MARKET OUTLOOK & TOP PICKS CY - 2024

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Market Outlook CY 2024

Year that was…..

Benchmark Indices in India in CY 2023 gained for the 8th year in row, as BSE Sensex crossed above 71000 and the Nifty passed 21,000 for the first time. Year-to-date, both indexes have seen a noteworthy 18% increase. Interestingly, Broader market in the last year outperform the benchmark indices as the Nifty Midcap Index and Smallcap Index closed higher by 44% and 53%, respectively. Given the geopolitical concerns of the Russia-Ukraine war, the Israel-Hamas conflict, peak global inflation, rising Oil prices, the highest US 10-year yield, and a slowdown in spending, this upward trend in the Indian markets is especially significant.

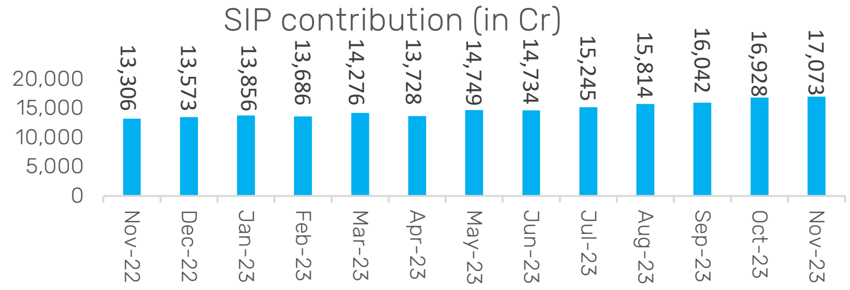
In the last 15 years, India has outpaced numerous economies and is poised to emerge as the third-largest global economy, surpassing Japan by 2027. This projection considers factors such as dollar-yen normalization. The assumption is based on a 6% potential/trend growth rate in real GDP, a 5.5% inflation rate, and a 2.5% depreciation. If reforms successfully elevate growth to 8%, there is even the possibility of India surpassing the United States within the next 30 years.

Outlook for CY 2024 & beyond……

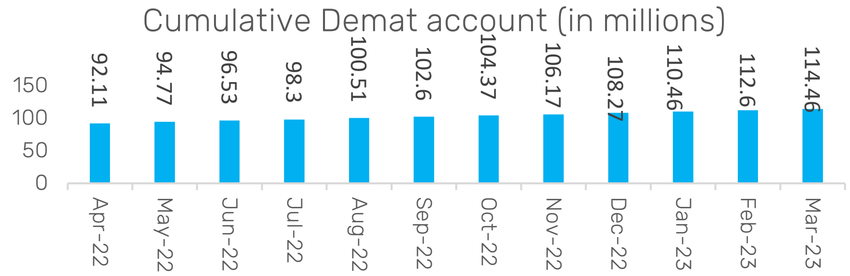
Economic growth is expected to receive a boost from a demographic dividend, increased financial depth, and a substantial foreign exchange stockpile. A sizable workforce available at lower costs not only lowers production expenses but also generates greater savings for investment. The expansion of financial services contributes to a more efficient allocation of resources. Additionally, a robust forex reserves buffer not only safeguards the stability of the rupee but also enhances external stability, instilling confidence among investors. Looking ahead, the adoption of alternative energy sources is anticipated to contribute to a reduction in the current account deficit.

Since July 2023, the inflows into Indian Markets through SIP (Systematic Investment Plan) have consistently exceeded the ₹15,000 crore mark. The average monthly inflow for the last seven months of FY24 stands at approximately ₹15,300 crore. The robust SIP flows not only reflect investor confidence in the Indian economy but also provide crucial support to the markets, particularly in the event of outflows by Foreign Portfolio Investors (FPI) or Foreign Institutional Investors (FII). When comparing economic growth across countries, our expectations indicate that India is poised to be the fastest-growing major economy in the next three years. This projection suggests that India's growth differential compared to the United States, Japan, and other emerging markets (EM) will surpass its historical average. Additionally, the growth differential between India and China is expected to remain positive in the coming decade.

