

A CRACKLING SAMVAT 2077 IN STORE



Diwali Muhurat Picks: **A CRACKLING SAMVAT 2077 IN STORE!**

Samvat 2076 began on a solid note with outperformance seen in small and mid cap stocks. The beginning of Samvat 2076 was marked by lower market volatility but there were concerns on the economy as GDP growth rate was slowing. However, market returns and GDP growth rate in India do not have a very strong correlation and the benchmark Nifty touched an all time high of 12,371 in the early part of the year which is now considered Pre COVID.

COVID changed everything for the markets and for the world itself. For a brief period it can be said that COVID even had a humbling effect on people. However, as the old adage goes, the more things change the more they remain same. This is so true in the post COVID era. Even as the world came to a standstill and markets plummeted worldwide with crude even entering a negative zone in one contract closing, a semblance of things are not so bad started to emerge. Markets rallied and as the whole system started developing a coping mechanism for COVID and locked down economies started opening up. The COVID challenge has had many ramifications for the businesses worldwide but it has also brought a lot of opportunities for innovative companies.

Samvat 2077 now looks much brighter and this Diwali has brought festive cheers to many, but still there is a long way to go. It seems more likely that growth is likely to come back strongly looking at the high frequency indicators. The Indian banking system has coped well with the pandemic challenges and it is now flushed with liquidity. Interest rates are low and lending is much likely to pick up strongly in the forthcoming quarters. New home registrations are seeing a solid pick up across the metros and housing loans are surging across the banking system. Even looking at the building materials companies results, the demand scenario looks quite encouraging.

Housing and banking will be growth themes for Samvat 2077. Pick up in the real estate sector will bode well for the economy as a whole as capacity utilization across the system will improve significantly.

Currently, there are ten good COVID vaccine candidates in phase 3 trials and a vaccination can be expected by early 2021 if not earlier. So, Samvat 2077 will also see the vaccination theme playing out across the sectors. Successful vaccination drive will mean complete opening up of the economy and the most affected sectors like travel and tourism will get a boost. More offices, malls and recreation centres will open up and stocks associated with these themes will pick up steam.

Taking all these factors into consideration, our themes for Samvat 2077 are:

- ✓ The small and midcaps are picking up steam and they should deliver solid returns in 2021 as economic uncertainties will reduce and volatility will decline. We believe volatility will decline significantly in 2021 which will lead to a small and mid cap rally.
- ✓ Housing and banking will be major themes to watch out for in 2021 because of correction in real estate prices and lower interest rate regime.
- ✓ Digital and telecommunications will continue to remain major long-term structural themes.
- ✓ Vaccination drive and complete opening up of the economy will be key factors for growth.
- ✓ Growth is now a more certain theme, but growth at a reasonable price will be an even bigger theme to invest which will deliver solid returns over the next one year.

Based on these themes, our Diwali picks are:

ICICI Bank, Canfin Homes, SBI, Bharti Airtel, Tech Mahindra, SIS, Eicher Motors, Dalmia Bharat, Varun Beverages, Dhanuka Agritech and Aarti Industries



Axis Securities Diwali Muhurat Picks: **A CRACKLING SAMVAT 2077 IN STORE!**

Company Name	Sector	Stock price	Target Price	Upside (%)	12 Month Fwd PE	12 Month Fwd P/BV	Dividend Yield	TR 1M%	TR 3M%	TR 6M%	TR YTD%
ICICI BANK LTD	Financials	443	504	14%	22.4	2.2	N.A	16.3	23.4	29.7	-17.8
STATE BANK OF INDIA	Financials	219	261	19%	10.3	0.8	N.A	14.4	14.8	28.1	-34.3
CAN FIN HOMES LTD	Financials	472	515	9%	16.3	2.4	0.0	11.7	27.9	60.1	20.7
TECH MAHINDRA LTD	Information Technology	851	975	15%	17.7	3.1	1.2	2.3	31.3	72.4	16.2
BHARTI AIRTEL LTD	Communication Services	450	676	50%	249.9	3.8	0.4	5.4	-19.0	-17.3	-0.9
SECURITY & INTELLIGENCE	Industrials	375	450	20%	22.4	3.5	0.5	-0.2	3.7	-0.5	-22.5
EICHER MOTORS LTD	Consumer Discretionary	2139	2400	12%	41.4	5.4	0.0	-2.7	-1.3	54.3	-4.2
DALMIA BHARAT LTD	Materials	893	1083	21%	42.8	1.6	0.2	16.1	13.4	73.9	11.8
VARUN BEVERAGES LTD	Consumer Staples	694	865	25%	62.5	5.7	0.4	0.6	-11.6	13.1	-1.7
AARTI INDUSTRIES LIMITED	Materials	1105	1263	14%	36.0	5.6	0.3	9.0	4.6	0.1	33.5
DHANUKA AGRITECH LTD	Materials	733	880	20%	19.6	4.1	1.6	-3.5	-7.0	66.3	85.2

Source: Company, Axis Securities; N.A. – Not available

Covid-19 Vaccine Tracker

Vaccine development is in advance stages across the countries. 44 candidates are working on the development of the Corona vaccine, out of which 10 candidates are now in Phase 3 trial which is a final phase of the vaccine development. Now the discussion is progressed towards the production and the distribution of the vaccine. As per government estimate, one out of five Indian may be vaccinated by July 2021. Government is also preparing a list of “priority population group”, to get the vaccine first.

Covid Vaccine Tracker			
Country	Candidate	Developer	Phase of Development
Russia	Sputnik V	Gamaleya Research Institute, Acellena Contract Drug	Phase3
China	Inactivated vaccine	Wuhan Institute of Biological/ Sinopharm	Phase3
China	CoronaVac	Sinovac	Phase3
US	mRNA-1273	Moderna	Phase3
China	Ad5-nCoV	CanSino Biologics	Phase3
UK	AZD1222/Covishield	The University of Oxford; AstraZeneca; Serum Institute of India	Phase3
US	BNT162	Pfizer, BioNTech	Phase3
US	NVX-CoV2373	Novavax	Phase3
US	JNJ-78436735 (formerly Ad26.COV2-S)	Johnson & Johnson	Phase 3
Australia	Bacillus Calmette-Guerin (BCG)	University of Melbourne	Phase 2/3
India	ZyCoV-D	Zydus Cadila	Phase 2
India	Covaxin	Bharat Biotech; National Institute of Virology	Phase 2

Source: RAPS, Axis Securities

High Frequency Indicators: Indicators suggesting upward trend for economic growth

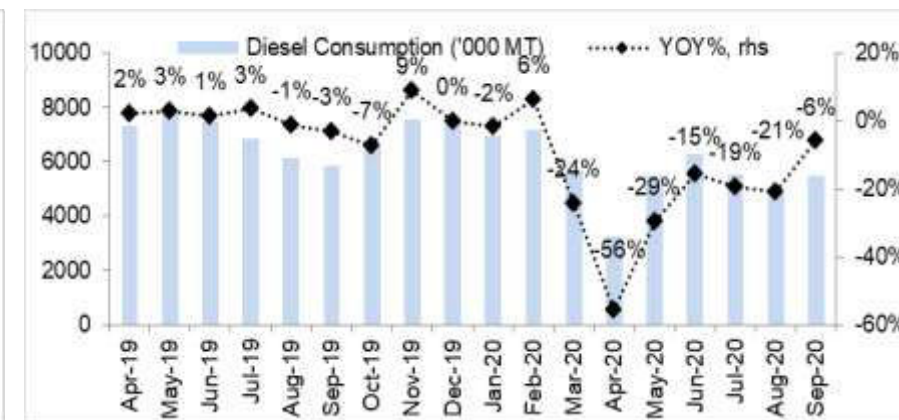
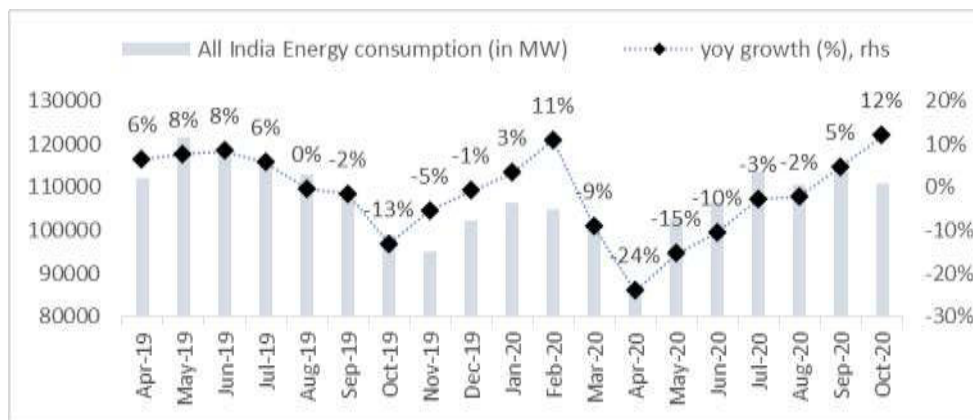
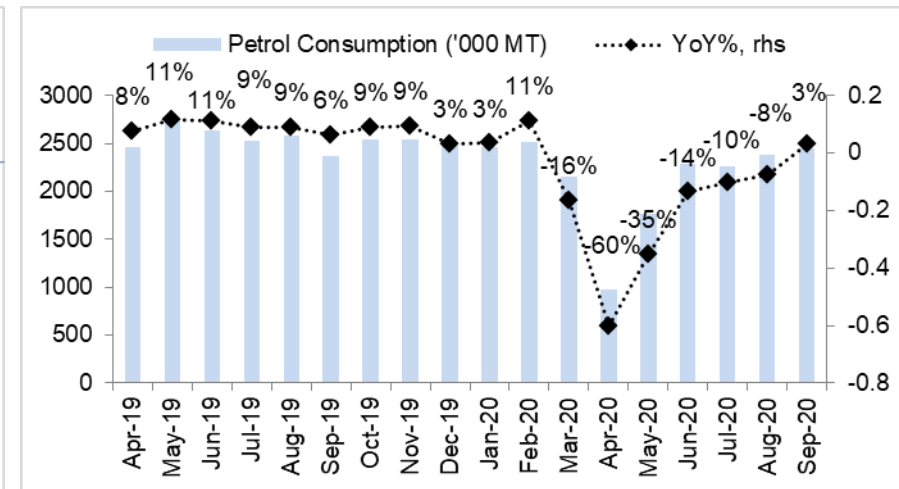
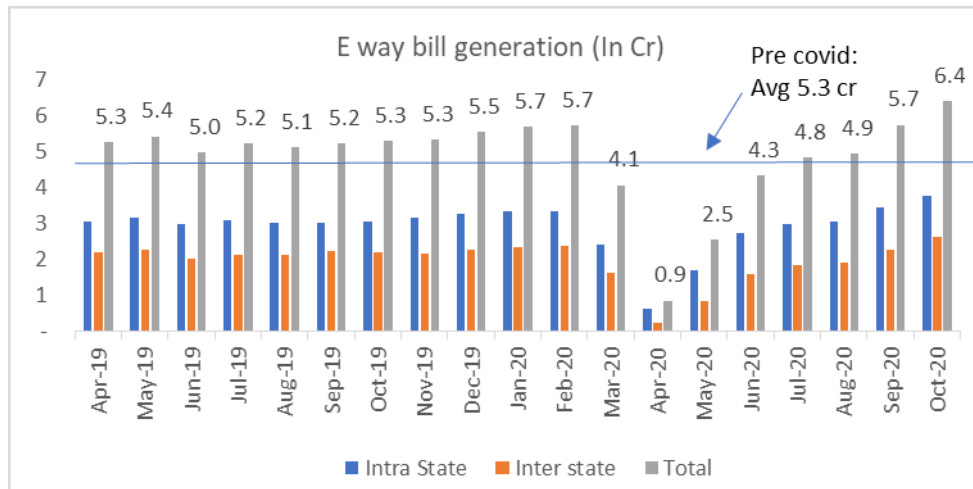
Manufacturing PMI surged to 58.9 in October, continuing its improving trend for third straight month, climbed to highest in over a decade shows improving operating conditions arise after the lifting of lockdown restrictions which turns into increase in new orders and production. Another sign of recovery in the economy with October GST collection crossed Rs 1 lakh cr mark after last seen in Feb 2020. Continuously rising GST collection from last two months indicates the pickup in business activities, also the indication of revival of consumption ahead of festival season. Festive demand drives Automobile sales higher in October. Passenger vehicle sales up in the month of October for the third straight month, highlighting buyout demand during Navratri. Similar trend visible in 2-wheelers, however, demand likely to continue for November onset of upcoming festival Diwali.

