	1,672	26%
Adj. EPS (₹)	10.1	16.2	22.0	26.6	
P/E (x)	28.8	17.9	13.2	10.9	
RoNW (%)	12.3	13.3	15.6	16.2	
RoCE (%)	20.1	22.0	25.8	26.3	

Tech Mahindra (TECMAH) **Buying Range (₹ 1,680-1,750)**

- Tech Mahindra (TechM) has over 1.45 lakh+ employees across 90 countries serving 1000+ clients with higher exposure in communications sector (33% of revenues). Apart from communication, the company caters to BFSI, manufacturing. Healthcare, hi-tech & media & retail sectors.
- For FY27 the new management has outlined a vision of i) Industry leading topline growth, ii) improved EBIT margins of 15% from 6.1% in FY24 (with incremental savings of ~US$ 250mn/year from Project Fortius), iii) achieve RoCE >30% & iv) return >85% FCF via dividends & buybacks.
- Notably, accounts over US$20 mn are experiencing accelerated growth (1.5x overall growth) aided by the Turbocharge program, while it is working on building its large deal capabilities and reducing the percentage of subcontracting revenue while investing in new talent and training to expand margins. The focus remains on margin expansion, even if it means deprioritizing large deals which another step in the right direction.
- We believe, the company's US$ revenue will grow at CAGR of 6.7% between FY24-27E, but operating profit growth is likely to outpace with EBIT margin improving from 6.1% in FY24 to 14.5% in FY27E, implying a CAGR of 43.6% over FY24-27E.
- **We have valued the company at 25x P/E on FY27E EPS to assign a target price of ₹2,000.**
- **Key Risks:** a) Continued weakness in Top 5 telecom heavy clients; b) Lower than expected margin expansion under Project Fortius

(₹ crore)	FY24	FY25E	FY26E	FY27E	3 years CAGR (FY24-27E)
Net sales	51,996	53,885	58,788	64,343	7.4
EBIT	3,147	5,071	7,912	9,330	43.6
EBIT Margin (%)	6.1	9.4	13.5	14.5	
Net Profit	2,358	4,119	6,003	7,078	44.3
EPS (₹)	26.7	46.5	67.9	80.3	
P/E	63.6	36.4	25.0	21.1	
RoNW (%)	8.8	15.1	21.3	22.4	
RoCE (%)	12.6	18.2	25.1	26.8	

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Tata Power (TATPOW) — Buying Range (₹410-450)

- Tata Power is one of India's leading integrated players in the energy landscape, with a robust footprint in generation, renewables, transmission, distribution, and cutting-edge energy solution. The company boasts 10183 MW of conventional capacity (Thermal & Hydro), 4524 MW of renewable capacity. It also has presence in T&D space with Mumbai, Delhi, Ajmer and Odisha circles under its command. The company is also active in the Solar EPC space and is further backward integrating by putting up 4.3 GW of solar cell and manufacturing capacity (partially commissioned).
- The company is well on track to reach an installed capacity of 15 GW through a diverse mix of solar, wind and pumped hydro storage. The company has signed a MoU with the Government of Maharashtra to develop two large PSPs with a combined capacity of 2,800 MW. Over the last two years, it has increased its under-construction portfolio to 5500 MW, thereby giving strong confidence that the company is on track to achieve its stated goal of renewable capacity addition target.
- Tata Power also has 13% market share in existing rooftop market. India is revamping the policies to give a boost to solar rooftop segment with higher subsidy and 40GW target over the next couple of years; we expect Tata Power to benefit from this opportunity.
- We believe Tata Power as attractive opportunity to play the entire power value chain in India and coupled with the strong renewable capacity addition targets. **We value it on SoTP basis and arrive at a fair value of ₹ 530 per share.** Key **Risks:** a)Slower capacity renewables addition b) Change in regulations

