BAJAJ BROKING

Pre-Budget 2025

Expectations & Investment Ideas

21 JAN 2024

The Union Budget, set to be announced on February 1, will play a crucial role in shaping investor sentiment amidst a slowdown in domestic economic growth and rising global uncertainty. This vital financial blueprint will be closely scrutinized for its policies aimed at driving economic growth and addressing current challenges. Its focus on fostering long-term development will be instrumental in influencing the outlook of both domestic and international investors.

Major wish list from Budget 2025:

- We anticipate that capital expenditure (capex) will see an increase, with a particular emphasis on key infrastructure sectors such as roads and highways, railways, and defence. This growth in capex is expected to be supported by a higher transfer of interest-free loans and capex to states, which should further drive development at the regional level. In addition, we foresee some adjustments in income tax policies for middle-class households, which could provide a boost to disposable incomes, thereby encouraging greater discretionary consumption across the economy.

- On the welfare front, we expect that government spending, as a percentage of GDP, on welfare schemes will largely stabilize, reflecting a balanced approach to social expenditure. However, we do anticipate an increase in allocations aimed at driving job creation and enhancing skills development. This is expected to help support the labour market and improve employability. Furthermore, the government is likely to expand the scope of the Production-Linked Incentive (PLI) scheme to include new sectors, which would be a strategic move to further boost manufacturing and support economic growth. These and other policy measures are expected to play a vital role in steering the economy towards sustainable growth in the coming years.

- Union Budget 2025 should ideally continue the trajectory of simplifying and rationalizing taxes on capital market products. For instance, long-term capital gains tax was rationalized at 12.5% in Budget 2024 and can be reduced further by 50—200 basis points to benefit investors . Likewise, reducing Securities Transaction Tax (STT) and simplifying provisions for Alternative Investment Funds (AIFs) will foster institutional investments, enhance market liquidity, and encourage foreign portfolio participation. Continuing in the same vein, simplifying tax rules for financial instruments, such as bonds, stocks, and derivatives, as well as for FPIs, would remove complexities and enhance the market's attractiveness.

- We expect the upcoming budget to allocate significant resources to certain key sectors. Accordingly, we have identified stocks from these sectors that demonstrate strong fundamentals and robust technical indicators, making them promising investment opportunities.

Pre Budget Stock Picks 2025 — Time horizon - 12 month

Sector	Stock	Recommended Price	Target	Upside
Hotels & Restaurants	Park Hotel	190-200	235	21%
Defence	DCX Systems	355-380	449	24%
Water Management	Ion Exchange	615-670	780	23%

Source – Bloomberg/ Bajaj Broking Research/ BSE/IMF

Key changes expected in Budget 2025

Banking

In the banking sector, no favorable treatment for deposits is expected, though select public sector banks and insurance companies may receive capital infusion. The cement and metal industries are expected to center around capital expenditure plans and housing development initiatives. Additionally, potential adjustments to import duties may be introduced to reduce reliance on imports and support domestic production.

INFRASTRUCTURE

In the infrastructure sector, capital expenditure allocations for key ministries like Railways and Roads will be closely monitored, especially amid a slowdown in government spending. Announcements of large-scale projects, such as additional Dedicated Freight Corridors, would be positive developments.

AUTO SECTOR

The auto sector is likely to benefit from allocations under the PM E-Drive and Auto PLI Policy, encouraging localization of electric vehicle components. Tax cuts or increased funding for rural schemes like MGNREGA could support the sector further, along with potential enhancements in tax breaks for housing loan interest and increased allocations for housing.

PHARMA AND HEALTHCARE

The pharmaceutical and healthcare industries could receive enhanced support for research and development through tax deductions and PLI schemes, especially for anti-diabetic and weight-loss medications. Funding for Ayushman Bharat and institutions like AIIMS may see a moderate increase.

DEFENCE

The defence sector is expected to emphasize initiatives boosting defence exports and accelerating domestic defence procurement, in addition to capital allocations. The power sector will likely maintain its green energy momentum with further support for renewable initiatives across the value chain.