Macro	Month	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Forex reserves (\$ Bn)	Oct-20	451.1	457.5	471.3	481.5	475.6	479.5	493.5	506.8	534.6	541.4	542.0	560.5
FDI (\$ Mn)	Aug-20	1720	5065	6742	4533	4075	3402	2535	-72	3988	18482		
Exports (YoY%)	Sep-20	-0.3%	-1.8%	-1.7%	2.9%	-34.6%	-60.3%	-36.5%	-12.4%	-10.2%	-12.7%	6.0%	
Imports (\$ YoY%)	Sep-20	-12.7%	-8.8%	-0.7%	2.5%	-28.7%	-58.6%	-51.0%	-47.6%	-28.4%	-26.0%	-19.6%	
IIP YoY%	Aug-20	2.1%	0.5%	2.2%	5.2%	-18.7%	-57.3%	-33.4%	-15.8%	-10.8%	-8.0%		
CPI YoY%	Sep-20	5.5%	7.4%	7.6%	6.6%	5.8%	7.2%	6.3%	6.2%	6.7%	6.7%	7.3%	
WPI YoY%	Sep-20	0.6%	2.8%	3.5%	2.3%	0.4%	-1.6%	-3.4%	-1.8%	-0.3%	0.2%	1.3%	
PMI Manufacturing	Oct-20	51.2	52.7	55.3	54.5	51.8	27.4	30.8	47.2	46	52	56.8	58.9
PMI Services	Sep-20	52.7	53.3	55.5	57.5	49.3	5.4	12.6	33.7	34.2	41.8	49.8	
Industry													
Cement Production yoy%	Sep-20	4.4%	5.5%	5.1%	7.8%	-25.1%	-85.2%	-21.4%	-6.8%	-13.5%	-14.5%	-3.5%	
Steel Production yoy%	Sep-20	7.0%	8.7%	1.6%	2.9%	-21.9%	-82.8%	-40.4%	-23.3%	-8.3%	-1.7%	0.9%	
Electricity Gen yoy%	Sep-20	-4.9%	0.0%	3.2%	11.5%	-8.2%	-22.9%	-14.8%	-10.0%	-2.5%	-1.8%	3.7%	
Coal Generation yoy%	Sep-20	-3.5%	6.1%	8.0%	11.3%	4.0%	-15.5%	-14.0%	-15.5%	-5.7%	3.6%	21.2%	
Eight Core Industries yoy%	Sep-20	0.7%	3.1%	2.2%	6.4%	-8.6%	-37.9%	-21.4%	-12.4%	-8.0%	-7.4%	-0.8%	
GST Collection (RsCrores)	Oct-20	1,03,491	1,03,184	1,10,818	1,05,366	97,597	32,294	62,009	90,917	87,422	86,449	95,480	1,05,155
Tractor Sales YoY%	Sep-20	-12.8%	4.0%	3.3%	19.6%	-50.2%	-80.1%	0.5%	20.2%	35.9%	64.8%	26.7%	
Domestic Air Pass YoY %	Sep-20	11.2%	2.6%	2.2%	9.0%	-33.1%		-97.7%	-83.5%	-82.3%	-76.0%	-65.8%	
Passenger Vehicles YoY %	Oct-20	-0.8%	-1.2%	-6.1%	-7.8%	-51.0%	-100.0%	-86.0%	-53.2%	-9.0%	14.2%	26.5%	19.9%*
2 Wheeler's YoY %	Oct-20	-14.3%	-16.6%	-16.0%	-19.8%	-39.8%	-100.0%	-83.8%	-38.6%	-15.2%	3.0%	12.9%	9.2%*
Naukri Job Speak Index YoY%	Sep-20	15.2%	10.5%	5.8%	0.0%	-17.8%	-61.6%	-61.2%	-44.4%	-47.3%	-34.7%	-23.0%	

Source: Bloomberg, RBI, MOSPI, * Provisional numbers, Axis Securities

E-Way bills & Energy demand points to a faster than expected recovery

With ease in lockdown restrictions, economic activities are resuming back to pre Covid levels at a faster than expected recovery. Remarkable 6.4cr E Way bills generated in the month of October, the highest since the introduction of the E-way bill system two years back. With broad level pickup in business and operating activities ahead of the festive season, monthly electricity consumption has increased by 12% yoy shows a sign of recovery in economic activities. **Demand for Petrol and diesel is slowly picking up, petrol consumption has turned positive while diesel is still below 6% vs last year in the month of September while October consumption data likely to be even better.**



Source: Bloomberg, GSTN, POSOCO, PPAC, Axis Securities, October electricity data is provisional

Major theme for 2021: Mean reversion in rolling returns, Midcaps and Small caps are chasing large caps

The small and midcaps are picking up steam and they should deliver solid returns in 2021 as economic uncertainties will reduce and volatility will decline. We believe volatility will decline significantly in 2021 which will lead to a small and mid cap rally. From a valuation perspective, the Midcaps look attractive vs. large caps. The recent spate of IPOs and their success clearly indicates that the appetite for mid and small cap stocks. Our case for two year rolling returns indicates that the market has turned in favour of small and mid cap stocks which are more reasonably valued and offer greater upside potential.



Source: Bloomberg, Axis Securities Note: Data till 30th Oct 2020

Major theme for 2021: Housing & Banking

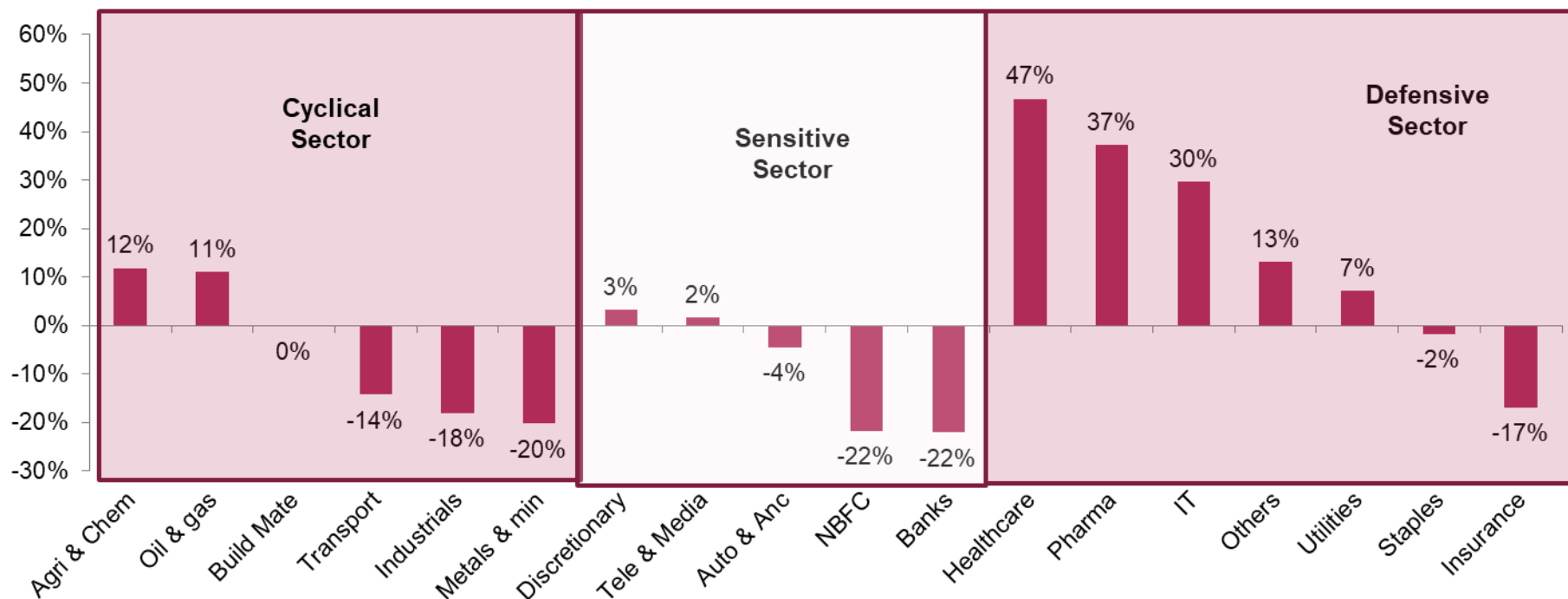
Housing and banking will be major themes to watch out for in 2021 because of correction in real estate prices and lower interest rate regime.

Defensive: IT, Staples, Pharma, Healthcare, Utilities, Insurance

Cyclical: Oil & gas, Industrials, Metals, Building Materials, Agri& Chemicals, Transport

Sensitive: Banks, NBFC, Discretionary, Auto, Telecom

Sectorwise YTD returns of Top 500 Stocks



Source: Bloomberg, NSE, Axis Securities Note: Data till 30th Oct 2020

ICICI BANK – WELL POSITIONED FOR GROWTH

ICICI Bank (ICICIB) is amongst the largest private sector bank in India with business operations spread across Retail, Corporate, and Insurance etc. It is supported by a strong liability franchise and healthy retail corporate mix. Its subsidiaries ICICI Venture Funds, ICICI Pru AMC, ICICI Securities, ICICI Prudential and ICICI Lombard are amongst the leading companies in their respective segments.

Key Rationale

- ICICI Bank reported a strong Q2FY21 performance with easing concerns on asset quality. Commentary on asset quality was encouraging with collection efficiency at ~97% pre-Covid levels and overdue buckets across segments up only 1-4%. Covid provisions are ~Rs 87bn which are adequate with normalisation in credit costs by FY22E.
- The bank reported a domestic loan growth of 10% YoY led by 13% increase in retail loans. Fee income jump of ~49%QoQ is also comforting.
- ICICIB has a robust funding franchise and its cost of funds at ~4% is amongst the lowest in its peer set, implying low risk of adverse portfolio selection. Scale-up of unsecured portfolio and a higher share of domestic loans should support stable NIM
- **Key risks:** Significant deterioration in retail asset quality, Delay in resolution of stressed assets

Key Financials (Standalone)

Y/E Mar (Rs Cr)	NII (Rs)	PPOP (Rs)	PAT (Rs)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY19	27,015	23,438	3,363	5.2	127.3	2.7	0.4	2.3
FY20	33,267	28,101	7,931	12.3	144.7	2.3	0.8	1.5
FY21E	38,165	35,374	14,544	21.1	173.6	1.9	1.3	1.8
FY22E	44,840	39,380	18,153	26.3	195.2	1.6	1.4	1.7

Source: Company, Axis Securities

Key Rationale

- **At Inflection point:** We maintain our positive view on ICICI Bank and believe ICICIB offers the best risk-reward among our bank coverage given a healthy, sustainable earnings outlook. Asset quality is likely to strengthen following adequate provisioning and guidance of lower credit costs. A strong liability profile, better asset mix, and healthy CAR could make ICICIB well positioned to come through this challenging period with relatively lower degree of stress
- **Valuation:** ICICI Bank is well placed with stable NIM, low cost of funds and healthy capital adequacy. The recent capital raise has improved Tier I to 17.9% which provides adequate balance sheet buffer. We believe valuations are undemanding for the stock given strong liability franchise and leveraging opportunities across group products. We remain positive on the stock and maintain BUY with SOTP of Rs 504 (1.9x Core ABV FY22E and Subsidiaries value at 141/-)