Particulars (₹ crore)	FY24	FY25E	FY26E	FY27E	3 Year CAGR (FY24-FY27E)
Net Sales	61,448.9	70,334.4	76,755.5	83,958.4	11.0%
EBITDA	10,783.8	12,589.0	14,662.2	16,516.2	15.3%
EBITDA Margin (%)	17.5	17.9	19.1	19.7	
Net Profit	3,696.3	4,224.3	4,882.2	5,596.8	14.8%
EPS (₹)	11.6	13.2	15.3	17.5	
P/ E (x)	38.1	33.3	28.8	25.1	
RoNW (%)	12.1	12.5	12.9	13.0	
RoCE (%)	9.3	9.5	9.7	9.8	

Natco Pharma (NATPHA) — Buying Range (₹ 1,300-1,390)

- Natco has, developed a knack for manufacturing complex generic products with few competitors, especially for US market. India formulations mainly comprise oncology products (39 brands). For the US, it follows partnership products for risky launches and acquired Dash Pharma for a front-end presence. It owns six FDF, two API manufacturing facilities and two crop health sciences units.
- Natco has enjoyed significant windfall since the launch of generic version of blockbuster global anti-cancer drug Revlimid in FY22. Our estimates suggest that the company generated almost Rs 3500 crore sales from generic Revlimid during FY22-FY24 and over the next two fiscals i.e. FY25 and FY26, the company is expected to generate another ~Rs. 5000 crore.
- As this opportunity is expected to wane significantly, Natco has already started focusing on the next potential blockbusters where the company intends to challenge the patent or launch the product with mutual understanding with the innovators. The company is now banking on some new FTF opportunities, notably gOzempic (Anti-diabetic), gWeovy (Weight management) and gLynparza (Anti-cancer) among others. (Total pipeline- Key Solo Para IV FTFs-8; Key Para IV products -7). The management is confident on the prospects of some of these products to maintain the blockbuster traction beyond FY26. Already, its partner Mylan has settled a US patent litigation with Novo-Nordisk for generic Ozempic (to be outsourced from Stelis).
- **Our target price is ₹ 1680 based on 18x FY26E base business EPS of ₹ 87.2 plus ₹ 110 NPV for gRevlimid. Key Risks**: i) Slower ramp up in new launches in US ii) Kothur plant warning letter and its implication on cost and launches.

Particulars (₹ crore)	FY23	FY24	FY25E	FY26E	2 Year CAGR (FY24-FY26E)
Net Sales	2,707.9	3,992.7	5,029.1	5,214.9	14.3%
EBITDA	936.4	1,745.3	2,375.7	2,145.6	10.9%
EBITDA Margins (%)	34.6	43.7	47.2	41.1	
Net Profit	714.2	1,388.3	1,833.8	1,596.3	7.2%
EPS (₹)	39.0	75.9	100.2	87.2	
PE (x)	34.6	17.8	13.5	15.5	
RoNW (%)	14.7	23.7	24.4	17.8	
RoCE (%)	17.1	26.9	29.9	22.8	

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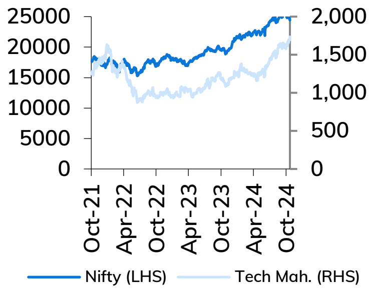
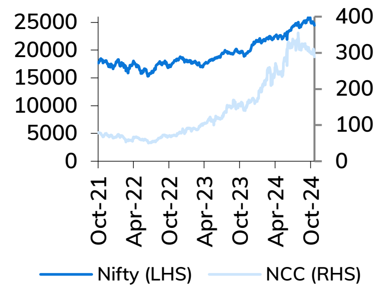
HDFC ASSET MANAGEMENT CO LTD (HDFAMC)	Buying Range (₹ 4,385-4,580)