CONSUMER SECTOR

The consumer sector might see a mid-to-high single-digit increase in cigarette taxes, along with higher budgetary allocations for schemes like PM Awas Yojana and other consumption-driven initiatives. Tax relief measures could be introduced to support lower- and middle-class consumers, but the increased customs duty on gold is unlikely to be reversed.

NBFC

For non-banking financial companies (NBFCs), a reduction in the loan limit for enforcing the SARFAESI Act from ₹2 million to ₹1 million is anticipated. Additionally, credit guarantee schemes for the microfinance sector, similar to those available for SMEs, may be introduced. In the insurance sector, there are no expected changes in tax rates on products or corporate profit tax rates, and the GST is expected to remain unchanged as governed by the GST Council.

OIL AND GAS

For the oil and gas sector, a key focus will be on compensating LPG under-recoveries, particularly after no relief was provided in FY24 despite ₹22,000 crore compensation in FY23. Indian Oil Corporation Limited (IOCL) could be a significant beneficiary. While no major announcements are expected for the natural gas sector, long-term goals related to the country's energy mix remain a priority.

Source – Bloomberg/ Bajaj Broking Research/ BSE/IMF

Stock Recommendation

Company Overview

Company operates in the hospitality sector, known for its upscale hotels and diverse food and beverage (F&B) offerings. It manages hotels across owned, leased, and managed models under five upscale and upper mid-scale brands. The company also has a strong presence in F&B and entertainment, with restaurants, nightclubs, and bars, and operates the retail F&B brand 'Flurys,' offering kiosks, cafes, and restaurants.

Investment Rationale

After facing significant disruptions during Covid-19, the hospitality sector rebounded strongly in FY24, returning to its pre-pandemic growth trajectory. The recovery was driven by a surge in domestic and corporate travel, increased spending on MICE and weddings, along with a steady rise in foreign tourist arrivals.

Diversified Presence Across India: Park Hotels operates 34 properties with a total of 2,410 keys, including owned, leased, and managed hotels across metros and emerging cities under five distinct brands. The company has outlined an ambitious expansion plan for the coming years.

Strong Operational Performance: The company consistently outperforms peers in occupancy rates, average room rates (ARR), and Revenue per available room. Its strategic focus on optimizing occupancy and revenue metrics ensures competitiveness, a robust financial and operational track record, and high returns on capital employed. Flurys, company's retail food and beverage brand, operates on an asset-light, scalable, and diversified model. Its store count has grown from 19 in FY17 to 95 as of November 2024. The management aims to expand further, targeting 120 stores by FY25 and adding 40 stores annually thereafter.

Particulars (in Mn)	H1FY25	FY24	FY23	FY22
Revenue from Operations	2665.2	5552.9	5061.3	2550.2
% Growth		*10%*	*98%*	-
EBITDA	771.2	1853.1	1588	454.83
% Growth		*17%*	*249%*	-
EBITDA Margins (%)	*29%*	*33%*	*31%*	*18%*
PAT	256.6	657.8	174.05	-135.87
EPS	1.2	3.65	2.75	-1.61

Apeejay Surrendra Park Hotels Ltd

Buying range	:	Rs 190-200
Target	:	Rs 235
Upside	:	21%
Market Cap	:	42004.9M
Time Horizon	:	12 Months

Technical view

- The share price of Park Hotel is at the cusp of breakout above recent consolidation range after base formation above the recent trendline breakout area and 20 weeks EMA thus offers fresh entry opportunity.
- We expect the stock to head towards 235 levels in the coming year being the confluence of the previous all time high and measuring implication of the recent range (206-176).

Source – Bloomberg/ Bajaj Broking Research/ BSE/IMF

Stock Recommendation

Company Overview

DCX Systems Limited is a prominent player in the Defense and Aerospace industry, providing end-to-end solutions including cable & wire harnesses, electronic sub-systems, high-end System Integration, and PCB Assembly. Company has a diverse mix of domestic and international customers across Israel, the USA, Korea and India.