CMP
443

Target Price
504

Upside
14%

Income Statement

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Net Interest Income	27,015	33,267	38,165	44,840
Other Income	14,512	16,449	18,717	19,409
Total Income	41,527	49,716	56,882	64,249
Total Operating Exp	18,089	21,614	21,508	24,869
PPOP	23,438	28,101	35,374	39,380
Provisions & Contingencies	19,661	14,053	16,529	14,682
PBT	3,777	14,048	18,845	24,698
Provision for Tax	414	6,117	4,301	6,545
PAT	3,363	7,931	14,544	18,153

Source: Company, Axis Research

Balance Sheet

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS				
Share Capital	1,290	1,295	1,380	1,380
Reserves	1,07,074	1,15,206	1,43,582	1,59,743
Shareholder's Funds	1,08,363	1,16,501	1,44,962	1,61,123
Total Deposits	6,52,920	7,70,969	8,67,244	9,71,923
Borrowings	1,65,325	1,62,900	1,37,843	1,51,394
Other Liabilities & Provisions	37,852	47,995	57,594	60,949
Total Liabilities	9,64,459	10,98,365	12,07,642	13,45,389
APPLICATION OF FUNDS				
Cash & Bank Balance	80,296	1,19,156	1,17,547	1,46,623
Investments	2,07,733	2,49,532	3,01,552	3,16,195
Advances	5,86,647	6,45,290	7,02,467	7,89,687
Fixed Assets	7,931	8,410	8,621	9,052
Other Assets	81,852	75,978	77,455	83,832
Total Assets	9,64,459	10,98,365	12,07,642	13,45,389

Source: Company, Axis Research

Valuation ratios

(%)

Y/E March	FY19	FY20	FY21E	FY22E
EPS	5.2	12.3	21.1	26.3
Earnings growth (%)	-51%	135%	72%	25%
Adj. BVPS	127.3	144.7	173.6	195.2
ROAA (%)	0.36	0.77	1.26	1.42
ROAE (%)	3.2	7.1	11.1	11.9
Core P/ABV (x)	2.7	2.3	1.9	1.6
Dividend Yield (%)	0.3	0.0	0.5	0.7

PROFITABILITY

Yield on Advances (%)	8.7	9.3	8.7	9.2
Yield on Investment (%)	6.2	6.4	6.2	6.2
Cost of Funds (%)	4.7	4.7	4.3	4.4
Cost of Deposits (%)	4.4	4.6	4.2	4.3
NIM (%)	4.1	4.6	4.4	4.7

OPERATING EFFICIENCY

Cost/Avg. Asset Ratio (%)	2.3	2.4	2.1	2.2
Cost-Income Ratio (%)	43.6	43.5	37.8	38.7

Source: Company, Axis Research

Balance Sheet Structure Ratios

(%)

Y/E March	FY19	FY20	FY21E	FY22E
Loan Growth (%)	14.5	10.0	8.9	12.4
Deposit Growth (%)	16.4	18.1	12.5	12.1
C/D Ratio (%)	89.8	83.7	81.0	81.3
Equity/Assets (%)	11.2	10.6	12.0	12.0
Equity/Advances (%)	18.5	18.1	20.6	20.4
CASA (%)	16.9	16.1	17.6	17.5
Total Capital Adequacy Ratio	15.1	14.7	16.4	16.4
Tier I CAR	14.5	10.0	8.9	12.4

ASSET QUALITY

Gross NPLs	45,676	40,829	48,166	51,148
Net NPLs	13,450	9,923	12,298	13,512
Gross NPLs (%)	7.8	6.3	6.9	6.5
Net NPLs (%)	2.3	1.5	1.8	1.7
Coverage Ratio (%)	70.6	75.7	74.5	73.6
Provision/Avg. Loans (%)	3.1	1.5	2.2	1.9

ROAA TREE

Net Interest Income	2.9%	3.2%	3.3%	3.5%
Non Interest Income	1.6%	1.6%	1.6%	1.5%
Operating Cost	2.0%	2.1%	1.9%	1.9%
Provisions	2.1%	1.4%	1.4%	1.2%
Provisions for NPAs	0.0%	0.6%	0.4%	0.5%
Tax	0.36%	0.77%	1.26%	1.42%
ROAA	8.6	9.2	8.8	8.3
Leverage (x)	8.63	9.17	9.41	9.38
ROAE	3.15%	7.05%	11.14%	12.30%

Source: Company, Axis Research

STATE BANK OF INDIA – BEST AMONG PSU BANKS

State Bank of India (SBIN) is the largest public sector bank in terms of assets, deposits, branches, number of customers, and employees having pan-India presence. As of March '20, SBIN has a network of 22,141 branches and 58,555 ATMS. It has a market share of ~22.8/19.7% market share in deposits/ advances.

Key Rationale

- **Asset quality:** Pre-Covid, the bank had been witnessing healthy improvement on the asset quality front. Amidst the Covid crisis and moratorium close in Aug '20, impact on asset quality was keenly watched. In Q2FY21, bank stated that collection efficiency stands at ~97% which is in-line with large private banks. Also, FY21 estimated slippages (including restructuring) are ~2.5% which is manageable.
- **Liability franchise strong and improved NIM:** Despite competition from peers, SBIN's CASA franchise is at 45% of deposits, better than that of some large private banking peers. NIMs have improved to 3.12% in Q2FY21. We expect NIMs to be stable at ~3% over FY21-23E.
- **Non banking subsidiaries to boost overall performance:** Apart from core banking, SBI's subsidiaries will continue to add further value. It has strong presence in credit cards, insurance (life and general), asset management, etc. Most of these are generating stable returns and boosting overall performance.

Key Financials (Standalone)

Y/E Mar (Rs Cr)	NII (Rs)	PPOP (Rs)	PAT (Rs)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
2020	98,100	68,100	6,900	7.7	222.4	0.9	0.2	2.2
2021E	1,09,382	74,181	17,578	19.5	192.0	0.9	0.4	2.2
2022E	1,15,944	76,620	24,980	27.8	215.4	0.8	0.7	1.9
2023E	1,27,539	84,071	33,031	36.7	250.1	0.7	0.7	1.8

Source: Company, Axis Securities

Key Rationale

- **Outlook:** We believe key positive of SBIN which will drive its performance are i) Being the largest bank in India the bank has business strengths making it a beneficiary of liquidity with huge deposit inflow during uncertain times resulting in lower cost of funds. ii) Asset quality has improved on book clean –up efforts over the last few years resulting in lower slippages and NPA decline. iii) PCR has improved to 67%. Provisions for legacy stress is mostly over iv) Subsidiaries performance has been improving
- **Valuation:** Among PSU banks, SBIN remains the best play on the gradual recovery in the Indian economy, with a healthy PCR, robust capitalization, a strong liability franchise and improved core operating profitability. Subsidiaries' performance was also stable in Q2FY21. We maintain Buy on the stock with target price of Rs 261 (SOTP basis core book at 0.6x and subsidiaries at Rs 111)
- **Key risks:** Significant deterioration in asset quality, Delay in resolution of stressed assets

CMP
219

Target Price
261

Upside
19%

Income Statement

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Net Interest Income	98,100	109,382	115,944	127,539
Other Income	45,200	42,940	44,014	47,975
Total Income	143,300	152,322	159,958	175,514
Total Operating Exp	75,200	78,141	83,338	91,443
Staff expenses	45,700	47,757	49,189	54,108
Other operating expenses	29,500	30,975	33,143	35,795
PPOP	68,100	74,181	76,620	84,071
Provisions & Contingencies	43,100	50,427	42,863	39,434
PBT	25,000	23,754	33,757	44,637
Provision for Tax	18,100	6,176	8,777	11,606
PAT	6,900	17,578	24,980	33,031

Source: Company, Axis Research

Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS				
Share Capital	900	900	900	900
Reserves	207,400	224,978	249,958	282,989
Shareholder's Funds	208,300	225,878	243,358	276,389
Total Deposits	3,241,600	3,436,096	3,745,345	4,082,426
Borrowings	314,700	285,126	282,821	294,522
Other Liabilities & Provisions	186,800	196,140	211,831	228,778
Total Liabilities	3,951,400	4,143,240	4,483,354	4,882,114
APPLICATION OF FUNDS				
Cash & Bank Balance	251,100	242,241	221,458	170,756
Investments	1,047,000	1,151,700	1,220,802	1,294,050
Advances	2,325,300	2,395,059	2,658,515	3,004,123
Fixed Assets & Other Assets	328,000	354,240	382,579	413,186
Total Assets	3,951,400	4,143,240	4,483,354	4,882,114

Source: Company, Axis Research

Valuation ratios				(%)
Y/E March	FY19	FY20E	FY21E	FY22E
EPS	7.7	19.5	27.8	36.7
Earnings Growth (%)	666.7	154.7	42.1	32.2
DPS	0.0	0.0	3.0	3.0
BVPS	231.4	251.0	270.4	307.1
Adj. BVPS	222.4	192.0	215.4	250.1
ROAA (%)	0.2	0.4	0.7	0.7
ROAE (%)	3.5	7.5	11.9	11.9
P/E (x)	28.6	11.2	7.9	6.0
P/ABV (x)	0.9	0.9	0.8	0.7
Dividend Yield (%)	0.0	0.0	1.4	1.4
PROFITABILITY				
NIM (%)	2.9	3.1	3	3
Cost-Income Ratio	52.5	51.3	52.1	52.1

Source: Company, Axis Research

Balance Sheet Structure Ratios				(%)
Y/E March	FY19	FY20E	FY21E	FY22E
Loan Growth (%)	6.4	3.0	11.0	13.0
Deposit Growth (%)	11.3	6.0	9.0	9.0
C/D Ratio (%)	71.7	69.7	71.0	73.6
CASA	44	44	43	43
Tier 1	11	10.8	10.8	11.1
CAR	13.1	13.3	13	12.9
ASSET QUALITY				
Gross NPLs (%)	6.2	6.5	5.9	5.4
Net NPLs (%)	2.2	2.2	1.9	1.8
Coverage Ratio (%)	65.2	67.8	68.8	67.2
Credit cost	1.8	2.0	1.5	1.4

Source: Company, Axis Research

CAN FIN HOMES – STEADY PLAYER

CAN FIN HOMES (CANF) is a 33year old retail focused housing finance company, promoted by Canara Bank (30% stake). It is focused largely in Tier II/III cities with 90% of loan book for housing and rest for non housing. It has 163 branches and 21 Affordable Housing centres across India.

Key Rationale

- Can Fin Homes (CANF) has been a consistent performer well cushioned by comfortable liquidity and stable asset quality compared to other HFCs. Balance sheet remains strongly capitalized with a tier-1 ratio of 22.5%.
- In Q2FY21, company's performance was marked by peak NIMs (4.1%, though not sustainable as indicated by management) and lower provisions (at 15cr down 66% QoQ; Prov/PPOP at ~8% vs 26% in Q1). While loan growth remained moderate at 6% YoY, fresh disbursements picked up to Rs 825cr vs 401cr QoQ. We expect loan growth to pick steadily in the coming quarters.
- Collection efficiency stands at ~93% (excluding prepayments/foreclosures). Costs control was maintained with C-I at 11.9% vs 15.4/11.2% YoY/QoQ.
- Delinquency pool for the company is significantly lower compared to the industry in both HL and LAP. Asset quality risk emanating from job losses and salary cuts is low.
- Management indicated H2FY21 could see an increase in NPAs but provisions are adequate given its AUM mix. High proportion of salaried and low builder loan exposure (0.03% of book) will support asset quality with lower loan losses.

