TOP PICKS

January 2023

AXIS SECURITIES

Near-Term Volatile, Continue 'Buy On Dips' Strategy for Equities

As we turn the final page of 2022, we sincerely wish a 'Happy New Year' to all our beloved patrons and welcome 2023 with great enthusiasm. May the new year bring prosperity, peace, and happiness to all of you and your families.

Axis Top Picks basket outperformed the benchmark by a significant margin as it delivered an impressive return of 11% in 2022 as against 4.3% posted by Nifty 50 during the year. The basket, however, declined by 1.8% in Dec'22 on account of the volatile equity market but it still managed to beat the 3.5% de-growth reported by the benchmark Nifty 50 on an MoM basis. Furthermore, the basket has delivered an astounding return of 149% since its inception (May'20), which stands significantly higher than the 95% returns delivered by NIFTY 50 over the same period. Keeping this in view, we continue to believe in our thematic approach to Top Picks selection.

In 2022, the Indian market outperformed other global and emerging markets by a notable margin, which owes its credit to the country's robust economic outlook despite multiple headwinds it faced including the Russia-Ukraine geopolitical crisis, policy tightening, rising inflation, and volatile FII flows. Against this backdrop, our benchmark index posted an encouraging growth of 4.3% in 2022 while the S&P 500 and Emerging Market indices tanked by 19% and 20% respectively. Similar to our benchmark index, the broader market in India, too, showed remarkable resilience in the last one year vis-à-vis its global peers as Mid Cap inched up by 3.5% while the Small Cap index declined only marginally by 3.6%. Moreover, Indian investors have shown a good deal of maturity in the last one year – a pivotal reason for the Indian Market to not witness adverse panic reactions as seen in other economies. On the sector front, PSU Banks, Metals, FMCG, Energy and Auto indices have closed on a positive note in the last one year while Realty, IT, Media, and Pharma have closed on a negative note over the same period.

Dec'22 was a volatile month for the market in which broader market recovery was seen during the first half of the month. However, incremental volatility was seen during the second half of the month on account of rising Covid cases in China as well as the rising bond yield in the US market. In the last two weeks, the US bond yield has inched up by 40bps, indicating an expectation of further rate hike by the US FED to the tune of 50bps in the upcoming FOMC meeting as against the earlier expectation of 25bps. This, however, still depends on the evolving data points. Led by these developments, Nifty 50 declined by 3.5% during the month while Mid Cap/ Small Cap declined marginally by 17%/1.8% MoM. On a sectoral front, all indices, except Metals and PSU banks, closed on a negative note. High-frequency indicators such as GST collection, power consumption, and E-way bills are pointing upwards on a sequential basis, indicating robust demand even after the festival season. In this context, Q3FY23 earning season remains critical. The market fundamentals are likely to be driven by earnings commentaries as well as margin recovery with a cool-off in commodity prices on a sequential basis. In Q3FY23, banks are likely to post an encouraging set of numbers on account of an uptick in credit growth. On the other hand, export-oriented themes are likely to be laggards. Currently, we foresee FY23/24/25 NIFTY EPS at 817/930/1049 with a growth of 11%/14%/13% respectively and we will revise our numbers post the earnings season.

Along with the earnings season, the market will continue to be driven by pre-budget expectations. We expect Union Budget – 2023 to be a growth-oriented budget given that the state elections are lined up in over 9 states in 2023. We believe the policy reforms such as Atmanirbhar Bharat, 'Make in India', and the PLI scheme are likely to continue in FY24 as well and would receive further impetus in the upcoming budget. The consequent higher government spending on infrastructure development will help the economy gain further growth momentum moving ahead. The efforts are expected to continue around Defence, Railways, and Road Infra development. Moreover, infrastructure spending and the focus on rural recovery would remain key agendas in the budget with further growth thrust expected in the Affordable Housing segment.

We maintain our Top Picks recommendations unchanged for the month as we continue to focus on the thematic approach of superior-quality companies.

Our Key Themes are as follows

Macro factors continue to take centre stage: We believe the worst of the FIIs outflow is now behind us as the strong earnings growth and economic recovery will play out for the remaining months of FY23. For the next 6-9 months, the market may continue to be influenced by the evolving macroeconomic data points. Currently, the consensus has been built for the lower quantum of rate hikes by the US FED going forward. While we hover near the peak of the rising interest rate cycle, it still continues to be dependent on the evolving data points. Nonetheless, we believe the US FED may take a pause sometime in mid-2023. In that context, the direction of bond yield, the dollar index, the direction of inflation, the growth in the developed world and the trend in commodity prices remain critical. Additionally, the market will continue to be influenced by the China reopening and we remain watchful for the rising Covid cases in china.

Catch-up is expected in the broader market: Our benchmark index Nifty 50 touched an all-time high on 30th Nov'22. However, the Mid and Small Cap indices are still down by 4%/10% from their respective high levels. We believe the catch-up is expected in the broader market in upcoming months and Mid and Small Cap indices may outperform from here onwards. Additionally, banks and domestic-cyclical themes look attractive from the current levels. If the macroeconomic environment continues to support the market, the recovery is likely to continue on the export-oriented themes.

Style rotation is the key; value might be the winner in the near term: Cool-off in the key commodity prices coupled with the central bank's actions on front-loading the interest rates have changed the market style in the last three months. Growth theme outperformed all other styles by a notable margin in the last twelve months from the oversold zone. However, the Value theme has had a comeback in the last three months on account of the recovery in the Banking, PSUs, and domestic-cyclical stocks. We believe the outperformance of the value stocks is likely to continue in H1CY23 and would be led by a pickup in the credit growth as well as a recovery in the domestic-cyclical stocks, in line with the pickup in the domestic economy. Furthermore, local or domestic-oriented themes are likely to perform better in the near term, thanks to the government's domestic interest-first approach and India being a domestic consumption economy. We continue to believe profitability to shift from commodity producers to commodity consumers going forward. Keeping this in view, Banks, Automobiles, Hospitals, Discretionary Consumption, and Domestic Industrial themes continue to look attractive.

We maintained our Dec'23 NIFTY Target at 20,400:

Base case: The Indian economy stands at a sweet spot of growth and remains the land of stability against the backdrop of a volatile global economy. We continue to believe in the long-term growth story of the Indian equity market, supported by a favourable structure, which is emerging as increasing Capex enables banks to improve credit growth. Strong earnings trajectory continues in the Nifty 50 universe. We foresee NIFTY EPS to post growth of 11%/14%/13% in FY23/24/25. **Thus, we maintained our Dec'23 Nifty target at 20,400 by valuing it at 20x on Dec'24 earnings, implying an upside of 13% from the current levels**. The current level of India VIX is below its long-term average, indicating the market currently being in a *neutral zone* (neither panic nor exuberance). While the medium to long-term outlook for the overall market remains positive, we may see volatility in the short run with the market responding in either direction. **Keeping this in view, the current setup is a 'Buy on Dips' market.** We recommend investors maintain good liquidity (10%) to use such dips in a phased manner to build a position in high-quality companies (where the earnings visibility is quite high) and with an investment horizon of 12-18 months

Bull case: In the bull case, we value Nifty at 22x which translates into a Dec'23 target of 22,500, implying an upside of 24% from the current levels. Our bull case assumption is based on the overall reduction in the volatility as well as geopolitical tensions in 2023 as against 2022, which would lead to further cool-off in the commodity prices, especially Oil. The tightening cycle in the US will likely continue in 2023, albeit at a slower pace. We could see the US FED may take a pause sometime in mid-2023. If the market sails through the next 6-9 months smoothly, we may see the next triggers for the market and money would flow to EMs, thereby increasing the overall market multiple.

Bear Case: In the bear case, we value Nifty at 18x, which would translate into a Dec'23 target of 18,400, implying almost flat returns. We assume the Russia-Ukraine war to have likely continued for a prolonged period which would continue to pose inflationary challenges to the developed world. Currently, the market is priced-in for future rate hikes but the terminal rates are yet unknown. Any shape deviation in the terminal rate from current expectations may translate into a slowdown or heightened recession risk in the developed market. This, in turn, would have an impact on the export-oriented growth in the domestic market and would pose challenges to the earnings and market multiple.

Based on the above themes, we recommend the following stocks: **ICICI Bank, Tech Mahindra, Maruti Suzuki India, State Bank of India, Dalmia Bharat, Federal Bank, Varun Beverages, Ashok Leyland, Infosys, PNC infra, APL Apollo Tubes, HealthCare Global Enterprises, Praj Industries, CCL Products (India), Polycab India, and Bajaj finance**

Neeraj Chadawar |neeraj.chadawar@axissecurities.in |

Table of Contents

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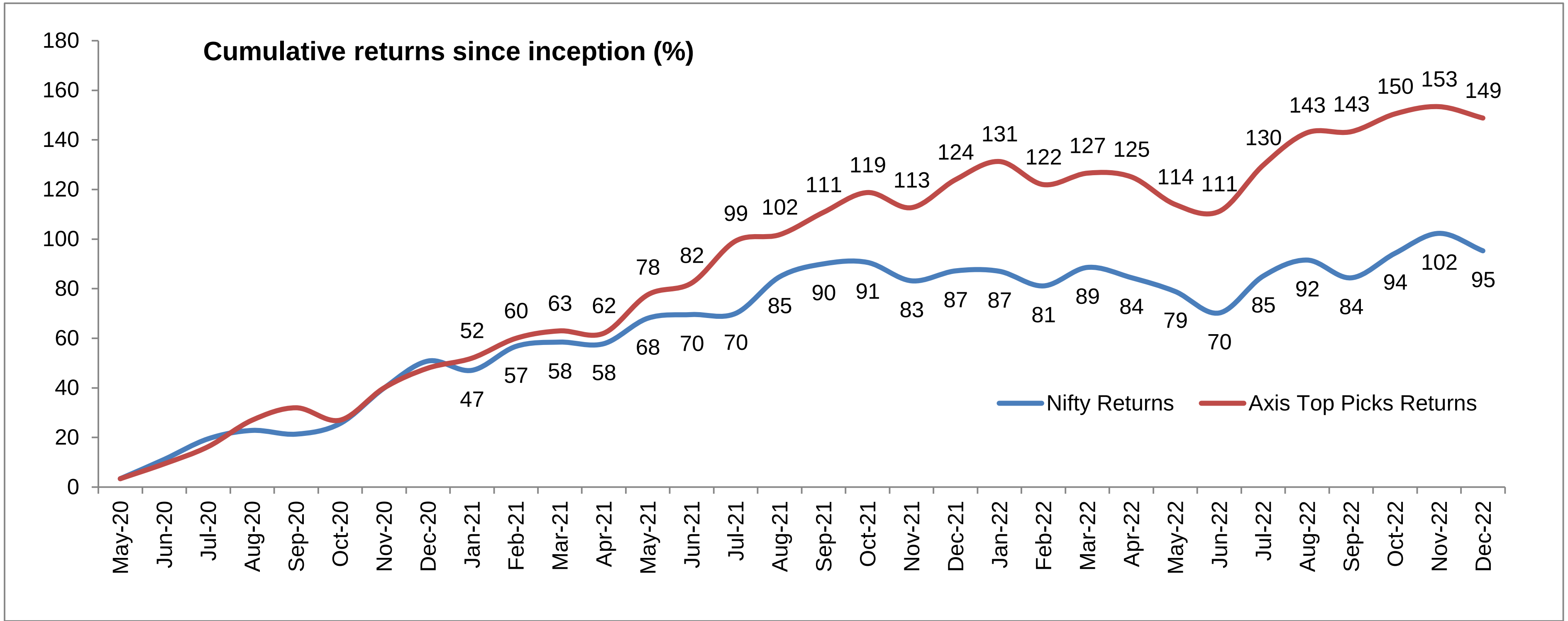
Axis Securities Top Picks

Category	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%
Large Cap	ICICI Bank Ltd	Financials	891	1,150	29%	20.0	2.9	0.6	-4.3	3.3	27.3	0.0
Large Cap	Tech Mahindra Ltd	Information Technology	1,016	1,300	28%	17.1	3.2	1.5	-8.8	2.5	5.3	0.0
Large Cap	Maruti Suzuki India Ltd	Consumer Discretionary	8,395	10,600	26%	32.9	4.3	0.7	-4.8	-4.9	0.6	0.0
Large Cap	State Bank of India	Financials	614	740	21%	11.2	1.7	1.2	1.0	15.7	31.5	0.0
Large Cap	Infosys Ltd	Information Technology	1,508	1,900	26%	25.8	7.9	2.2	-7.9	7.9	3.1	0.0
Large Cap	Bajaj Finance Ltd	Financials	6,575	8,600	31%	35.9	7.5	0.3	-1.5	-10.4	17.1	0.0
Mid Cap	Dalmia Bharat Ltd	Materials	1,863	2,070	11%	50.2	2.1	0.5	-3.8	16.8	40.7	0.0
Mid Cap	Polycab India Ltd	Industrials	2,569	3,080	20%	34.5	6.0	0.5	-3.9	0.3	18.0	0.0
Mid Cap	Federal Bank Ltd	Financials	139	160	15%	10.8	1.4	1.3	4.4	17.1	51.0	0.0
Mid Cap	Varun Beverages Ltd	Consumer Staples	1,323	1,450	10%	63.4	16.0	0.2	0.3	26.7	67.0	0.0
Mid Cap	Ashok Leyland Ltd	Industrials	143	175	22%	47.8	5.4	0.7	-1.8	-6.1	-1.3	0.0
Mid Cap	APL Apollo Tubes Ltd	Materials	1,092	1,240	14%	43.3	10.2	0.3	-7.9	5.2	29.5	0.0
Small Cap	HealthCare Global Enterprises Ltd	Health Care	287	330	15%	77.1	4.3	NA	-5.7	0.5	3.7	0.0
Small Cap	Praj Industries Ltd	Industrials	356	550	54%	28.8	6.1	0.8	-6.8	-14.6	0.4	0.0
Small Cap	CCL Products (India) Ltd	Consumer Staples	530	600	13%	29.3	5.0	0.4	0.0	5.4	38.8	0.0
Small Cap	PNC Infratech Ltd	Industrials	288	340	18%	13.1	1.9	0.2	3.4	8.7	21.8	0.0

Source: Company, Axis Securities, CMP as on 30th December 2022

Top Picks Performance

Axis Top Picks Performance						
	1M	2M	3M	6M	1Y	Since Inception
Axis Top Picks Returns	-1.8%	-0.7%	2.3%	17.8%	11.1%	148.8%
Nifty Returns	-3.5%	0.52%	5.9%	14.7%	4.3%	95.3%
Alpha	1.7%	-1.2%	-3.7%	3.1%	6.8%	53.5%



Note: Equal weight basket Performance as of 30th Dec' 2022

Sector Outlook

Sector	Current View	Outlook
Automobiles	Over Weight	The Indian Automobile sector is seeing a significant demand improvement with it becoming more broad-based on a sequential basis and most categories are witnessing encouraging traction. The long-term outlook for the Auto industry remains positive as demand drivers are intact.Keeping this in view, we believe many companies are likely to offer a decent upside from the current levels. In Q2FY23, demand momentum continued in Passenger Vehicles (PV) and Commercial Vehicles (CV) segments, thanks to continued improvement and relief in the supply-side constraints on chips while 2W and Tractors saw some level of recovery during the festival demand. We expect new product launches to help drive excitement among buyers with the SUV segment retaining the consumer pulling power. Demand momentum in the CV segment is likely to sustain and we expect the CV cycle to maintain its momentum, driven by the pick-up in economic activities and the government's focus on infrastructure. Furthermore, the cool-off in the commodity prices from their 52W-highswould improve the gross margin of Automakers, which is expected to translate into earnings upgrades as most of the companies are likely to retain the benefit. Furthermore, OEMs continue to take price hikes in the upcoming quarters across segments to offset the adverse impact of commodities. Based on the current development and positive outlook, we continue with an overweight stance on the sector.
Banking and Financial services	Over Weight	FY23 appears promising for the BFSI sector as most of the Banks/NBFCs under our coverage remain well-placed to capitalizeongrowth opportunities. Outlook on the asset quality front remains encouraging with the expectations of slippages moderating and recoveries remaining healthy, thereby supporting the asset quality improvement across the sector. We believe the growth momentum is likely to remain healthy as pickup visible in the Retail and SME lending seems sustainable. Moreover, sharp improvement has been visible in corporate loans as well. In Q2FY23, the Banking sector reported robust earnings led by margin expansion and a healthy pickup in overall loan growth. We believe with the asset quality pain being largely behind (barring certain segments) and the restructured book behaving fairly well, a ramp-up in credit growth and the ability to maintain margins in an increasing interest rate environment is likely to drive valuations for Banks/NBFCs moving forward.**Hence we upgrade the sector to Overweight from Equal Weight earlier.**
Capital Goods	Equal Weight	The Capital Goods sector normalised towards the end of FY22 and companies are now supported by a rise in gross fixed capital formation. The government's Capex cycle continues to be robust and house registrations in the metro cities continue to witness strong traction. The private Capex cycle is expected to pick up soon, further supporting the sector. Most of the companies are witnessing excellent growth traction which was not the case for the past 8-10 years. These companiesare now commanding significant operating leverage, which essentially implies that the profit growth will be higher than the revenue growth in the upcoming years with improvement in the Capex cycle. We maintained our Equal Weight stance on the sector.

Sector Outlook (Cont'd)

Sector	Current View	Outlook
Cement	Equal Weight	Higher cost of power&fuel remains the key concern for cement companies as they are not able to pass on the entire cost inflation to the final consumer. Overall H1FY23 witnessed the impact of cost inflation on margins. However, the hike in cement prices helped to mitigate the cost to some extent. Against this backdrop, sustainability in cement pricing remains a key monitorable moving forward. Nonetheless, our long-term outlook on the sector remains positive as demand drivers remain intact. Encouragingly, management commentaries on demand were positive and we expect EBITDA/tonne to report an overall improvement in H2FY23. The recovery is expected on account of the pick-up in infra projects, sustained housing demand, and recovery in the rural area. The elevated cost remains a key challenge in the near term and we maintain our Equal Weight stance on the sector.
Consumer staples	Equal Weight	In the Consumer Staples space, demand is expected to remain weak for discretionary items (Personal Care, Packaged Food, and Health Care) in the near term. Volume growth is likely to be muted on account of subdued rural demand and inflationary pressure. On the positive side, the normal monsoon, increase in wages, higher crop realization, and output will be key attributes in rural demand revival which is expected to revive only in H2FY23. While the sector has strong earnings visibility and best-in-class return ratios, the Hyperinflation across raw material prices (crude/palm oil/ packaging) will weigh on margins in the near term and limit the upside potential. Hence, we maintain the FMCG sector to Equal Weight.
Consumer Discretionary	Equal Weight	Whilethe Consumer Discretionary space is witnessing a strong revival and many categories are normalizing, elevated RM prices remain a key challenge moving forward. DuringFY22, the companies already passed on some of the price hikes to the customer (~15-25%+). Furthermore, price hikes will have to be calibrated as they may negatively impact the demand for high-ticket items.However, demand for low-value items is expected to remain strong despite price hikes. Festival demand remains robust and now the focus is shifted towards the sustenance of the demand given the inflationary scenario. We continue with our Equal Weight stance and remain watchful of developments in this space.
Information Technology	Equal Weight	Indian IT companies reported a robust performance in FY22 and registered strong broad-based growth, backed by healthy business demand and favourable macros. Though the demand is on the rise, supply-side challenges remain a key concern which may restrict revenue growth momentum moving forward. Moreover, higher employee costs may negatively impact the overall operating margins of the companies. Rising inflation and higher interest rates in North America (a major contributor to the revenue) would also lead to unfavourable macroeconomic conditions, contracting IT spending across verticals. We foresee a downside risk to current earnings assumptions and hence maintain our equal weight stance on the sector.

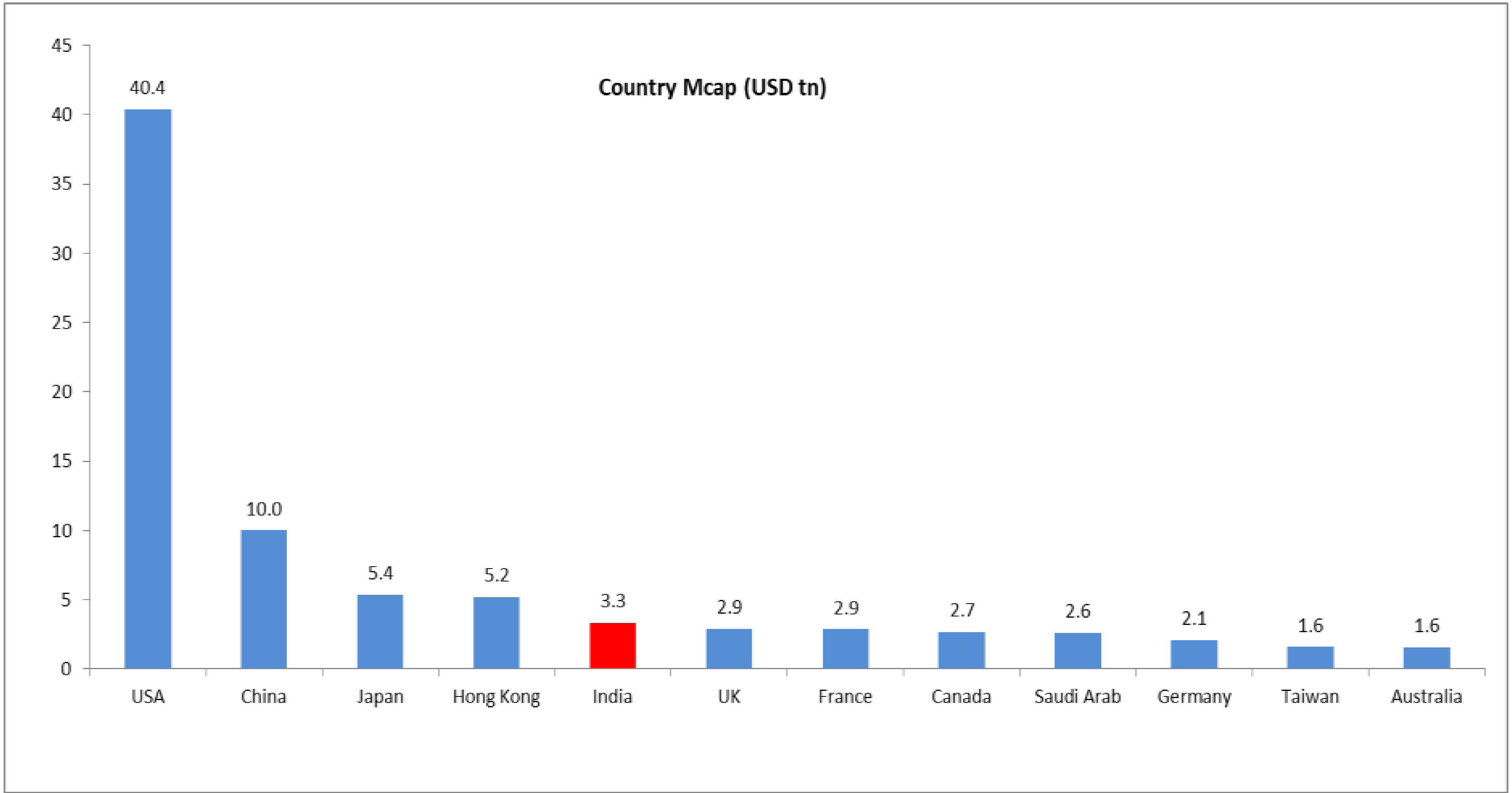
Sector Outlook (Cont'd)

Sector	Current View	Outlook
Metals &Mining	Equal Weight	The Government of India (GOI) has rolled back the export duties on steel in response to the lower CPI print for Oct'22. We believe the GOI has revoked the duties at the opportune time as steel exports have witnessed a significant drop post imposition of the same. Even with this tailwind, the elephant in the room is the global steel demand outlook. Global growth is expected to slow down to 3.2% for CY22 from 6% in CY21 and further down to 2.7% in CY23 as per the IMF. As steel demand is correlated with GDP growth, we don't foresee a meaningful uptick in steel demand moving forward. Moreover, domestic steel prices are currently trading at a premium to import parity prices which will put downward pressure on domestic steel prices.Hence, we maintain our Equal weight stance on the sector.
Oil &Gas	Equal Weight	Oil Marketing Companies (OMCs) benefited from the inventory gain and better GRMs in Q4FY22. Furthermore, OMCs, too, delivered better performance overall. However, the recent move by the GoI to pass on the excise duty cuts to the consumers has quashed all hopes of OMCs' recovering their marketing margins. OMCs were the underperformers in the sector that missed the consensus estimates led by poor-than-expected performance in the marketing segment during Q1FY23. On the other hand, upstream companies had a record quarter led by the high level of Oil & Gas prices. However, the windfall taxes being introduced from the 1st of July point towards the earnings cycletouching its peak. Given the government's top priority clearly being inflation control, it seems unlikely that auto-fuel retail prices will be raised anytime soon. We, therefore, do not see an immediate recovery in the marketing margins of the OMCs. Factoring in these developments, we continue with our Equal Weight stance and would keep a close tab on further developments in this space.
Pharmaceuticals	Equal Weight	The Pharma sector reported mixed-bag results in Q2FY23 on account of weakness in the US generic business, which continues to witness price erosion. On the positive side, domestic-oriented companies posted robust growth driven by price rise and volume growth in the chronic categories. We believe moderate recovery is likely to continue in Domestic Pharma, though significant improvement in the operating metrics is needed for further re-rating of the sector. We foresee risks to this scenario and continue with our Equal Weight stance on the sector.

