DIWALI PICKS

SAMVAT 2081

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Samvat 2080 was a good year for the investors. During Samvat 2080, the Indian stock markets made record highs, with Sensex surging over 14,806 points or nearly 22.7%. The NSE Nifty 50 also jumped 4,874 points or nearly 25% during the past year. Both the indices saw their best Samvat after 4 years.

The economic situation also looks promising with buoyed consumer sentiment and good macro-economic indicators. GST Collection, export numbers, PMI Data etc represents positive sentiment.

Interest rate cuts are expected to boost earnings growth. In September 2024, the U.S. Fed lowered rates by 0.50%, and the Reserve Bank of India (RBI) is likely to follow the suit with current rates being at 6.50%. Historically, markets do well during Fed rate cuts unless there's a major crisis. The European Central Bank (ECB) has also lowered rates by 0.75% this year, now at 3.25%.

The Indian economy is holding strong, with real GDP growth estimated at 7.2% for FY25. Urban spending is stable, and rural spending is starting to recover, supporting the growth outlook. However, the RBI Governor noted that Q2FY25 GDP might be around 7% from earlier 7.2%, but H2FY25 is expected to be better due to increased investment activity.

With the recent correction in the market from its all-time high the Nifty is trading at a PE of 19.41x one-year forward earnings, a level that is in line with historical averages, which tells us that valuations are not that expensive.

As we step in Samvat 2081, the market is expected to stay stable but may see some ups and downs because of state elections in India and ongoing global issues, especially the conflict in the Middle East, which could affect supply chains. The results of the U.S. elections are also a factor. Earnings trajectory is also something that will be keenly watched. Despite these challenges, the overall market outlook is still positive.

DIWALI PICK

HDFC Bank Ltd (Mcap: Rs 13,32,181 crore)

CMP: Rs 1745.8 **TARGET: Rs 1954** **UPSIDE: 12%**

Investment Thesis:

- Recently the Q2FY25 earnings were out, growth & quality in terms of asset both has stood out for HDFC Bank when we compare two peers like Kotak Mahindra Bank as well as Axis Bank. It's a clear review that stress in the system is building up for others when the going is good for HDFC Bank.
- HDFC Bank saw the best growth rate on YoY basis with respect to ex-treasury operating profit at 12% while peers seeing at 9.5%-10%.
- The Net Interest Margin (NIMs) was seen declining across lenders but NIMs decline for HDFC Bank is the lowest at 1bps while peers saw a decline of 6bps & 11bps.
- HDFC Bank took the pain of not growing the unsecured book in the last few quarters i.e. from Q3FY24 to Q1FY25 and now in Q2FY25 they saw the growth returning for them in the unsecured portfolio. Peers while they grew between Q3FY24 to Q1FY25, they are now facing the headwinds with the stress that is being build up in their balance sheet.
- Axis Bank & Kotak Bank saw most of the slippages in Q2FY25 coming from these unsecured segments while the slippage ratio for HDFC Bank continues to be the lowest among peers at 1.25% for Q2FY25.
- So despite the slower loan growth that HDFC Bank had sequentially of about 1%-1.5% compared to peers who had better growth, the asset quality of HDFC Bank didn't deteriorate much and it remained largely stable.
- Given the steady performance in the challenging environment, marked by stable margins and improvement in asset quality, we believe that the Bank is poised to report gradual recovery in loan growth.

NII (Rs. Cr)		PAT (Rs. Cr)		EPS (Rs. Cr)		P/E (x)	P/BV (x)	3Y CAGR (%)				52-Week	
FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY24	NII	PAT	Stock Price	RoE	High	Low
1,08,532	86,842	60,812	44,109	78.9	80.0	17.9	2.5	26	26	2	17	1,791.90	1,363.45

DIWALI PICK

Syngene International Ltd (Mcap: Rs 35,141 crore)

CMP: Rs 873 **TARGET: Rs 1150** **UPSIDE: 32%**

Investment Thesis:

- Syngene is a contract research, development, and manufacturing services company offering a broad range of scientific services from the earliest stages of discovery to commercial supplies. This positions Syngene as an end-to-end service provider within its sector.