Key Financials (Standalone)

Y/E Dec (Rs Cr)	NII (Rs Cr)	PPOP (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	ABV (%)	P/ABV (%)	ROAA (%)	NNPA (%)
2019	530	471	297	22.3	127.7	3.5	1.7	0.5
2020	675	579	376	28.3	153.1	2.9	1.9	0.5
2021E	784	675	441	33.1	184.8	2.4	2.0	0.8
2022E	862	738	517	38.8	223.7	2.0	2.2	0.6

Source: Company, Axis Securities; * OOH – Out-of-Home

Key Rationale

- **Outlook:** CANF is one of the better positioned players in the housing finance sector with a strong balance sheet, low NPAs, granular loan book and sound underwriting standards. It's ability to improve NIMs even in tough environment reflects its entrenched business model, even as book size is much smaller than peers. Focus of the company remains on collections in the near-term rather than growth. Given the low-ticket size segment that CANF operates in, coupled with low cost of funds the company is positioned well to arrest balance transfers to some extent.
- **Valuation.** While loan growth moderation is expected along-with slight asset quality deterioration on account of Covid-19, we expect the company to recover faster than its peers due to its loan mix and negligible developer exposure. Lower cost of funds should aid the company in maintaining NIMs while the loan mix profile skewed towards salaried segment will help in maintaining asset quality. We expect lower provisions and built in improved NIM for FY21E. We remain positive on the stock given its loan book profile, stable liquidity position and robust CAR (25%) and recommend BUY with target price of Rs 515 (2.3x FY22ABV)
- **Key risks:** Lack of Demand pick-up

CMP
472

Target Price
515

Upside
9%

Profit & Loss (Rs Cr)				
Y/E DEC	FY19	FY20	FY21E	FY22E
Net Interest Income	530	675	784	862
Other Income	32	12	8	10
Total Income	562	686	792	872
Total Operating Exp	92	108	117	134
PPOP	471	579	675	738
Provisions & Contingencies	1	60	79	40
PBT	470	518	596	698
Provision for Tax	173	142	155	182
PAT	297	376	441	517

Source: Company, Axis Research

Balance Sheet (Rs Cr)				
Y/E DEC	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS				
Share capital	27	27	27	27
Reserves and surplus	1,756	2,123	2,564	3,056
Shareholders' funds	1,782	2,150	2,591	3,082
Total Borrowings	16,694	18,748	18,785	20,513
Other Liabilities, provisions	303	145	158	150
Total	18,780	21,044	22,295	24,739
APPLICATION OF FUNDS				
Cash & Bank Balance	420	392	402	442
Investments	16	24	24	24
Advances	18,285	20,526	21,757	24,151
Fixed Assets & Other Assets	59	101	111	122
Total assets	18,780	21,044	22,295	24,739

Source: Company, Axis Research

Key indicators

(Rs Cr)

Cash Flow	FY19	FY20	FY21E	FY22E
VALUATION RATIOS				
EPS	22.3	28.3	33.1	38.8
Earnings Growth (%)	79.9	26.8	17.2	17.2
BVPS	134	161.7	194.8	231.7
Adj. BVPS	127.7	153.1	184.8	223.7
ROAA (%)	1.7	1.9	2	2.2
ROAE (%)	18.2	19.1	18.5	19.2
P/E (x)	21.0	16.5	14.1	12.0
P/ABV (x)	3.5	2.9	2.4	2.0
PROFITABILITY				
Yield on Advances	10	10.4	10.1	10.2
Cost of Borrowings	7.6	7.6	7.3	7.5
NIM (%)	3.1	3.5	3.8	3.5
Cost-Income Ratio	16.3	15.7	14.7	15.4

Source: Company, Axis Research

Balance Sheet Structure Ratios

(%)

Key Ratios	FY19	FY20	FY21E	FY22E
Loan Growth (%)	16.9	12.3	6	11
CAR	16.4	22.3	24.3	22.1
Tier 1	14.6	20.5	22.8	20.8
ASSET QUALITY				
Gross NPLs (%)	0.6	0.8	1.3	1
Net NPLs (%)	0.5	0.5	0.8	0.6
PCR	27.5	28.8	35	37
Credit costs	0	0.3	0.4	0.2

Source: Company, Axis Research

TECH MAHINDRA – STRONG BROAD BASED GROWTH

Tech Mahindra is India's leading IT services provider to many business conglomerate. Tech Mahindra is headquartered in Mumbai (India) and has strong presence across geographies like North America, Europe, Middle East, Australia etc. The company provides specialized IT services to its clients across verticals like Communications, Healthcare, and BFSI etc.

Key Rationale

- **Strong Q2 FY21 performance aided by capabilities:** Q2 revenue recovery of 2.9% QoQ cc was equally split between demand traction and easing of supply-side issues. Management expects demand momentum led by acceleration in Digital to aid further growth. Growth is expected to be in both: (i) Communications led by transformation of IT, network, systems, processes over the next 3-9 months and (ii) Enterprise led by traction in Digital with near term momentum expected to be led by Manufacturing, Retail and Utilities; there is a possibility of increased furloughs in Q3, but management has not witnessed any indication of it currently.
- **Strong deal wins and pipeline reflect demand acceleration:** Net new deal wins recovered to \$ 421 mn in Q2 (Q1FY21\$ 209mn, Q4FY20:\$ 513 mn) and large number of medium sized deals were closed in Q2. Moreover, deal pipeline is trending at all-time high led by (i) advanced stage discussions within network and core transformation within Communications and (ii) Data and Digital within Enterprise. Reflects demand acceleration.
- Tech Mahindra posted robust broad based growth. Its Telecommunication vertical grew by 3.1% QoQ, Technologies Media & Entertainment vertical grew by 13.5% QoQ, BFSI vertical grew by 9.7% QoQ, and Retail Transportations & Entertainment grew by 8.1% QoQ.

Key Rationale

- **Initial traction in 5G; may pick up in FY22:** Management sees initial traction in 5G both on (i) Communications side where traction is visible in modernization IT, network, process and systems, and (ii) Enterprise side where it signed 3 Manufacturing 5G solutions in Europe and 1 in US. While timing of pickup is difficult to predict, management expects 5G growth to pick up in FY22 or at most in FY23. We expect initial traction and pipeline build-up to aid network and core modernization for 5G within Communications in FY22. We see 5G for Enterprise as a longer term opportunity and expect it to pick up in FY23 and beyond.
- **Strong and sustainable margin growth:** Q2 operating margin expanded 410 bps to 14.2%. Margin expansion was aided mainly by (i) stabilization of demand and supply side constraints (+160 bps), (ii) offshore, utilization and sub-contracting cost (+160 bps) and (iii) normalization of seasonality in mobility business and absence of visa costs (+70 bps).
- **Valuations** We believe Tech Mahindra has a resilient business structure from a long term perspective. We recommend **BUY** and assign 16x P/E multiple to its FY23E earnings of Rs. 62.7, which gives a **TP of Rs. 975 per share.**

CMP
851

Target Price
975

Upside
15%

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs)	EBIDTA (Rs)	Net Profit (Rs)	FDEPS (Rs)	Change (%)	PER (x)	RoE (%)	RoCE (%)	Debt/Equity (%)
FY20	36,354	5,832	4,130	48.0	8	13.2	20%	19%	0
FY21E	37,548	6,563	4,230	50.0	4%	14.2	21%	19%	0
FY22E	42,354	7,498	4,852	55.0	10%	12.3	22%	19%	0
FY23E	47,860	10,495	5,531	62.7	14%	10.3	25%	21%	0

Source: Company, Axis Securities

Profit & Loss

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	36,354	37,548	42,354	47,860
Growth, %	5%	3%	13%	13%
Other income	1,090	1,232	1,380	1,561
Total income	3,744	3,878	4,373	4,942
Employee expenses	18,718	20,767	22,858	23,099
Other Operating expenses	6,561	7,611	8,307	9,194
EBITDA (Core)	5,832	6,563	7,498	10,495
Growth, %	-8%	13%	14%	40%
Margin, %	16%	17%	18%	22%
Depreciation	1,379	1,438	1,273	1,584
EBIT	4,453	5,126	6,225	8,911
Growth, %	-14%	15%	21%	43%
Margin, %	12%	14%	15%	19%
Interest paid	185	133	104	95
Pre-tax profit	5,358	6,225	7,501	10,377
Tax provided	1,268	1,666	2,008	3,228
Profit after tax	4,089	4,559	5,494	7,149
Net Profit	4,130	4,230	4,852	5,531
Growth, %	-4%	2%	15%	14%
Net Profit (adjusted)	4,130	4,230	4,852	5,531

Source: Company, Axis Research

Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Cash & bank	1,722	3,154	5,518	10,459
Debtors	7,370	8,336	9,225	10,209
Other current assets	6,590	6,590	6,590	6,590
Total current assets	22,065	24,803	28,359	34,007
Net fixed assets	1,971	1,243	431	431
CWIP	276	276	276	276
Other Non current assets	752	752	752	752
Deferred tax assets	609	609	609	609
Total Non Current Assets	361	288	207	207
	0	0	0	0
Total assets	33,543	35,964	39,321	44,341
	0	0	0	0
Creditors	2,592	2,795	2,971	3,114
Provisions	395	395	395	395
Total current liabilities	9,800	9,763	9,939	10,082
Other liabilities	42	42	42	42
Paid-up capital	433	433	433	433
Reserves & surplus	20,125	22,624	25,847	30,724
Shareholders' equity	2,056	2,306	2,628	3,116
Total equity & liabilities	33,543	35,964	39,321	44,341

Source: Company, Axis Research

Cash Flow

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	5,358	6,225	7,501	10,377
Depreciation	1,379	1,438	1,273	1,584
Chg in working capital	-820	-1,306	-1,192	-706
Total tax paid	1,268	1,666	2,008	3,228
Cash flow from operating activities	5,812	6,200	7,410	11,238
Capital expenditure	727	710	673	745
Cash flow from investing activities	-727	-710	-673	-745
Free cash flow	5,812	6,200	7,410	11,238
Dividend (incl. tax)	3,846	2,112	2,323	2,323
Cash flow from financing activities	-291	-281	-42	24
Net chg in cash	-321	1,432	2,364	4,941

Source: Company, Axis Research

Ratio Analysis

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share data				
EPS (INR)	48.0	50.0	55.0	62.7
Growth, %	-2%	4%	10%	14%
Book NAV/share (INR)	233.6	262.0	298.6	354.1
FDEPS (INR)	39	42	46	46
CEPS (INR)	62.6	68.7	77.5	99.8
CFPS (INR)	36.5	43.8	42.8	42.8
DPS (INR)	24	21	24	24
Return ratios				
Return on assets (%)	12%	13%	14%	16%
Return on equity (%)	20%	21%	22%	25%
Return on capital employed (%)	19%	19%	19%	21%
Turnover ratios				
Asset turnover (x)	18.4	32.6	69.8	65.0
Sales/Total assets (x)	18.4	32.6	69.8	65.0
Receivables Days	102.4	102.4	102.4	102.4
Cash conversion cycle	25.5	5.1	5.0	2.4
Liquidity ratios				
Current ratio (x)	2.2	2.4	2.7	3.2
Quick Ratio	1.4	1.6	1.9	2.3
Net debt/Equity (%)	0.0	0.0	0.0	0.0
Leverage Ratio	2.0	2.0	1.0	1.0
Valuation				
PER (x)	13.2	14.2	12.3	11.3
Price/Book (x)	3.3	2.9	2.6	2.2
EV/Net sales (x)	3.1	2.9	2.8	2.8
EV/EBITDA (x)	7.3	7.3	6.4	6.4
Dividend Yeild	4.4	2.9	4.4	4.4

Source: Company, Axis Research

BHARTI AIRTEL – AHEAD OF MARKET OPERATING PERFORMANCE

Bharti Airtel is one of the largest telecom companies in the world with operations spanning 18 countries and a subscriber base of more than 420 mn subscribers. It is the second largest wireless telecom operator in terms of revenue after Reliance Jio. Bharti Airtel is a well capitalized telecom operators with offerings across the telecom spectrum of enterprise and fixed line broadband services.

Key Rationale

- Bharti Airtel reported solid numbers Q2FY21 beating consensus estimates both on financial and operating parameters. The India wireless business reported robust numbers with an ARPU increase of 3% qoq to Rs 162 which was significantly higher than expectations. Data consumption has continued register very strong growth.
- Jio's ARPU improvement to Rs 145 from 140 was higher than Bharti on account of price hikes but Bharti still has the best quality subscriber.
- The margins for the quarter were quite robust with 47bps qoq improvement but the India business margins improved even more by 156bps qoq and 476bps YoY.
- The Africa business continues to perform well and it has been adding significant value in terms of consistent growth in operating profits and cash flows.
- Capex for the quarter at Rs 67bn was high vs Q1 FY21 as guided by the management it has declined from the peak levels.
- Indian telecom market has seen a major round of tariff hikes in the month of December with all the telecom operators taking tariff hikes. The full impact of tariff hikes was seen Q4FY20 revenues. The ARPU improvement in Q2FY21 was a function of customers upgrading and better post paid sales. However, considering the industry structure further tariff hikes cannot be ruled out in the forthcoming quarters which will lead to consistent EBIDTA improvement. Bharti's management indicated that ARPU will reach Rs 200 over the medium term but timing for tariff hikes is difficult to calibrate.