Sector Outlook (Cont'd)

Sector	Current View	Outlook
Real Estate	Equal Weight	The Real Estate sector is witnessing record registrations in metro cities. Demand has picked up as real estate prices are low and interest rates are quite attractive. The sector is likely to witness more traction in FY23 and hence, we maintain our Equal weight stance on the sector.
Specialty Chemicals	Over Weight	The Specialty Chemicals sector has been one of the sunrise sectors of the country. India has been gaininga global market share in this space by leveraging its capabilities and supply chain realignment from China to India. We believe Indian companies would gain further ground as companies reduce their dependence on China after the COVID-19 pandemic and shift their supply chains to India. Apart from the long-term supply chain shift theme, many specialty chemicals form a part of essentials and the facilities have started opening up post-lockdown relaxations.The decline in raw material prices would support margins and reduce working capital needs further. However, input costs are a pass-through for most companies and benefits may be limited. Overall, the Specialty Chemicals industry is likely to continue performing well in the medium term. Keeping this in perspective, we recommend an Over Weight stance on the sector.
Telecom	Over Weight	Telecom has become the most critical sector during the current challenging times to keep businesses up and running. The sector was seeing an improved pricing environment even before the COVID-19 outbreak.The industry is highly consolidated with two strong and one weak player in the wireless space. We recommend an Over Weight stance on the sector.

India is the 5th largest market in the world (in terms of Mcap in USD Tn); Likely to be the 3rd largest market by 2027



Source: Bloomberg, Axis Securities

Performance of Asset Classes

- Gold has emerged as a best-performing asset class led by geopolitical concerns and a volatile equity market.
- Large Cap has been the winner in 2022 on account of the volatile equity market.
- The structural trend for the equity market continues to remain positive.
- Top 3 Winners: Mid Caps/Small Caps – 6 times out of the last 12 years
- The trend for the broader market is likely to continue in 2023. However, the performance margin between Large and Mid Cap is likely to narrow.

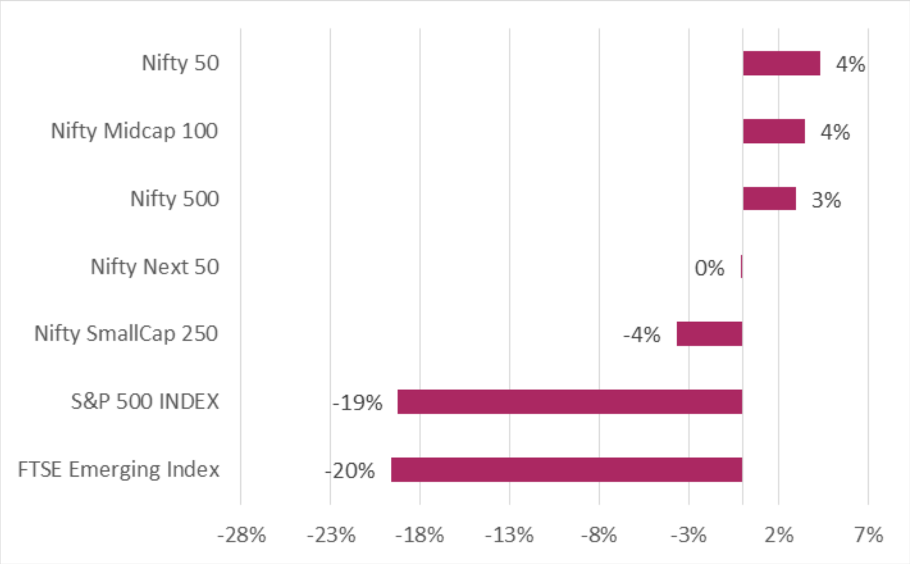
Rank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1	MCX Gold: 32%	Midcap: 39%	S&P 500: 30%	Midcap: 56%	Crisil comp Bond: 9%	Crisil comp Bond: 13%	SmallCap: 57%	MCX Gold: 8%	S&P 500: 29%	MCX Gold: 28%	SmallCap: 59%	MCX Gold: 14.3%
2	Crisil comp Bond: 7%	SmallCap: 37%	Nifty 50: 7%	SmallCap: 55%	SmallCap: 7%	EM Index: 10%	Midcap: 47%	Crisil comp Bond: 6%	MCX Gold: 25%	Midcap: 22%	Midcap: 46%	Nifty 50: 4.3%
3	S&P 500: 0%	Nifty 50: 28%	Crisil comp Bond: 4%	Nifty 50: 31%	Midcap: 6%	MCX Gold: 10%	EM Index: 29%	Nifty 50: 3%	EM Index: 17%	SmallCap: 21%	S&P 500: 27%	Midcap: 3.5%
4	EM Index: -21%	EM Index: 14%	Midcap: -5%	Crisil comp Bond: 14%	S&P 500: -1%	S&P 500: 10%	Nifty 50: 29%	S&P 500: -6%	Nifty 50: 12%	S&P 500: 16%	Nifty 50: 24%	BSE Bond index: 2.9%
5	Nifty 50: -25%	S&P 500: 13%	EM Index: -6%	S&P 500: 11%	Nifty 50: -4%	Midcap: 7%	S&P 500: 19%	Midcap: -15%	Crisil comp Bond: 11%	Nifty 50: 15%	Crisil comp Bond: 2%	SmallCap: -13.8%
6	Midcap: -31%	MCX Gold: 12%	MCX Gold: -8%	EM Index: -1%	MCX Gold: -7%	Nifty 50: 3%	MCX Gold: 6%	EM Index: -16%	Midcap: -4%	EM Index: 13%	EM Index: -2%	S&P 500: -19.2%
7	SmallCap: -34%	Crisil comp Bond: 9%	SmallCap: -8%	MCX Gold: -6%	EM Index: -18%	SmallCap: 2%	Crisil comp Bond: 5%	SmallCap: -29%	SmallCap: -10%	Crisil comp Bond: 12%	MCX Gold: -4%	EM Index: -19.6%

Source: Bloomberg, Axis Securities, Note: Midcap is NSE midcap 100, Smallcap is NSE smallcap100 index, EM is FTSE EM index

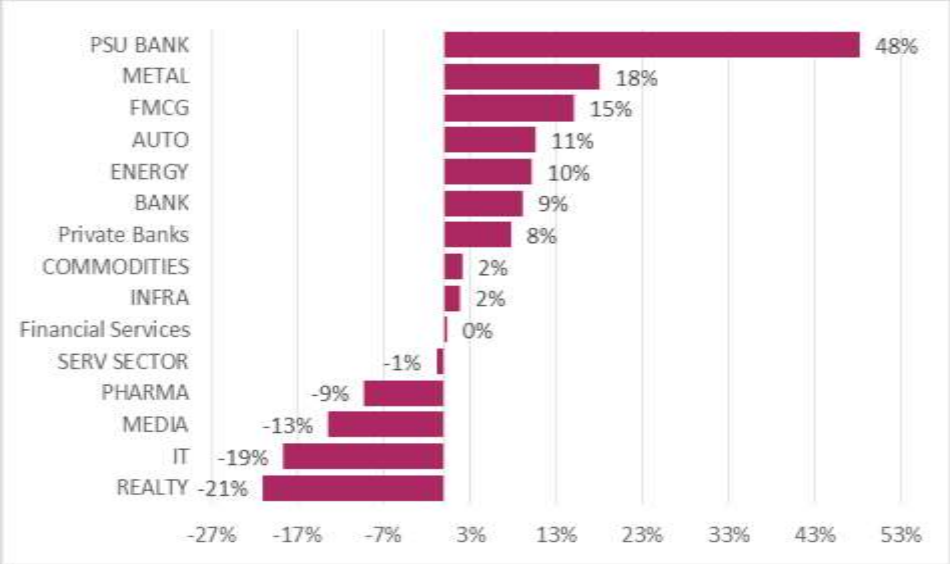
What happened in 2022

- In the last one year, the benchmark index NIFTY 50 inched up 4% while the S&P 500 and the emerging market index declined by a whopping 20% respectively. This outperformance was led by the country's robust economic outlook.
- The broader market has also shown resilience in the last one year with Mid Cap climbing up by 3% while Small Caps declining by just 4%
- Moreover, Indian investors have shown a good deal of maturity in the last one year – a pivotal reason for the Indian Market to not witness adverse panic reactions as seen in other economies.
- On the sector front, PSU Banks, FMCG, Energy, Auto, and Metals indices have closed on a positive note in the last one year while Realty, IT, Media, and Pharma have closed on a negative note over the same period.

Benchmark Returns in the last one year



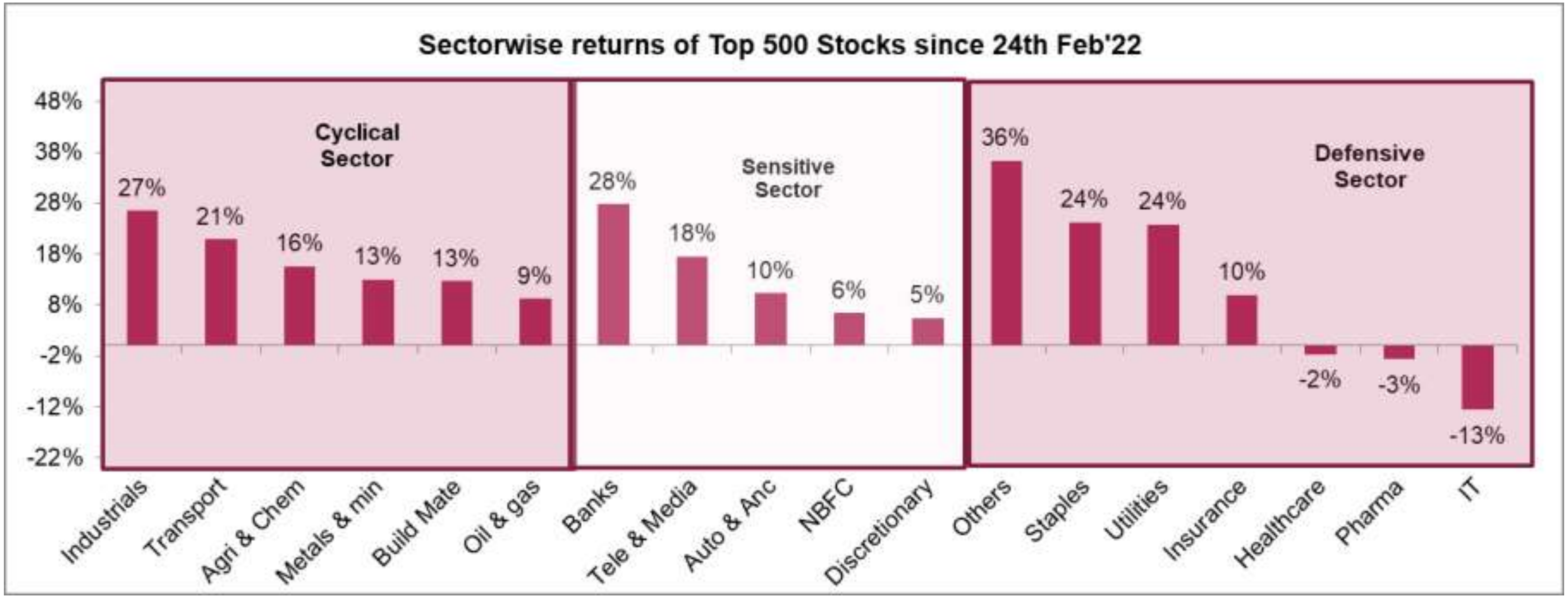
Sector-wise returns in the last one year



Source: Bloomberg, Axis Securities

What Happened since Russia–Ukraine Conflict– Consumption and Domestic Cyclical themes have been outperforming the market

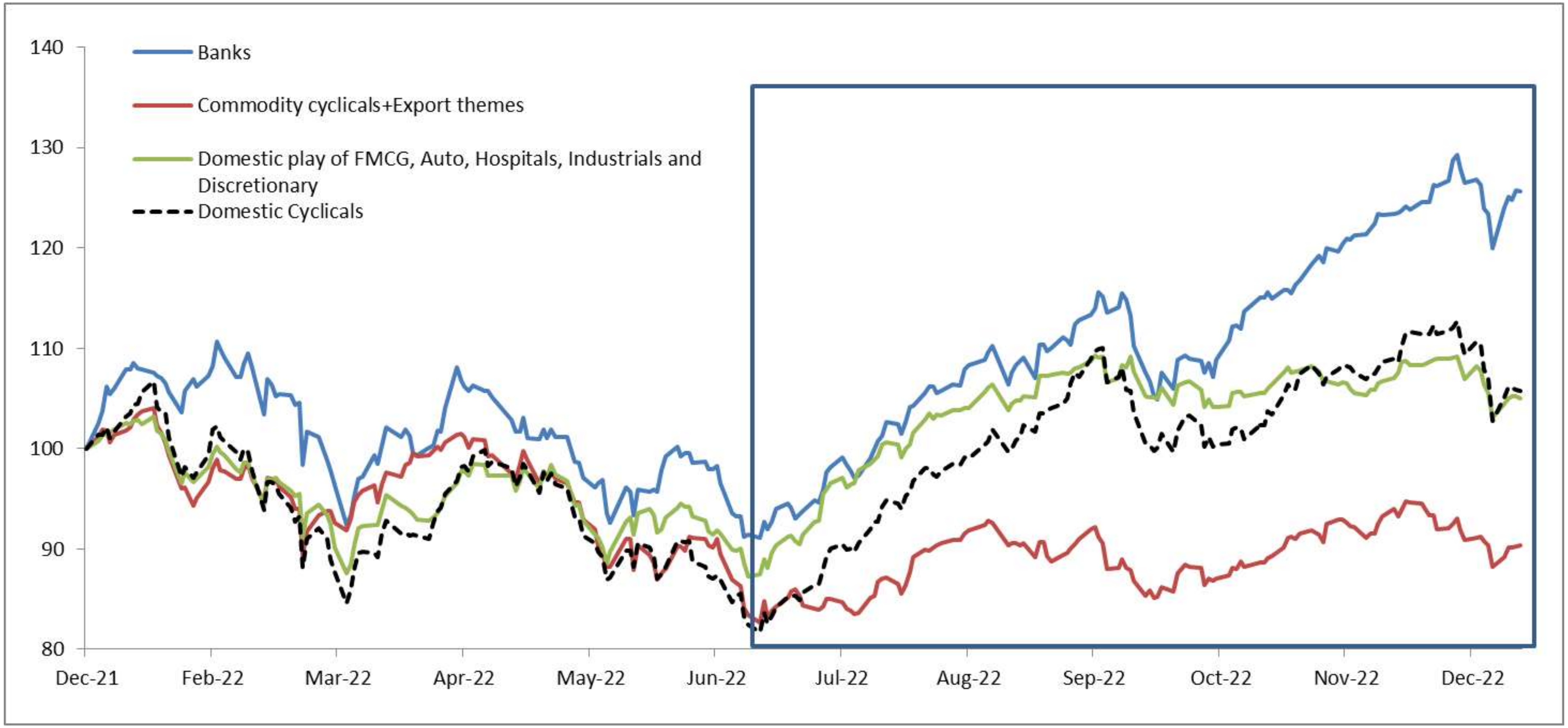
- NIFTY made an all-time high of 18758 on 30thNov'22
- Since 24th Feb'22, all sectors are up except the IT, Pharma, and Healthcare sectors. Sharp recovery was seen in the Industrials sector, which is now up 27%.
- Domestic cyclical such as Industrials, Transport, and Building Materials rallied driven by the economic recovery.
- The IT sector is down 13% since 24th Feb'22 on an expectation of a slowdown in the developed market. However, it has revived in the last couple of months.
- Interest-rate sensitive sectors (Banks, Auto, Discretionary), too, have picked up in the last 3-4 months.



Source: Bloomberg, Axis Securities

Banks and domestic cyclical sectors are outperforming the market

- *The market positioning has now slightly shifted towards Banks and Domestic-cyclical stocks*
- *Domestic plays of FMCG, Auto, and Discretionary have taken a brief pause after a robust rally since the 17th June'22 bottom*
- *While the Export-oriented themes continue to be a laggard, a few stocks have been reviving over the last one/two months*
- ***Cyclical and export sectors:** Oil & Gas, Metals, Building Materials, Agri & Chemicals, IT, and Pharma*

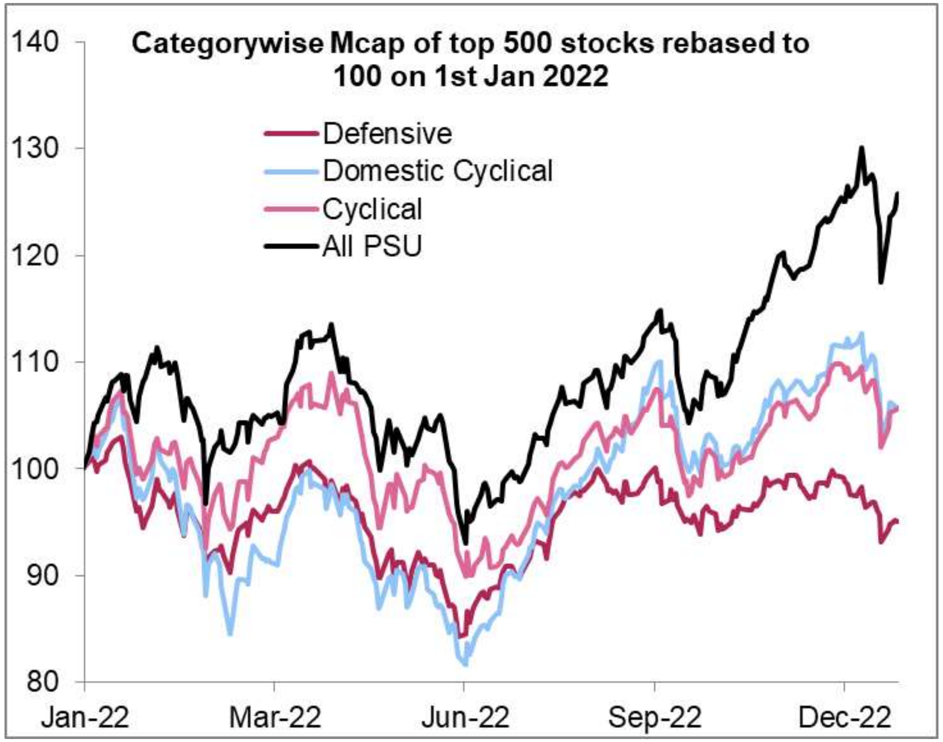


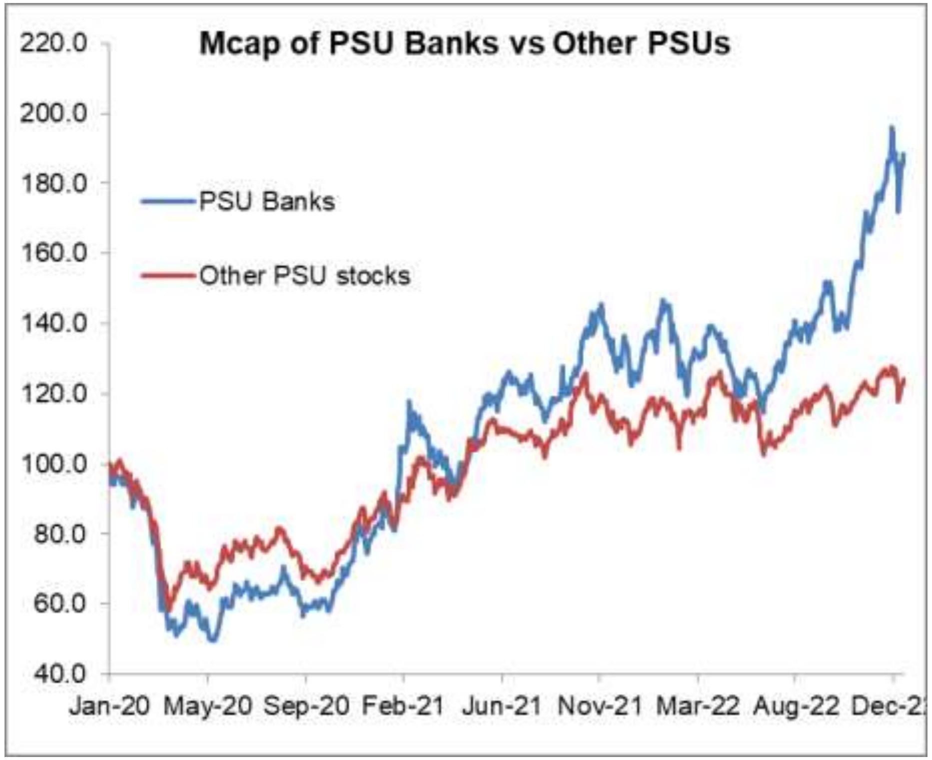
Source: Bloomberg, Axis Securities,

PSU stocks are outperforming defensive and cyclical stocks

On a YTD basis, PSU stocks have outperformed other themes (Defensive, Cyclical, and Rate sensitive).