Monthly SIP follow continues to rise



Total Demat account continues to grow



Top Picks CY 2024

Name	Market Cap	CMP	Target	Upside
Bharat Electronics	133330	176-181	227	27%
GAIL India	100665	148-153	190	26%
Exide Industries	25458	294-303	370	24%
CESC	16266	121-126	155	24%
SBFC Finance	9685	87-90	114	27%
Strides Pharma Science	5954	630-660	820	27%
Sasken Technologies	2096	1320-1360	1815	34%

** Market Cap as on 27th December 2023* Duration: 1 Year

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Nifty in firm footing eyeing 24300 in CY 2024

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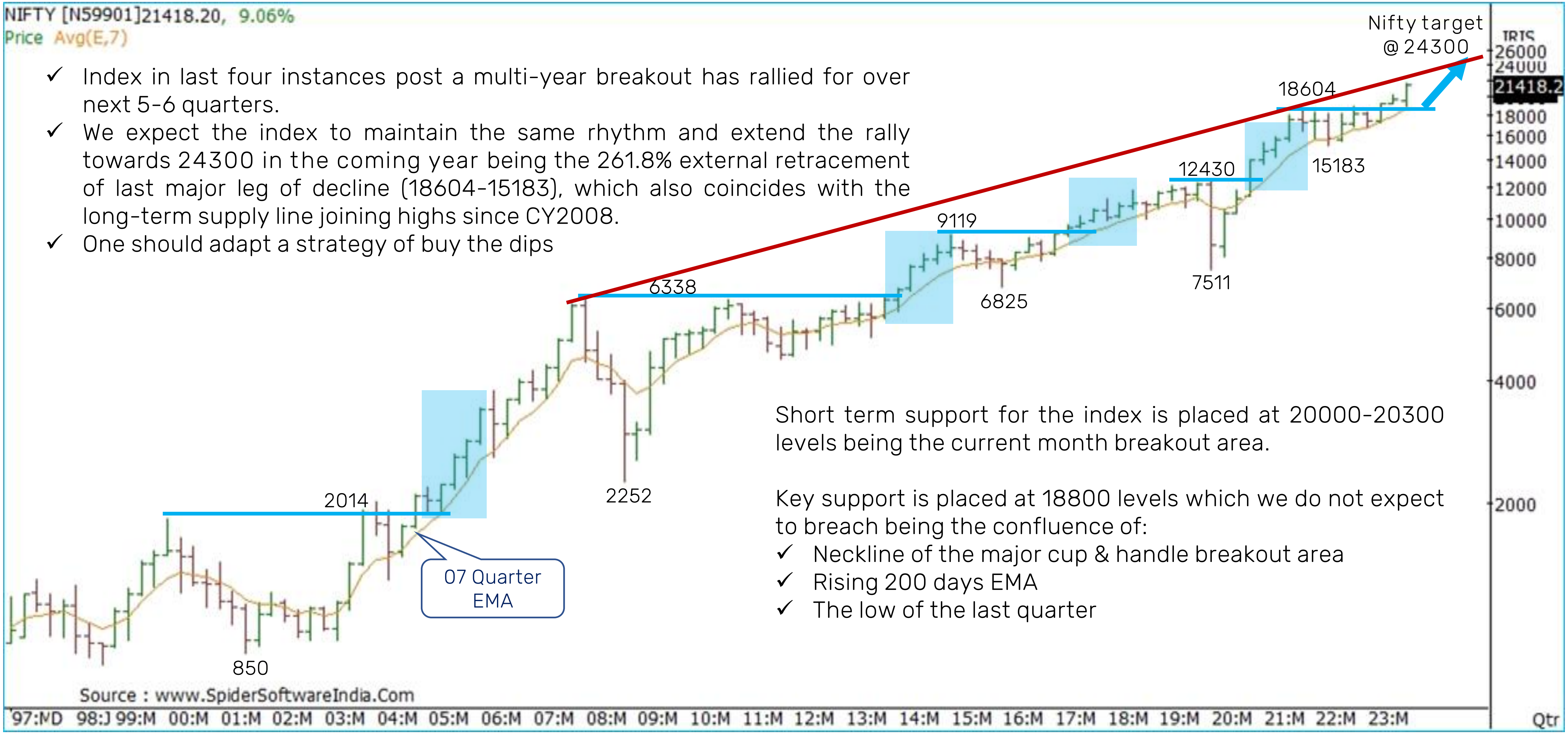
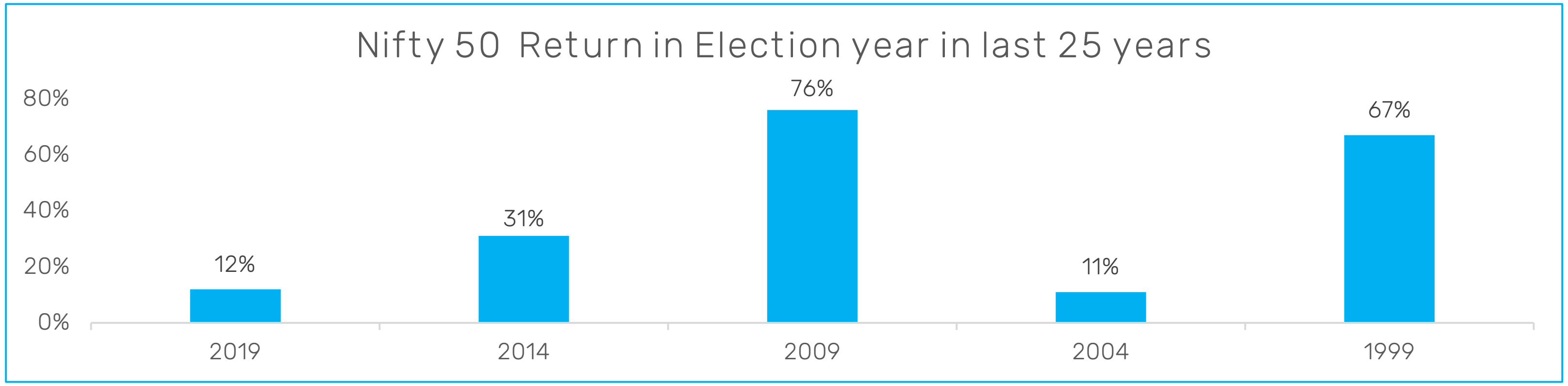
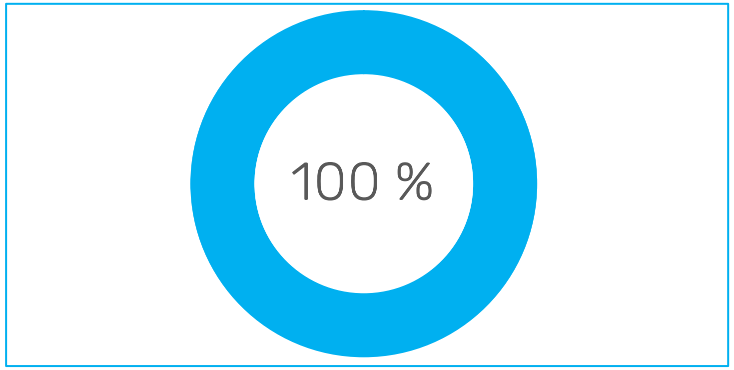


