ICICI Direct Top Picks

Global, domestic markets have recovered meaningfully post the interim low in September 2022 end primarily driven by easing inflation & consequent moderation in pace of interest hikes by central banks. Growth oriented Union Budget 2023-24 amid no major tweaks in the capital gain tax regime also kept domestic markets buoyant. The government proposes to spend a record ₹ 10 lakh crore (3.3% of GDP) as capex in FY24E (up 33% YoY) with tangible multiplier effect, which could potentially drive broad based economic growth. Encouragingly, the government ensured that growth capex was bundled with path of fiscal consolidation. On the earnings side, Nifty EPS for the quarter came in at ₹ 205/share, an outperformance of ~5% vs. our expectations. It was up 11% QoQ, 8% YoY. Outperformance was witnessed across the auto, capital goods, FMCG and pharmaceuticals space while the metals and oil & gas space underperformed. Management commentary was more upbeat on domestic demand vs. exports given the global macroeconomic uncertainty. With progressive Union Budget, capex cycle revival and healthy credit growth & asset quality in banking space, we retain our positive stance on domestic markets. We believe any dips should be used to build a long term portfolio of quality companies that have lean balance sheets, are capital efficient in nature and possess growth longevity. We are positive on sectors like Capital goods, Auto, Infrastructure and Banks.

Revised Sensex & Nifty Target (Rolling 12 Months')

Earning Estimates	FY21	FY22	FY23E	FY24E	FY25E
Nifty EPS (₹/share)	515	720	800	950	1090
Growth (% YoY)	17.1%	39.7%	11.1%	18.7%	14.7%
Earnings CAGR over FY22-25E					14.8%
Average FY24-25E EPS					1,020
PE Multiple					21x
Nifty Target (using FY24-25E average EPS)					21,500
Corresponding Sensex Target					71,600

Ambuja Cement (CMP: ₹ 362, TP: ₹ 500)

Ambuja Cement (Now Adani group conglomerate) is one of India's largest cement player with capacity of 31.5 MT spread across North (35%), South (24%), West (~20%), East (~21%) in India. The new management plans to increase consolidated capacity (including ACC capacity of 36.1 MT) to ~140MT in next 5 years (ie. at 16% CAGR). Over the past five years, the company has lost its market share to other large players with no major new capacities coming in place during this period. With the aggressive new promoter, we now expect volume growth to get ramped up, going ahead. Also, the group's exposure into energy and logistics will help them to improve cost dynamics and gain supply chain efficiencies. Overall, as per our rough estimates, we expect cost savings of ₹ 300-350/tonne from the current run rate. Company continues to have a strong balance sheet having debt free status.

Aditya Birla Fashion & Retail (CMP: ₹ 235, TP: ₹ 340)

ABFRL combines Madura's portfolio of leading power brands (Allen Solly, Van Heusen, Louis Philippe and Peter England: 3200+ stores) with Pantaloons' forte of being the largest value fashion retailer (400+ stores). ABFRL has charted out growth strategies to become a ~US$2.8 billion entity (₹ 21000 crore) by FY26E, translating to 15% CAGR in FY20-26E. Multiple strategic initiatives like entry into footwear by acquiring Reebok's India operations, launch of premium menswear ethnic brand Tasva and setting up a separate platform to build a portfolio of D2C brands to add value over the medium to long term. ABFRL has strengthened its balance sheet through recent equity infusion with net debt declining sharply from ₹ 2500 crore (in FY20) to ~₹ 340 crore. ABFRL with strong bouquet of brands is well placed to accelerate the pace of store addition and revenue growth.

Adani Ports (CMP - ₹ 612; Target Price - ₹ 800)

Adani Ports and Special Economic Zone (APSEZ) is the largest commercial port operator in India with 25% share of port cargo movement in India. APSEZ has embarked on becoming India's largest integrated transport utility company by 2030 and is strengthening its capabilities in all logistics segments (ports, CTO, warehousing, last mile delivery, ICDs, etc). Hence, it will be able to offer end to end service to its customers thereby capturing higher wallet share and also making the cargo sticky in nature. Further DFC connectivity to Mundra is expected to provide faster port evacuation, quicker transit time and would enable higher volume generation (due to modal shift from road to rail) for APSEZ. Adani Ports is backed by strong FCF (5.3% FY24 FCF yield at CMP 612) generating assets (14 ports, 81 trains, 9 MMLPs, 1.4 million sq ft warehousing, 620 kms of rail tracks etc) with a 15%+ RoCE. Further it has a comfortable Debt/Equity ratio close to 1. We have valued APSEZ on SOTP basis with a target price of ₹ 800

IDFC First Bank (CMP- ₹ 56, Target Price: ₹ 70)