Key Rationale

- Regulatory challenges are well known and Bharti Airtel is well capitalized to deal with the payouts as it has raised enough capital (Rs 450bn equity in FY20) and has access to debt as there are no major business solvency risks associated with it.
- We maintain our ARPU assumptions and forecast 13%/17% CAGR for Revenue/EBIDTA over the period FY20-23E. Profit growth will be even more significant considering FY20E was a loss for the company. Our forecast is based on significant ARPU improvement from current Rs 162/subs/month (Q2FY20) to Rs 208/subs/month by end of Q4FY23. While the ARPU improvement seems significant but our FY23 ARPU forecast is similar to Q4FY15. Thus, our estimates are conservative considering the concentrated industry structure and far greater level of value provided to the customer.
- Jio has raised Rs 1. 4 trillion bn at an EV of Rs 5.1 trillion through a mix of strategic and PE deals. Jio's valuation is significantly higher than Bharti Airtel's current valuation (Rs 4.1 trillion) which has more lines of services, significantly higher revenues and geographies of operation.
- **Valuation:** We value the company based on SOTP valuation at Rs 676. The value could increase by a further Rs 40/share if Vodafone-Idea shuts down. Our SOTP valuation implies an EV/EBIDTA of 9.5x on FY22E EBIDTA.

CMP
450

Target Price
676

Upside
50%

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)	Debt/Equity (%)
FY20	81,068	25,819	(2,330)	(5.8)	NMF	9.8	2.5	(3.3)	144.6
FY21E	87,539	36,581	(38,187)	(74.4)	NMF	8.6	2.9	(47.8)	97.5
FY22E	49,009	49,009	47,858	93.2	4.8	6.7	1.8	37.5	64.3
FY23E	61,540	61,540	54,644	106.4	4.2	5.2	1.3	30.0	44.5

Source: Company, Axis Securities

Profit & Loss

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	87,539	103,293	118,820	132,428
Growth, %	8	18	15	11
Total income	87,539	103,293	118,820	132,428
Raw material expenses	-10,740	-9,281	-7,560	-8,196
Employee expenses	-3,807	-4,562	-4,870	-5,266
Other Operating expenses	-49,503	-52,899	-56,036	-60,428
EBITDA (Core)	36,581	49,009	61,540	70,654
Growth, %	41.7	34.0	25.6	14.8
Margin, %	41.8	47.4	51.8	53.4
Depreciation	-27,690	-29,335	-27,910	-26,110
EBIT	8,892	19,674	33,631	44,544
Growth, %	98.9	121.3	70.9	32.4
Margin, %	10.2	19.0	28.3	33.6
Interest paid	-13,205	-13,965	-12,160	-9,863
Other Non-Operating Income	288	1,176	1,046	1,038
Non-recurring Items	-40,362	-42	0	0
Pre-tax profit	-43,734	7,029	22,595	35,775
Tax provided	7,238	-6,516	-7,908	-12,521
Profit after tax	-36,496	514	14,687	23,254
Others (Minorities, Associates)	-1,691	47,302	39,957	42,510
Net Profit	-38,187	47,816	54,644	65,763
Growth, %	1,539.0	(225.3)	14.2	20.3
Net Profit (adjusted)	(38,187)	47,858	54,644	65,763
Unadj. shares (bn)	513.4	513.4	513.4	513.4
Wtd avg shares (bn)	513.4	513.4	513.4	513.4

Source: Company, Axis Research

Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Cash & bank	31,688	26,256	28,347	30,905
Marketable securities at cost	0	0	0	0
Debtors	0	0	0	0
Inventory	0	0	0	0
Loans & advances	0	0	0	0
Other current assets	46,983	39,561	39,781	40,009
Total current assets	78,671	65,817	68,128	70,914
Investments	0	0	0	0
Gross fixed assets	243,219	237,899	236,109	234,457
Less: Depreciation	0	0	0	0
Add: Capital WIP	0	0	0	0
Net fixed assets	243,219	237,899	236,109	234,457
Non-current assets	38,889	36,820	37,373	37,933
Total assets	363,497	384,159	392,190	409,982
Current liabilities	131,488	109,865	108,222	106,979
Provisions	0	0	0	0
Total current liabilities	131,488	109,865	108,222	106,979
Non-current liabilities	127,162	142,389	137,375	133,156
Total liabilities	258,650	252,253	245,597	240,135
Paid-up capital	2,567	2,567	2,567	2,567
Reserves & surplus	77,296	125,112	179,757	245,520
Shareholders' equity	104,848	131,906	146,593	169,846
Total equity & liabilities	363,497	384,159	392,190	409,982

Source: Company, Axis Research

Cash Flow

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	-43,734	7,029	22,595	35,775
Depreciation	27,690	29,335	27,910	26,110
Chg in working capital	-41,068	14,727	1,141	1,405
Total tax paid	7,796	-6,345	-7,508	-12,034
Other operating activities	0	0	0	0
Cash flow from operating activities	-51,997	45,488	44,115	51,232
Capital expenditure	-30,201	-24,016	-26,120	-24,457
Chg in investments	0	0	0	0
Chg in marketable securities	-26,806	7,422	-220	-228
Other investing activities	28,523	-2,603	-6,560	-12,647
Cash flow from investing activities	-1,026	-26,432	-32,602	-37,048
Free cash flow	-53,023	19,056	11,514	14,184
Equity raised/(repaid)	46,628	0	0	0
Debt raised/(repaid)	28,202	9,078	-7,305	-6,877
Dividend (incl. tax)	0	0	0	0
Other financing activities	0	0	0	0
Cash flow from financing activities	84,597	35,622	-7,305	-6,877
Net chg in cash	31,574	54,678	4,209	7,308
Opening cash balance	14,923	31,688	26,256	28,347
Closing cash balance	31,688	26,256	28,347	30,905

Source: Company, Axis Research

Ratio Analysis

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share data				
EPS (INR)	(74.4)	93.2	106.4	128.1
Growth, %	1,176.2	(225.3)	14.2	20.3
Book NAV/share (INR)	155.6	248.7	355.1	483.2
FDEPS (INR)	(74.4)	93.2	106.4	128.1
CEPS (INR)	(20.4)	150.4	160.8	179.0
CFPS (INR)		39.8	81.6	96.3
DPS (INR)	-	-	-	-
Return ratios				
Return on assets (%)	(9.0)	2.5	6.4	8.4
Return on equity (%)	(47.8)	37.5	30.0	26.5
Return on capital employed (%)	(13.8)	3.5	7.8	9.8
Turnover ratios				
Asset turnover (x)	0.6	0.7	0.8	0.9
Sales/Total assets (x)	0.3	0.3	0.3	0.4
Sales/Net FA (x)	0.4	0.4	0.5	0.6
Working capital/Sales (x)	(1.0)	(0.7)	(0.6)	(0.5)
Fixed capital/Sales (x)	2.7	2.2	1.9	1.7
Working capital days	(352.3)	(248.4)	(210.2)	(184.6)
Liquidity ratios				
Current ratio (x)	0.6	0.6	0.6	0.7
Quick ratio (x)	0.6	0.6	0.6	0.7
Interest cover (x)	0.7	1.4	2.8	4.5
Total debt/Equity (%)	144.6	97.5	64.3	44.5
Net debt/Equity (%)	104.9	77.0	48.7	32.0
Valuation				
PER (x)	(6.1)	4.8	4.2	3.5
Price/Book (x)	2.9	1.8	1.3	0.9
EV/Net sales (x)	3.6	3.2	2.7	2.3
EV/EBITDA (x)	8.6	6.7	5.2	4.4
EV/EBIT (x)	35.5	16.8	9.5	7.0

Source: Company, Axis Research

SECURITIES & INTELLIGENCE SERVICES – BETTER SERVICES MIX, STRONG EXECUTION

Securities and Intelligence services (SIS), is a security services providing company headquartered in Delhi, is a market leader in providing security services across sectors. SIS is having highest market penetrations in India and having strong presence in Australia, New Zealand, and Singapore etc. SIS also provides specialized services like Facility Management, Cash logistics and Electronic security services.

Key Rationale

- **Robust business structure in India:** India business has robust business structure and its revenue base has largely recovered (94% of Mar-20 levels) as key customer sectors like manufacturing, banking and healthcare are back at pre-Covid levels. Stress sectors like retail, entertainment and hospitality accounted for ~8% of segment revenue. SIS's inroads into tier 2 & 3 markets helped it minimize the impact of pandemic. As people starts joining offices demand will likely to witness traction across segments. Higher volumes on account of festivity should aid in reaching pre-Covid EBITDA margin levels.
- **Strong execution from international business:** Despite challenging global macros, international security business (double digit growth both in Q2 and H1) continued to outpace GDP growth rates in matured markets. Growth trajectory was aided by robust growth in Australia on increase in government contracts (account for ~46% of Australia revenue) and strong inflow of ad-hoc contracts for providing security at quarantine centres. This partially offset headwinds from business aviation/retail sectors (decrease in business due to pandemic). Despite pricing pressures, gross margin was maintained, and higher share of ad-hoc contracts (higher margin business) improved segmental EBITDA margin.

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)	DPS (Rs)	Debt/Equity (%)
FY20	8485	226	15.4	5.2	23.5	16%	15%	9.7	1.2	0.5
FY21E	9139	230	15.7	2.0	23.0	14%	14%	8.8	1.2	0.4
FY22E	10190	268	18.3	16.5	19.7	15%	14%	7.4	1.4	0.3
FY23E	11457	330	22.6	0.2	16.0	16%	16%	4.4	1.5	0.3

Source: Company, Axis Securities

Key Rationale

- **Recovery expected in Facility management services:** Weakness in revenue was on lower contribution from customer sectors like railway (down ~50% YoY; accounts for ~10% of FM revenue), hospitality, retail and entertainment. Many of these sectors are showing revival in Oct-20 and should result in substantial uptick in volume on festivity. We are also expecting strong rise in demand as railways are likely to start working with full capacity. Gross margin was intact; however, segmental EBITDA margin eroded on weak top-line. Management guided EBITDA margin to be back to historical levels in H2. Higher demand for disinfection and sanitation services under the new hygiene protocols would result in industry consolidation, as clients prefer vendors with scale. This would open multiple cross selling opportunities for SIS; targets to add new customers and increase wallet share of existing ones.
- **Valuations** We believe SIS has a resilient business structure from a long term perspective. We recommend **BUY** and assign 20x P/E multiple to its FY23E earnings of Rs. 22.6, which gives a TP of Rs. 450 per share

CMP
375

Target Price
450

Upside
20%

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	8,485	9,139	10,190	11,457
Other operating income	0	0	0	0
Total income	8,485	9,139	10,190	11,457
Cost of goods sold	6,980	7,457	8,402	9,446
Contribution (%)	17.7%	18.4%	17.6%	17.6%
Advt/Sales/Distrn O/H	985.2	1,122.7	1,141.3	1,283.1
Operating Profit	520	560	647	727
Other income	53	37	20	23
PBIDT	574	597	667	750
Depreciation	128	138	162	162
Interest & Fin Chg.	152	149	147	147
E/o income / (Expense)	(4)	0	0	0
Pre-tax profit	289	310	359	442
Tax provision	64	79	90	111
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Profit after Tax	226	230	268	330
Other Comprehensive Income	0.0	0.0	0.0	0.0
PAT after Comprehensive Income	226	230	268	330