Election Year in last 25 years provides 100% strike rate





General Election cycle is a major phenomena in the equity markets. CY24 being an Union Election year will have a significant effect on sentiments in equity markets. It has been observed that benchmark indices have performed well in election years despite spikes in volatility. In the last 25 years it has witnessed 100% strike rate in election year with an average return of 39% and a minimum return of 11%.

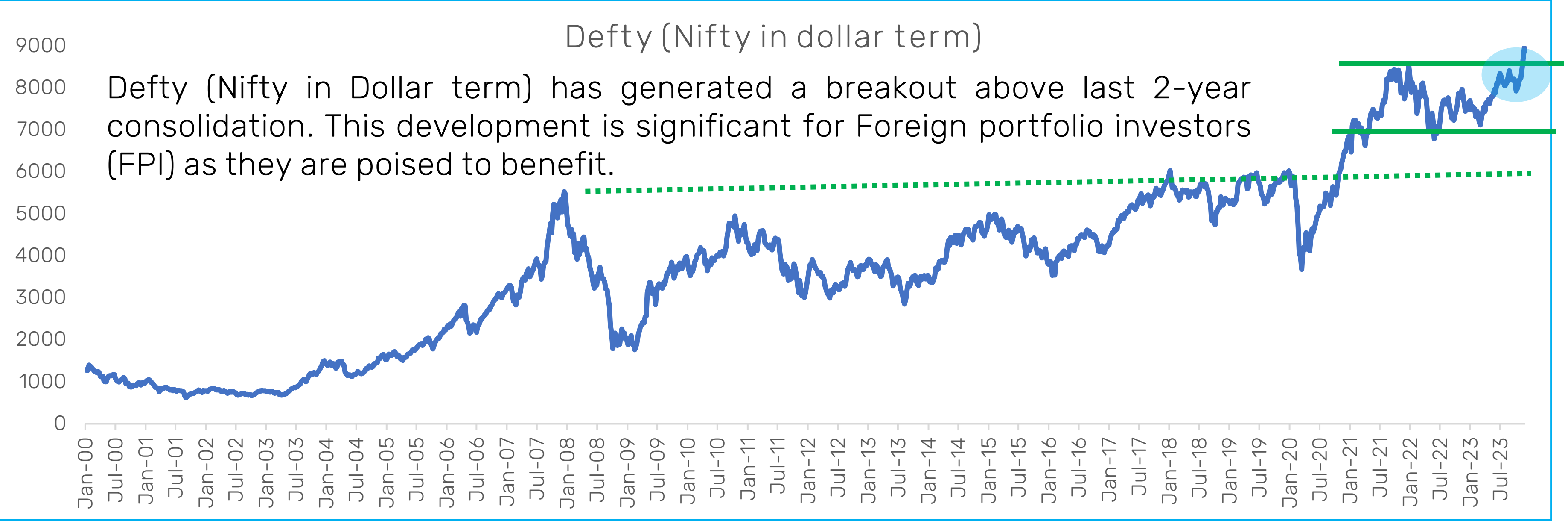
Index & Sector return in Election year

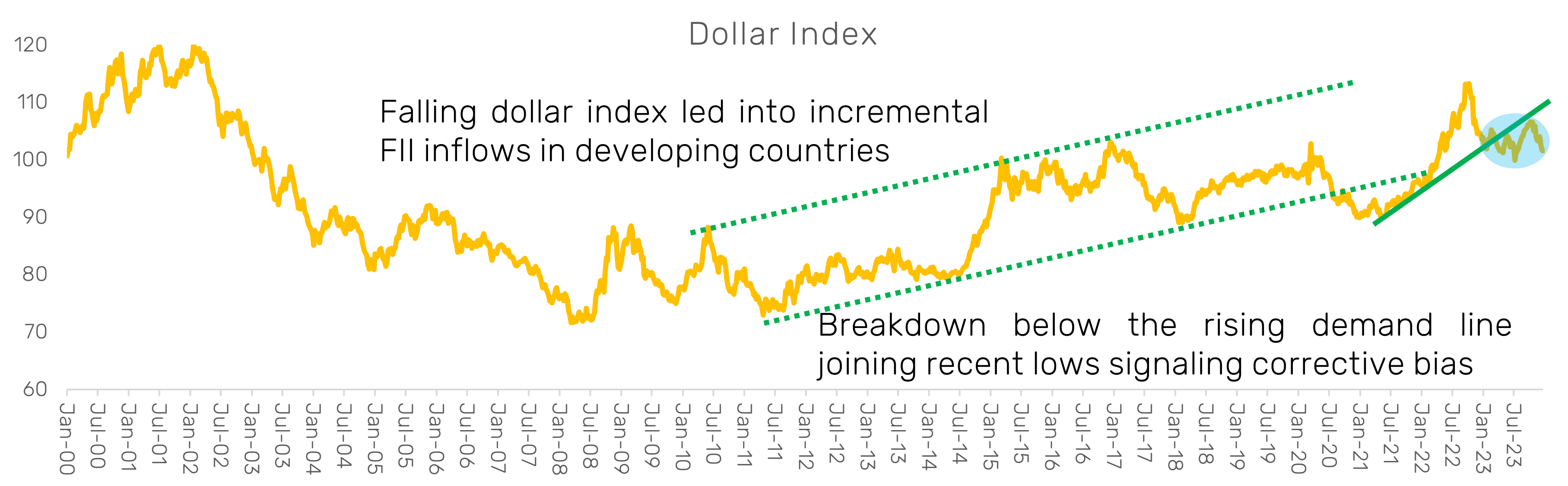
Index	2019	2014	2009	2004	Average Return
Nifty 50	12	31	76	11	32
Bse Sensex	14	30	81	13	35
Nifty MidCap	-4	56	99	-	50
Nifty Smallcap	-10	55	107	-	51
NIfty 500	8	38	89	18	38
Bank Nifty	18	65	81	-	55

Sector	2019	2014	2009	2004	Average Return
Auto	-11	52	204	-	82
Banks	21	65	84	33	51
Capital Goods	-10	50	104	28	43
ConsDura	21	66	98	8	48
FMCG	-4	18	40	-5	13
Healthcare	-4	47	69	23	34
IT	10	17	133	26	46
Metal	-12	8	234	-	77
Oil/Gas	7	12	73	-	31
PSU	-4	39	81	15	33
Power	-4	23	74	-	31
Realty	27	8	70	-	35

- Nifty, Bank Nifty and Nifty 500 has 100% strike rate in last 2 decades while Nifty Midcap & Nifty small cap has 67% strike rate in election year.
- In Sectors, Banks, IT, Consumer Durables, Realty, Capital Goods, Healthcare, Oil & Gas, PSU, Power outperformed in election year.