- The global contract development and manufacturing organization (CDMO) market comprising small and large molecules was valued at USD 82bn in 2023 and is expected to grow at a CAGR of 14% to reach a market size of USD 208bn in 2030. Like the Contract Research Organisation (CRO) market, the growth in CDMO activity has increased driven by the increased outsourcing.

- Given its ability to offer end-to-end services to customers right from discovery to commercial manufacturing, we expect Syngene to be the largest beneficiary of China+1 strategy.

- Syngene's performance in Q2 & H1FY25 was broadly flat, in line with management's expectation as they see signs of recovery in Discovery Services, largely driven by collaborations on pilot projects with large and mid-sized biopharma clients looking for alternatives to China to rebalance their supply chains.

- As per management, they are seeing healthy interest from clients in biologics. Syngene has proven capabilities in biologics and additional manufacturing capacity coming online in H2FY25.

- With a strong Q3FY25 already underway, management expect to see a positive change in revenue trajectory and remain on track to deliver within guidance range for FY25 which stands at high single digits to low double digits revenue growth for FY25.

- With recent investments in the research and CDMO businesses, Syngene is in a good position to leverage opportunities to drive medium to long-term growth.

Sales (Rs. Cr)		PAT (Rs. Cr)		EPS (Rs. Cr)		P/E (x)	P/BV (x)	3Y CAGR (%)				52-Week	
FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY24	Sales	PAT	Stock Price	RoE	High	Low
3,489	3,193	510	464	12.7	10.8	55.4	7.3	17	11	17	13	945.75	608.00

DIWALI PICK

SPICEJET Ltd (Mcap: Rs 7,288 crore)

CMP: Rs 56.87 **TARGET: Rs 82** **UPSIDE: 44%**

Investment Thesis:

- SpiceJet is India's favourite airline that has made flying affordable for more Indians than ever before. It is one of the country's largest regional players operating multiply daily flights under UDAN or the Regional Connectivity Scheme. The majority of the airline's fleet offers SpiceMax, the most spacious economy-class seating in India.

- Recently, the company completed its Rs 3,000 crore Qualified Institutional Placement (QIP) attracting investors Goldman Sachs, Morgan Stanley and some of the family offices as well which augurs well. Apart from this, the company will also receive an additional Rs 736 crore from the previous funding round, which will boost its financial stability and growth plans along with settling past dues as well.

- SpiceJet has strong fundamentals but faced major setbacks due to unexpected events: the global grounding of the Boeing 737 Max and the COVID-19 pandemic.

- With this new funding, the company aims to improve its operations, upgrade its fleet, and expand their network to meet the increasing passenger demand. SpiceJet plans to quickly bring back its 36 grounded aircraft, which are currently out of service due to lack of spare parts.

- Management is confident that by March 2025, the airline will have a fleet of 40, or equivalent to what Akasa Air will have, and then add another 40 in the next year. The airline also plans to take planes on short-term wet leases during period of strong demand.

- With well-defined strategy to turnaround and ramp up by focusing on ungrounding and expansion of fleets, enhancing its presence in highly profitable roots, considering wide body operations in future for Asia Europe connectivity, focusing on Cargo business as it has high potential for growth, margins & returns etc. we believe that that SpiceJet will only fly higher from here onwards.

Sales (Rs. Cr)		PAT (Rs. Cr)		EPS (Rs. Cr)		P/E (x)	P/BV (x)	3Y CAGR (%)				52-Week	
FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY24	Sales	PAT	Stock Price	RoE	High	Low
7,085	8,874	-423	-1,513	-2.2	-33.1	NA	NA	11	17	-7	NA	79.90	34.00

DIWALI PICK

Genesys International Ltd (Mcap: Rs 2,693 crore)

CMP: Rs 679.90 **TARGET: Rs 920** **UPSIDE: 35%**

Investment Thesis:

- Genesys International is a premier advanced mapping company. It has unique expertise, encompassing an understanding of emerging consumer applications related to mapping technology and the capability to provide cutting-edge solutions on the enterprise and government markets.