IDFC First Bank has been delivering well on its guidance across parameters. The bank is well ahead of its target with retail/commercial book at Rs 1.1 lakh crore (~75% of funded asset) and CASA deposits at ~51.3% (earlier target of 30%). With balance sheet restructuring largely done, pedalling growth with entry in new segment (digital, gold, personal loans and credit cards) is in focus. Rising retail mix, focus towards high yield segment and replacement of high cost borrowings with relatively lower cost deposits to enable steady margin at ~6%. Improvement in GNPA at 3.18% coupled with adequate provision buffer on legacy infrastructure exposure provides confidence on credit cost remaining at ~1.5-1.7% in FY23-24E. However, key variable to drive further improvement in return ratios is improvement in CI ratio from current 73.3% to targeted 55% in FY25E. Thus, strong retail execution, steady credit cost and improving efficiency should drive RoE at 10-12% in FY24-25E and thus valuation.

HDFC Bank (CMP – ₹1598, Target – ₹ 1920)

HDFC Bank's focus on building of physical and digital capabilities is expected to aid customer acquisition and business growth ahead. Thus, we expect advance growth at 18% CAGR in FY24-25E. Diversified asset mix, healthy liabilities franchise (CASA at 44%), relatively superior efficiency (CI ratio below 40%) and prudent under-writing is seen to keep RoA strong at ~2% ahead. Merger with parent (HDFC Ltd), expected to get complete in Q1FY24, to induce long term benefit; however, liabilities accretion should remain in focus in medium term. At current price, stock is available at 2.4x FY25E ABV which remains attractive. Near term volatility in stock price owing to uncertainty related to regulatory approvals offers investment opportunity.

Hindustan Aeronautics (CMP: ₹ 2680, TP: ₹ 3300)

Order backlog at ~₹ 84000 crore (3.2x TTM revenues) gives strong revenue visibility. Deliveries of Tejas MK1A will start from FY24E end which will give a major boost to earnings from FY25E onwards. Moreover, about ₹ 55000 crore worth of contracts are in pipeline as per the management, which are expected in the next 1-1.5 years. This include large scale orders in Helicopters (LCH, LUH and ALH), transport aircrafts, unmanned ariel vehicles, aircraft engines etc. Tejas MK2 prototype is also expected this year which will also be a large scale contract for HAL considering the IAF's requirement of 6 squadrons in medium weight fighters. Overall, HAL looks well placed in terms of rising indigenisation, pick-up in execution and strong visibility of order inflows.

KSB (CMP: ₹ 1939, TP: ₹ 2390)

KSB is well placed to benefit from the growing demand for pumps and valves in major sectors like industrials, oil & gas, energy, construction, water and wastewater. The company continues to focus on expanding the product offerings and identifying emerging opportunities in Railways (Vande Bharat & Freight locomotives). Acquisition of technology from Bharat Pumps and Compressors would help KSB to increase its share of services & spares revenue in the coming period. Revenue is expected to grow ~18% CAGR over CY22-24E led by strong demand for standard pumps in Industrials segment with timely execution of NPCIL orders. With positive operating leverage expected to kick-in, EBITDA and PAT expected to grow at 22.1% and 21.6% CAGR over the same period.

Action Construction (CMP: ₹ 362, TP: ₹ 435)

ACE continues to tread on its growth path led by strong demand for its products like cranes, construction equipments and material handling equipments. Management’s guidance remains strong at 15-20% growth in revenues for the next 2 years with improvement in margin levels led by softening commodity prices, positive operating leverage and backward integration. With expansion in capacities in crane & material handling segment, expanding product portfolio in electric cranes, increasing focus on exports, we believe that the company stands strong in capturing the growth from broad uptick in private capex.

Techno Electric & Engineering – (CMP ₹ 317, Target ₹ 500)

Techno Electric Engineering Company (TEEC) is one of the leading power-infrastructure companies engaged in three primary business segments; EPC (construction), renewable power generation (wind power) and public-private partnership (PPP) projects in transmission & distribution (T&D). EPC Business: Contributed ~92% to FY22 revenue, generated excellent RoCE of 50-75% over the past five years. PPP projects business: It is present in BOOT/BOOM transmission projects in PPP mode. Entry into data centre, smart meters and FGD market and becoming significant EPC player that improves revenue visibility over the next few years. Company has healthy balance sheet and cash balance of ₹ 1200 crore. Recently company sold its wind power assets, it is in line with the company's strategy to exit from non-core businesses and keep focusing on expanding their international presence and becoming a significant EPC player. Current order book is at ₹ 4000 crores and For FY24, the management indicated ₹ 5000 crore order bids pipeline and expects order momentum to continue across FGD, T&D and smart metering. The company expects to bag another ₹ 1000 crore order in Q4YF23E that gives medium term revenue visibility. We expect revenue, EBITDA to grow at CAGR of ~39.8%, 13.1%, respectively, in FY23-25E, and value TEEC at ₹ 500 i.e. 19x PE on FY25E.

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