Q2FY25 Result Overview

In Q2 FY25, DCX Systems reported a revenue of ₹1,956.2 million, reflecting a 36% decline compared to ₹3,091.2 million in the same quarter of the previous year. The company's EBIT for the quarter stood at ₹129 million, down from ₹301.6 million in Q2 FY24. The EBIT margin was 6.59%, compared to 9.76% in the corresponding quarter of the previous fiscal year.
The PAT for the quarter was ₹52.2 million, compared to ₹198.5 million reported in the same quarter of the previous year. A significant achievement during Q2 FY25 was the reduction of net debt to ₹691.6 million, a substantial decrease from ₹4,339.6 million in the same quarter of the previous year.

Key Highlights

- Order Book: The consolidated order book exceeds ₹30,000 million.
- ELTA Systems: Received ₹1,540 million order for RF electronic modules.
- Lockheed Martin: Secured ₹4,600 million order for electronic assemblies.
- Additional Orders: ₹1,170 million in orders for cable and wire harness assemblies.
- Industrial License: Raneal Advanced Systems obtained a license to manufacture microwave submodules for classified defense products.
- Purchase Order: Raneal secured a ₹3,790 million order from Lockheed Martin for electronic assemblies.

Particulars (in Mn)	H1FY25	FY24	FY23	FY22
Revenue from Operations	3337	14240	12540	11020
% Growth		*14%*	*14%*	*-*
EBITDA	-86	800	840	670
% Growth		*-5%*	*25%*	*-*
EBITDA Margins (%)	*-3%*	*6%*	*7%*	*6%*
PAT	82	760	720	660
EPS	0.73	6.8	7.41	8.48

DCX System

Buying range		Rs 355-380
Target	:	Rs 449
Upside	:	24%
Market Cap	:	39876.3M
Time Horizon	:	12 Months

Technical view

- The share price of DCX India is at the cusp of breaking above last 14 months range 390-280 signaling strength and continuation of the overall up trend.

- We expect the stock to head towards 449 levels in the coming quarters being the confluence of the previous major high and rising trendline resistance joining previous major highs.

Source – Bloomberg/ Bajaj Broking Research/ BSE/IMF

Stock Recommendation

Company Overview

Ion Exchange (India) offers comprehensive solutions across the entire water cycle, including pre-treatment, process water treatment, wastewater treatment, recycling, zero liquid discharge, sewage treatment, packaged drinking water, and seawater desalination.

Q2FY25 Result Overview

The company recorded an operating income of ₹6,445 million, reflecting a year-on-year growth of approximately 21%. EBITDA stood at ₹682 million, marking a 13% increase compared to the previous year, with an EBITDA margin of 10.58%. Net profit was ₹506 million, up 19% year-on-year, and the PAT margin was approximately 7.85%.

In H1FY25, the company achieved an operating income of INR 12,120 million, reflecting an approximate 20% year-on-year increase. The reported EBITDA was INR 1,326 million, marking a roughly 21% rise year-on-year. The EBITDA margin stood at 10.94%, and the net profit reached INR 954 million, representing an approximate 26% increase year-on-year, with the PAT margin around 7.87%.