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	3,412	3,567	3,809	4,130
Net Block	285.3	214.8	120.2	25.5
CWIP	0.0	0.0	0.0	0.0
Investments	1,240.8	1,253.2	1,265.7	1,278.4
Wkg. cap. (excl cash)	568	701	902	(244)
Cash / Bank balance	980	1,046	1,199	2,779
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	3,412	3,567	3,809	4,130
Equity capital	73.3	73.3	73.3	73.3
Reserves	1,475	1,685	1,930	2,260
Minority Interests	4.5	4.6	5.4	0.0
Borrowings	949	893	890	886
Def tax Liabilities	910	910	910	910

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Sources	643	275	449	528
Cash profit	506	518	577	639
(-) Dividends	20	20	24	0
Retained earnings	486	497	554	639
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	126.0	(12.9)	50.1	43.9
Borrowings	166	(8)	(8)	(8)
Others	(135)	(201)	(147)	(147)
Applications	643	275	449	528
Capital expenditure	136.9	41.9	104.3	104.4
Investments	0.6	0.0	0.0	0.0
Net current assets	35.4	123.5	190.8	150.0
Change in cash	469.8	109.6	153.3	157.0
Closing cash	890	999	999	999

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Sales growth	19.6	7.7	11.5	12.4
OPM				
Oper. profit growth	6.1	6.1	6.4	6.3
COGS / Net sales	42.5	7.6	15.6	12.4
Overheads/Net sales	82.3	81.6	82.5	82.5
Depreciation / G. block	11.6	12.3	11.2	11.2
Effective interest rate (%)	(210.9)	(195.8)	(171.3)	(171.3)
	17.3	16.7	16.5	16.5
Net wkg.cap / Net sales				
Net sales / Gr block (x)	0.06	0.07	0.08	0.03
	15.7	15.0	15.1	15.4
RoCE				
Debt / equity (x)	0.1	0.1	0.1	0.2
Effective tax rate	0.47	0.38	0.33	0.27
RoE	22.0	25.6	25.2	25.2
Payout ratio (Div/NP)	0.2	0.1	0.1	0.2
	7.5	7.5	7.5	0.0
EPS (Rs.)				
EPS Growth	15.4	15.7	18.3	22.6
CEPS (Rs.)	5.2	2.0	16.5	23.1
DPS (Rs.)	24.2	25.2	29.4	33.6

Source: Company, Axis Research

EICHER MOTORS – NEW PRODUCT LAUNCHES, PREMIUMIZATION TO DRIVE GROWTH

Eicher Motors Limited (Eicher), is a leading player in the Indian automobile industry. On a standalone basis, Eicher manufactures and markets motorcycles under the iconic Royal Enfield (RE) brand. It is a market leader with 96% share in the above 250cc premium motorcycle segment in India. Additionally, the company is also in a JV with Sweden's AB Volvo for Volvo Eicher Commercial Vehicles (VECV) Limited.

Key Rationale

- **Leadership in the premium motorcycle segment:** Royal Enfield (RE) commands a 96% market share in the above 250cc premium motorcycles segment in India. Despite its product being in the premium segment and having a higher ticket size, RE is witnessing strong demand even in current subdued economic environment. This can be attributed to Royal Enfield's strong brand pull among its customers and differentiated product offerings.
- **Strengthening its core; multiple levers of growth:** RE is turning more aggressive on product launches and plans to introduce a new bike every quarter over next 3-4 years. A big dealer network expansion is also underway, mainly targeting semi-urban and rural markets, which should fuel the next leg of growth. Exports offer another area of potential growth and the 650-cc bikes launched in 2019 have seen good traction in overseas markets.
- **Key beneficiary of the premiumization trend in Indian 2Ws:** The share of premium segment in Indian 2Ws has been increasing gradually over the years from ~15% in FY14 to ~22.7% in FY20. We believe RE offers one of the most differentiated products in Indian autos, and will be the key beneficiary of premiumization trend in the maturing 2W industry over the long term.

Key Rationale

- **Outlook:** The Company is now focusing on expanding its addressable market through: a) distribution expansion (through smaller format stores), b) price ladder (by offering multiple 'trim' levels), c) new product launches, and d) mass customizations. Company's VECV business is also expected to gradually pick-up as the CV industry demand recovers on the back up of opening up of the economy and increase in demand from sectors like infra, steel and cement.
- **Valuation:** In our opinion, Company is well-placed to benefit from a potential demand recovery in 2Ws by FY22 given its differentiated products and strong franchise. We expect the company to register Revenue/Ebitda/PAT CAGR of ~9%/~11%/~8% from FY20-FY23E driven by volume CAGR of 5.5% over FY20-23E. We recommend a BUY on the stock with a Target price of Rs 2,400, valuing the RE business at 25x FY23E P/E and VECV business at 9x FY23E EV/EBITDA.
- **Key risks:** Slower than expected demand recovery; failure of new product launches; and increasing competitive intensity in the premium segment

CMP
2,139

Target Price
2,400

Upside
12%

Key Financials (Standalone)

Y/E Dec (Rs Cr)	Net Sales	EBIDTA	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
FY20	9,077	2,204	1,904	70.0	30.3	23.0	7.0	24.7
FY21E	8,465	1,889	1,502	55.2	38.4	26.5	6.1	16.9
FY22E	10,311	2,475	1,963	72.1	29.4	19.6	5.2	19.1
FY23E	11,721	3,024	2,414	88.7	23.9	15.4	4.5	20.1

Source: Company, Axis Securities

Profit & Loss

(Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Net revenues	9,077	8,465	10,311	11,721
Operating expenses	6,874	6,576	7,836	8,697
EBIDTA	2,204	1,889	2,475	3,024
EBIDTA margin (%)	24.3	22.3	24.0	25.8
Other income	615	563	659	790
Interest	11	11	11	11
Depreciation	378	446	516	597
Profit Before Tax	2,430	1,995	2,606	3,206
Tax	527	492	643	791
Reported Net Profit	1,904	1,502	1,963	2,414
Net Margin (%)	21.0	17.7	19.0	20.6
Adjusted Net Profit	1,904	1,502	1,963	2,414

Source: Company, Axis Research

Balance Sheet

(Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Equity capital	27	27	27	27
Reserves & surplus	8,248	9,483	11,051	12,921
Shareholders funds	8,275	9,511	11,078	12,949
Total Loans	101	101	101	101
Deferred tax liability	252	252	252	252
Total Liabilities and Equity	8,628	9,863	11,431	13,301
Gross block	3,684	4,284	4,934	5,734
Depreciation	1,316	1,762	2,278	2,875
Net block	2,369	2,523	2,656	2,859
Capital WIP	312	312	312	312
Investments	3,926	3,920	5,420	7,820
Inventory	518	498	601	677
Debtors	134	125	152	173
Cash & Bank Bal	2,926	3,948	4,117	3,558
Loans & Advances	394	394	394	394
Current Assets	3,973	4,965	5,264	4,802
Sundry Creditors	1,021	970	1,171	1,319
Other Current Liability	930	887	1,052	1,173
Current Liability& Provisions	1,951	1,857	2,222	2,492
Net current assets	2,022	3,108	3,042	2,310
Misc Exp	0	0	0	0
Total Assets	8,628	9,863	11,431	13,301

Source: Company, Axis Research

Cash Flow

(Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
EBIT	1,826	1,443	1,958	2,427
Other Income	615	563	659	790
Depreciation & Amortisation	378	446	516	597
Interest paid(-)	11	11	11	11
Tax paid(-)	-628	-492	-643	-791
Extra Ord Income	-552	0	0	0
Operating Cash Flow	1,650	1,970	2,501	3,033
Change in Working Capital	92	-65	235	173
Cash flow from Operations	1,742	1,906	2,736	3,206
Capex	-555	-600	-650	-800
Strategic Investment	0	0	0	0
Non Strategic Investment	-964	5	-1,500	-2,400
Cash flow from Investing	-1,519	-595	-2,150	-3,200
Change in borrowing	-103	0	0	0
Others	28	0	0	0
Dividends paid(-)	-809	-267	-395	-544
Cashflow from Financial Activities	-883	-267	-395	-544
Change in Cash	-661	1,044	190	-537
Opening cash	691	19	1,041	1,210
Closing cash	19	1,041	1,210	651

Source: Company, Axis Research

Ratio Analysis

(%)

Key Ratios	FY20	FY21E	FY22E	FY23E
Revenue Growth	-7.3	-6.7	21.8	13.7
EBITDA Margin	24.3	22.3	24.0	25.8
Net Profit Margin	21.0	17.7	19.0	20.6
ROCE (%)	23.7	16.3	18.5	19.6
ROE (%)	24.7	16.9	19.1	20.1
EPS(Rs)	70.0	55.2	72.1	88.7
P/E (x)	30.3	38.4	29.4	23.9
P/ BV (x)	7.0	6.1	5.2	4.5
EV/ EBITDA (x)	23.0	26.5	19.6	15.4
Fixed Assets Turnover Ratio (x)	3.4	3.0	3.5	3.7
Debt / Equity (x)	0.0	0.0	0.0	0.0
EV/ Sales (x)	5.6	5.9	4.7	4.0
Revenue Growth	-7.3	-6.7	21.8	13.7
EBITDA Margin	24.3	22.3	24.0	25.8
Net Profit Margin	21.0	17.7	19.0	20.6
ROCE (%)	23.7	16.3	18.5	19.6
ROE (%)	24.7	16.9	19.1	20.1
EPS(Rs)	70.0	55.2	72.1	88.7
P/E (x)	30.3	38.4	29.4	23.9
P/ BV (x)	7.0	6.1	5.2	4.5
EV/ EBITDA (x)	23.0	26.5	19.6	15.4
Fixed Assets Turnover Ratio (x)	3.4	3.0	3.5	3.7
Debt / Equity (x)	0.0	0.0	0.0	0.0
EV/ Sales (x)	5.6	5.9	4.7	4.0

Source: Company, Axis Research

DALMIA BHARAT – STRONG DEMAND REVIVAL & BETTER COST CONTROL

DBL is among the top five cement producers in India having capacity of 26.5 mntpa with strong market position in its key markets of South, East and North East India. The company has overall market share of 5% in the Indian cement industry. Currently the company is in the process of expanding its existing capacity from 26.5 mntpa to 37.3 mntpa which will get operational in phases over FY21 to FY22. Dalmia Cement's availability spans across 22 states and union territories, mainly in East, North East and Southern India, with selective presence in Uttar Pradesh and Maharashtra. The company offer a range of cement variants through various brand portfolio of three marquee brands: Dalmia Cement, Dalmia DSP and Konark Cement.

Key Rationale

- DBL is in the process of expanding its present capacity by 40% (including acquisition of Murali Industries 3 mntpa awarded under NCLT proceedings) from 26.5 mntpa to 37.3 mntpa. These capacities will get operational in phases over next 6 to 18 months time. Since majority of these expansions are taking place (7.8 mntpa) in the eastern region, the gain in market share is imminent. The acquisition of Murali Industries will allow the company to capture western markets where currently the company has no operating facility
- The company reported stellar Q2FY21 results driven by volume growth and effective cost control indicating better operating efficiency. DBLs integrated operations, better cement to clinker ratio, introduction of portland composite cement, digitisation of sales channel and effective utilization of resources makes it one of the efficient cost producer of cement in India
- **Key risks:** Deterioration in cement demand supply dynamics, fluctuation in input prices, cyclicity of the cement industry

Key Rationale

- The company capacity is geographically diversified (45.7% in southern region, 39.24% in East and balance 15% in North-East region which will keep company relatively insulated from regional demand supply fluctuations. Further acquisition of Murali Industries gives the company opportunity to explore Western market. With the commissioning of extended capacity the company will further consolidate its position in its key markets. The market share of the company in East will increase from current 12% to 19% with the commissioning of the extended facility.
- **Outlook &Valuation:** The revival in cement demand augurs well for the company on the back of demand improvement both in the trade and non trade channel. With capacity expansion, better monitoring of cost drivers and increased realization, DBL is expected to report Revenue/Ebitda/APAT CAGR of 14%/15%/22% respectively between FY21E-FY23E. We value DBL at 6.5x FY22E EV/EBITDA to arrive at TP of Rs.1083.