- *Since 17th Jun'22, the PSU banks have recovered sharper on account of superior asset quality and double-digit credit growth.*
- *PSU banks witnessed a sharp recovery in the last one month on account of better-than-expected quarterly results.*



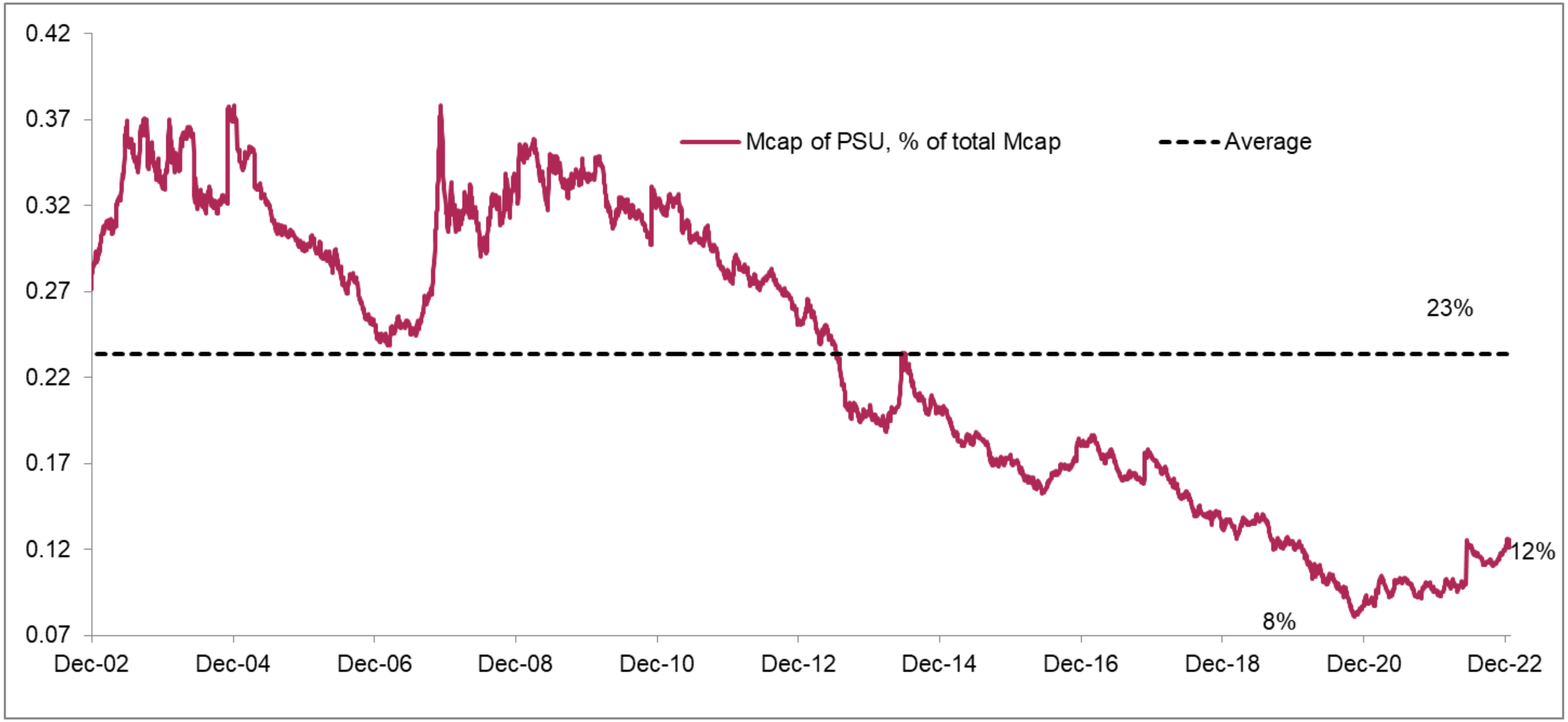


Source: Bloomberg, Axis Securities

PSU performance likely to sustain in 2023

- *PSUs Mcap as % of the total has reached 12% vs. 8% during the fall of Covid'19*
- *Historical 20-year average is 23%, implying enough headroom for growth for the PSU stocks*

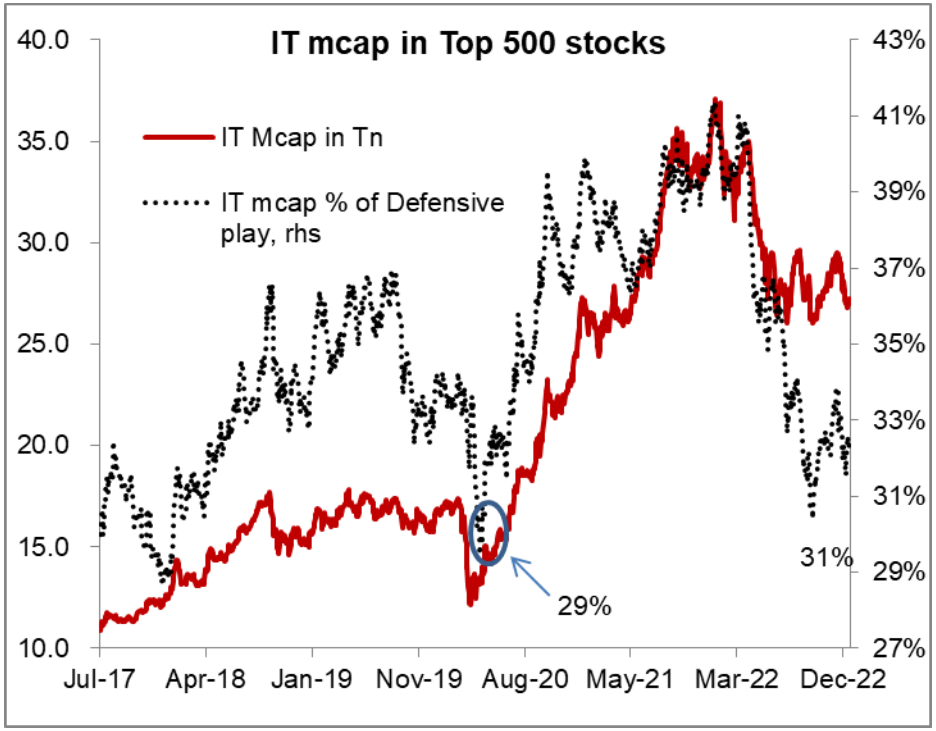
Defence, PSU banks, Utilities, and Railway PSU might be the next big leaders

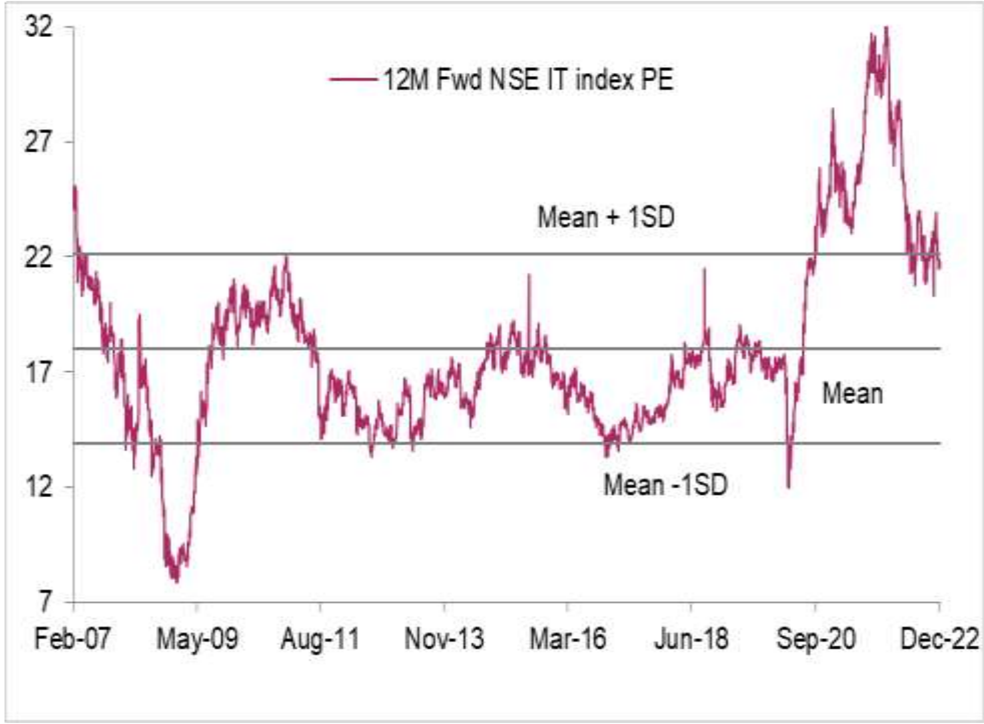


Source: Bloomberg, Axis Securities,

IT sector reversed from the bottom; May see recovery in the near term

- Valuations of the IT index have corrected sharply in the last one year from 32x to 22x, implying that the slowdown risk has already been priced in.
- The IT sector made a bottom during Sep'22 under the defensive play. Mcap of IT as a % of Defensive Mcap had touched 31% in Sep'22 (29% during the Covid fall).
- **Since Oct'22, we are witnessing a rally in IT stocks which might sustain from here onwards as valuations have been reasonably corrected.**





Source: Bloomberg, Axis Securities

52W High Analysis

- 66 stocks are now trading at all-time high levels vs. only 5 stocks on 23rd Dec'22
- Correction of over 30% from the 52W-high was higher in the Small Cap stocks
- 216 stocks are trading between 5%-20% below their 52W highs
- The broader market looks attractive at current levels
- 13 PSU stocks are now trading at 52W high.

		Current level of number of stocks as compared to 52W high			
Sector	**No of Stocks**	**Near to 52W high**	**5%-20% below 52W high**	**20%-30% below 52W high**	**Below 30%**
Agri&Chem	31	1	16	7	7
Auto &Anc	32	9	15	4	4
Banks	28	10	14	2	2
Build Mate	41	3	21	5	12
Discretionary	43	6	20	8	9
Healthcare	58	3	24	10	21
Industrials	36	8	15	7	6
IT	36	0	9	3	23
Metals & min	17	1	8	5	3
NBFC	51	8	25	8	10
Oil & gas	14	2	7	2	3
Others	46	4	10	8	24
Staples	28	8	13	3	4
Tele & Media	16	2	6	2	6
Transport	11	0	7	3	1
Utilities	12	1	6	3	2
Total	**500**	**66**	**216**	**80**	**137**
Large cap	**100**	**22**	**49**	**6**	**18**
Mid cap	**150**	**21**	**69**	**18**	**34**
Small cap	**250**	**23**	**98**	**55**	**84**
PSUs	**55**	**13**	**25**	**4**	**6**

Source: Bloomberg, Axis Securities

NSE200 Top Gainers & Losers (last 1 month)

Top Gainers	Last Price	% 1m Chg	Top Losers	Last Price	% 1m Chg
Yes Bank	17	20.1%	I R C T C	736	-13.1%
RBL Bank	153	16.9%	Havells India	1,254	-12.3%
Bank of Baroda	166	11.7%	Dhani Services	47	-12.1%
Punjab Natl.Bank	51	10.0%	Amara Raja Batt.	650	-12.1%
M & M Fin. Serv.	215	9.1%	Tata Motors	439	-11.7%
Jindal Steel	536	8.4%	Gland Pharma	1,780	-11.4%
Bank of India	82	7.2%	Emami	479	-11.2%
LIC Housing Fin.	387	7.1%	Adani Transmissi	2,909	-11.0%
Indian Bank	267	6.9%	Tata Elxsi	7,010	-10.3%
Canara Bank	315	5.9%	Laurus Labs	417	-10.1%

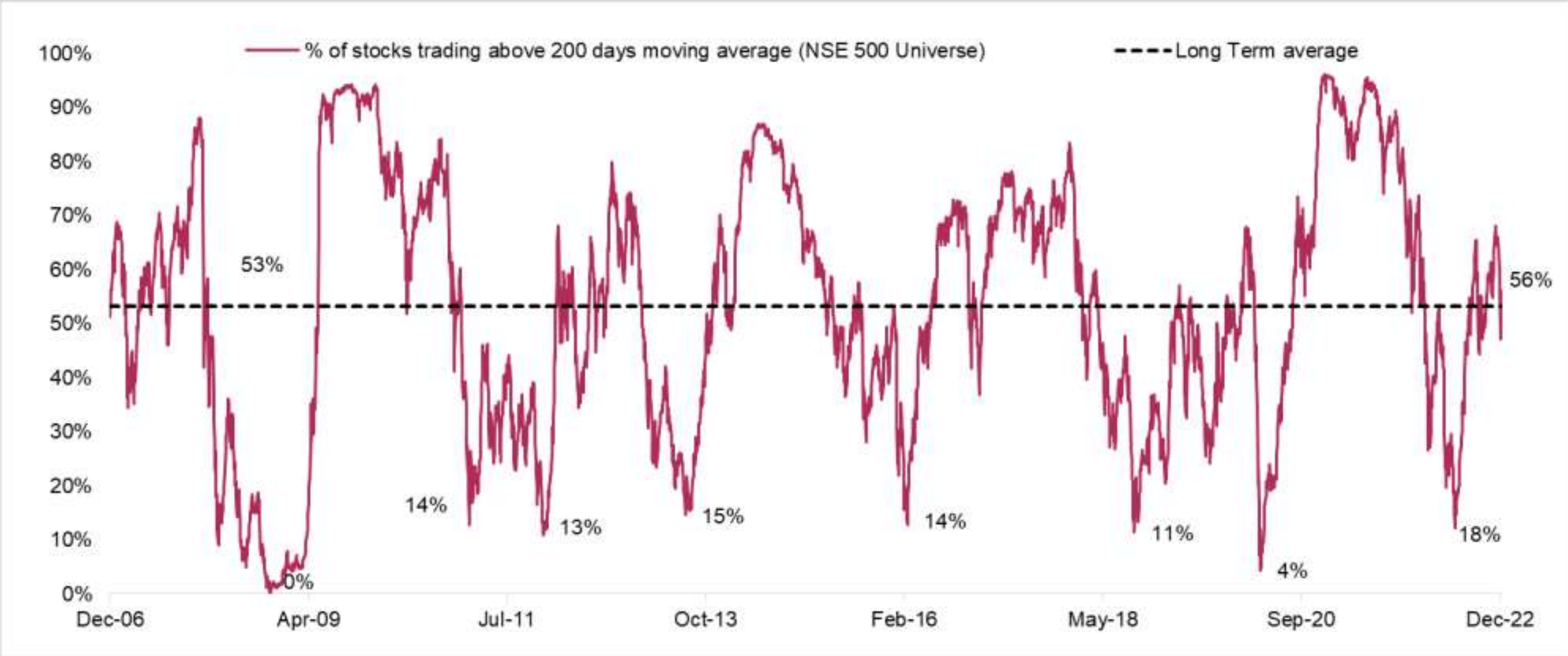
NSE200 Top Gainers & Losers (last 3 months)

Top Gainers	Last Price	% 1m Chg	Top Losers	Last Price	% 1m Chg
Bank of India	48	83.1%	Laurus Labs	513	-26.9%
Union Bank (I)	45	80.1%	Tata Elxsi	8,556	-26.5%
RBL Bank	114	57.7%	Gland Pharma	2,093	-24.7%
Punjab Natl.Bank	37	54.4%	Adani Transmissi	3,290	-21.3%
I R F C	21	53.2%	Havells India	1,349	-18.4%
Canara Bank	229	45.7%	Crompton Gr. Con	412	-18.3%
Indian Bank	197	45.0%	Jubilant Food.	623	-17.9%
Bank of Baroda	132	40.3%	Aditya Bir. Fas.	349	-17.6%
Jindal Steel	429	35.5%	Emami	504	-15.7%
Power Fin.Corpn.	105	34.9%	Page Industries	50,666	-15.5%

Source: Bloomberg, Axis Securities

NSE 500 Universe (200-day moving average)

After volatile Feb'22 and Mar'22, the market recovered in Apr'22 but declined once again in May/Jun'22 on account of global weakness and concerns over rising inflation. In Jun'22, 18% of stocks traded above the 200-day moving average (DMA) (almost equivalent to the historical low), indicating the market clearly being in the oversold zone. The market witnessed a sharp recovery since and now 56% of the stocks are trading above 200 DMA, indicating it to be out of the oversold zone. However, in the near term, the market will continue to be driven by the macroeconomic data and performance is likely to be range bound at least for one quarter till the signs of inflation moderating become visible.



Source: Bloomberg, Axis Securities

Style Indicator

Value theme has emerged as the best performing theme in the last three month

- Growth theme outperformed all other styles by a notable margin in the last twelve months from the oversold zone. However, the Value theme has had a comeback in the last one/three months on account of the recovery in the Banking, PSUs, and Domestic-cyclical stocks.
- For a longer duration (1 Yr and 2 Yr), the Momentum and Growth themes have been the most dominating themes in the market.
- The Growth at a reasonable price theme looks attractive on account of the domestic play of normal monsoon, the cool-off in commodity prices, and the expectation of margin recovery in the second half.
- The selected Value stocks from the PSU, Metals, Commodities, Utility, and Cement sectors are well-placed to deliver superior performance, especially considering their recent correction. Though Value stocks in the BFSI space have outperformed other themes for the last couple of months, their outperformance is likely to continue moving forward. Furthermore, a structural growth play offering long-term earnings visibility will continue to do well even amidst the prevailing challenging environment.

Performance (%)				
Perf	Value	Growth	Quality	Momentum
2020	24.9%	10.2%	22.6%	6.6%
2021	34.1%	8.8%	22.2%	32.6%
1m	-3.3%	-4.5%	-4.1%	-3.5%
3m	6.4%	-2.5%	0.8%	0.4%
6m	12.6%	11.4%	11.5%	21.9%
1YR	-0.88%	12.4%	-0.9%	7.1%
2YR	32.9%	22.4%	21.1%	42.0%

Source: Bloomberg, Axis Securities

India's performance vis-à-vis Peers

On a 1-year basis, India has outperformed the US and other major Emerging markets
NIFTY made an all-time high of 18758 on 30th Nov'22 with the previous high being on 18th Oct'21 at 18477. Over this period, Mid and Small Caps have corrected by 8%/11% from the top.
The Indian market touched the bottom on 17th Jun'22 and is since recovering. In Jun'22, Automobile stood as the only sector which closed in green. This was on account of a positive outlook on domestic demand. In Jul'22, recovery was seen across the board. Domestic-oriented themes look attractive from the current levels over export-oriented themes. In Aug'22, all sectors, except Pharma and IT were in green. In Sep'22, Pharma was up 2% and FMCG inched up 1%. However, all remaining sectors closed in red. In Oct'22, recovery was seen across the board on account of festival season, cool-off in bond yields, and the DAX index. **In Nov'22, PSU banks have been the biggest winners. All sectoral indices, except Auto and Pharma, closed on a positive note. In Dec'22, except for PSU banks and Metals, all sectoral indices closed on a negative note**

Positive Near-term Outlook: IT, Telecom, Auto, Domestic cyclical
Improving Outlook: BFSI, Industrials, PSUs
Mixed bag: FMCG, Discretionary
Near-term challenging but well-placed for longer time horizons: Metals, Commodity-linked stocks, and Selective Cyclicals (Cement)

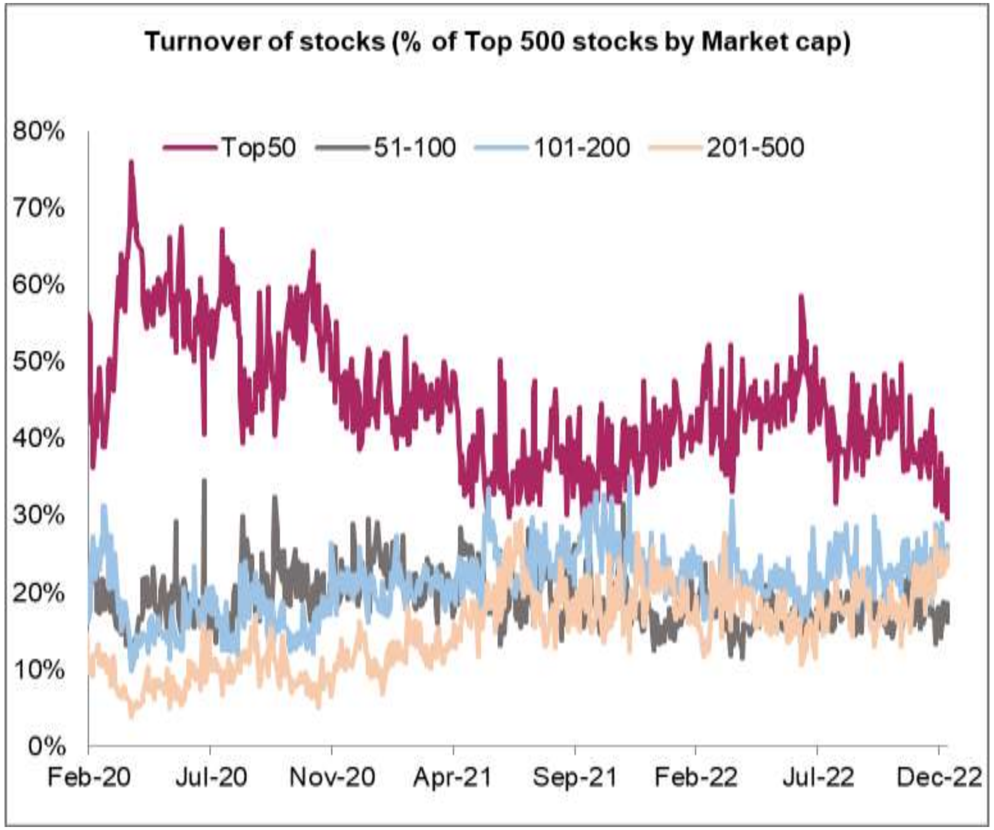
National Index						
Index Performance (%)	**1m**	**3m**	**6m**	**Since 01 Aug 21**	**Since 18 Oct 21**	**1 YR**
Nifty 50	-3.5%	5.9%	14.7%	14.9%	-2.0%	4.3%
Nifty Next 50	-3.4%	-0.5%	15.6%	7.2%	-5.6%	-0.1%
Nifty 500	-3.1%	4.2%	15.4%	13.1%	-2.8%	3.0%
Nifty Midcap 100	-1.7%	2.7%	19.1%	13.3%	-4.2%	3.5%
Nifty SmallCap 250	-1.8%	3.1%	17.2%	3.8%	-5.3%	-3.6%
Sector Index (%)	**1m**	**3m**	**6m**	**Since 01 Aug**	**Since 18 Oct**	**1 YR**
NIFTY AUTO	-4.7%	-0.7%	7.8%	25.5%	6.7%	15.3%
NIFTY BANK	-0.6%	11.3%	28.6%	24.3%	8.3%	21.2%
NIFTY COMMODITIES	-2.3%	6.9%	18.4%	10.3%	-3.9%	6.5%
Nifty Financial Services	-2.0%	8.4%	22.7%	15.3%	-0.3%	9.5%
NIFTY ENERGY	-5.4%	1.1%	3.0%	36.6%	2.9%	14.3%
NIFTY FMCG	-3.0%	-0.5%	17.3%	22.5%	6.3%	17.5%
NIFTY IT	-5.8%	6.1%	2.8%	-6.1%	-21.2%	-26.0%
NIFTY INFRA	-3.6%	5.9%	13.7%	18.5%	-0.8%	6.1%
NIFTY MEDIA	-5.9%	-3.4%	5.0%	10.9%	-14.7%	-10.2%
NIFTY METAL	2.4%	16.6%	44.3%	16.5%	7.5%	21.8%
NIFTY PHARMA	-4.2%	-2.9%	3.6%	-12.7%	-13.7%	-11.4%
NIFTY PSU BANK	7.9%	44.2%	77.4%	76.9%	52.9%	70.7%
Nifty Private Banks	-0.7%	9.7%	30.7%	21.6%	6.0%	21.2%
NIFTY REALTY	-4.1%	1.8%	12.1%	8.3%	-20.3%	-10.8%
NIFTY SERV SECTOR	-3.3%	6.3%	16.9%	13.3%	-2.9%	1.8%

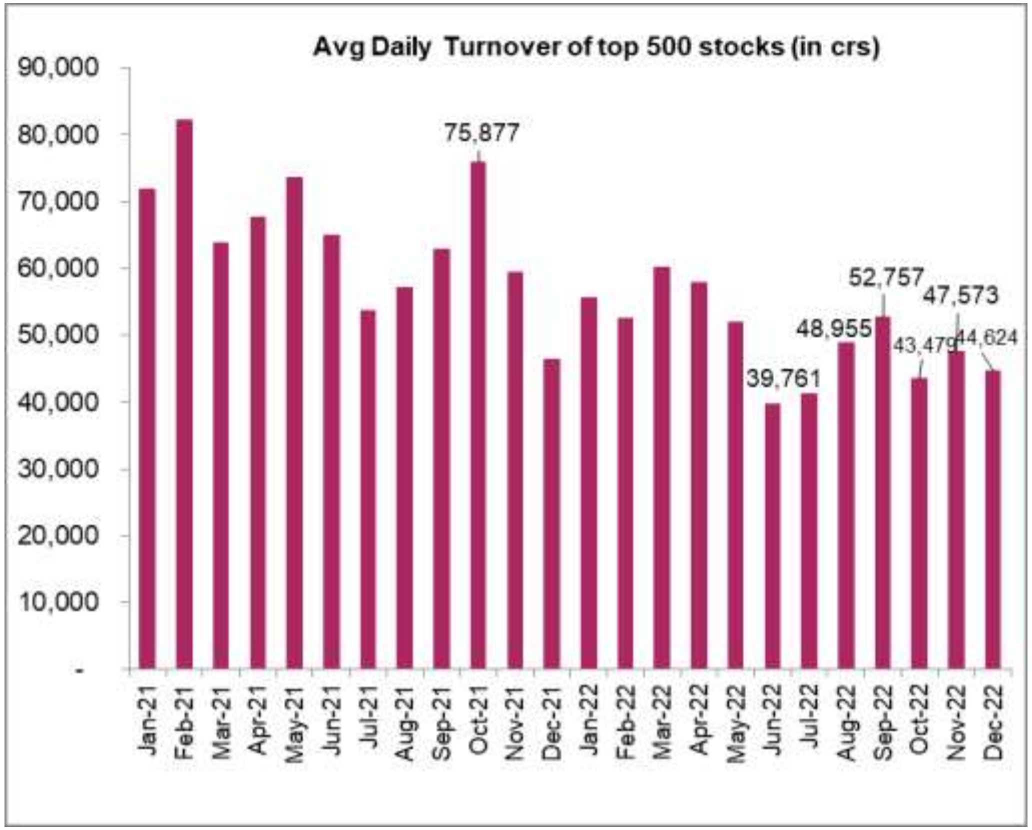
	International Index					
Index Performance (%)	**1m**	**3m**	**6m**	**Since 01 Aug**	**Since 18 Oct**	**1 YR**
Shanghai Comp	-2.0%	2.1%	-9.1%	-9.1%	-13.4%	-15.1%
Bovespa	-2.4%	-0.3%	11.4%	-9.9%	-4.1%	4.7%
Russia	-14.7%	-9.1%	-28.6%	-40.9%	-48.8%	-39.8%
south africa	-2.3%	16.7%	11.4%	6.5%	11.2%	-0.1%
Korea	-9.6%	3.8%	-4.1%	-30.2%	-25.6%	-24.9%
Mexico	-4.2%	10.8%	4.1%	-3.5%	-7.1%	-7.5%
Indonesia	-3.3%	-2.7%	-0.9%	12.9%	2.9%	4.1%
Argentina	18.3%	43.3%	125.4%	202.0%	140.6%	138.8%
Japan	-6.7%	0.6%	-1.1%	-4.4%	-10.1%	-9.4%
Hongkong	6.4%	14.9%	-9.5%	-23.8%	-22.2%	-15.5%
Philipines	-3.2%	14.4%	6.7%	4.7%	-9.1%	-7.8%
Taiwan	-5.0%	5.3%	-4.6%	-18.0%	-15.4%	-22.4%
Singapore	-1.2%	3.9%	4.8%	2.7%	2.4%	4.1%
Thailand	2.0%	5.0%	6.4%	9.6%	1.5%	0.7%
Veitnam	-3.9%	-11.0%	-15.9%	-23.1%	-27.8%	-32.8%
Dow	-4.0%	15.6%	7.9%	-4.9%	-5.8%	-8.6%
Nasdaq	-8.6%	-0.9%	-5.0%	-28.6%	-30.2%	-33.0%
FTSE 100 INDEX	-1.2%	8.6%	4.4%	6.4%	3.9%	1.3%
DAX INDEX	-3.0%	15.3%	9.2%	-10.2%	-9.8%	-12.1%
CAC 40 INDEX	-3.2%	13.3%	10.2%	-1.3%	-2.2%	-8.8%
S&P 500 Index	-5.7%	7.4%	1.7%	-12.4%	-14.2%	-19.2%

Source: Bloomberg, Axis Securities

Market Turnover (% of the Top 500 Names)

- Market turnover at 44,600 Cr in Dec'22, which is slightly below MoM.
- While the market turnover had inclined towards Large Caps in Jun'22, it has since been shifting towards the broader market, manifesting its resilience.