Nifty in Dollar term breaking above 2-year hiatus





- Nifty (In dollar term) has generated a breakout above last 2-year consolidation range led by weakness in dollar index and outperformance by Nifty signaling strong bull market ahead.
- Dollar index has generated a breakdown below rising demand line joining recent lows signaling weakness likely in the coming year.
- Historically, India has remained a key beneficiary of weak US dollar as strong inflow of foreign capital in domestic equities augurs well. We expect this rhythm to continue in CY24

Sector to watch out for:

Bank Nifty: Breakout above a 20 months bullish cup & handle formation

IT: Breaking above last 21 months range

Sector to watch out for:

BSE Capital Goods: Structural up trend to get bolster

BSE Power: Structural turnaround breakout above 15 year consolidation

Sector to watch out for:

PSU Bank: Acceleration of rally post decade long consolidation breakout

Metals: Breakout above last 2 years triangular consolidation

Sector to watch out for:

BSE Realty: Structural turnaround breakout above 14-year range

Pharma

Top Picks- CY2024

Top Picks

Bharat Electronics

Recommended range: 176-181 | Target: 227 | Upside: 27%

Established in 1954, Bharat Electronics Ltd specializes in the production and provision of electronic equipment and systems primarily catering to the defense sector. The company also maintains a modest presence in the civilian market.

Q2FY24 Result highlight

Q2FY24 revenue growth was flat YoY, while EBITDA grew by 17.4% YoY, largely led by 550bps YoY improvement in gross margins led by product mix and lower cost. EBITDA grew by 17.4% YoY, and margin expanded by 350bps YoY 25.2%. Consequently, PAT grew by 33% YoY. Going ahead, management has guided revenue growth of 15-17% for FY24- 25E, given the BEL execution timeline. We expect revenue to grow at a 15% CAGR over FY23-25E. We anticipate that the EBITDA margin will be in the range of ~23% in FY24-25E, owing to higher indigenous content and scale benefits. We expect PAT to grow at a 15% CAGR over FY23- 25E.

Strong order book in Q2FY24

In the second quarter of the fiscal year 2024 (Q2FY24), Bharat Electronics Ltd experienced a remarkable tenfold year-on-year surge in order inflow, reaching Rs. 7,290 crore, surpassing our initial estimates. The cumulative order inflow for the first half of FY24 stands at approximately 70% of the full-year order inflow guidance, amounting to over Rs. 20,000 crore for FY24. As of the end of Q2FY24, the order backlog is reported at Rs. 65,356 crore, which is 3.8 times the sales figure for the fiscal year 2022-23 (FY23). This substantial backlog ensures strong visibility for the company over the next 3-4 years. Management anticipates the receipt of significant future orders, including long-term fuse orders valued at approximately Rs. 4,000 crore, Electronic Warfare Control (EWC) for ships worth Rs. 2,000 crore, battle tank upgrades totaling around Rs. 3,000 crore, and Next-Generation Offshore Patrol Vessels (NGOPV) worth Rs. 2,500 crore. Looking ahead, the management foresees an enhancement in order pipeline visibility, driven by high-value projects such as Quick Reaction Surface-to-Air Missile (QRSAM), Medium Range Surface-to-Air Missile (MRSAM), and Long Range Surface-to-Air Missile (LARSAM). These projects are anticipated to contribute to order backlogs exceeding Rs. 80,000 crore in the coming couple of years.

The Stock is currently trading at 40X TTM P/E. We recommend buy rating with Target price of 227 with time horizon of 1 year.

Technical Prospective

- Stock during last quarter has generated a breakout above a long-term supply line joining highs since CY07 and is seen accelerating above the same highlighting strength.
- We expect the stock to head towards 227 levels in the coming year being the 123.6% extension of the last up move (90-147) as projected from Oct'23 low of 127.

Top Picks

Gail India   Recommended range: 148-153   Target: 190   Upside: 26%

Established in 1984, GAIL, a Government of India undertaking, stands as an integrated natural gas company in the country. The company boasts ownership of more than 11,500 km of natural gas pipelines, over 2,300 km of LPG pipelines, six LPG gas-processing units, and a petrochemicals facility. Additionally, GAIL holds joint-venture interests in companies such as Petronet LNG Ltd, Ratnagiri Gas and Power Pvt Ltd, and is involved in the City Gas Distribution (CGD) business in various cities. Expanding its footprint beyond India, GAIL has wholly owned subsidiaries in Singapore and the United States, focusing on LNG (liquefied natural gas), petrochemical trading, and shale gas assets.

Key trigger over short- medium term

(1) In Q2FY24, the company undertook a capital expenditure (Capex) of approximately INR 24.6 billion.