CMP
893

Target Price
1083

Upside
21%

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
2020	96740	21060	2380	12.3	39.7	5.8	0.9	2.2
2021E	97195	27716	8976	48.1	18.4	6.8	1.5	8.1
2022E	115626	33445	11706	62.7	14.2	5.3	1.4	9.6
2023E	126514	36034	13406	71.8	12.4	4.4	1.2	10

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	96740	97195	115626	126514
Other operating income	0	0	0	0
Total income	96740	97195	115626	126514
Raw Material	17460	16943	20332	22162
Power & Fuel	17380	13866	16639	18136
Freight & Forwarding	18950	18827	22592	24399
Employee benefit expenses	6750	6770	7582	8492
Other Expenses	15140	13075	15036	17291
EBITDA	21060	27716	33445	36034
Other income	2170	2430	2891	3163
PBIDT	23230	30145	36336	39196
Depreciation	15280	12495	14688	15069
Interest & Fin Chg.	4380	3842	3638	3502
E/o income / (Expense)	0	0	0	0
Pre-tax profit	3570	13809	18010	20625
Tax provision	1190	4833	6303	7219
RPAT	2380	8976	11706	13406
Minority Interests	-140	-100	-140	-140
Associates	0	0	0	0
APAT after EO item	2240	8876	11566	13266

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	206110	208601	218312	230083
Net Block	141270	143355	142561	133838
CWIP	17020	9000	3000	3000
Investments	1180	1180	1180	1180
Wkg. cap. (excl cash)	5420	6125	6969	7626
Cash / Bank balance	4030	1757	2321	6658
Misc. Assets	37190	47184	62281	77782
Capital employed	206110	208601	218312	230083
Equity capital	386	374	374	374
Reserves	105220	110542	121688	134534
Minority Interests	250	250	250	250
Borrowings	54210	56500	53500	51500
Def tax Liabilities	12770	12800	12800	12800
Other Liabilities and Provision	33274	28135	29701	30625

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Profit before tax	3570	13809	18010	20625
Depreciation	15280	12495	14688	15069
Interest Expenses	3640	3842	3638	3502
Non operating/ EO item	-1190	-2430	-2891	-3163
Change in W/C	2740	-745	-845	-656
Income Tax	-660	-4833	-6303	-7219
Operating Cash Flow	23380	21828	26297	28158
Capital Expenditure	-13500	-14579	-13895	-6346
Investments	0	-1570	-7531	-14576
Others	-4100	1470	1330	1330
Investing Cash Flow	-17600	-13579	-18535	-17759
Borrowings	120	-3010	-3000	-2000
Interest Expenses	-4680	-3842	-3638	-3502
Dividend paid	-930	-374	-560	-560
Others	-430	0	0	0
Financing Cash Flow	-5920	-7226	-7198	-6062
Change in Cash	-140	-2273	564	4337
Opening Cash	2800	2660	387	951
Closing Cash	2660	387	951	5288

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Operational Ratios				
Sales growth	2%	0%	19%	9%
OPM	22%	29%	29%	28%
Op. profit growth	8%	32%	21%	8%
COGS / Net sales	56%	51%	52%	51%
Overheads/Net sales	23%	20%	20%	20%
Depreciation / G. block	8.2%	6.0%	6.4%	6.4%
Effective interest rate	7%	7%	7%	7%
Efficiency Ratios				
Total Asset turnover (x)	0.47	0.47	0.53	0.55
Sales/Gross block (x)	0.46	0.50	0.54	0.54
Sales/Net block(x)	0.68	0.68	0.81	0.95
Working capital/Sales (x)	0.06	0.08	0.13	0.23
Valuation Ratios				
P/BV (x)	0.89	1.18	1.07	0.97
EV/Ebitda (x)	5.84	6.83	5.33	4.36
EV/Sales (x)	1.27	1.95	1.54	1.24
EV/Tonne \$ (x)	63	73	65	57
Return Ratios				
ROE	2.24	8.27	10.03	10.41
ROCE	5.0	11.1	13.2	14.0
ROIC	6.16	13.71	17.25	20.97
Leverage Ratios				
Debt / equity (x)	0.56	0.51	0.44	0.38
Net debt/ Equity (x)	0.27	0.24	0.12	-0.04
Debt service coverage ratio (x)	0.13	0.31	0.40	0.47
Interest Coverage ratio (x)	1.82	4.59	5.95	6.89

Source: Company, Axis Research

VARUN BEVERAGES – NORMALCY IN BUSINESS RESTORING

Varun Beverages Ltd (CBL) is the 2nd largest franchisee for PepsiCo in the world (outside USA). Products manufactured by VBL include Carbonated Soft Drinks - Pepsi, Mountain Dew, Seven Up, Mirinda; Non Carbonated Beverages - Tropicana Slice, Tropicana Frutz; and Bottled water – Aquafina. It operates in India and is also the exclusive bottler for PepsiCo in Nepal, Sri Lanka, Morocco, Zambia and Zimbabwe.

Key Rationale

- Q3CY20 performance was healthy on a YoY basis with in-home consumption growing 20-25% rate. During September VBL reported a 13% growth in volumes and this trend is likely continuing in October too. Further, with bunching up of festive season in Q4CY20, resumption of public transports aiding on-the-go consumption and continuing in-home consumption trend both in rural, semi-urban (~60% of Q3CY20 sales) and urban areas bodes well for VBL going forward. Expect EBITDA Margins to stabilize in 21-22% ranged on the back of improved mix and cost rationalization initiatives taken during the pandemic.
- **Low per capita soft drink consumption in India** of 44 bottles as of 2016 as compared to 271 bottles in China, 1,496 bottles in USA and 1,489 bottles in Mexico offers immense scope for growth from deeper penetration of soft drinks in India is a structural growth opportunity.
- **Key risks:** concerns on second COVID wave in India (50% OOH* consumption), seasonality, regulatory actions against soft drinks if any.

Key Rationale

- **Outlook:** With business growth restoring aided by unlock as witnessed in Q3CY20, we do expect this momentum to continue. Trend of in-home consumption has seen an increase and is likely to continue as consumers get habituated to consuming soft drinks at home. Rural regions are likely to grow ahead of urban counterparts on the back of healthy outlook for agriculture. Share gain opportunities from smaller players could further boost its market share especially in acquired territories of South and West where company will look to add dealers ahead of the season in CY21.
- **Valuation.** We expect VBL to register Revenues/Earnings CAGR of 11%/30% resp. over CY19-22E. This growth will be driven by 1) consolidation in newly acquired territories, 2) distribution led market share gains, 3) cost efficiencies leading to margin tailwinds to support EBITDA Margin in CY20E/CY21E. At CMP, stock trades at an attractive valuation of 9.3x EV/EBITDA on CY22E basis versus its 3 year mean of 14x EV/EBITDA.

CMP
694

Target Price
865

Upside
25%

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	Net Sales	EBIDTA (Rs C)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
CY19	7,130	1,448	472	16.8	42.1	15.9	6.1	17.6
CY20E	6,390	1,297	376	13.0	51.6	16.7	5.3	10.7
CY21E	8,732	1,851	798	27.6	24.3	11.4	4.4	19.8
CY22E	9,715	2,118	1,038	35.9	18.7	9.3	3.7	21.5

Source: Company, Axis Securities; * OOH – Out-of-Home

Profit & Loss

(Rs Cr)

Y/E DEC	CY19	CY20E	CY21E	CY22E
Total Net Sales	7,130	6,390	8,732	9,715
Total Raw Material Consumption	3,219	2,767	3,798	4,197
Staff costs	811	805	1,030	1117
Other Expenditure	1,652	1,521	2,052	2,283
Total Expenditure	5,682	5,093	6,881	7,597
EBITDA	1,448	1,297	1,851	2,118
Depreciation	488.6	546	574	603
EBIT	959	751	1,277	1,515
Interest	310	277	216	146
Other Income	43	45	44	68
PBT	696	523	1,108	1441
Tax	224	146	310	404
APAT	472	376	798	1,038

Source: Company, Axis Research

Balance Sheet

(Rs Cr)

Y/E DEC	CY19	CY20E	CY21E	CY22E
Share Capital	289	289	289	289
Reserves & Surplus	3,040	3,367	4,054	4,967
Net Worth	3,359	3,687	4,373	5,286
Total Loan funds	2,823	2,523	2,123	1623
Deferred Tax Liability	283	283	283	283
Long Term Provisions	170	146	201	222
Capital Employed	6,635	6,639	6,980	7,414
Net Block	5,893	5,837	5,742	5,619
Investments	45	41	56	62
Sundry Debtors	173	175	239	266
Cash & Bank Bal	171	225	501	1227
Inventory	882	531	957	862
Other Current Assets	440	394	539	599
Total Current Assets	1,672	1,332	2,243	2,961
Current Liabilities & Provisions	1,753	1,442	1,968	2,171
Net Current Assets	(81)	(110)	275	790
Total Assets	6,635	6,639	6,980	7,414

Source: Company, Axis Research

Cash Flow

	(Rs Cr)			
Cash Flow	CY19	CY20E	CY21E	CY22E
PBT	696	523	1,108	1441
Depreciation & Amortization	489	546	574	603
Provision for Taxes	295	277	216	146
Chg in Deferred tax	35	-	-	-
Chg in Working cap	(85)	63	(69)	226
Direct tax paid	(120)	(146)	(310)	-404
Cash flow from operations	1,310	1,263	1,519	2,012
Chg in Gross Block	(754)	(583)	(515)	(516)
Chg in Investments	(1,625)	-	-	-
Chg in WIP	68	-	-	-
Cash flow from investing	(2,311)	(583)	(515)	(516)
Proceeds / (Repayment) of Short Term Borrowings (Net)	560	-	-	-
Repayment of Long Term Borrowings	46	-	-	-
Loans Repayment	-	(300)	(400)	-500
Finance Cost paid	(301)	(277)	(216)	-146
Dividends paid	(69)	(49)	(112)	-125
Dividend Distribution Tax paid	(9)	-	-	-
Cash flow from financing	1,110	(626)	(728)	-771
Chg in cash	100	54	276	726
Cash at start	42	171	225	501
Cash at end	142	225	501	1227

Source: Company, Axis Research

Ratio Analysis

	(%)			
Key Ratios	CY19	CY20E	CY21E	CY22E
Growth (%)				
Net Sales	39.7%	-10.4%	36.6%	11.3%
EBITDA	43.8%	-10.4%	42.7%	14.4%
APAT	57.5%	-20.3%	112.0%	30.0%
Per Share Data (Rs.)				
Adj. EPS	16.8	13.0	27.6	35.9
BVPS	116.4	127.7	151.5	183.1
Profitability (%)				
EBITDA Margin	20.3%	20.3%	21.2%	21.8%
Adj. PAT Margin	6.6%	5.9%	9.1%	10.7%
ROCE	17.0%	11.3%	18.8%	21.0%
ROE	17.6%	10.7%	19.8%	21.5%
Valuations (X)				
PER	42.1	51.6	24.3	18.7
P/BV	6.1	5.3	4.4	3.7
EV / EBITDA	15.9	16.7	11.4	9.3
EV / Net Sales	3.2	3.4	2.4	2.0
Turnover Days				
Asset Turnover	1.0	0.8	1.0	1.0
Inventory days	82.8	93.1	71.5	79.1
Debtors days	7.7	9.9	8.7	9.5
Creditors days	45.0	54.0	38.9	42.9
Working Capital Days	45.4	49.1	41.3	45.8
Gearing Ratio				
Debt: Equity (x)	0.8	0.7	0.5	0.3

Source: Company, Axis Research

AARTI INDUSTRIES – A PREFERRED PARTNER OF CHOICE

Aarti Industries Ltd. (AARTO) is the largest producers of Benzene based basic and intermediate chemicals in India. AARTO is a preferred partner of choice for +1000 customers globally. It has a product basket of +200 products and operates through 17 manufacturing plants and 4 R&D centres in India. Specialty Chemicals/Pharma forms 83%/17% of revenues as of FY20 while Export contribution stands at 42% of revenues.