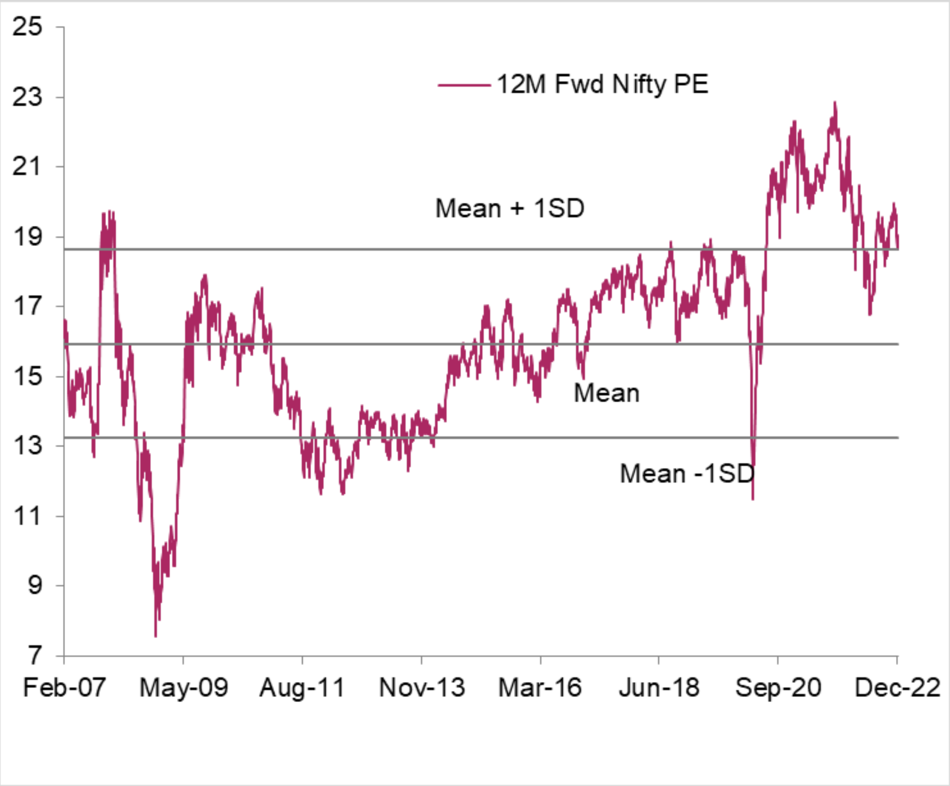


Source: Bloomberg, Axis Securities

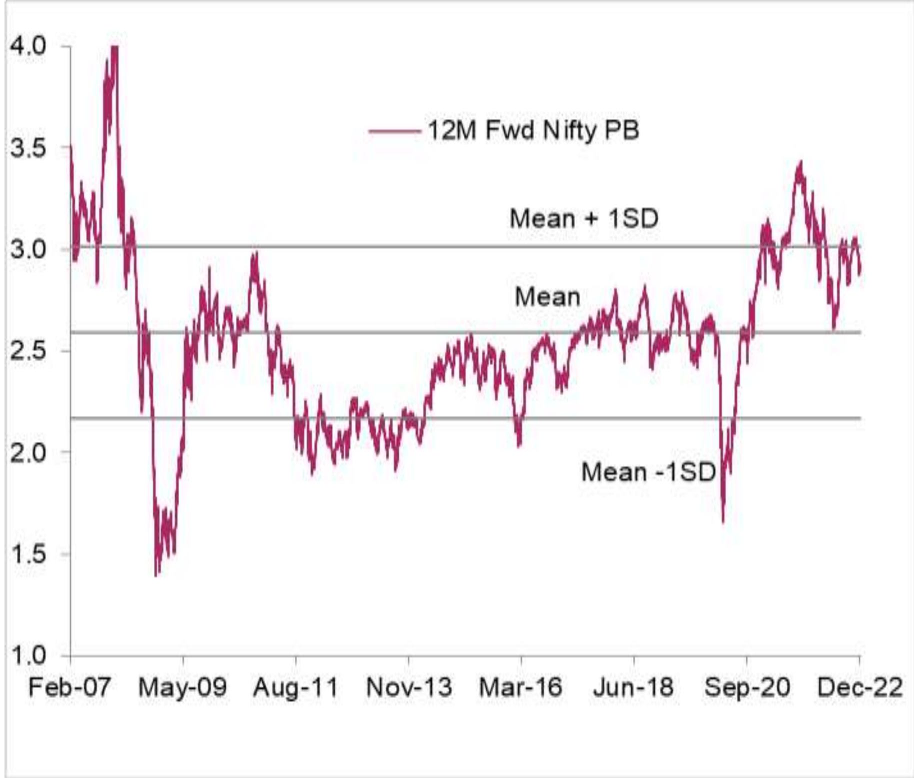
Market Valuations: 12M Fwd PE Now Trading at 18.9x

- NIFTY is currently trading at 18.9x on a 12M fwd PE at 1.1std to its long-term average while it is trading below 1stdev on a 12M Fwd PB.
- Style rotation and sector is the key to generating alpha as the earning expectations of the broader market remain intact.

Nifty 12M Fwd PE



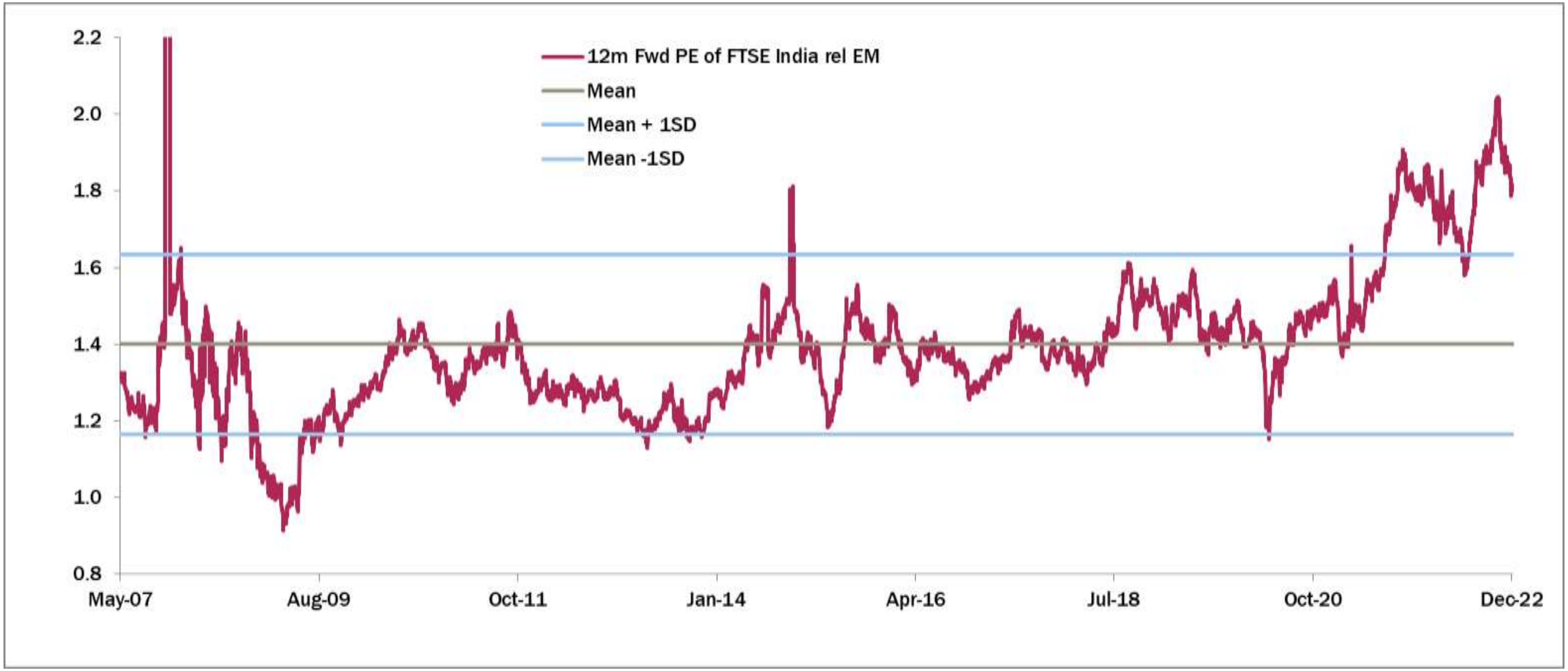
Nifty 12M Fwd PB



Source: Bloomberg, Axis Securities

Market Valuations: FTSE India rel. FTSE EM

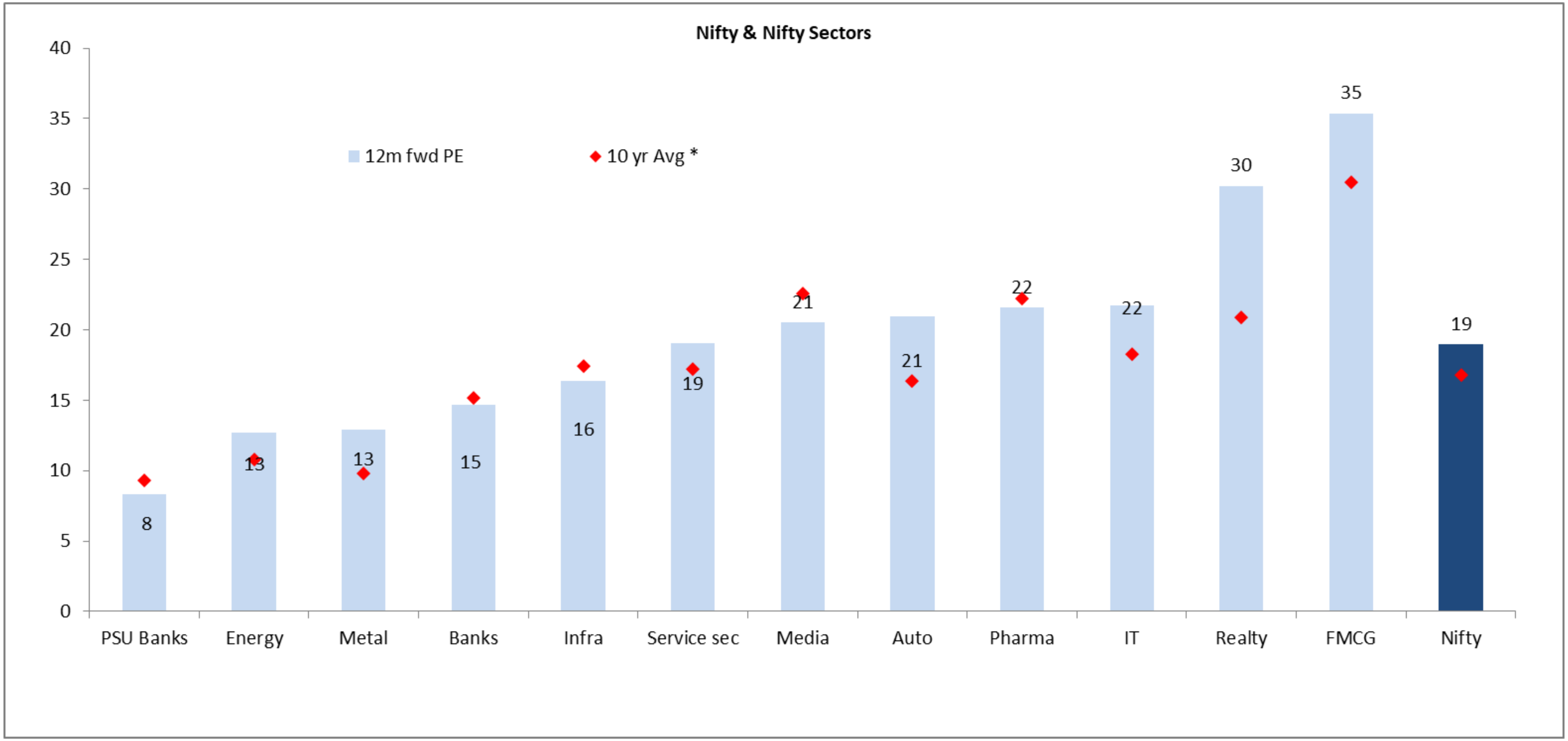
- FTSE India is trading at 2stdev rel. to FTSE Em index on 12m fwd PE. Currently, FTSE India is trading at an 81% premium to the EM Index as against a 40% average premium.
- Divergence is likely to continue on account of a) Robust economic growth vs. other EM countries, b) Strong earnings outlook, c) Robust demand across the sector, d) Banking sector in better shape, and e) Private Capex cycle expectation.



Source: Bloomberg, Axis Securities

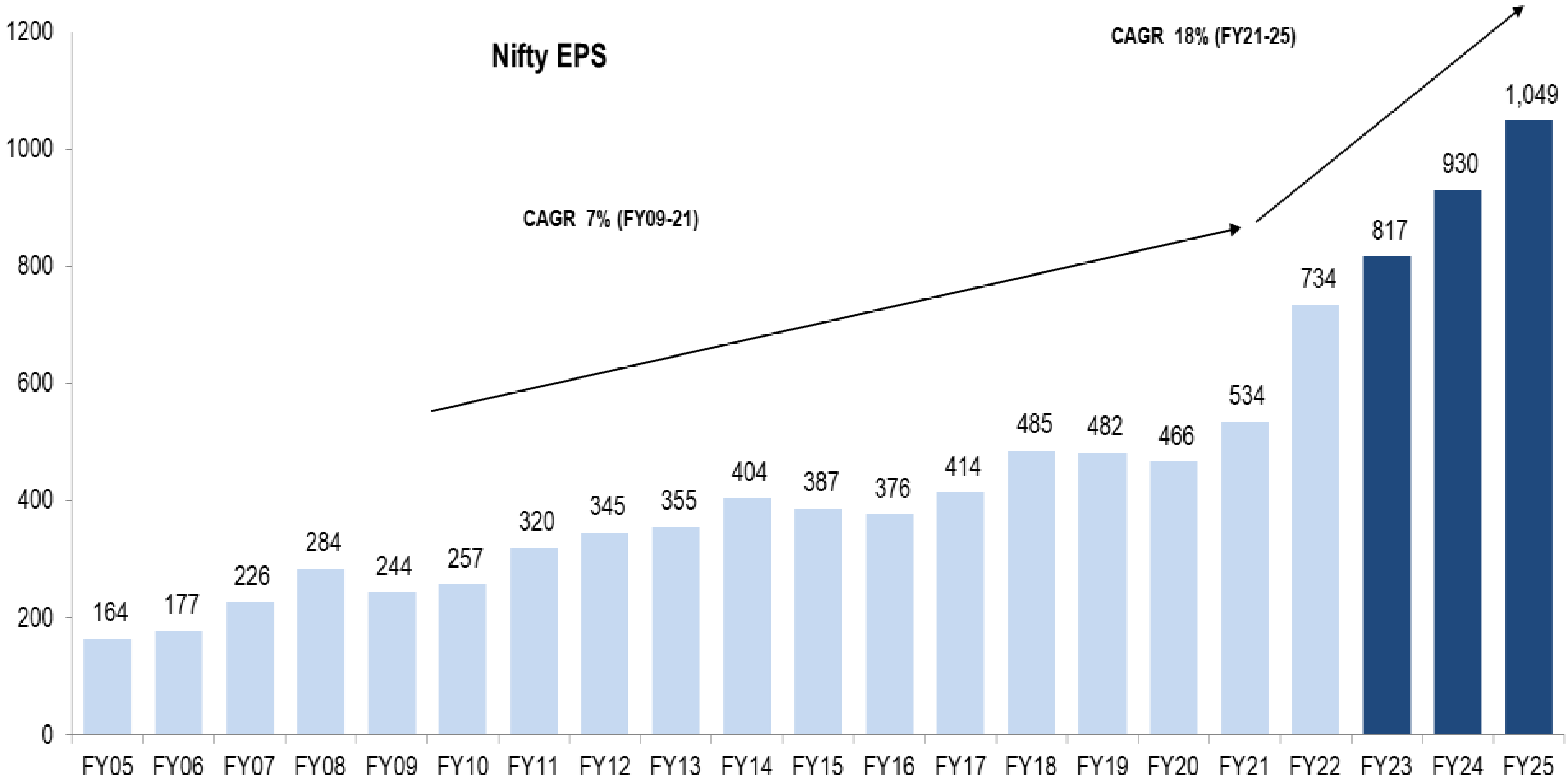
Nifty and Sectors

At current levels, PSU Banks, Energy, and the Metal Index are exhibiting valuation comfort. On the other hand, valuations for the IT, Pharma, and Auto sectors appear expensive. However, the valuation of the IT sector is likely to persist on account of a strong structural theme emerging in the sector.



Source: Bloomberg, Axis Securities, Note: 10 yr average means historical 10 yr average of 12m fwd PE

NIFTY EPS Growth Expectation Remains Robust: Nifty EPS is expected to grow at 18% CAGR over FY21-FY25 vs. 7% CAGR over FY09-FY21



Source: Bloomberg, Axis Securities

Nifty EPS Remained Largely Unchanged

We foresee FY23/24 NIFTY Earnings at 817/930. Expectations for FY23/24 are largely unchanged post-Q2FY23. For FY23, the upgrades in the Financial sectors are compensated by downgrades in Oil & Gas, Metals, and Tata Motors. With Shree cement being excluded from NIFTY 50, the contribution of cement has been reduced. Adani Enterprises has been included in the Industrials. Our estimates of FY23/24 stand conservative at 2%/4% below street expectations. Financials remain the biggest contributors for FY23/24/25 earnings.

	FY23 EPS				
Sector	Post Q4	Post Q1FY23	Post Q2FY23	Upgrade/Downgrade after Q2	FY23 EPS contribution
Financial	300	306	320	4.6%	39.2%
IT	107	102	101	-1.3%	12.3%
Oil & Gas	127	129	123	-4.7%	15.1%
FMCG	49	48	49	1.1%	5.9%
Power	41	37	36	-2.3%	4.4%
Industrial	35	36	39	8.3%	4.8%
Pharma	30	31	31	0.0%	3.7%
Metals	79	76	70	-7.9%	8.6%
Automobile	39	39	35	-9.7%	4.3%
Cement	8	6	5	-18.5%	0.6%
Telecom	11	10	9	-9.6%	1.1%
Total	826	820	817	-0.3%	

	NIFTY EPS				
Sector	FY23	FY24	FY25	FY24 EPS contribution	FY25 EPS contribution
Financial	320	360	419	38.7%	40.0%
IT	101	112	127	12.0%	12.1%
Oil & Gas	123	138	143	14.8%	13.6%
FMCG	49	56	63	6.0%	6.0%
Power	36	41	37	4.4%	3.6%
Industrial	39	44	57	4.7%	5.5%
Pharma	31	36	40	3.9%	3.8%
Metals	70	67	72	7.2%	6.9%
Automobile	35	53	62	5.7%	5.9%
Cement	5	7	8	0.8%	0.7%
Telecom	9	16	21	1.8%	2.0%
Total	**817**	**930**	**1049**		
Growth	**11%**	**14%**	**13%**		

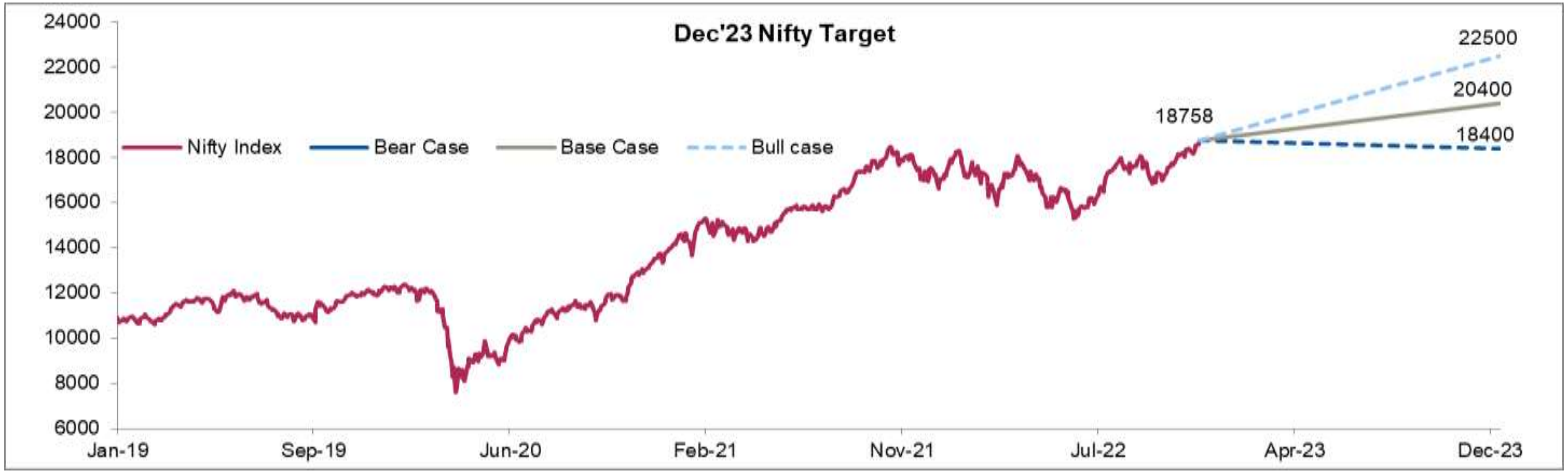
Source: Bloomberg, Axis Securities

Nifty target: We roll over Nifty Target to Dec'23 at 20,400

Base Case: The Indian economy stands in a sweet spot of growth and remains the land of stability against the backdrop of a volatile global economy. We continue to believe in the long-term growth story of the Indian equity market supported by the favourable structure emerging with increasing Capex enabling banks to improve credit growth. Strong earnings trajectory continues in the Nifty 50 universe. We foresee NIFTY EPS growth of 11%/14%/13% in FY23/24/25. Thus, we maintain our Dec'23 Nifty target at 20,400 by valuing it at 20x on Dec'24 earnings, implying an upside of 13% from the current levels.

Bull Case: In a bull case, we value Nifty at 22x, which would translate into a Dec'23 target of 22,500, implying an upside of 24% from the current levels. Our bull case assumption is based on the overall reduction in the volatility and geo-political tension in 2023 vs. 2022 which would lead to further cool-off in the commodity prices, especially Oil. The tightening cycle in the US will likely continue in 2023 but at a slower pace. The US FED may take a pause in mid-2023. If the market sails through the next 6-9 months smoothly, we would likely see the next level of triggers along with money flowing to EMs. This, in turn, would lead to an increase in the market multiple.

Bear Case: In a bear case, we value Nifty at 18x, which translates into a Dec'23 target of 18,400, implying almost flat returns. We assume the Russia-Ukraine war to continue for a prolonged period which would continue to pose inflationary challenges to the developed world. Currently, the market is priced in for future rate hikes but the terminal rates are not known. Any shape deviation in the terminal rate from the current expectation may translate into a slowdown or heightened recession risk in the developed market which will impact the export-oriented growth in the domestic market and pose challenges to earnings and market multiple.



Source: Bloomberg, Axis Securities

The last 4 quarters' rolling profits for NSE 500 (Sum of the last 4 quarters' earnings)

A few interesting findings from our study: Sector-wise

- The last 4 quarters' cumulative net profit reached an all-time high, crossing Rs 10 Lc Cr in Q1FY23. It witnessed a marginal dip in Q2FY23 (due to a profitability dip in Metals and Oil & Gas)
- The Financials are now significantly contributing to the Net Profit as against their contribution in 2019.
- Financials, Oil &Gas, Metals, and IT are now contributing 68% of the NSE 500 profitability.
- Loss-making sectors have turned positive post witnessing significant disruption by the pandemic.