Key Highlights

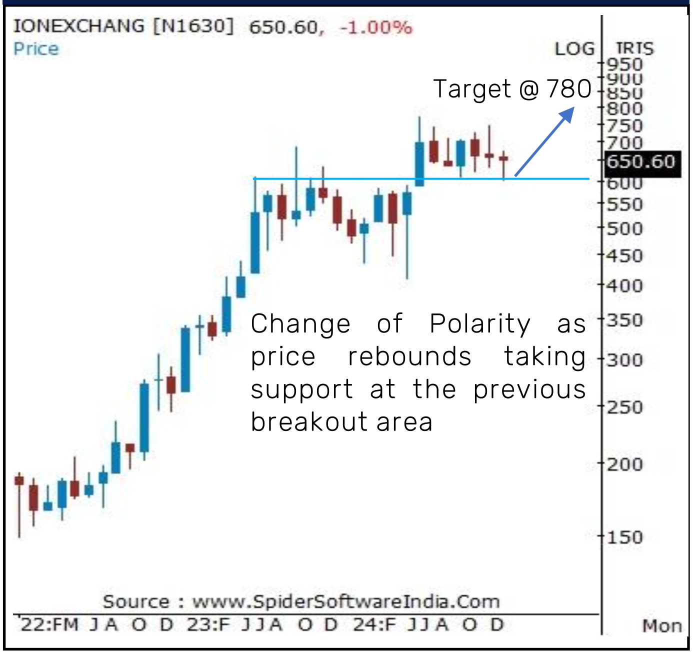
- The company is performing well across its divisions, with the Engineering Division securing large EPC contracts and a ₹35,800 million order book at Q2's end. The Chemical Division is nearing completion of the Roha plant expansion, set for commercial production in Q1 FY26. The Consumer Products Division faces margin pressure from infrastructure investments, but growth is expected from better market penetration. Capacity utilization stands at 65-70%, with plans to optimize profitability through product mix adjustments.

Particulars (in Mn)	H1FY25	FY24	FY23	FY22
Revenue from Operations	12120	23480	19990	15770
% Growth		*17%*	*27%*	-
EBITDA	1320	2750	2580	2160
% Growth		*7%*	*19%*	-
EBITDA Margins (%)	*11%*	*12%*	*13%*	*14%*
PAT	850	1950	1950	1620
EPS	6.54	13.37	13.37	11.1

Ion Exchange (India)

Buying range	:	Rs 615-660
Target	:	Rs 780
Upside	:	23%
Market Cap	:	94636.6M
Time Horizon	:	12 Months

Technical view



- The stock is in strong up trend forming higher high and higher low in the long-term chart. It has recently rebounded taking support at the previous breakout area signaling a change of Polarity
- We expect the stock to head towards 780 levels in the coming year being the 123.6% external retracement of the last decline (755-599).

Source – Bloomberg/ Bajaj Broking Research/ BSE/IMF

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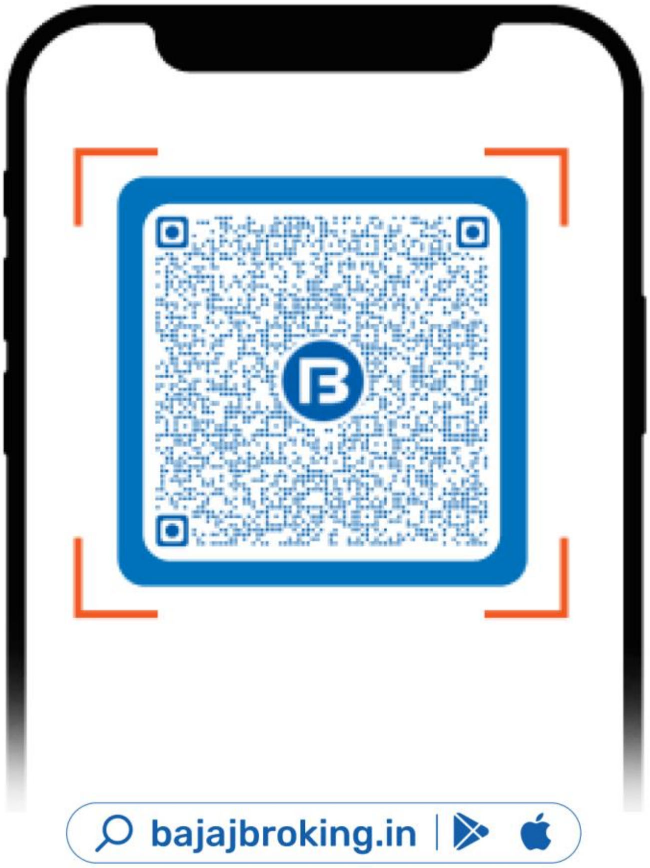

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