Key Rationale

- The US Environmental Protection Agency last week allowed farmers to use dicamba herbicide that are sold by Bayer and other companies for another 5 years. The US appeals court had blocked its sales in June. Interestingly, ARTO had signed multi-year supply deal with Bayer for the intermediate and ban in the US led to cancellation of the deal with adequate compensation. The extension of usage provides more business opportunity to Aarti in the medium term over and above the compensation.
- Rising share of down-stream value added products was seen in Q1FY21, value added products share was 74% we expect this trend to improve going ahead. Further, focus will be on ramping up utilization levels of its value added products given no major capex plans over next 12-24 months.
- Over 3-4 years, management guided to grow EBITDA/PAT at 12-18%/15-20% CAGR resp in the Sp. Chem segment. While, Pharma segment to report Revenue CAGR of ~20%; EBITDA Margin of 20% over the coming 5 year period.

Key Rationale

- **Outlook:** We believe acceleration of shift in supply chain independent of China by global chemical majors, long customer approval cycles, execution of multi-year deals, huge export opportunities for organic and inorganic bulk chemicals & pharmaceuticals, large domestic opportunity augurs well for specialty chemical companies like Aarti.
- **Valuation:** As a result, we expect Aarti to report Earnings growth of 42%/16% in FY22/23E. Lower crude prices and cost optimization could help protect Op. Margins in the near to medium term. As a result we expect Aarti to report earnings growth of 23%/12% in FY22/23E on the back of a strong recovery in volumes in Specialty Chemicals segment and sustained performance of Pharma division. We expect a strong improvement in FY22/23E ROE from a dip in FY21E owing to adverse impact of COVID-19 on overall business.
- **Key risks:** delay in commissioning of multiyear contracts, sharp slowdown in key end user industries, lockdown extension.

CMP
1105

Target Price
1,263

Upside
14%

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
FY20	4,186	986	536	30.8	32.0	19.0	5.8	18.8
FY21E	4,272	1,030	516	29.6	33.6	17.8	5.0	15.7
FY22E	5,261	1,326	734	42.1	23.7	13.6	4.2	19.0
FY22E	5,876	1,487	850	48.8	20.4	11.6	3.5	18.4

Source: Company, Axis Research

Profit & Loss

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	4,186	4,272	5,261	5,876
Other operating income	9	9	11	0
Total income	4,195	4,281	5,272	5,876
Cost of goods sold	2,955	3,004	3,654	4,068
Contribution (%)	29.4%	29.7%	30.6%	30.8%
Advt/Sales/Distrn O/H	254.2	247.3	292.0	320.8
Operating Profit	986	1,030	1,326	1,487
Other income	0	0	0	0
PBIDT	986	1,030	1,326	1,487
Depreciation	185	266	305	320
Interest & Fin Chg.	125	134	127	115
E/o income / (Expense)	0	0	0	0
Pre-tax profit	676	630	895	1,052
Tax provision	129	113	161	202
(-) Minority Interests	11	0	0	0
Associates	0	0	0	0
Other Comprehensive Income	0.0	0.0	0.0	0.0
Adjusted PAT	536	516	734	850

Source: Company, Axis Research

Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	5,738	6,658	7,077	7,765
Net Block	2,561	3,224	3,570	3,712
CWIP	1,417.6	584.2	279.3	123.2
Investments	37.0	37.0	37.0	37.0
Wkg. cap. (excl cash)	1,475	1,466	1,781	1,903
Cash / Bank balance	247.3	1,347.5	1,409.7	1,990.0
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	5,738	6,658	7,077	7,765
Equity capital	87.1	87.1	87.1	87.1
Reserves	2,984	3,404	4,023	4,911
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	94.6	94.6	94.6	94.6
Borrowings	2,361	2,861	2,661	2,461
Def tax Liabilities	211.0	211.0	211.0	211.0

Source: Company, Axis Research

Cash Flow

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Sources	768	914	853	975
Cash profit	857	917	1,165	1,284
(-) Dividends	106	96	115	125
Retained earnings	750	820	1,050	1,159
Issue of equity	(0.0)	0.0	0.0	0.0
Change in Oth. Reserves	10.8	0.0	0.0	0.0
Borrowings	114	228	-70	-70
Others	-107	-134	-127	-115
Applications	768	914	853	975
Capital expenditure	1,757.7	95.6	346.1	142.2
Investments	3.9	0.0	0.0	0.0
Net current assets	0.5	(281.4)	444.9	252.1
Change in cash	(993.9)	1,100.2	62.2	580.3

Source: Company, Axis Research

Ratio Analysis

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
Sales growth	0.4	2.0	23.2	11.7
OPM	23.5	24.1	25.2	25.3
Oper. profit growth	2.0	4.4	28.8	12.1
COGS / Net sales	70.6	70.3	69.5	69.2
Overheads/Net sales	6.1	5.8	5.6	5.5
Depreciation / G. block	4.2	5.0	5.1	5.1
Effective interest rate	6.4	6.5	5.7	5.7
Net wkg.cap / Net sales (x)	0.26	0.25	0.23	0.24
Net sales / Gr block (x)	1.0	0.8	0.9	0.9
RoCE	14.7	12.4	14.9	15.7
Debt / equity (x)	0.6	0.7	0.5	0.4
Effective tax rate	19.1	18.0	18.0	19.2
RoE	18.8	15.7	19.0	18.4
Payout ratio (Div/NP)	19.8	18.6	15.7	14.7
EPS (Rs.)	30.8	29.6	42.1	48.8
EPS Growth	9.0	(3.7)	42.1	15.8
CEPS (Rs.)	41.4	44.9	59.6	67.1
DPS (Rs.)	6.1	5.0	6.0	6.5
Valuation (x)				
P/E	32.0	33.6	23.7	20.4
P/BV	5.8	5.0	4.2	3.5
EV/EBITDA	19.0	17.8	13.6	11.6
Mcap/Sales	4.1	4.1	3.3	3.0

Source: Company, Axis Research

DHANUKA AGRITECH – DOMESTIC PLAY A BRIGHT SPOT

Dhanuka Agritech Ltd (DAGRI) is a leading agrochemical company in India catering to domestic crop protection market in collaboration with the world's seven leading agrochemical companies from US, Japan and Europe that helps it introduce the latest technology in Indian farmlands. The company offers crop protection products and speciality plant nutrient products & solutions through its strong PAN India distribution network consisting of 7000+ distributors & ~80,000 retailers which reach out to ~10 million Indian farmers.

Key Rationale

- **Strong product portfolio backed by collaboration with global MNC's:** Dhanuka has a strong collaboration with global MNCs to market their products in India. The partnership revenues contributed ~45% in FY20. We expect this contribution to grow as the company targets to launch 10 new products across all segments over the next 2-3 years with focus on margin accretive products in 9(3) categories. So far in FY21E, DAGRI has launched 4 new products of which 2 are in the 9(3) category and the pace of launches is expected to be maintained going forward.
- **Pan India distribution network:** DAGRI has a strong presence in southern and western regions which contributes ~65% to its revenues. DAGRI has established an extensive, pan-India distribution network replicating a typical rural FMCG distribution model. This is a key competitive advantage the company enjoys and can be leveraged with MNCs to drive further growth.

Key Rationale

- **Valuation:** We expect DAGRI to register Revenue/EBITDA/PAT CAGR of 16%/21%/20% respectively over FY20-23E given 1) Strong product portfolio with 4-5 new product launches and one or two 9(3) molecules annually in the domestic formulation business, 2) Stable revenue given collaboration with global MNCs, 3) PAN India distribution network of 7000+ dealers and strong marketing team to penetrate further into newer markets. At CMP, stock trades at 14x FY23E EPS and is fairly valued in our view. We assign a target multiple of 17x FY23E EPS.
- **Key Risks:** The business is sensitive to weather conditions, including extremes such as drought and natural disasters. Results of operations are significantly affected by weather conditions in the agricultural regions where agro chemical products are used.

CMP
733

Target Price
880

Upside
20%

Key Financials

Y/E Mar (Rs Cr)	Net Sales	EBIDTA	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
FY20	1,120	174	142	29.8	12.9	10.1	2.6	21.0
FY21E	1,402	233	181	38.4	19.1	24.1	4.4	24.1
FY22E	1,581	275	216	45.9	16.0	25.1	3.7	25.1
FY23E	1,744	309	243	51.8	14.2	24.0	3.1	24.0

Source: Company, Axis Securities

Profit & Loss

(Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Total Net Sales	1,120	1,402	1,581	1,744
Total Raw material Consumption	712	876	973	1,069
Staff costs	105	126	150	166
Other Expenditure	129	167	183	201
Total Expenditure	234	293	334	366
EBITDA	174	233	275	309
EBITDA Margin %	19.1	33.8	18.2	12.2
Depreciation	16	19	20	21
EBIT	158	213	255	288
EBIT Margin %	14.1	15.2	16.2	16.5
Interest	2	2	2	2
Other Income	25	30	35	40
PBT	181	241	288	326
Tax	39	61	73	82
APAT	142	181	216	243

Source: Company, Axis Research

Balance Sheet

(Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Share Capital	10	10	10	10
Reserves & Surplus	701	778	920	1,090
Net Worth	710	787	929	1,099
Total Borrowings	8	10	10	12
Deferred Tax Liability	5	5	5	5
Long Term Provisions	6	6	6	6
Other Long-Term Liability	16	20	25	30
Capital Employed	745	828	975	1,152
Gross Block	167	179	190	204
Less: Depreciation	51	70	89	110
Net Block	115	109	101	94
Other Non-Current Assets	151	164	178	195
Investments	60	50	90	120
Sundry Debtors	242	307	342	378
Cash & Bank Bal	26	13	68	147
Loans & Advances	33	31	50	60
Inventory	250	319	351	379
Other Current Assets	57	59	73	95
Total Current Assets	668	779	975	1,179
Curr Liab & Prov	189	224	278	315
Net Current Assets	479	555	696	863
Total Assets	745	828	975	1,152

Source: Company, Axis Research

Cash Flow

(Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
PBT	181	241	288	326
Depreciation & Amortization	16	19	20	21
Chg in Working cap	16	-39	-22	-37
Direct tax paid	36	61	73	82
Cash flow from operations	163	133	181	190
Chg in Gross Block	-11	-12	-11	-13
Chg in Investments	-24	-68	-83	-72
Proceeds on redemption of Fin. Assets	14	30	35	40
Cash flow from investing	-44	-50	-59	-45
Proceeds / (Repayment) of Short Term Borrowings (Net)	-14	6	5	7
Proceeds from issue of Equity Instruments of the company		-100		
Loans	-5			
Finance Cost paid	-2	-2	-2	-2
Dividends paid	-72		-70	-70
Cash flow from financing	-93	-96	-67	-65
Chg in cash	25	-13	55	79
Cash at start	1	26	13	68
Cash at end	26	13	68	147

Source: Company, Axis Research

Ratio Analysis

(%)

Key Ratios	FY20	FY21E	FY22E	FY23E
Growth (%)				
Net Sales	11.4	25.2	12.8	10.3
EBITDA	19.1	33.8	18.2	12.2
APAT	26.1	27.2	19.5	12.9
Per Share Data (Rs.)				
Adj. EPS	29.8	38.4	45.9	51.8
BVPS	149	168	198	234
DPS				
Profitability (%)				
EBITDA Margin	15.5	16.6	17.4	17.7
Adj. PAT Margin	12.7	12.9	13.6	14.0
ROCE	22.3	27.4	28.6	27.3
ROE	21.0	24.1	25.1	24.0
ROIC				
Valuations (X)				
PER	12.9	19.1	16	14.2
P/BV	2.6	4.4	3.7	3.1
EV / EBITDA	10.1	14.6	12.0	10.4
EV / Net Sales	1.6	2.4	2.1	1.8
Turnover Days				
Asset Turnover	7.3	8.8	9.2	9.5
Inventory days	81	83	81	79
Debtors days	79	80	79	79
Creditors days	58	55	58	57
Working Capital Days	102	108	102	101
Gearing Ratio				
Total Debt:Equity (x)				

Source: Company, Axis Research

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