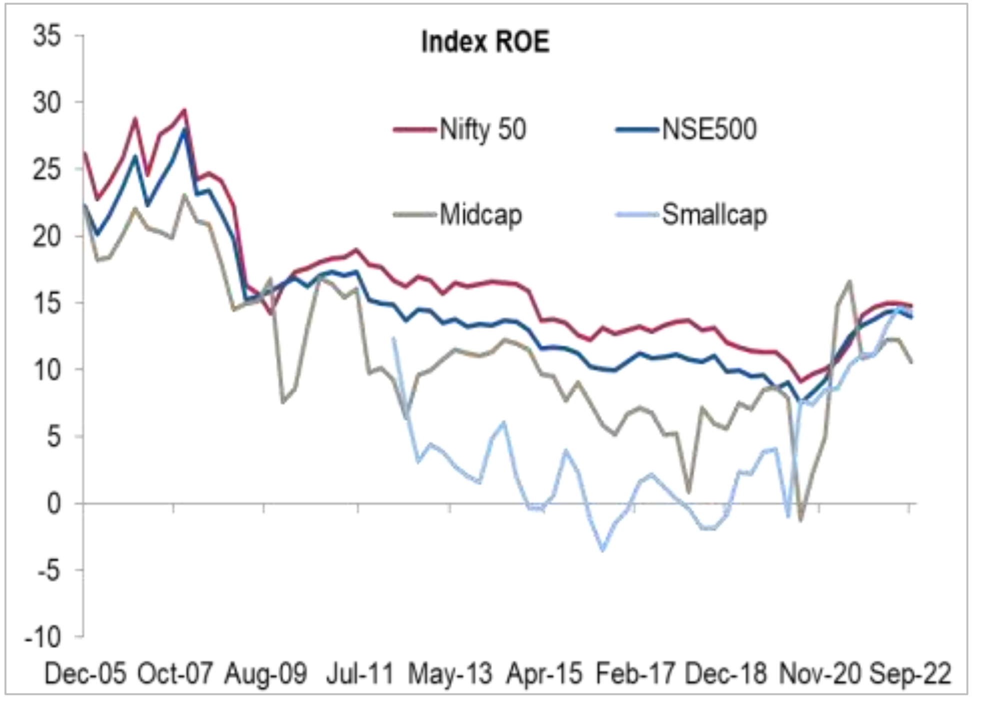
Sector-wise Net profit for NSE 500 – Trailing 4 Quarters (In Cr)

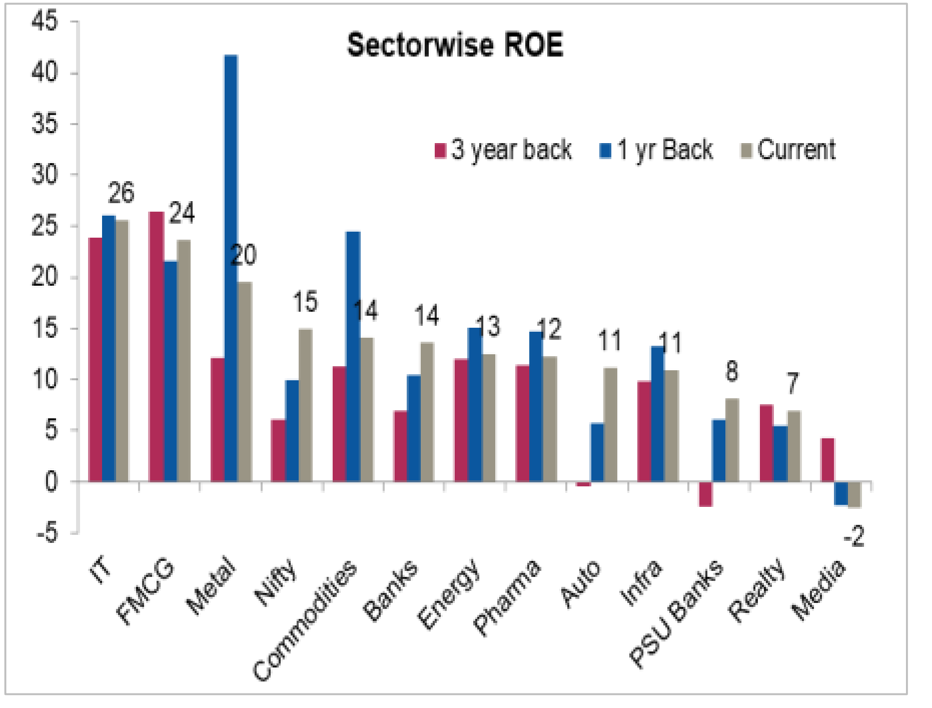
	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Auto & Anc.	36,212	34,648	28,975	18,892	16,774	19,102	23,326	31,448	33,505	32,432	39,165	40,369	42,092
Staples	34,044	35,614	34,705	34,745	34,686	35,077	37,033	37,947	38,906	39,898	40,786	42,661	43,928
Discretionary	18,408	18,644	17,154	10,635	7,816	7,532	9,492	11,307	13,066	13,737	12,778	21,469	24,331
Financials	83,185	87,751	83,569	89,429	1,11,037	1,20,216	1,44,827	1,53,050	1,68,689	2,01,467	2,49,250	2,69,689	2,94,612
IT	81,462	82,965	82,387	82,322	82,967	86,267	89,398	94,947	99,377	1,01,155	1,04,604	1,04,725	1,06,367
Oil & gas	1,00,204	1,00,066	69,799	66,982	69,888	74,752	1,24,719	1,32,943	1,54,065	1,70,082	1,66,402	1,62,971	1,41,907
Metals & Mining	58,266	51,279	31,557	18,990	13,853	27,476	67,094	1,01,698	1,33,055	1,45,281	1,49,009	1,47,110	1,19,356
Industrials	31,188	27,506	21,567	16,733	19,543	21,798	26,535	30,604	27,913	26,718	29,022	32,934	34,145
Build Mate	22,387	21,725	21,114	17,339	18,214	20,914	25,089	29,967	31,286	30,927	31,649	32,388	29,324
Healthcare	28,133	25,734	24,580	23,333	24,786	32,230	34,998	38,964	39,791	38,245	34,575	34,130	31,512
Utilities	27,165	29,287	26,518	25,196	26,743	27,905	38,791	44,783	42,734	43,788	48,542	52,467	53,984
Transport	2,462	2,713	32	-4,815	-3,837	-5,147	-4,871	-5,289	-5,650	-4,357	-4,003	-1,604	-1,476
Agri&Chem	12,424	13,976	14,142	14,060	15,001	15,127	16,737	18,898	19,085	20,570	22,468	24,883	25,892
Tele & Media	-19,015	-20,239	-27,164	-41,669	-20,379	-18,345	-10,089	7,343	10,474	11,091	11,773	13,207	13,347
Others	12,486	12,017	9,266	7,004	6,395	7,355	9,466	12,286	21,966	22,569	24,611	25,236	16,112
Total	5,29,010	5,23,684	4,38,202	3,79,177	4,23,487	4,72,259	6,32,544	7,40,895	8,28,264	8,93,602	9,60,630	10,02,635	9,75,433
Growth (%)	-2%	-1%	-16%	-13%	12%	12%	34%	17%	12%	8%	7%	4%	-3%

Source: Bloomberg, Axis Securities, Note: Tata Motors and Vodafone are not included in the study

Return Ratios are improving

- ROE is improving across the market caps. Smaller stocks, too, have been showcasing a significant improvement.
- ROE of cyclical sectors has improved in the last 1-2 years. Moreover, current ratios are higher than the pre-pandemic levels.
- Significant improvement has been seen in the PSU banks in the last 3 years.
- The Auto and Infra sectors' profitability has improved in the past couple of years based on the positive outlook.



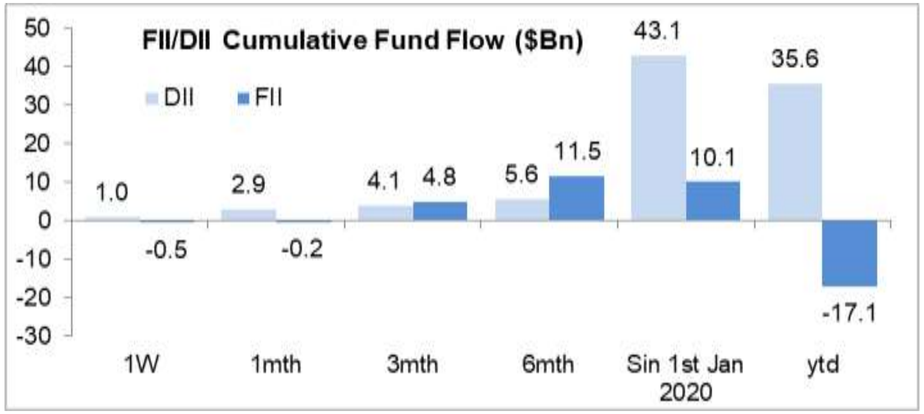


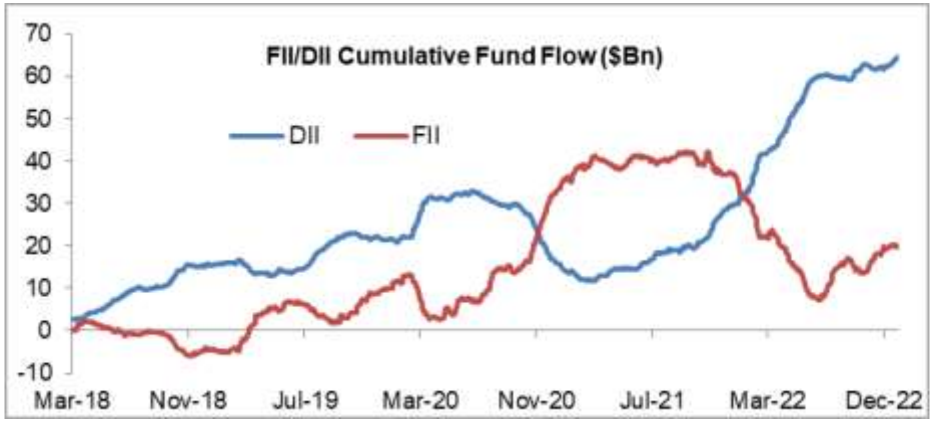
Source: Bloomberg, Axis Securities

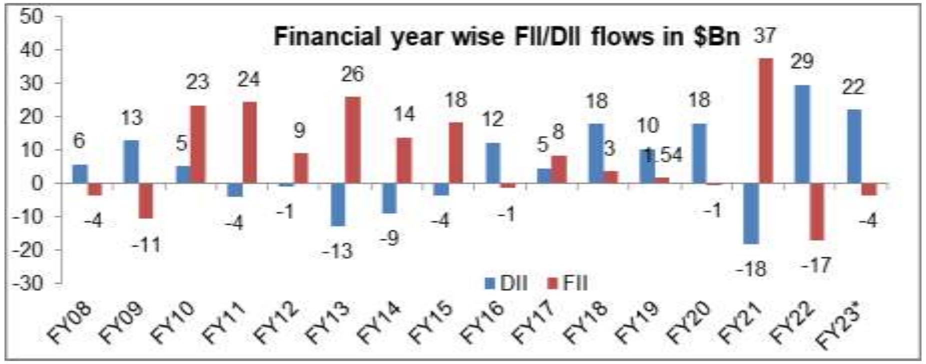
FIIs have been the net buyers in the last three month

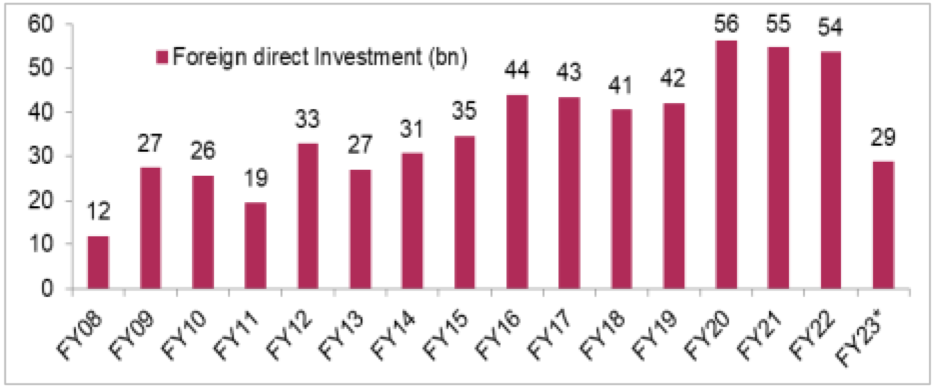
After 9 months since Oct'21, FIIs turned net buyers for the first time in Jul'22, which has continued since then. After a volatile Sep'22, FIIs were back with positive flows since mid-oct'22 onwards. In the last three months, FIIs bought $4.8 Bn of equities in the Indian market.

FIIs have pulled out the majority of the easy money from the Indian market which they pumped in after the Covid-19 crisis in Mar'20. They have pulled $21 Bn in FY22/23 out of $37 Bn pumped in FY21. Nonetheless, the pace of selling has reduced in the last 3 months. In fact, they have turned into net buyers since Jul'22.





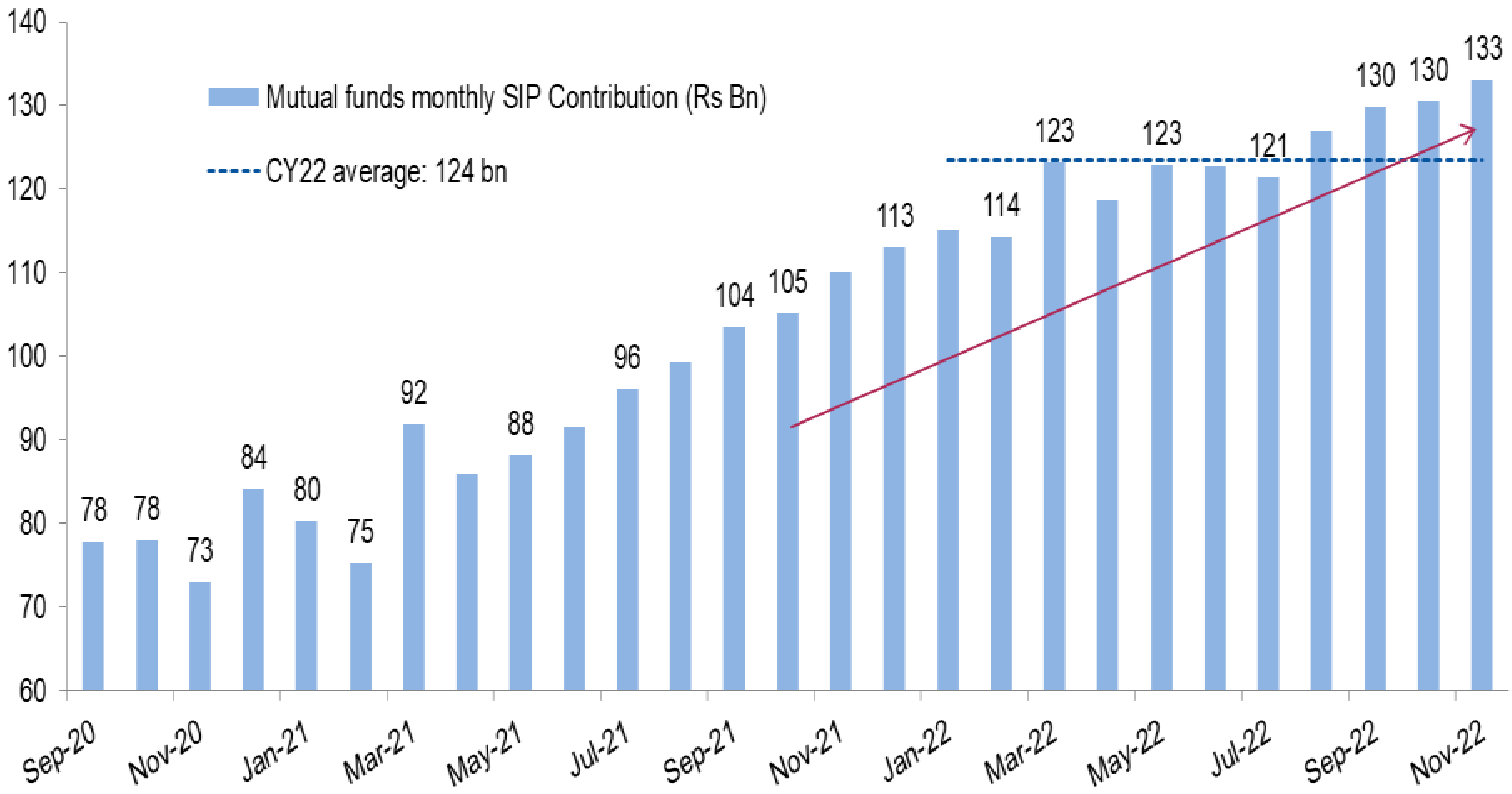




Source: Bloomberg, Axis Securities

DIIs are continuously supporting the market led by increasing SIP contribution

- SIP contribution rose to its highest-ever at Rs 133 Bn in Nov'22.
- SIP contribution for CY22 stands at Rs 124 Bn, significantly higher than the previous years

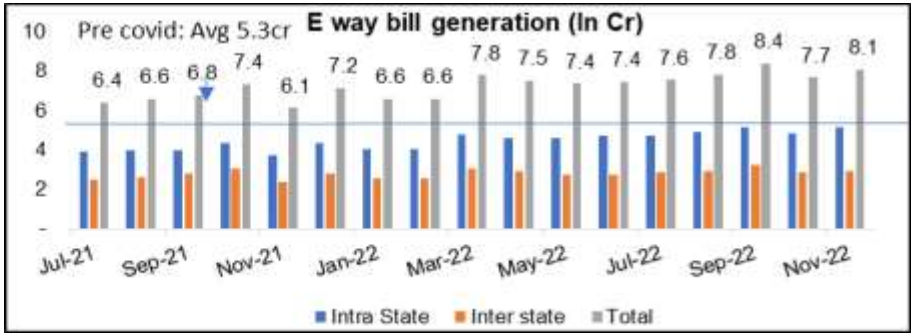


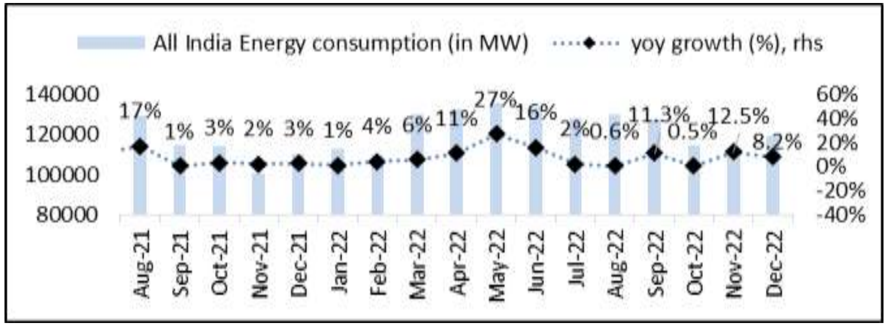
Source: Bloomberg, Axis Securities

Macro Indicators

Healthy Pick Up In the Economic Activities Continued in the Last Quarter

- **GDP:** GDP for the Sep'22 quarter grew by 6.3%, in line with the street expectation. Recovery in retail activity was led by normal monsoon agriculture and massive activity catch-up in trade driving the growth in the September quarter. Pick-up in hotels, transport, and broadcast activities offset the weakness in other categories. Domestic demand is likely to remain robust as a fall in raw material cost and stronger investment intentions will drive the real GDP growth going forward. Policymakers' focus continues to be on curtailing inflation and implementing macro stability management.
- **Electricity generation & E-way bills**: Healthy pick-up in the economic activities continued in Nov/Dec'22. Electricity generation in Dec'22 posted an encouraging growth, indicating significant improvement in economic activities even after the festival season. Healthy momentum was also seen in the E-way bills with 8.1 Cr bills generated in Nov'22, which stands higher than the pre-pandemic average.
- **CPI:** Nov'22 CPI fall to 5.9, in line with the expectations and cheer for the markets and the policymaker that the Nov'22 print stood below 6%. The fall in the CPI is driven by the normalization of volatile food prices created by erratic monsoons. Oil price inflation has slowed in the last 6 months along with a cool-off in metal prices from their 52W high, thereby supporting the sequential moderation in the inflation. However, inflation risk is still growing in the form of a wide trade deficit. We believe the RBI will continue to focus on curtailing inflation in the threshold band.

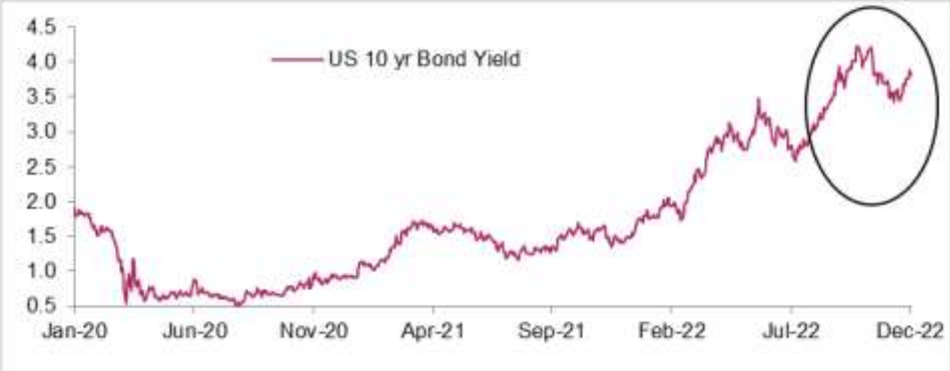


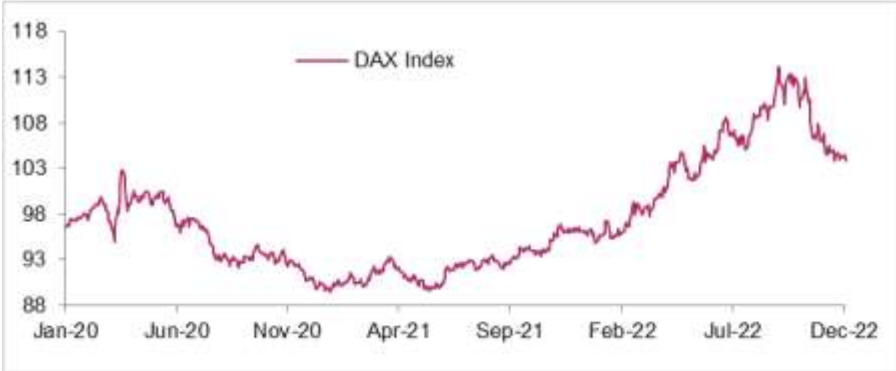


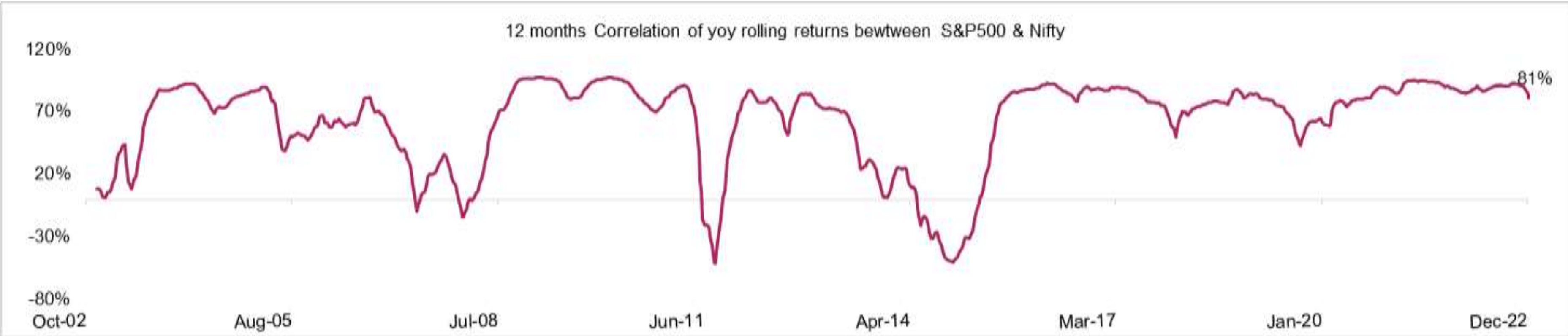
Source: Bloomberg, Axis Securities

Macro will continue to drive near-term market fundamentals

- Fundamentally, the Indian market has entered into an up cycle of the earnings trajectory. However, the short-term behaviour of FII (in terms of equity flow in the emerging market) has changed in line with the rise in three macro drivers – a) The US bond yields, b) The Dollar Index, and c) Aggressive rate hike expectation
- The US bond yields went up 4% after the Sep'22 FOMC meeting on an expectation of a continuation of rate hikes till inflation falls in a more comfortable zone. In the last two weeks, US bond yields went up by 40bps, creating weakness in the equity market.
- The correlation between the Indian market and the US market remains high, however, it has reduced to 81% recently vs. 91% a few months ago.