(2) The management has provided guidance for gas transmission volumes, targeting an average of around ~120 million metric standard cubic meters per day (mmscmd) in FY24

(3) During Q2, the utilization of transmission pipeline capacity increased to 58%.

(4) The implementation of cost optimization measures in Q2 contributed to a reduction in losses in the petrochemical (petchem) segment. The company anticipates an improvement in the earnings of this segment in the second half of FY24.

(5) Project updates: The Mumbai-Nagpur-Jharsugada first phase, covering 698 km, is actively under construction and is expected to be completed by June 2024, The remaining section of the Jagdishpur-Haldia pipeline, spanning approximately 3,667 km, is targeted for completion by June 2024, The Srikakulam-Angul pipeline, covering a distance of 420 km, is projected to be completed by the end of the calendar year 2023, The recently awarded Gurudaspur-Jammu natural gas pipeline, with a length of 160 km, is expected to be completed by July 2026, The Petrochemical Derivative and Polypropylene (PDHPP) project, with a capacity of 500 kilotons per annum (ktpa) and an investment of INR 113 billion, is scheduled to be commissioned by April 2025.

The Stock is currently trading at 19.2X TTM P/E. We recommend buy rating with Target price of 190 with time horizon of 1 year.

Technical Prospective

- Stock has generated a breakout above the bullish Cup & Handle formation with strong volume signaling continuation of the cup move in coming year.
- We expect the stock to head towards 190 levels in the coming quarters being the measuring implication of the recent cup & handle breakout area.

Top Picks

Exide Industries Recommended range: 294-303 Target: 370 Upside: 24%

Exide Industries Ltd is predominantly involved in the production of storage batteries and related goods within India. The company produces batteries for the automotive sector, including 2-wheelers, 4-wheelers, 3-wheelers, E-rickshaws, and H-UPS. Its battery range spans from 2.5 Ah for 2-wheelers to 260 Ah for non-vehicular purposes. Additionally, the company manufactures batteries for industrial applications, ranging from 7 Ah to 3200 Ah for various uses, including submarine applications. Exide Industries Ltd holds a prominent position as the leading manufacturer of storage batteries in India, dominating across Automotive, Industrial, and submarine sectors in almost all categories.

Allocation of resources into emerging technologies bodes well for the long-term outlook.

The lithium-ion cell plant is expected to be operational by the end of FY25, initially yielding single-digit margins. However, over the medium term, as capacity utilization increases, these margins are projected to reach the mid-teens, aligning with global peers. EXID's commitment to investing in the lithium-ion cell plant and its emphasis on addressing various aspects of the battery value chain, including battery modules, packaging, and Battery Management Systems (BMS), positions the company favorably for future growth.

EXID has rolled out several innovative products designed for emerging applications within the lead-acid battery domain, such as hybrid vehicles, 12V batteries for electric vehicles (EVs), and next-generation industrial Valve Regulated Lead Acid (VRLA) batteries. The adoption of digitization has enhanced the company's agility and transparency across its extensive network of distributors and operations. This digital transformation has facilitated efficient network expansion, ensuring timely product delivery, seamless services, and heightened customer satisfaction. These strategic initiatives have played a pivotal role in EXID's ability to uphold its leadership position and achieve revenue growth.

The industrial segment is poised to benefit from 1) an increase in demand fueled by government and private capital expenditures, 2) heightened investments in renewable power, and 3) significant progress in verticals like railways, telecom, infrastructure, etc., enabling it to grow at a faster rate compared to the automotive segment.

The Stock is currently trading at 29X TTM P/E. We recommend buy rating with Target price of 370 with time horizon of 1 year.

Technical Prospective

- The share price of Exide Industries is at the cusp of generating a breakout above the rounding formation of the last five years signaling a structural turnaround.
- We expect the stock to head towards 370 levels in the coming quarters being the 161.8% external retracement of entire decline (304-125).

Top Picks

CESC Recommended range: 121-126 Target: 155 Upside: 24%

CESC is a prominent entity within the RP-Sanjiv Goenka Group and stands as India's inaugural fully integrated electrical utility firm that incorporates private involvement in power generation, transmission, and distribution across Kolkata, Hooghly, Howrah, North and South 24 Parganas in West Bengal. The company caters to approximately 3.4 million consumers, encompassing domestic, industrial, and commercial sectors. Additionally, CESC, via its subsidiaries, possesses a collection of autonomous power generation initiatives and distribution initiatives in various regions across the nation.

Strong Power Plant and high distribution network

The company's Transmission and Distribution (T&D) operations extend across Kolkata, Greater Noida, Rajasthan, and Chandigarh. In West Bengal, its 2.1-GW thermal capacity is situated, comprising two thermal power plants that generate approximately 885 MW of power within the licensed area. These plants are the Budge Budge Generating Station (750 MW) and the Southern Generating Station (135 MW). Additionally, the company has commissioned the Haldia Thermal plant, a 600 MW project in Haldia.