- India's geospatial market is poised for significant growth, driven by the government's progressive policies, increased adoption of geospatial technology across sectors and a vibrant startup ecosystem. As per Mordor Intelligence, the Indian geospatial analytics market is estimated to grow from USD 1.21 billion in the current year to USD 2.42 billion by 2029, at a CAGR of 14.82%.

- Recently, the company announced a strategic partnership with NNG, a leading Automotive navigation and connected car technology solutions provider. NNG's technology is embedded in more than 30 million vehicles globally, collaborating with 34 prestigious automotive manufacturers, including Lamborghini, Ferrari, Ford, Mazda, Jaguar Land Rover, Harley Davidson, McLaren, and Porsche among others.

- The company had also bagged a new deal with BMC (Rs 155.85 crore) and the contract won is almost 80% of FY24 revenue and it really shows about the power of the platform that Genesys is building i.e. India's first National Urban Digital Twin. We expect this to be game changer as several cities are adopting the same.

- The investments that Genesys has been making in the last couple of years in terms of the platform and the product, we see the impact from the coming year onwards and from H2FY25 we may see further traction.

- The geospatial space in one way is really opening up in the country for the first time post the policy which liberalise the sector. It is equal to how telecom policy was earlier where we shifted from a landline to the mobile space and look at how mobile telephone has increased in terms of adoption and we believe we will see something similar in geospatial space.

Sales (Rs. Cr)		PAT (Rs. Cr)		EPS (Rs. Cr)		P/E (x)	P/BV (x)	3Y CAGR (%)				52-Week	
FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY24	Sales	PAT	Stock Price	RoE	High	Low
198	181	22	19	5.6	5.1	99.0	5.8	36	47	43	5	855.50	299.00

DIWALI PICK

JNK India Ltd (Mcap: Rs 3,493 crore)

CMP: Rs 628 | **TARGET: Rs 862** | **UPSIDE: 37%**

Investment Thesis:

- JNK India Limited is a leading player in the industrial heating equipment market, specialising in the design, manufacturing, and installation of process-fired heaters, reformers, and cracking furnaces. These products are integral to key sectors such as oil and gas refineries, petrochemical complexes, and the fertiliser industry.

- The heating equipment industry is critical for the operations of refineries, petrochemical plants and fertiliser manufacturing units. Between FY24 and FY29, India's demand for heating equipment is projected to be approximately Rs 27,089 crore, with significant contributions from the petrochemical (61%) and refinery (37%) sector.

- JNK's business model is centred on offering end-to-end heating solutions which include thermal design and detailed engineering to manufacturing, installation and commissioning of process fired heaters, reformers and cracking furnaces. Over the years, the product range has expanded into flares and incinerators as well. Additionally, the company is developing capabilities in hydrogen, renewable energy systems as well.

- JNK India was also successful in securing significant new orders from industry leaders such as Reliance Industries and Indian Oil Corporation, and also for the new product lines. The company's commitment to innovation is evident in its continuous endeavour in research and development.

- Geographically, 91% of current order book is driven by the Indian customer requirement and 9% orders coming from the international markets. Product-wise, heating equipment amounts to 95% of current order book and 5% from the waste gas handling equipments like flares and incinerators. End-user-wise, the petrochemicals sector currently contributes almost 55% of order book, followed by the refining at 33% and the steel at 12%.

- Looking ahead, the management remains optimistic about the upcoming quarters. Their order book is strong at Rs 1,246.1 crore, and they well positioned to leverage growth opportunities within the industries JNK India caters to.