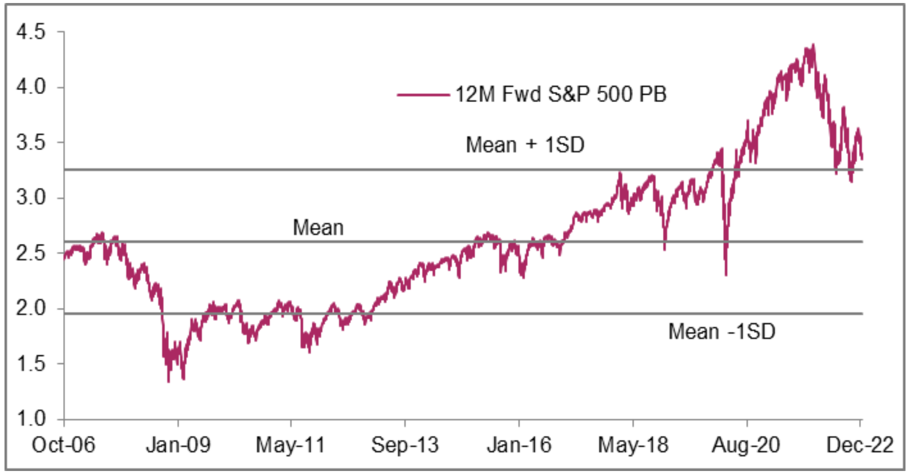




Source: Bloomberg, Axis Securities

Macro will continue to drive near-term market fundamentals: Is more correction likely in the US market?

- The US market cap to GDP is now trading at 161% vs. 240% in the last year
- The 'US bond equity earning yield' ratio is now trading above 1 stdev vs. -1 stdev last year, indicating the attractiveness of the bond market with a sharp rise in the interest rates.
- After the correction, the US 12M fwd PE is trading above the average valuations (currently at 16.7x) while the price to book is slightly above 1 stdev.



Source: Bloomberg, Axis Securities

ICICI BANK – OUTPERFORMANCE CONTINUES

ICICI Bank (ICICIBC) is one of the largest private sector banks in India with business operations spread across Retail, Corporate, and Insurance, among others. It is supported by a strong liability franchise and a healthy retail corporate mix. The bank's subsidiaries such as ICICI Venture Funds, ICICI Pru AMC, ICICI Securities, ICICI Prudential, and ICICI Lombard stand among the leading companies in their respective domains.

Industry view

Equal Weight

CMP
891

Target Price
1,150

Upside
29%

Key Rationale

- **Strong credit growth:** The bank continued its growth momentum in Q2FY23, clocking a healthy advances growth of 23/5% YoY/QoQ. The growth was driven by sustained growth in the retail portfolio and the pick-up in the corporate book. The Retail/Business Banking/SME segments grew by 25/43/27% YoY respectively. Retail growth was mainly driven by Mortgages/Personal Loans/Credit Cards which grew by 20/41/68% YoY. Furthermore, vehicle financing, too, picked up the pace (+14% YoY) led by the faster growth in the auto finance segment. The CV/CE segment, however, continued to report sluggish growth. The credit card portfolio growth has been impressive, supported by robust spend, which was driven by the improvements in discretionary spending, higher activation rate through digital customer onboarding, and diversification through commercial cards.
- **Comfort on asset quality:** ICICIB's asset quality continued to improve with GNPA/NNPA at 3.2/0.6% in Q2FY23. Slippages moderates QoQ with the slippage ratio improving to 1.9% from 3.0/2.7% YoY/QoQ. Moreover, the bank has done significant work on pre-delinquency management leading to healthy recoveries. The restructured loans declined to ~0.8% of loans from 0.9% QoQ. The BB and the below-book continued to improve and stood at 0.8% in Q2FY23 vs. 0.9% QoQ while it has ranged between 1.5-3% overFY19-22.
- **Operational performance strengthening:** In Q2FY23, while NIMs expanded by 30bps QoQ to 4.3%, reflecting faster re-pricing of loans, the rate transmission on the deposits occurred with a lag. The management is looking to maintain NIM between 3.95-4% on a steady state basis. We believe the higher share of floating rate loans (44% repo-linked, 5% EBLR linked, and 21% MCLR linked) along with a steady mix of a high-yielding portfolio (Retail/Business Banking) and a low-cost liability franchise will continue to support the bank in maintaining margins. We expect margins to remain stable at ~4.3% over the medium term.
- **Outlook & Valuation:** The bank has been outperforming its peers and has been firing on all cylinders. ICICIB has ticked most boxes on growth, margins, and asset quality. Higher loan growth, improving operating profits, and a strong provision buffer coupled with a strong deposit franchise will help the bank achieve ROAE/ROAA expansion over FY23-25E. On the valuation front, we believe the bank continues to be on a comfortable footing. We maintain a BUY on the stock with a revised target price of Rs 1,150/share (SOTP basis core book at 3.2x FY24E and Rs 163 Subsidiary value).
- **Key risks:** a) Deterioration in the retail asset quality, b) Delay in the resolution of stressed assets.

Key Financials (Standalone)

Y/E Mar (Rs Bn)	NII (Rs Bn)	PPOP (Rs Bn)	PAT (Rs Bn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY22	475	393	233	33.6	225.7	3.9	1.7	0.8
FY23E	605	486	315	45.3	266.2	3.3	2.0	0.5
FY24E	703	593	379	54.5	309.5	2.9	2.1	0.4
FY25E	852	699	444	63.9	360.5	2.5	2.1	0.4

Source: Company, Axis Securities

Income Statement (Rs Bn)

Y/E March	FY22	FY23E	FY24E	FY25E
Net Interest Income	475	605	730	852
Other Income	215	210	256	305
Total Income	**689**	**815**	**987**	**1158**
Total Operating Exp	267	330	393	459
PPOP	**422**	**486**	**593**	**699**
Provisions & Contingencies	86	65	87	105
PBT	**336**	**421**	**506**	**594**
Provision for Tax	73	106	128	150
PAT	**263**	**315**	**379**	**444**

Source: Company, Axis Research

Balance Sheet (Rs Bn)

Y/E March	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS				
Share Capital	14	14	14	14
Reserves	1,691	1,959	2,261	2,617
Shareholder's Funds	**1,705**	**1,973**	**2,275**	**2,631**
Total Deposits	10,646	12,306	14,382	16,753
Borrowings	11,718	13,855	16,281	19,068
Other Liabilities & Provisions	690	759	854	960
Total Liabilities	**14,113**	**16,586**	**19,410**	**22,659**
APPLICATION OF FUNDS				
Cash & Bank Balance	1,678	1,660	1,782	1,976
Investments	3,102	3,574	4,033	4,447
Advances	8,590	10,499	12,638	15,166
Fixed &Other Assets	742	853	956	1,071
Total Assets	**14,113**	**16,586**	**19,410**	**22,659**

Source: Company, Axis Research

Valuation ratios (%)

Y/E March	FY22	FY23E	FY24E	FY25E
EPS	37.9	45.3	54.5	63.9
Earnings growth (%)	62	20	20	17
Adj. BVPS	225.7	266.2	309.5	360.5
ROAA (%)	1.7	2.0	2.1	2.1
ROAE (%)	16.5	17.1	17.8	18.1
P/ABV (x)	3.9	3.3	2.9	2.5
Dividend Yield (%)	0.6	0.7	1.2	1.4
PROFITABILITY				
Yield on Advances (%)	8.3	8.7	8.9	8.9
Cost of Funds (%)	3.7	4.0	4.1	4.1
Cost of Deposits (%)	3.5	3.7	3.9	4.0
NIM (%)	4.0	4.3	4.4	4.4
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	2.0	2.1	2.2	2.2
Cost-Income Ratio (%)	38.8	40.4	39.8	39.6

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E March	FY22	FY23E	FY24E	FY25E
Loan Growth (%)	17.1	22.2	20.4	20.0
Deposit Growth (%)	14.2	15.6	16.9	16.5
C/D Ratio (%)	80.7	85.3	87.9	90.5
Equity/Assets (%)	12.1	11.9	11.7	11.6
Equity/Advances (%)	19.8	18.8	18.0	17.3
CASA (%)	48.7	48.9	48.4	47.3
Total Capital Adequacy Ratio	19.2	18.5	17.3	16.4
Tier I CAR	*18.4*	*17.8*	*16.7*	*15.9*
ASSET QUALITY				
Gross NPLs	339.2	314.6	300.6	311.7
Net NPLs	69.6	57.1	60.1	62.4
Gross NPLs (%)	3.6	2.7	2.2	1.9
Net NPLs (%)	0.8	0.5	0.4	0.4
Coverage Ratio (%)	79	82	80	80
Provision/Avg. Loans (%)	1.1	0.7	0.8	0.8
ROAA TREE				
Net Interest Income	3.6	3.9	4.1	4.1
Non-Interest Income	1.6	1.4	1.4	1.5
Operating Cost	2.0	2.1	2.2	2.2
Provisions	0.7	0.4	0.5	0.5
Tax	0.6	0.7	0.7	0.7
ROAA	1.7	2.0	2.1	2.1
Leverage (x)	8.3	8.3	8.5	8.6
ROAE	16.5	17.1	17.8	18.1

Source: Company, Axis Research

TECH MAHINDRA – ROBUST BROAD-BASED GROWTH

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

Industry view

Overweight

CMP
1,016

Target Price
1,300

Upside
28%

Key Rationale

- **Strong Q2FY23 performance** Tech Mahindra Ltd (Tech M) reported better-than-expected results in Q2FY23. The company's revenue for the quarter stood at Rs 13,129.5 Cr, delivering a growth of 3.3% QoQ. However, despite the revenue growth, the company's operating margins improved by 40bps to 11.4%, primarily owing to a better service mix, moderated employee cost, and favourable currency mix. The company's net income for the quarter stood at Rs 1,285 Cr, up 16% QoQ. On a brighter note, the ramp-up in new deal wins enabled Tech Mahindra to generate strong volume growth. The Communication vertical de-grew 1.3% QoQ while the Enterprise vertical showcased a growth of 6.3% QoQ in CC terms.
- **Strong deal wins and pipeline reflects demand acceleration:** The deal pipeline, too, remained robust during the quarter at TCV of $718 Mn. The management is expecting strong improvements in supply-side constraints and expects recovery with the ramp-up in new deal wins.. The management is expecting strong improvements in supply-side constraints and expects recovery with the ramp-up in new deal wins. Moreover, the deal pipeline is trending at an all-time high led by (a) Advanced stage discussions within the network and core transformation within Communications and (b) Data and Digital within Enterprise. This reflects demand acceleration.
- **Posted robust broad-based growth.** BFSI de-grew by 2.0% QoQ and Manufacturing improved by 5.1% QoQ. Technology improved by 4.5% QoQ. Furthermore, Retail Transport & Logistics reported a growth of 3.4% QoQ while Others de-grew at 2.7% QoQ.

Key Rationale

- **Initial traction in 5G; may pick up in FY23-FY24**: The management sees initial traction in 5G both on (a) Communications side where traction is visible in modernization IT, network, process and systems, and (b) Enterprise side where it signed 3 Manufacturing 5G solutions in Europe and 1 in the US. While the timing of pickup is difficult to predict, the management expects 5G growth to pick up in FY22 or at most in FY23and FY24. 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 long-term opportunity and expect it to pick up in FY23 and beyond.
- **Strengthening capabilities:** Tech Mahindra has acquired BrainscaleInc for a consideration of $28.8 Mn including earnouts. Brainscale is a Cloud-focused asset having expertise in Cloud Consulting, Enablement, Application Development, and Data Analytics. The acquisition will bolster Tech M's consulting capabilities in the Cloud transformation space and will enable Tech Mahindra to drive the growth of Cloud-related IT services in the North American market
- **Valuations** We believe Tech Mahindra has a superior services mix and multiple long-term contracts that are well-spread across the verticals, reducing its dependency on any one vertical. Furthermore, we foresee healthy tractions in Communications and Enterprise verticals which will greatly accelerate the company's revenue growth moving forward. **We recommend a BUY rating on the stock and assign a 16x P/E multiple to the company's FY24E earnings of Rs 83.7/share to arrive at a TP of Rs 1,300/share. TP implies an upside of 21% from the CMP.**

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales(Rs)	EBIDTA (Rs)	Net Profit(Rs)	EPS (Rs)	PER (x)	RoE (%)	RoCE (%)
FY20	36,354	5,832	4,130	48.0	8	20%	19%
FY21	37,548	3,849	4,230	50.9	6%	21%	19%
FY22E	43,556	7,498	4,991	59.3	17%	23%	19%
FY23E	50,089	10,945	5,940	70.0	18%	26%	21%

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**37,548**	**43,556**	**50,089**	**57,602**
Growth, %	3%	16%	15%	15%
Other income	1,232	1,380	1,561	1,750
Total income	3,878	4,494	5,165	5,935
Employee expenses	20,767	22,858	24,089	23,466
Other Operating expenses	7,611	8,307	9,588	10,340
EBITDA (Core)	3,849	7,498	10,945	15,779
Growth, %	-34%	95%	46%	44%
Margin, %	10%	17%	22%	27%
Depreciation	1,434	1,267	1,580	1,694
EBIT	2,414	6,834	9,365	14,084
Growth, %	-46%	183%	37%	50%
Margin, %	6%	16%	19%	24%
Interest paid	133	104	95	95
Pre-tax profit	**3,513**	**7,507**	**10,831**	**15,739**
Tax provided	1,667	2,009	3,349	4,302
Profit after tax	1,847	5,498	7,482	11,437
Net Profit	**4,230**	**4,991**	**5,940**	**7,068**
Growth, %	**2%**	**18%**	**19%**	**19%**
Net Profit (adjusted)	4,230	4,991	5,940	7,068

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Cash & bank	1,043	2,848	7,299	16,654
Debtors	7,778	9,225	10,647	11,783
Other current assets	6,590	6,590	6,590	6,590
Total current assets	**22,134**	**25,689**	**31,570**	**41,543**
Net fixed assets	1,243	431	431	431
CWIP	276	276	276	276
Other Non-current assets	752	752	752	752
Differed tax assets	609	609	609	609
Total Non-Current Assets	**288**	**207**	**207**	**207**
	0	0	0	0
Total assets	**33,252**	**36,613**	**42,100**	**51,321**
	0	0	0	0
Creditors	2,795	2,971	3,247	3,303
Provisions	395	395	395	395
Total current liabilities	**9,763**	**9,939**	**10,215**	**10,271**
Other liabilities	42	42	42	42
Paid-up capital	433	433	433	433
Reserves & surplus	22,492	25,718	30,930	40,095
Shareholders' equity	2,293	2,615	3,136	4,053
Total equity & liabilities	**33,252**	**36,613**	**42,100**	**51,321**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	3,513	7,507	10,831	15,739
Depreciation	1,434	1,267	1,580	1,694
Chg in working capital	-748	-1,750	-1,430	-618
Total tax paid	1,667	2,009	3,349	4,302
Cash flow from operating activities	**4,043**	**6,853**	**10,900**	**16,841**
Capital expenditure	662	673	777	860
Cash flow from investing activities	**-662**	**-673**	**-777**	**-860**
Free cash flow	4,043	6,853	10,900	16,841
Dividend (incl. tax)	2,112	2,323	2,323	2,323
Cash flow from financing activities	**-281**	**-42**	**24**	**24**
Net chg in cash	-679	1,805	4,450	9,356

Source: Company, Axis Research

Ratio Analysis (%

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share data				
EPS (INR)	50.9	59.3	70.0	82.6
Growth, %	6%	17%	18%	18%
Book NAV/share (INR)	260.5	297.2	356.4	460.6
FDEPS (INR)	42	46	46	46
CEPS (INR)	67.2	77.5	103.6	149.8
CFPS (INR)	43.8	42.8	42.8	42.8
DPS (INR)	21	24	24	24
Return ratios				
Return on assets (%)	13%	15%	18%	22%
Return on equity (%)	21%	23%	26%	32%
Return on capital emp. (%)	9%	21%	24%	28%
Turnover ratios				
Asset turnover (x)	31.6	74.2	65.0	65.0
Sales/Total assets (x)	31.6	74.2	65.0	65.0
Receivables Days	102.4	102.4	102.4	102.4
Cash conversion cycle	34.5	5.0	4.7	0.9
Liquidity ratios				
Current ratio (x)	2.2	2.5	3.0	3.9
Quick Ratio	1.4	1.6	2.0	2.8
Net debt/Equity (%)	0	0	0	0
Leverage Ratio	1	1	1	1
Valuation				
PER (x)	26.0	20.0	18.0	18.0
Price/Book (x)	3.0	5.1	4.3	3.3
EV/Net sales (x)	2.9	2.8	2.8	2.8
EV/EBITDA (x)	7.3	6.4	6.4	6.4
Dividend Yeild	2.9	4.4	4.4	4.4

Source: Company, Axis Research

MARUTI SUZUKI INDIA LTD – FOCUS ON SUVS A STEP IN THE RIGHT DIRECTION!

Maruti Suzuki India Ltd (MSIL) is the market leader in the domestic passenger car industry commanding a market share of about 45%. Suzuki Motor Corporation (SMC) currently holds 56.37% of its equity stake.The Company has two state-of-the-art manufacturing facilities located in Gurugram and Manesar in Haryana, capable of producing ~1.5 Mn units per annum. Suzuki Motor Gujarat Private Limited (SMG), a subsidiary of SMC, was set up in Hansalpur, Gujarat to cater to the increasing market demand for the Company's products and has been operational since 2017. Through this new facility, an additional annual production capacity of 0.75 Mn units has been made available, thereby taking the combined production capability to~2.25Mn units.

Industry view

Over Weight

CMP
8,395

Target Price
10,600

Upside
26%

Key Rationale

- **Demand Outlook positive:** The company has pending orders of 412K units at the end of Q2FY23 out of which 130K units are pre-bookings for recently launched models. The remaining waitlist of 282K units is spread across products with higher orders from Ertiga and Baleno. The company started retailing its flagship Hybrid vehicle Grand Vitara in Sep'22 (mid-SUV launched in Jul'22) and has received an overwhelming response from customers in a short span of time with 75K bookings (currently, 35% are for the strong hybrid variant). Demand for CNG variants continues to remain robust and accounts for 130K out of the total orderbook. Exports so far are steady with quarterly volumes of ~63K units in Q2 vs. 69K units in Q1FY23.
- **GMs to improve:**GMs improved by 100bps QoQ in Q3 driven by the ease in commodity prices, cost reduction efforts, and better product mix. Going forward, a drop in steel and other metals will continue to benefit the margins while energy inputs such as power and fuel are still expensive.
- **Premimization Trend**: Currently, the company has 2 SUVs in its portfolio – the compact SUV Grand Vitara and the sub-compact SUV Brezza both of which were launched this year. Since their launches, they both have also been well received and have helped Maruti in gaining SUV segment market share. The company will be launching its forthcoming MUVs the Jimny and Baleno Cross at competitive prices.
- **Capacity Expansion**: MSIL has an existing capacity of 22.5 Lc vehicles at Haryana and Gujarat with Toyota Karnataka facility over and above this. It is going to set up a new manufacturing plant in Kharkhoda, Haryana with a total capacity of 10 Lc units in the next 8 years with a Capex of Rs 18,000Cr, the construction for 1st phase of 250k units has already started and the plant is expected to be commissioned by Q1CY25. If required MSIL will most likely add about 1 Lc units capacity on a short-term basis in Manesar to meet the intermediate demand by April 2024.
- **Valuation:** We expect a rise in demand from new launches along with up gradation of the existing product portfolio, softening commodity inflation, and improving ECU shortages to support recovery in the margins. The company would gain further market share, driven by an expected shift towards petrol, CNG, and Hybrid vehicles. Looking at the existing order book, we expect the company's volumes to witness strong growth in Q4FY23 onwards. We expect a recovery of both market share and margin in FY23 and FY24, led by a favourable product lifecycle, operating leverage, and product mix as well as price action/cost-cutting. **We maintain our BUY rating on the stock with a TP of Rs 10,600/share (Unchanged) valuing the stock at 28x its Sep'24 EPS.**
- **Key Risks:** (1) Intense competition in Mid-Size SUV segment which could limit its market share gains. (2) Success of Grand Vitara Hybrid models in the long run viz a viz EV models from competitors.

Key Financials (Standalone)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	ROE (%)	P/E Ratio (x)	P/BV (x)	EV/ EBITDA (%)
FY22A	88,296	5,747	3,804	124.7	7.0%	62.7	4.4	41.1
FY23E	1,17,361	11,099	7,823	259.0	13.5%	32.4	4.3	21.3
FY24E	1,38,145	15,514	11,105	367.6	17.2%	22.9	3.8	15.0
FY25E	1,48,394	16,347	11,575	383.2	15.9%	21.9	3.3	14.3

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY22A	FY23E	FY24E	FY25E
Net revenues	88,296	1,17,361	1,38,145	1,48,394
Operating expenses	82,549	1,06,262	1,22,632	1,32,047
EBIDTA	**5,747**	**11,099**	**15,514**	**16,347**
EBIDTA margin (%)	**6.51%**	**9.46%**	**11.23%**	**11.02%**
Other income	1,794	1,675	1,771	2,000
Interest	126	113	109	109
Depreciation	2,787	2,623	3,119	3,586
Profit Before Tax	4,582	10,038	14,057	14,652
Tax	1,430	2,215	2,952	3,077
Reported Net Profit	**3,152**	**7,823**	**11,105**	**11,575**
Net Margin (%)	3.57%	6.67%	8.04%	7.80%
Adjusted Net Profit	**3,804**	**7,823**	**11,105**	**11,575**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY22A	FY23E	FY24E	FY25E
Equity capital	151	151	151	151
Reserves & surplus	53,935	58,850	67,047	75,714
Shareholders' funds	54,086	59,001	67,198	75,865
Total Loans	419	419	419	419
Deferred tax liability	-	-	-	-
Total Liabilities and Equity	**54,505**	**59,420**	**67,617**	**76,284**
Gross block	31,585	38,365	44,815	50,815
Depreciation	17,868	20,491	23,610	27,196
Net block	13,717	17,874	21,204	23,618
Capital WIP	29,294	3,150	2,700	2,700
Investments	40,763	41,663	42,863	42,913
Inventory	3,533	4,367	5,040	6,512
Debtors	2,030	2,958	3,406	4,879
Cash & Bank Bal	3,036	2,622	6,489	4,643
Loans & Advances	7,385	9,240	10,279	13,759
Current Assets	**15,984**	**19,187**	**25,214**	**29,793**
Sundry Creditors	9,761	11,771	13,682	12,057
Other Current Liability	9,128	10,683	10,683	10,683
Current Liability& Provisions	18,889	22,454	24,365	22,740
Net current assets	(2,905)	(3,267)	849	7,053
Total Assets	**54,505**	**59,420**	**67,617**	**76,284**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar (Rs Cr)	FY22E	FY23E	FY24E	FY25E
EBIT	2,961	8,476	12,394	12,761
Other Income	1,794	1,675	1,771	2,000
Depreciation & Amortization	2,787	2,623	3,119	3,586
Interest Paid (-)	(126)	(113)	(109)	(109)
Tax paid (-)	(816)	(2,215)	(2,952)	(3,077)
Extra Ord Income	(46)	-	-	-
Operating Cash Flow	**6,553**	**10,446**	**14,224**	**15,161**
Change in Working Capital	(3,047)	(52)	(249)	(8,050)
Cash Flow from Operations	**3,506**	**10,393**	**13,975**	**7,112**
Capex	(2,986)	(7,000)	(6,000)	(6,000)
Strategic investments	(3,292)	-	-	-
Non-Strategic Investments	4,316	(900)	(1,200)	(50)
Cash Flow from Investing	**(1,963)**	**(7,900)**	**(7,200)**	**(6,050)**
Change in borrowing	(112)	-	-	-
Others	1,476	-	-	0
Dividends paid (-)	(2,908)	(2,908)	(2,908)	(2,908)
Cash Flow from Financial Activities	**(1,544)**	**(2,908)**	**(2,908)**	**(2,908)**
Change in Cash	(0)	(414)	3,867	(1,846)
Opening Cash	3,036	3,036	2,622	6,489
Closing Cash	**3,036**	**2,622**	**6,489**	**4,643**

Source: Company, Axis Research

Ratio Analysis

Y/E Mar	FY22E	FY23E	FY24E	FY25E
Revenue Growth	25.54%	32.9	17.7	7.4
EBITDA Margin	6.51%	9.5	11.2	11.0
Net Profit Margin	3.57%	6.7	8.0	7.8
ROCE (%)	7.06%	13.5	17.2	15.9
ROE (%)	7.02%	13.5	17.2	15.9
EPS (Rs)	124.7	259.0	367.6	383.2
P/E (x)	62.7	32.4	22.9	21.9
P / BV (x)	4.4	4.3	3.8	3.3
EV / EBITDA (x)	41.1	22.7	16.0	15.3
Fixed Asset Turnover Ratio (x)	5.3	5.6	5.8	5.6
Debt Equity (x)	0.01	0.0	0.0	0.0
EV / Sales	0.07	2.1	1.8	1.7

Source: Company, Axis Research

STATE BANK OF INDIA – RIPE FOR RE-RATING

State Bank of India (SBIN) is the largest public sector bank in terms of assets, deposits, branches, number of customers, and employees and has a pan-India presence as well. The RBI has designated SBI as a Domestic Systemically Important Bank (D-SIB), underscoring its continued functioning as critical for the Indian economy.