The company's embedded generating stations, along with power from Haldia and Asansol, fulfill about 90% of its customers' electricity needs. The remaining 10-15% is sourced through the purchase of electricity from other providers. Approximately 30% of the required coal for electricity generation in Budge Budge is obtained from captive mines. The company is also involved in renewable energy with solar power plants in Gujarat and Tamil Nadu, boasting a combined capacity of 27 MW.

In terms of its distribution network, CESC operates at Extra High Voltage (EHV) levels of 220kV and 132kV, High Voltage (HV) levels of 33kV, 11kV, and 6kV, as well as Low Voltage (LV) levels of 0.4 kV. The distribution system encompasses 666 circuit km of EHV lines, 8762 circuit km of HV lines, and 13798 circuit km of LV lines. It interconnects 27 substations (220kV/132kV/33kV & 132kV/33kV), 115 distribution stations (33kV/11-6kV), and 8749 LT substations & package substations (11-6 kV/0.42 kV), serving consumers at different voltage levels. CESC's generation and distribution assets in Kolkata remain a cash cow for the company, producing strong cash flows and high ROE.

The Stock is currently trading at 11.3X TTM P/E. We recommend buy rating with Target price of 155 with time horizon of 1 year.

Technical Prospective

- The stock has generated a breakout above the long-term supply line joining last 15-year highs signals acceleration of up move.
- We expect the stock to head towards 155 levels in the coming year being the measuring implication of the last five-year range breakout.

SBFC Finance

Recommended range: 87-90 | Target: 114 | Upside: 27%

SBFC Finance is a systemically important, non-deposit taking Non-Banking Financial Company (NBFC) specializing in offering secured loans to Micro, Small, and Medium Enterprises (MSMEs) as well as loans against gold. The majority of the company's borrowers include entrepreneurs, small business owners, self-employed individuals, salaried individuals, and working-class individuals. In the MSME segment, the average ticket size of loans is ₹9.89 lakh, while in the loan against gold segment, it is ₹0.86 lakh. The company has a widespread presence across India with 177 branches across India.

Key triggers of the stock

Large under-penetrated addressable market provides opportunity for sustained growth:

According to CRISIL, the overall Micro, Small, and Medium Enterprises (MSME) financing gap in India is assessed to be ₹92 trillion. Within this, the gap specifically in small-ticket loans is estimated to be ₹22 trillion. The addressable market size for secured small-ticket MSME financing is approximately ~₹2.5 trillion. It's noteworthy that the penetration of formal financing in this segment is currently in single digits, indicating a substantial long-term growth opportunity for players in the market.

Borrowing at competitive rates & improving productivity to aid profitability

SBFC (presumably the name of the company) is enhancing its profitability through strategic measures. The company's ability to access a diversified source of capital and achieve rating upgrades, driven by strong financial performance, is a key factor enabling it to borrow at competitive rates. The infusion of fresh capital is anticipated to contribute to improved margins in the near term, with a gradual enhancement expected in the future.

Despite higher operating expenses resulting from investments in distribution capabilities, such as an increase in branches from 124 in FY21 to 171 in September 2023, the company anticipates a positive impact on productivity. The improvement in branch vintage is expected to be a driving factor for the gradual enhancement of productivity over time.

The Stock is currently trading at 46.8X TTM P/E. We recommend buy rating with Target price of 114 with time horizon of 1 year.

Technical Prospective

- The stock has been trading in a range since inception while forming a higher low in the daily chart structure in daily chart remain positive.
- The share price breaking above the recent range (98-80) will open upside towards 114. (Due to limitation of price history, we cannot provide elaborate Technical study in this stocks)

Strides Pharma Science   Recommended range: 630-660   Target: 820   Upside: 27%

Strides Pharma Science Ltd operates in the development and manufacturing of pharmaceutical products. The company's pharmaceutical offerings are distributed in more than 100 countries. Throughout its history, Strides Pharma Science has consistently pursued an inorganic growth strategy. This approach has led to the company entering new markets, diversifying into additional business segments, exploring new therapy areas, and expanding its manufacturing infrastructure.

Q2FY24 Result update

In Q2FY24, Strides Pharma Science (Strides) reported a revenue growth of 11% YoY, which exceeded expectations, although the adjusted EBITDA margins at 16.8% were slightly weaker than anticipated. The growth in revenue during the quarter was primarily attributed to strong performances in other regulated markets (up 35% YoY) and Africa (up 36%).