Sales (Rs. Cr)		PAT (Rs. Cr)		EPS (Rs. Cr)		P/E (x)	P/BV (x)	3Y CAGR (%)				52-Week	
FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY24	Sales	PAT	Stock Price	RoE	High	Low
480	407	63	47	12.9	8.3	NA	NA	52	56	NA	47	895.40	550.00

DIWALI PICK

Reliance Industries Ltd (Mcap: Rs 17,97,302 crore)

CMP: Rs 2656.30 **TARGET: Rs 3040** **UPSIDE: 14%**

Investment Thesis:

- Reliance Industries reported a steady set of earnings in Q2FY25 with consolidated profit more than Rs 16,500 crore, revenue at Rs 2.32 lakh crore and EBITDA Margin at nearly 17%.
- B2B and store rationalization in retail with respect to margin focus will continue over H2FY25 and growth recovery will comeback in FY26.
- Coming to Oil to Chemicals profitability because of subdued demand something that we have been seeing across the industry, the EBITDA can remain under pressure but the sharp correction that we have seen in the stock price is a good opportunity to buy.
- The capex intensity and the debt rose on a QoQ basis in Q2FY25, we did see cyclical challenges in retail business but that should unwind in 2025. Even the refining business which has the highest free cash flow should unwind in 2025 and improvement should be seen from 2026 onwards. This will reverse the estimated downward cycle for for these two business going forward.
- The longer term outlook remains constructive as the consumer facing business will be the reason why there will be a recovery and the new energy business, they have given definite timeline that by the end of 2024 one phase will start and that is something which will meaningfully add and will be the key trigger in the coming years.
- Reliance has announced a 1:1 bonus issue, meaning shareholders will receive one additional share for every share they own. The company will fund these bonus shares from its reserves, showing its strong financial position and dedication to benefiting shareholders. This bonus is expected to attract more investor interest, especially as Reliance boosts its retail segment in time for Diwali.
- Reliance Industries has a strong track record of building resilient businesses and is well positioned to create wealth, particularly with growth potential in telecom, retail and oil verticals.

Sales (Rs. Cr)		PAT (Rs. Cr)		EPS (Rs. Cr)		P/E (x)	P/BV (x)	3Y CAGR (%)				52-Week	
FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY24	Sales	PAT	Stock Price	RoE	High	Low
899,041	876,396	79,020	74,088	102.9	98.6	24.8	2.7	24	16	4	9	3,217.90	2,221.05

DIWALI PICK

TVS Supply Chain Solutions Ltd (Mcap: Rs 7,800 crore)

CMP: Rs 177.05 **TARGET: Rs 218** **UPSIDE: 23%**

Investment Thesis:

- Promoted by the erstwhile TVS Group and now part of TVS Mobility Group, TVS Supply Chain Solutions is an India-based multinational company, who pioneered the development of the supply chain solutions market in India.

- For Q1FY25, the revenue stood at Rs 2,539.4 crore as compared to Rs 2,288.9 crore in Q1FY24 reflecting 10.9% growth on a YoY basis. Continued growth momentum in integrated supply chain solutions (ISCS) segment and improved macro- economic situation in network solutions (NS) segment helped achieve this topline growth.

- The ISCS segment continues to lead company's performance supported by significant volume improvements in the NS segment. Customers recognize their supply chain transformation capabilities, tech-led solutions and the ability to deploy AI-driven solutions resulting in participation in more large deals.

- We see a significant growth opportunity in India post the budget announcement, which has provided a strong impetus for the manufacturing sector. This development is expected to open up more outsourcing opportunities for supply chain player like TVS Supply Chain.

- Investments in process automation and productivity have helped improve operating margins for the company. Good debt management is something the management is focusing on, which has actually led to increased PBT for the last four quarters. With a strong order pipeline and a focus on efficiency, we are confident that TVS Supply will maintain this growth in the coming quarters.

- During Q1FY25, the company made significant strides by securing key new business wins, including partnerships with global OEMs in the commercial vehicle sector in both India and Singapore which will result in further improvement in company's topline performance. They have also secured order from JCB for In-Plant logistics at Vododra for three years.

- Given its robust business model, TVS Supply Chain remains on a strong footing over peers.

Sales (Rs. Cr)		PAT (Rs. Cr)		EPS (Rs. Cr)		P/E (x)	P/BV (x)	3Y CAGR (%)				52-Week	
FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY24	Sales	PAT	Stock Price	RoE	High	Low
9,200	9,994	-90	42	-2.3	1.1	NA	4.3	10	7	NA	-9	223.85	145.40

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