Industry view

Equalweight

CMP
614

Target Price
740

Upside
21%

Key Rationale

- **Strong Loan Growth Performance**: On the business front, the bank's loan growth remained strong in Q2FY23 and was up by 21%/5% YoY/QoQ compared to 16%/3% YoY/QoQ in Q1FY23. Wholesale book registered strong growth and was up 21% YoY. SME was up 13% YoY and Agri was up 11% YoY. Retail book growth remained healthy at 19% YoY led by growth across the segments – Home Loans (up 15% YoY) and Xpress Credit (up 30% YoY). Management indicated that even though interest rates have been increased in the home loan segment, demand has not been tapered down.
- **Continued Strong Asset quality**: Asset quality improved YoY with G/NNPAs declining by 140/72bps YoY and by 39/20 bps QoQ at 3.9%/1%. The slippage Ratio improved by 52bps QoQ from 1.38% to 0.86%. Slippages are down by 42.55% YoY. The restructured book amounts to Rs 273 Bn down 5% QoQ. Restructured book is ~0.9% of loans as of Q2FY23.
- **Non-banking subsidiaries to boost overall performance:** Apart from the core banking, SBI's subsidiaries are expected to continue adding further value. The bank has a strong presence in various financial services operations such as credit cards, insurance (life and general), asset management, pension funds, investment banking, and institutional, and retail broking, among others. Most of these financial services are generating stable returns and support the overall performance of the bank.
- **Outlook**: The bank's asset quality performance has been consistently better than expectations including eventually stressed asset accruals which resulted in credit cost normalization. The industry-wide gap between the growth rate of advances and deposits as well as maintaining NIM in an increasing rate scenario will pose a challenge to the bank. However, management commentary on maintaining the NIMs at the current level, robust advances growth, strong asset quality, growth in CASA, reduction in Opex and adequate capital was encouraging. Retail book traction at 19% YoY remains healthy, supported by home loans, and Xpress credit cards, and we expect further improvement in the coming quarters. With covid headwinds behind us and the economy picking up, growth prospects are expected to be remain buoyant on Xpress credit card loans with lower credit cost as 95% of Xpress credit loans are given to salaried accounts
- **Valuation:** Among PSU banks, SBI with a healthy PCR, robust capitalization, a strong liability franchise, and an improved asset quality outlook, remains the best play on the gradual recovery of the Indian economy. We believe normalization in credit costs and improved growth outlook should lead to double-digit ROEs of ~16.5% over FY23-25E. We maintain BUY on the stock with a target price of Rs 740/share (SOTP basis core book at 1.4x FY24E and subsidiaries at Rs 190)
- **Key risks:** a) A slower-than-expected recovery cycle

Key Financials (Standalone)

Y/E Mar	NII (Rs Bn)	PPOP (Rs Bn)	Net Profit (Rs Bn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY22	1,207	679	317	35.5	282.7	2.2	0.7	1.0
FY23E	1,438	842	469	52.6	334.9	1.8	0.9	0.9
FY24E	1,649	1,027	597	67.0	393.0	1.6	1.0	1.0
FY25E	1,858	1,186	704	79.0	465.9	1.3	1.1	1.0

Source: Company, Axis Securities.

Profit & Loss (Rs Bn)

Y/E MAR	FY22	FY23E	FY24E	FY25E
Net Interest Income	1,207	1,438	1,649	1,858
Other Income	331	298	447	537
Total Income	1,539	1,737	2,097	2,395
Total Operating Exp.	860	894	1,069	1,209
Staff expenses	501	552	618	692
Other operating expenses	358	343	452	518
PPOP	679	842	1,027	1,186
Provisions & Contingencies	245	208	220	234
PBT	434	634	807	952
Provision for Tax	117	165	210	248
PAT	317	469	597	704

Source: Company, Axis Research

Balance Sheet (Rs Bn)

Y/E MAR	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS				
Share capital	9	9	9	9
Reserves and surplus	2,792	3,261	3,859	4,563
Shareholders' funds	2,801	3,270	3,868	4,572
Total Deposits	40,515	44,162	48,357	52,951
Total Borrowings	4,260	5,240	5,832	5,940
Other Liabilities, provisions	2,299	2,483	2,682	2,896
Total	**49,876**	**55,155**	**60,738**	**66,360**
APPLICATION OF FUNDS				
Cash & Bank Balance	3,946	3,340	2,577	1,015
Investments	14,814	16,296	17,600	19,008
Advances	27,340	31,441	36,157	41,580
Fixed Assets & Other Assets	3,776	4,078	4,405	4,757
Total assets	**49,876**	**55,155**	**60,738**	**66,360**

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY22	FY23E	FY24E	FY25E
VALUATION RATIOS				
EPS	35.5	52.6	67.0	79.0
Earnings Growth (%)	55.0	48.2	27.2	18.0
DPS	7.1	7.5	7.5	7.5
BVPS	314.0	366.6	433.6	512.6
Adj. BVPS	282.7	334.9	393.0	465.9
ROAA (%)	0.7	0.9	1.0	1.1
ROAE (%)	11.9	15.5	16.7	16.7
P/E (x)	17.3	11.7	9.2	7.8
P/ABV (x)	2.2	1.8	1.6	1.3
Dividend Yield (%)	1.3	1.4	1.4	1.4
PROFITABILITY				
NIM (%)	3.1	3.2	3.3	3.3
Cost-Income Ratio	55.9	51.5	51.0	50.5

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY22	FY23E	FY24E	FY25E
Loan Growth (%)	11.6	15.0	15.0	15.0
Deposit Growth (%)	10.1	9.0	9.5	9.5
C/D Ratio (%)	67.5	71.2	74.8	78.5
CASA	45.3	45.0	45.0	45.0
Tier 1	11.4	11.9	12.1	12.1
CAR	13.8	13.7	13.7	13.7
ASSET QUALITY				
Gross NPLs (%)	4.0	3.8	4.0	4.1
Net NPLs (%)	1.0	0.9	1.0	1.0
PCR	75.0	75.0	75.0	75.0
Credit cost	0.6	0.7	0.6	0.6

Source: Company, Axis Research

INFOSYS LTD – ROBUST BROAD-BASED GROWTH

Infosys is India's leading IT services provider to many business conglomerates. Infosys is headquartered in Bengaluru (India) and has a strong presence across geographies such as North America, Europe, Middle East, and Australia, etc. The company provides specialized IT services to its clients across verticals like BFSI, Reail, Healthcare, and Communication, among others.

Industry view

Overweight

CMP
1,508

Target Price
1,900

Upside
26%

Key Rationale

- **Strong Q2FY23 performance** Infosys Ltd (Infy) reported Q2FY23 revenue of Rs 36,538 Cr, up 6.0% QoQ and 4.0% QoQ (in CC terms) which was in line with our expectations. The company's operating profit stood at Rs 7,873 Cr, reporting a healthy growth of 13.9% on a QoQ basis. Beating our expectations, the company's operating margins, too, grew by 140bps QoQ to 21.5%, largely led by lower operating expenses and a favourable currency mix during the quarter. Its net profit for Q2FY23 stood at Rs 6,021 Cr, registering a growth of 12.3% QoQ.
- **Strong deal wins and pipeline reflects demand acceleration:** The management commentary on the verticals such as BFSI, Hi-tech Media, Life Sciences, and Communications stood positive. Digital Business continued to deliver a robust performance and stood at $2,817 Mn (62% of the top line), registering an impressive growth of 31.2% YoY (in cc terms). The company's deal wins for the quarter continued strong at $2.7 Bn. However, attrition remained a key concern with the rate standing at 28.4% in Q1FY23, though the management expects it to flatten in the forthcoming quarters.
- **Posted robust broad-based growth:** On the vertical front, the BFSI/Retail/Communication verticals delivered a YoY growth of 11.5%/15.4%/18.4% respectively. Life Sciences, too, grew at a robust 10.3% YoY while Manufacturing and Hi-tech verticals reported growth of 45% and 9.9% YoY respectively. The majority of the verticals witnessed strong growth and are likely to report further growth backed by a strong deal pipeline in the near term.

Key Rationale

- **Traction in Digital & Cloud transformation; may pick up in FY23-FY24**: The management sees strong traction in both on (a) Digital transformation for next generation services across industries, and (b) and cloud transformation. The It automation for these services remained resilient even in the threat of potential slowdown. We believe businesses have become system driven which lead to higher dependency on these partner vendors in automation process. We expect demand for the automation will likely to grow with CAGR of 16.5% over next 5 years.
- **Strengthening capabilities:** Infy has started investing in digital technologies through its COBOLT. It has robust capabilities to capitalize the demand for these services. It has also strengthen the capabilities through acquisitions. (i) Capabilities to achieve strong deal wins and to capitalize on the digital demand wave (ii) Sharp focus on strategic clients to provide long-term sustainable growth (iii) Diversified and deep presence across geographies, v) Well-spread revenue streams across multiple verticals, and (iv) Higher localization strengthening business resilience.

Valuations The management has guided double-digit growth in FY23 in the backdrop of robust deal wins. Additionally, higher offshoring, better utilization, and lower attrition are likely to expand the company's operating margin moving forward. **We recommend a BUY rating on the stock and assign a 27 x P/E multiple to its FY24E earnings of Rs 71.1/share to arrive at a TP of Rs 1,900/share, implying an upside of 16% from the CMP.**

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales(Rs)	EBIDTA (Rs)	Net Profit(Rs)	EPS (Rs)	PER (x)	P/BV (x)	RoE (%)
FY21	1,00,472	27,889	19,417	45.5	37	9.5	27%
FY22	1,21,641	36,365	22,146	52.4	33	10.5	30%
FY23E	1,43,033	39,334	26,540	58.4	28	10.1	36%
FY24E	1,63,488	45,777	31,257	73.4	25	9.8	40%

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY21	FY22	FY23E	FY24E
Net sales	**1,00,472**	**1,21,641**	**1,43,033**	**1,63,488**
Growth, %	11%	21%	18%	14%
Other income	2,201	2,295	2,984	3,513
Total income	**10,267**	**12,394**	**14,602**	**16,700**
Employee expenses	55,541	63,378	80,938	88,849
Other Operating expenses	17,042	21,898	25,766	29,449
EBITDA (Core)	**27,889**	**36,365**	**39,334**	**45,777**
Growth, %	25%	30%	8%	16%
Margin, %	28%	30%	28%	28%
Depreciation	3,267	3,204	3,779	4,455
EBIT	**24,622**	**28,015**	**35,555**	**40,735**
Growth, %	27%	14%	27%	15%
Margin, %	25%	23%	25%	25%
Interest paid	195	200	168	168
Pre-tax profit	**26,628**	**30,110**	**35,387**	**44,249**
Tax provided	7,205	7,964	10,478	12,986
Profit after tax	19,417	22,146	26,540	31,257
Net Profit	**19,417**	**22,146**	**26,540**	**31,257**
Growth, %	**17%**	**14%**	**20%**	**18%**
Net Profit (adjusted)	19,417	22,146	26,540	31,257

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY21	FY22	FY23E	FY24E
Cash & bank	24,714	17,102	14,219	11,501
Debtors	19,294	21,662	25,472	29,114
Other current assets	6,668	7,335	8,068	8,875
Total current assets	**60,733**	**53,783**	**56,637**	**59,562**
Net fixed assets	6,079	6,079	6,079	6,079
CWIP	14,577	13,200	13,840	14,434
Other Non-current assets	954	1,068	1,197	1,340
Differed tax assets	6,153	6,153	6,153	6,153
Total Non-Current Assets	**2,776**	**2,650**	**2,727**	**2,801**
Total assets	**1,08,386**	**1,00,169**	**1,03,663**	**1,07,181**
Creditors	3,383	3,972	4,970	5,510
Provisions	16,376	15,698	16,327	17,219
Total current liabilities	**1,976**	**1,967**	**207**	**22**
Other liabilities	11,497	10,171	10,171	10,171
Paid-up capital	2,124	2,124	2,124	2,124
Reserves & surplus	74,227	75,299	76,294	77,544
Shareholders' equity	7,635	7,742	813	85
Total equity & liabilities	**1,08,386**	**1,00,169**	**1,03,663**	**1,07,181**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY21	FY22	FY23E	FY24E
Pre-tax profit	26,628	35,678	35,367	44,249
Depreciation	3,267	3,204	3,779	4,455
Chg in working capital	2,917	111	-3,238	-3,375
Total tax paid	7,205	8,877	10,478	12,986
Cash flow from operating activities	**32,806**	**38,988**	**35,901**	**45,322**
Capital expenditure	2,845	3,764	4,419	5,048
Cash flow from investing activities	**-10,571**	**-3,764**	**-4,419**	**-5,048**
Free cash flow	2,508	3,899	400	41
Dividend (incl. tax)	-1,231	-1,330	-136	-14
Cash flow from financing activities	**9,673**	**-8,235**	**0**	**0**
Net chg in cash	-3,608	623	-2,883	-2,718

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY21	FY22	FY23E	FY24E
Per Share data				
EPS (INR)	45.5	52.4	58.4	73.4
Growth, %	17%	16%	16%	17%
Book NAV/share (INR)	179.3	181.9	184.2	187.1
FDEPS (INR)	42	46	47	48.2
CEPS (INR)	53.3	70.5	67.3	83.9
CFPS (INR)	43.8	42.8	48.364	54.65132
DPS (INR)	25	27	30.51	34.4763
Return ratios				
Return on assets (%)	18%	27%	24%	29%
Return on equity (%)	27%	30%	36%	40%
Return on capital employed (%)	25%	25%	29%	32%
Turnover ratios				
Asset turnover (x)	2.6	2.8	3.1	4.2
Sales/Total assets (x)	7.4	10.0	11.3	12.5
Receivables Days	70	65	65	65
Cash conversion cycle	0.4	0.2	0.2	0.2
Liquidity ratios				
Current ratio (x)	2.5	2.2	2.1	2.0
Interest cover (x)	1.4	1.3	1.3	1.3
Net debt/Equity (%)	-0.2	-0.2	-0.2	-0.2
Valuation				
P/E	37.3	33.4	28.4	24.5
P/S	7.2	5.9	5.1	4.4
P/BV	9.5	10.5	10.1	9.8
P/CF	31.9	24.1	25.3	20.3
BV/share	179.3	164.0	176.0	187.1

Source: Company, Axis Research

BAJAJ FINANCE – FIRING ON ALL CYLINDERS

Bajaj Finance (BAF) is one of India's largest NBFCs for consumer finance with a wide product portfolio comprising loans for two/three-wheelers, consumer durables, housing, and small businesses, among others. The company caters to a customer base of 62.9 Mn and operates its business through 1,300+ urban and 2,300+ rural lending branches with over 1.4 Lc distribution points.

Industry view

Equal weight

CMP
6,575

Target Price
8,600

Upside
31%

Key Rationale

- **Growth prospects remain buoyant:** BAF reported a robust AUM growth of 31/7% YoY/QoQ in Q2FY23 driven by continued traction in the rural segment and mortgages portfolio. While the auto financing segment continued to de-grow, the management remains confident of growth returning in the segment, as BAF exits FY23. The customer addition momentum continues to remain strong, leading to customer base growth of 20/5% YoY/QoQ. Furthermore, the management has revised its guidance on customer addition upwards to 10-11 Mn customers in FY23 (vs its earlier guidance of 9-10 Mn). BAF plans to scale up its gold financing business moving forward by expanding its geographic reach and aims to improve its contribution to the overall portfolio. Moreover, the launch of non-captive two-wheeler financing in Jul'22 along with its plans to foray into new auto loans in FY24 would further support the company's AUM growth. Thus, factoring in multiple new product launches along with sustained growth momentum in the existing products, we expect BAF to deliver a robust ~27% CAGR AUM growth over FY23-25E.
- **Asset Quality remains pristine:** The company's asset quality improvement has been remarkable with GNPA/NNPA improving to 1.17/0.4% in Q2FY23. Similarly, the restructured book remains at manageable levels of 0.2% (flat QoQ). With asset quality stress well-managed, we believe the company's credit costs trend to remain benign at ~1.5% over FY23-25E.
- **Strong Operating Performance**: In Q2FY23, the company's operational performance was robust driven by strong growth and stable NIMs even as Opex ratios remained elevated. With the festive season spanning over Q2 and Q3FY23, we expect growth in H2FY23 to remain robust. Moving forward, though BAF is expected to witness a slight margin compression, improving cost ratios with operating leverage kicking in along with stable credit costs should drive the company's RoA/RoE expansion to 4.6-4.7%/23-24% over FY23-25E vs. 3.7/17.4% in FY22.
- **Outlook & Valuation**: The company's digital initiatives and business transformation are key positives to look forward to and are currently progressing well with sequential improvement visible across metrics. With the digital transformation journey likely to be completed by FY23, we believe it should contribute meaningfully to the overall growth. We believe the marginal compression in NIMs will be offset by improved fee income, improving Opex ratios, and stable credit costs, thereby enabling BAF to deliver superior return ratios moving forward. We recommend a BUY rating on Bajaj Finance with a target price of Rs 8,600 (7.2x Sept'24E ABV)
- **Key risks:** a) Moderation in growth momentum, b) Higher-than-expected margin compression

Key Financials (Consolidated)

Y/E Mar	NII (Rs Cr)	PPOP (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY22	17,522	14,307	7,028	116.5	702.3	9.4	3.7	0.7
FY23E	22,642	18,247	11,325	187.7	868	7.6	4.7	0.6
FY24E	28,365	22,917	14,135	234.3	1071.1	6.1	4.7	0.6
FY25E	34,777	28,219	17,319	287.1	1317.4	5.0	4.6	0.6

Source: Company, Axis Securities.

Profit & Loss (Rs Cr)

Y/E MAR	FY22	FY23E	FY24E	FY25E
Net Interest Income	17,522	22,642	28,365	34,777
Other Income	4,371	5,764	6,940	8,436
Total Income	21,892	28,405	35,305	43,214
Total Operating Exp.	7,585	10,158	12,387	14,995
PPOP	14,307	18,247	22,917	28,219
Provisions & Contingencies	4,803	3,104	4,017	5,063
PBT	9,504	15,143	18,900	23,156
Provision for Tax	2,476	3,818	4,765	5,838
PAT	**7,028**	**11,325**	**14,135**	**17,319**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E MAR	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS				
Share capital	121	121	121	121
Reserves and Surplus	43,592	53,711	66,338	81,846
Shareholders' funds	43,713	53,831	66,458	81,967
Borrowings	1,65,232	2,07,080	2,63,506	3,23,742
Other Liabilities, provisions	3,561	4,451	5,252	6,197
Total liabilities	**2,12,505**	**2,65,362**	**3,35,217**	**4,11,907**
APPLICATION OF FUNDS				
Cash & Bank Balance	3,680	3,534	3,962	4,044
Investments	12,246	11,842	14,959	12,203
Advances	1,91,423	2,44,230	3,09,890	3,88,404
Fixed Assets & Other Assets	5,156	5,756	6,406	7,256
Total assets	**2,12,505**	**2,65,362**	**3,35,217**	**4,11,907**

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY22	FY23E	FY24E	FY25E
VALUATION RATIOS				
EPS	116.5	187.7	234.3	287.1
Earnings Growth (%)	58.6%	61.1%	24.8%	22.5%
BVPS	724.6	892.3	1101.6	1358.6
Adj. BVPS	702.3	868.0	1071.1	1317.4
ROAA (%)	3.7%	4.7%	4.6%	4.6%
ROAE (%)	17.4%	23.2%	23.5%	23.3%
P/E (x)	56.4	35.0	28.1	22.9
P/ABV (x)	9.4	7.6	6.1	5.0
Dividend Yield (%)	0.1	0.3	0.3	0.4
PROFITABILITY				
NIM (%)	9.4	9.9	9.8	9.7
Cost-Income Ratio	34.6	35.4	34.2	33.3

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY22	FY23E	FY24E	FY25E
Loan Growth (%)	30.5	27.6	26.9	25.3
Borrowings Growth (%)	25.4	25.3	27.2	22.9
CRAR	27.2	25.1	23.9	23.0
Tier I	24.8	22.7	21.5	20.6
ASSET QUALITY				
Gross NPLs (%)	1.6	1.3	1.3	1.4
Net NPLs (%)	0.7	0.6	0.6	0.6
PCR	54	52	52	52
Credit costs	2.8	1.4	1.5	1.5

Source: Company, Axis Research

Dalmia Bharat Limited– Capacity Expansion and Strong Market Position to drive growth

Dalmia Bharat Limited (DBL)– established in 1939,has emerged as one of the fastest-growing players in the Indian cement sector. It commands a 5% share of Indiancement capacity in the areas where it operates.DBL has a total cement production capacity of 37mtpa, clinker capacity of 20.9 mtpa,and a power generation capacity of 315 MW including WHRS & Solar power. The company's operations span across 14 locations in India through its 10 integrated plants and 4 grinding unitsalong with a robust distribution network of 35,000 channel partners spread across the country.

Industry view

Key Rationale

- **Capacity expansion to sustain growth:** DBL is expanding its cement grinding capacity by 32% to 49million tonnes per annum (mtpa) from the current 37mtpa which is expected to be operational in phases over FY23E& FY24E.These capacities would be created in the company's home markets of East and South India. This along with a ramp-up of recently commercialized new capacities would provide a notable growth impetus to the company moving forward. We expect DBL to deliver revenue CAGR of 16% over FY22-FY24E, driven by a volumeCAGR of 13% over the same period.

- **Efficient operations with focus on reducing costs further:** DBL's integrated operations, superior cement/clinker ratio, introduction of portland composite cement, digitisation of sales channel, and effective utilization of resources makes it one of the lowest-cost producer of cement in India. Moreover, various cost optimization exercises initiated at itsoperating facilitieswill add to margin improvement going forward. Furthermore, it plans to increase its share of green energy in the overall power mix to 35-45% which will help reduce the company's Power & Fuel costs further. Backed by cost optimization measures and price realization, we expect DBL's EBITDA Margin to improve to 22% in FY24 and EBITDA/tonne to Rs1,178 over the same period.

Key Rationale

- **Diversified &strong market presence in its key market of South, East and North-East India:** The company's capacity is geographically diversified (East:47%, South: 33%,North-East:12% and West 8%) which keepsit relatively insulated from regional demand-supply fluctuations.Furthermore,the acquisition of Murali Industries gives the company the opportunity to explore Western markets as well. With the commissioning of extended capacity, the company plans to consolidate its position further in its key markets.

- **Outlook**:The company reported encouraging Revenue/Volume growth of 14%/15% YoY in Q2FY23.It reported EBITDA Margins of 13% and EBITDA/Tonne of Rs655/ during the quarter. We expect the company to register Revenue/EBITDA/APATCAGR of16%18/%/10%respectively over FY22-FY24E,driven by volume CAGR of13% and consistent realization improvement of 2% each year over the same period. We believe the company is well-positioned to grow its revenue and profitability moving forward, supported by a) Increasing cement demand in its key markets in both trade and non-trade segments, b) Cost optimization measures, and c) Increasing premium cement sales aided by capacity expansions.
- **Valuation**: The stock is currently trading at 14.5x FY23E and 10.5x FY24E EV/EBITDA respectively. We recommend a BUY rating on the company and value the stock at 12xFY24E EV/EBITDA to arrive at a target price of Rs2070/share, implying an upside potential of % from CMP.
- **Key risks:** a) Lower demand and contraction in Cement prices impacting realization; b) Further rise in input prices hampering margin profile.