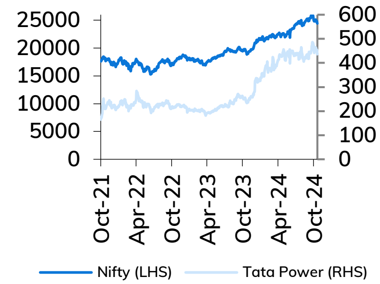
- HDFC AMC is among the largest and profitable mutual funds with an QAAUM of ₹7.68 lakh crore as on September 2024. Market share as on Q2FY25 was at 11.5%. Strong distribution network with 255 branches and over 90,000 empaneled distribution partners aids business growth.
- Post gaining market share in the previous quarters, HDFC AMC has kept the same steady at ~11.5% with focus on equity AUM driven by sustained performance, robust SIP flows (market share at ~15%) and accretion in unique customer base (market share at ~24%). Focus on distribution in tier 2 & 3 cities, MTM gains, continued SIP inflow and emphasis on business from HDFC Bank (contribution of ~6% to AUM) is expected to aid AUM growth with further increase in share of equity AUM.
- Increase in proportion of equity AUM (+60 bps QoQ) and rationalization of selective rationalisation of commission structure offset impact of telescopic pricing, thus aiding improvement in yields. Effective from Aug 2024, passing of impact of TER towards distribution channel is seen to slowdown the pace of fall in yields. Continued robust operational efficiency is expected to enable sustained growth in earnings. Expect PAT to increase at ~18% CAGR in FY25-27E
- Improving equity mix, higher market share in robust SIP flows & superior efficiency is seen to aid profitability. Realignment of distribution structure is seen to limit pressure on yields. The stock remains a play on structural growth in Indian asset management domain with superior operational matrix. Considering relatively higher business growth without any b/s risk, we remain positive on the stock. **Thus, we assign target price of ₹5500, valuing it at ~37x FY27E EPS.** **Key Risks-** a) Regulatory decline in TER b) Heightened volatility in equities

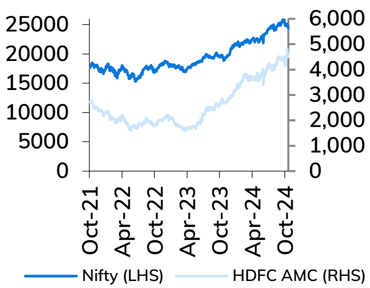
Particulars (₹ crore)	FY24	FY25E	FY26E	FY27E	3 Year CAGR (FY24-FY27E)
Revenue from operatioı	2,584.4	3,410.5	3,945.4	4,514.3	20.4%
PBT	2,478.2	3,198.1	3,661.0	4,157.3	18.8%
Net Profit	1,945.8	2,398.6	2,800.7	3,180.3	17.8%
EPS (₹)	91.1	112.4	131.2	149.0	
P/E (x)	49.3	40.0	34.3	30.2	
AUM /share (₹)	28,335.2	37,664.1	43,570.0	50,445.7	
P/AUM (%)	15.9	11.9	10.3	8.9	
RoE (%)	29.5	33.5	35.9	37.2	

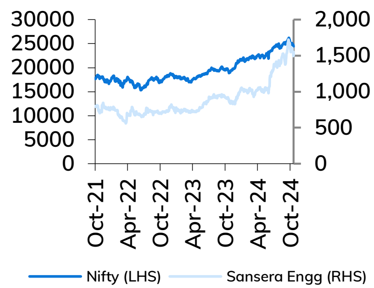
Price Charts

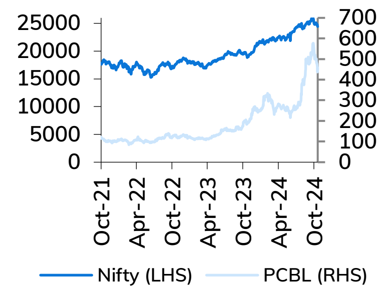


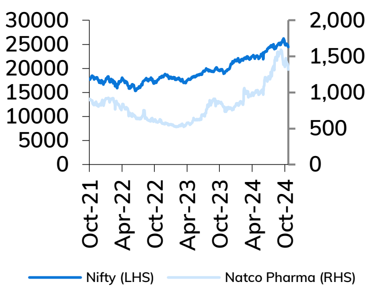












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