Strides is consolidating its Contract Development and Manufacturing Organization (CDMO) business under the unified brand 'Onesource.' This entity is projected to achieve revenues of USD 400 million by FY27, a significant increase from USD 150 million in FY24E. Additionally, the company is divesting a new manufacturing facility of Stelis to Syngene for INR 7 billion and its Singapore-based facility to Rxilient Biohub for USD 15 million (completion expected in Q3FY24). The management is optimistic about a robust H2FY24 with improved profitability. Strides has revised its targets and now aims to achieve the higher end of FY24E US sales and EBITDA guidance, targeting USD 250 million and INR 7,500 million, respectively.

US revenues rose 7% QoQ to USD 61mn, as it sustained market share across the product portfolio. Strides aims to launch 15 products p.a., which will help it clock USD 250mn in FY24 and USD 400mn by FY26E. Other regulated markets grew 35% YoY (14% QoQ) to INR 3.3bn. African branded grew 36% YoY to INR 1.1bn. Product registrations in newer geographies will likely drive growth in the near term. The lumpy institutional sales were down 15% YoY to INR 883mn. Strategic initiatives to improve the underlying business performance – i) unlocking value of CDMO biz by regrouping it under new entity Onesource; and ii) debt reduction and earnings boost led by proceeds of the Stelis and Singapore plant divestment

The Stock has P/B ratio at 2.86. We recommend buy rating with Target price of 820 with time horizon of 1 year.

Technical Prospective

- The stock has generated a breakout above a bullish Flag formation signals continuation of the up move and offers fresh entry opportunity
- We expect the stock to head towards 820 levels in the coming year being the 80% retracement of the CY21-CY22 decline (999-264)

Top Picks

Sasken Technologies Recommended range: 1320-1360 Target: 1815 Upside: 34%

Sasken Technologies Ltd, known as Sasken, specializes in Product Engineering and Digital Transformation, offering end-to-end research and development services from concept to market and from chip to cognition. The company serves global leaders in various industries, including Semiconductor, Automotive, Industrials, Smart Devices & Wearables, Enterprise Grade Devices, SatCom, and Transportation

Key Trigger over medium – long term

The company operates in various verticals, providing specialized services:

a) Semiconductor: Sasken enables clients to integrate third-party solutions and conducts extensive testing of final products to ensure a flawless launch.
b) Consumer Electronics: The company offers products such as Smart TVs, Smart Speakers, Smart Home Appliances, and Mobile Phones. Sasken supports clients in building next-gen devices with cloud-based analytics, low-power technologies (including sensors, connectivity, and tracking solutions), and other innovations.
c) Automotive: Sasken aids leading OEMs and Tier-1 companies in In-Vehicle Infotainment (IVI), Telematics, and Advanced Driver Assistance Systems (ADAS). It helps address challenges like increasing complexity, time-to-market pressures, cost constraints, and the growing demand for multimedia and connectivity capabilities, as well as active and autonomous safety features.
d) Enterprise Devices: The company provides services such as hardware and software development, device and platform testing, mobility solutions, and Android services.
e) SatCom: Sasken is among the few companies globally involved in the end-to-end development and maintenance of satellite phones.
f) Telecom: With over 30 years of telecommunications expertise, Sasken has experience in 2G/3G/4G/5G technologies, specifically with 3GPP standards.
g) Transportation: Sasken excels in cloud and open API enablement for intelligent transportation platforms. Its proficiency in Azure and AWS has resulted in significant cost savings for a European Public Transport Independent Software Vendor (ISV).

The Stock is currently trading at 18.8X TTM P/E. We recommend buy rating with Target price of 1815 with time horizon of 1 year.

Technical Prospective

- The share price of Sasken Technologies is at the cusp of breaking above last 2-year range (1450-800) signaling strength and offers fresh entry opportunity .
- We expect the stock to head towards 1815 levels in the coming quarters being the 138.2% external retracement of entire decline (1525-718).

Performance of CY 2023

SCRIPT NAME	RECOMMENDED PRICE	TARGET	STATUS	RETURN
RBL Bank	183	245	Target Achieved	34%
IRB ltd	31.6	46	Book Profit at 41	30%
NCC	91	128	Target Achieved	41%
Tata Steel	118	145	Book Profit at 137	16%
REC	121	160	Target Achieved	32%
PFC	153	192	Target Achieved	26%
RF Forge	264	450	Target Achieved	71%
Jindal Saw	110	160	Target Achieved	46%
Glenmark Pharma	430	550	Target Achieved	28%

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