CMP
1,863

Target Price
2070

Upside
11%

Key Financials

Y/E Mar (Rs Cr)	NetSales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY22	11,286	2,426	1,144	61	31	14	7%	7
FY23E	13,380	2,401	778	41	46	15	5%	6
FY24E	15,147	3,372	1,390	74	26	11	8%	10

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY22	FY23E	FY24E
Net sales	11,286	13,380	15,147
Other operating income	0	0	0
Total income	11,286	13,380	15,147
Raw Material	1,472	1,808	1,953
Power & Fuel	2,570	3,790	3,942
Freight & Forwarding	2,355	2,668	2,909
Employee benefit expenses	744	777	824
Other Expenses	1,719	1,936	2,149
EBITDA	**2,426**	**2,401**	**3,372**
Other income	155	150	197
PBIDT	2,581	2,551	3,569
Depreciation	1,236	1,287	1,429
Interest & Fin Chg.	197	214	222
E/o income / (Expense)	2	-	-
Pre-tax profit	1,146	1,049	1,918
Tax provision	-14	243	499
RPAT	1,160	807	1,419
Minority Interests	29	29	29
Associates	13	-	-
APAT after EO item	**1,144**	**778**	**1,390**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY22	FY23E	FY24E
Total assets	24,871	26,147	27,721
Net Block	14,942	17,000	19,357
CWIP	1,036	500	500
Investments	1,305	1,305	1,305
Wkg. cap. (excl cash)	768	784	889
Cash / Bank balance	160	258	127
Misc. Assets	6,660	6,300	5,542
Capital employed	24,871	26,147	27,721
Equity capital	37	37	37
Reserves	15,650	16,315	17,630
Minority Interests	72	72	72
Borrowings	3,119	3,260	3,361
Def tax Liabilities	2,034	2,034	2,034
Other Liabilities and Provision	3,959	4,428	4,587

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY22	FY23E	FY24E
Profit before tax	1,156	1,049	1,918
Depriciation	1,237	1,287	1,429
Interest Expenses	193	214	222
Non operating/ EO item	-157	-150	-197
Change in W/C	-515	-16	-105
Income Tax	-24	-243	-499
Operating Cash Flow	1,937	2,129	2,755
Capital Expenditure	-1,769	-3,345	-3,787
Investments	545	1,350	900
Others	123	150	197
Investing Cash Flow	-1,048	-1,845	-2,690
Borrowings	-1,236	141	101
Interest Expenses	-232	-214	-222
Dividend paid	-100	-112	-75
Others	-35	-	-
Financing Cash Flow	-160	-19	-20
Change in Cash	-53	98	-130
Opening Cash	195	140	238
Closing Cash	140	238	107

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY22	FY23E	FY24E
Operational Ratios			
Sales growth	12%	19%	13%
OPM	21%	18%	22%
Op. profit growth	-12%	-1%	40%
COGS / Net sales	57%	62%	58%
Overheads/Net sales	22%	20%	20%
Depreciation / G. block	7.7%	6.4%	6.0%
Effective interest rate	6%	7%	7%
Efficiency Ratios			
Total Asset turnover (x)	0.45	0.51	0.55
Sales/Gross block (x)	0.67	0.67	0.64
Sales/Net block(x)	0.76	0.79	0.78
Working capital/Sales (x)	0.23	0.08	0.01
Valuation Ratios			
P/BV (x)	2.25	2.17	2.01
PER (x)	31	46	26
EV/Ebitda (x)	14.1	15.1	11.1
EV/Sales (x)	3.0	2.7	2.5
EV/Tonne $ (x)	128	122	104
Return Ratios (%)			
ROE	7%	5%	8%
ROCE	7	6	10
ROIC	10	7	11

Source: Company, Axis Research

POLYCAB INDIA – STRONG GROWTH OUTLOOK

Polycab India is a leading manufacturer of Cables & Wires with a market share of ~22-24% in the organised market. It boasts a large distribution reach spanning over 4200 dealers and distributors covering over 2 Lc retail outlets. In 2009, the company diversified into the EPC business to strategically cater to the Cables & Wires requirement of large infrastructure EPC projects. Furthermore, in 2014, the company also entered into the high-growth FMEG segment and started manufacturing fans, switches & switchgear, LED lighting, solar products, and accessories. Currently, Polycab has 25 manufacturing units across Maharashtra, Gujarat, Uttarakhand, and Daman & Diu.

Industry view

Equal Weight

CMP
2,569

Target Price
3,080

Upside
20%

Key Rationale

- **Strong performance led by C&W:** Polycab's revenues grew 11% YoY led by volume growth and demand improvement in both B2B (institutional business) and B2C segments (housing segment) as well as strong growth reported in exports on the healthy base in the YoY quarter. While the FMEG business reported revenues of Rs 305 Cr (flattish QoQ, down 11% YoY), the EPC business posted encouraging growth of 11% YoY. The export business grew 75% YoY, contributing 13% to the overall revenue in Q2FY23. The management expects buoyant demand from urban areas to continue. While rural markets were subdued during the quarter, they are expected to pick up moving forward.
- **Healthy demand outlook:** The company witnessed strong demand momentum in the domestic distribution business and expects strong demand to continue in the W&C segment in both B2B and B2C segments. On the exports front, the company saw higher demand from the USA, Europe, and Asia. The export order book is stable and the company plans to enter new geographies going forward. The management expects a recovery in the FMEG segment in the medium term led by the launch of new products and further geographical expansion of the distribution network
- **Margins improvement expected in the medium term:** The Company's gross margins improved 418 bps to 26.1% led by a better product mix and judicious (downward) price adjustments on softening copper prices. However, the company has not passed on the full benefit of lower RM prices to the end consumer. EBITDA came in at Rs 428 Cr, implying EBITDA Margins improvement of 147bps QoQ (up 309bps YoY) to 12.8%. The management is confident of recovery in the margins to ~13% in the medium term.
- **Outlook &Valuation:** Polycab has maintained a leadership position in the organized C&W segment with a market share of over 24%. With a strong distribution network and a strong brand recall, the company is poised to gain market share from the unorganised players in both Wires & FMEG segments. We believe the growth will be driven by demand recovery, new product launches, product premiumisation, and increasing contribution of exports over the long run. We roll forward our estimates to FY25E and value the company at 27x FY2EE EPS of Rs 114 to arrive at a target price of Rs 3,080/share).

Key Financials (Consolidated)

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)
FY22	12,204	1,265	848	62.4	10.6	38.2	17.6	21.6
FY23E	13,487	1,611	1103	81.2	30.1	31.8	18.1	24.5
FY24E	15,317	1,858	1276	93.9	15.6	27.5	17.9	24.3
FY25E	18,106	2,252	1,551	114.1	21.5	22.6	18.5	25.8

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY22	FY23E	FY24E	FY25E
Net sales	**12,204**	**13,487**	**15,317**	**18,106**
Other operating income	0.0	0.0	0.0	0.0
Total income	12,204	13,487	15,317	18,106
Cost of goods sold	10,939	11,877	13,459	15,853
Contribution (%)	*10.4%*	*11.9%*	*12.1%*	*12.4%*
Advt/Sales/Distrn O/H	0.0	0.0	0.0	0.0
Operating Profit	**1,265**	**1,611**	**1,858**	**2,252**
Other income	90	119	121	127
PBIDT	**1,355**	**1,729**	**1,979**	**2,379**
Depreciation	202	228	246	275
Interest & Fin Chg.	35	27	28	31
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**1,118**	**1,474**	**1,705**	**2,073**
Tax provision	271	371	429	522
PAT before Comprehensive Income	848	1,103	1,276	1,551
Profit from Discontinued Ops	72	0	0	0
(-) Minority Interests	0	0	0	0
Associates	-3	0	0	0
Other Comprehensive Income	0.0	0.0	0.0	0.0
Adjusted PAT	**845**	**1,103**	**1,276**	**1,551**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY22	FY23E	FY24E	FY25E
Total assets	**5,687**	**6,907**	**8,065**	**11,153**
Net Block	1,675	1,942	2,097	2,221
CWIP	375.5	280.0	280.0	280.0
Investments	9.3	9.3	9.3	9.3
Wkg. cap. (excl cash)	3,089	3,835	4,173	6,527
Cash / Bank balance	407.1	688	1,343	1,936
Misc. Assets	131.0	151.9	163.3	180.1
Capital employed	**5,687**	**6,907**	**8,065**	**11,153**
Equity capital	149.4	149.4	149.4	149.4
Reserves	5,394	6,328	7,433	8,361
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	25.1	25.1	25.1	25.1
Long Term Borrowings	3.0	10.0	17.0	24.0
Def Tax Liabilities	27.2	24.8	20.0	20.0
Other Provisions	88	370	420	2,574

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY22	FY23E	FY24E	FY25E
Sources	**780**	**1,138**	**1,353**	**1,210**
Cash profit	1,084	1,358	1,550	1,857
(-) Dividends	149	170	170	623
Retained earnings	935	1,188	1,380	1,233
Issue of equity	0	0	0	0
Change in Oth. Reserves	35	0	0	0
Borrowings	-101	7	7	7
Others	-90	-57	-34	-31
Applications	**780**	**1,138**	**1,353**	**1,210**
Capital expenditure	262	419	410	417
Investments	141	0	0	0
Net current assets	319	438	287	200
Change in cash	59	280	655	593

Source: Company, Axis Research

Ratios (%)

Y/E March	FY22	FY23E	FY24E	FY25E
Sales growth	**38.8**	**10.5**	**13.6**	**18.2**
OPM	**10.4**	**11.9**	**12.1**	**12.4**
Oper. profit growth	13.9	27.3	15.4	21.2
COGS / Net sales	89.6	88.1	87.9	87.6
Overheads/Net sales	0.0	0.0	0.0	0.0
Depreciation / G. block	7.6	7.2	6.9	7.0
Effective interest rate	25.5	31.6	32.8	34.9
Net wkg.cap / Net sales	0.26	0.29	0.31	0.31
Net sales / Gr block (x)	4.6	4.3	4.3	4.6
Core RoCE	**23.0**	**26.4**	**25.7**	**27.2**
Debt / equity (x)	0.01	0.01	0.01	0.01
Effective tax rate	24.2	25.2	25.2	25.2
RoE	**17.6**	**18.1**	**17.9**	**18.5**
Payout ratio (Div/NP)	16.3	15.4	13.3	40.2
EPS (Rs)	**62.4**	**81.2**	**93.9**	**114.1**
EPS Growth	10.6	30.1	15.6	21.5
CEPS (Rs)	82.4	98.0	112.0	134.3
DPS (Rs)	11.0	10.4	10.4	20.8

Source: Company, Axis Research

FEDERAL BANK – RoA EXPANSION LEVERS IN PLACE

Federal Bank (FB) is a Kerala-based private sector bank with a pan-India presence. It has exposure to Insurance and NBFC business through its joint venture with IDBI and wholly-owned subsidiary FedFina. The bank continues to proactively execute its strategy of a branch-light and distribution-heavy franchise.

Industry view

Equal Weight

CMP
139

Target Price
160

Upside
15%

Key Rationale

- **Improved Loan-mix Balance:** FB's credit growth witnessed continued growth momentum and remained robust in Q2FY23 with advances growing at 19% YoY. We expect the book to grow at an 18% CAGR over FY22-25E, supported by a broad-based demand pick-up across segments, growth driven by strong growth in newer segments like credit cards and personal loans, and ample opportunities in the core segments. The bank is also keenly focused on neo-banking tie-ups to reach the country's under-banked population and expects these partnerships to contribute meaningfully to the overall business growth moving forward. We believe this will not only keep the bank's customer acquisition costs low but will also help FB augment its business growth as well.
- **Improving Liability Franchise:** FB has been amongst the few mid-tier banks that have consistently improved their deposit base. Deposits growth lagged credit growth in Q2FY23 at ~10% YoY. However, the management remains confident of clocking in a mid-teen growth in FY23 despite intense competition within the industry. Currently, ~10-12% of the incremental deposits are sourced from the fintech partners and will continue to support the deposit growth of the bank.
- **Manageable Asset Quality:** Similar to the frontline banks, FB has managed COVID-19 stress quite well. In Q2FY23, its asset quality improved by 78/23bps YoY/QoQ with GNPA at 2.5% thanks to the healthy recoveries. The management has guided for slippages in FY23 to mirror FY22's performance and stand at ~Rs 1,800 Cr. The restructured book has declined QoQ to Rs 3,266 Cr (2.0% of advances vs. 2.2% QoQ) and ~30% of the restructured book is yet to come out of moratorium in H2FY23.
- **Outlook:** FB is cautiously building a loan mix toward high-rated corporate and retail loans. The bank's liability franchise remains strong with CASA plus Retail TD of over 90% and one of the highest Liquidity Coverage Ratios (LCR) among banks. Restructuring levels are also under control. The management has revised its FY23E RoA guidance upwards to 1.25% from the earlier guidance of 1.15% with improvement driven by lower slippages, benign credit costs (expectations of containing credit costs at 50-55 bps), and a well-managed cost structure. The management has reiterated credit growth guidance of ~18% and it will strive to accelerate growth where appropriate opportunities are available.
- **Valuation:** Key positives are increasing retail focus, strong fee income, adequate capitalization, and prudent provisioning. FB remains well-poised to deliver a strong RoA/RoE of 1.2%/14-15% over FY24-25E. We maintain a BUY rating on the stock with a target price of Rs 160/share (1.5x FY24E ABV).
- **Key risks:** a) Asset quality trends in the upcoming quarters, b) Loan growth moderation

Key Financials (Standalone)

Y/E Mar (Rs Cr)	NII (Rs Cr)	PPOP (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	ABV (x)	P/ABV (x)	ROAA (%)	NNPA (%)
FY22	5,962	3,758	1,890	9.0	82.8	1.7	0.9	1.0
FY23E	7,040	4,592	2,678	12.7	94.0	1.5	1.1	0.7
FY24E	8,333	5,558	3,210	15.3	105.6	1.3	1.2	0.6
FY25E	9,568	6,563	3,761	17.9	119.4	1.2	1.2	0.6

Source: Company, Axis Securities

Profit & Loss (RsCr)

Y/E MAR	FY22	FY23E	FY24E	FY25E
Net Interest Income	5,962	7,040	8,333	9,568
Other Income	2,089	2,133	2,558	3,040
Total Income	8,051	9,173	10,891	12,608
Total Operating Exp	4,293	4,581	5,333	6,045
PPOP	3,758	4,592	5,558	6,563
Provisions & Contingencies	1,222	998	1,250	1,516
PBT	2,536	3,594	4,308	5,047
Provision for Tax	646	916	1,098	1,286
PAT	1,890	2,678	3,210	3,761

Source: Company, Axis Research

Balance Sheet (RsCr)

Y/E MAR	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS				
Share Capital	421	421	421	421
Reserves	18,373	20,526	23,105	26,130
Shareholder's Funds	18,794	20,946	23,526	26,551
Total Deposits	1,81,701	2,05,713	2,36,765	2,72,552
Borrowings	15,393	22,845	23,613	24,353
Other Liabilities & Provisions	5,059	6,809	8,334	9,359
Total Liabilities	**2,20,946**	**2,56,313**	**2,92,238**	**3,32,814**
APPLICATION OF FUNDS				
Cash & Bank Balance	21,010	19,831	21,285	22,458
Investments	39,179	45,180	47,265	48,958
Advances	1,44,928	1,73,100	2,04,030	2,40,167
Fixed Assets & Other Assets	15,828	18,202	19,659	21,231
Total Assets	**2,20,946**	**2,56,313**	**2,92,238**	**3,32,814**

Source: Company, Axis Research

Key Ratios (%)

Y/E MAR	FY22	FY23E	FY24E	FY25E
VALUATION RATIOS				
EPS	9.0	12.7	15.3	17.9
Earnings Growth (%)	*12.8%*	*41.7%*	*19.9%*	*17.1%*
DPS	2.5	2.5	3.0	3.5
BVPS	89.4	99.6	111.9	126.3
Adj. BVPS	82.8	94.0	105.6	119.4
ROAA (%)	0.9	1.1	1.2	1.2
ROAE (%)	10.8	13.5	14.4	15.0
P/E (x)	15.5	10.9	9.1	7.8
P/ABV (x)	1.7	1.5	1.3	1.2
Dividend Yield (%)	1.9	1.9	2.3	2.7
PROFITABILITY				
NIM (%)	3.2	3.4	3.4	3.4
Cost-Income Ratio	53.3	49.9	49.0	47.9

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY22	FY23E	FY24E	FY25E
Loan Growth (%)	9.9	19.4	17.9	17.7
Deposit Growth (%)	5.2	13.2	15.1	15.1
C/D Ratio (%)	79.8	84.1	86.2	88.1
CAR	15.8	14.8	14.2	13.6
CAR Tier I	14.4	13.5	12.8	12.3
ASSET QUALITY				
Gross NPLs (%)	2.8	2.2	2.0	1.8
Net NPLs (%)	1.0	0.7	0.6	0.6
Coverage Ratio (%)	66.3	69.3	68.3	67.7
ROAA Tree				
Net Interest Income	2.8	3.0	3.0	3.1
Non-Interest Income	1.0	0.9	0.9	1.0
Operating Cost	2.0	1.9	1.9	1.9
Provisions	0.6	0.4	0.5	0.5
Tax	0.3	0.4	0.4	0.4
ROAA	0.9	1.1	1.2	1.2
Leverage (x)	12.1	12.0	12.3	12.5
ROAE	10.8	13.5	14.4	15.0

Source: Company, Axis Research

VARUN BEVERAGES – GEARED FOR GROWTH

VBL is the 2nd largest franchisee of PepsiCo in the world (outside the 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. The company operates in India and is also the exclusive bottler for PepsiCo in Nepal, Sri Lanka, Morocco, Zambia, and Zimbabwe.

Industry view

Equal Weight

CMP
1323

Target Price
1450

Upside
10%

Key Rationale

- **Strong off take to continue:** The management has guided continued double-digit volume growth for the next 3-4 years, aided by the market share expansion in weaker territories (Bihar, Jharkhand, Chattisgarh, and West Bengal) and further indicated a strong potential expansion in these territories. It will be adding 8-10% new outlets every year going ahead.
- **Sting: Sting distribution reach stands** at ~2 Mn outlets (vs. the company's overall ~3 Mn outlets reach). Furthermore, Sring contributes ~8.5% of sales in Q3CY22 (~12% on 9MCY22). The management highlighted Sting's overall realization is higher by 65% vs. average realization which will give further fillip to the overall margins as it further expands Sting's portfolio.
- **Morocco:** The company will begin distribution of Lays, Doritos, and Cheetos from 1st January 2023 in Marocco. Pepsico currently generates Rs 150 Cr in annual sales from this products. Initially, VBL will distribute and sell this products on a commission basis. However, it has plans to manufacture these products locally going ahead. We expect Pepsico will further extend its products to VBL in the future for its different geographies, including India, which will aid in its overall topline growth.
- **New upcoming plants at Rajasthan and Madhya Pradesh:** Recently announced new capacity in Rajasthan and Madhya Pradesh is expected to be commissioned by Feb'23 before the start of the peak summer season
- **Distribution reach:** VBL currently has over 3 Mn outlets reach – International (250,000), Domestic – overall (2.5 million) and Sting (400,000) outlets. The management highlighted it will add additional 8-10% outlets every year across geographies. Moreover, it will utilize current Sting outlets to distribute other core products.
- Favorable macro indicators: India's per-capita soft drink consumption of 24 bottles stands much lower than 271 bottles in China, 1,496 bottles in the USA, and 1,489 bottles in Mexico, offering massive growth headroom. The soft drinks industry in India is expected to report healthy growth across categories on the back of better demographics, improving retail penetration across markets, better macroeconomics, and a rising trend of in-home consumption.
- **Outlook:** VBL could emerge as a winner in the long term due to 1) aggressive placement of visi-coolers in acquired territories of South & West and underpenetrated East India, 2) consolidating existing distributors and increasing distribution in underpenetrated regions, 3)scale-up of new product launches (energy drink, juices, nectars) across territories, 4) penetrating new geographies through inorganic expansion. Further, CY22 is likely to be a normal operational year and company's strategic measures to use light-weight PET bottles would aid in mitigating RM pressures as it's a strategic and structural cost optimization measure initiated by VBL.
- **Valuation:** We believe the near-term challenges (RM inflation, top-line growth) are behind the company and VBL is expected to perform well moving forward on account of 1) Newly acquired territories that will see normalcy of operations and market share gains post COVID-19 disruptions, 2) The management's continued focus on the efficient go-to-market execution in acquired and underpenetrated territories as can been seen from its recently commissioned Bihar plant operations (it has started gaining market share), 3) Expansion in its distribution reach by 8-10% from the current 3 Mn outlets as it penetrates further into weaker territories, 4) Robust growth in the International geographies, 5) Focus on expanding high-margin Sting energy drink across outlets, and 6) Sustenance of healthy double-digit volume growth in the medium to longer term.

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	Net Sales	EBITDA	Net Profit	EPS (Rs)	PER (x)	EV/EBITDA (x)	ROE (%)	ROCE (%)
CY21	8,642	1,655	694	16.0	76.8	35.8	18.3	14.8
CY22E	12,590	2,836	1,568	24.1	54.8	30.7	28.6	24.2
CY23E	15,203	3,492	2,023	31.1	42.5	24.5	27.5	25.0
CY24E	17,559	4,115	2,454	37.8	35.0	20.3	25.5	24.3

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

Profit & Loss (Rs Cr)

Y/E DEC	CY21	CY22E	CY23E	CY24E
Net sales	**8,642**	**12,590**	**15,203**	**17,559**
Growth, %	35.9	45.7	20.8	15.5
Other operating income	181	199	219	241
Total income	8,823	12,789	15,422	17,800
Raw material expenses	-4,035	-5,850	-6,962	-7,902
Employee expenses	-1,008	-1,209	-1,463	-1,683
Other Operating expenses	-2,126	-2,894	-3,505	-4,101
EBITDA (Core)	**1,655**	**2,836**	**3,492**	**4,115**
Growth, %	37.7	71.4	23.1	17.8
Margin, %	19.1	22.5	23.0	23.4
Depreciation	-531	-592	-630	-668
EBIT	**1,123**	**2,244**	**2,862**	**3,447**
Growth, %	66.9	99.8	27.5	20.4
Margin, %	13.0	17.8	18.8	19.6
Other Income	68	65	71	78
Non-recurring Items	0	0	0	0
Pre-tax profit	**1,007**	**2,115**	**2,730**	**3,312**
Tax provided	-261	-547	-707	-857
Net Profit	**746**	**1,568**	**2,023**	**2,454**
Growth, %	76.0	110.1	29.1	21.3
Net Profit (adjusted)	**694**	**1,568**	**2,023**	**2,454**
Unadj. shares (Cr)	43	65	65	65

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E DEC	CY21	CY22E	CY23E	CY24E
Cash & bank	337	1,226	2,862	4,960
Debtors	221	322	354	415
Inventory	1,448	2,110	2,547	2,942
Loans & advances	9	9	9	9
Other current assets	531	531	531	531
Total current assets	2,546	4,198	6,304	8,858
Investments	0	0	0	0
Gross fixed assets	9,310	9,980	10,580	11,180
Less: Depreciation	-2,999	-3,591	-4,221	-4,889
Add: Capital WIP	497	497	497	497
Net fixed assets	6,807	6,885	6,856	6,788
Non-current assets	184	184	184	184
Total assets	**9,582**	**11,312**	**13,388**	**15,874**
Current liabilities	3,020	3,345	3,561	3,755
Provisions	209	209	209	209
Total current liabilities	3,229	3,554	3,769	3,963
Non-current liabilities	2,156	2,156	2,156	2,156
Total liabilities	5,385	5,710	5,926	6,120
Paid-up capital	433	650	650	650
Reserves & surplus	3,647	4,835	6,696	8,988
Shareholders' equity	4,197	5,601	7,462	9,754
Total equity & liabilities	**9,582**	**11,312**	**13,388**	**15,874**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	CY21	CY22E	CY23E	CY24E
Pre-tax profit	1,007	2,115	2,730	3,312
Depreciation	531	592	630	668
Chg in working capital	-57	-437	-254	-262
Total tax paid	-167	-547	-707	-857
Cash flow from operating activities	1,314	1,722	2,398	2,860
Capital expenditure	-863	-670	-600	-600
Chg in marketable securities	21	221	0	0
Cash flow from investing activities	-843	-449	-600	-600
Free cash flow	472	1,273	1,798	2,260
Equity raised/(repaid)	144	217	0	0
Dividend (incl. tax)	-108	-162	-162	-162
Cash flow from financing activities	-78	54	-162	-162
Net chg in cash	393	1,327	1,636	2,098
Opening cash balance	190	337	1,226	2,862
Closing cash balance	337	1,226	2,862	4,960

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY21	CY22E	CY23E	CY24E
Per Share data				
EPS (INR)	16.0	24.1	31.1	37.8
Growth, %	17.4	40.1	29.1	21.3
Book NAV/share (INR)	94.2	84.4	113.1	148.4
FDEPS (INR)	17.2	24.1	31.1	37.8
CEPS (INR)	29.5	33.2	40.8	48.1
CFPS (INR)	32.0	25.5	35.8	42.8
DPS (INR)	2.5	2.5	2.5	2.5
Return ratios				
Return on assets (%)	10.3	16.9	18.0	18.2
Return on equity (%)	18.3	28.6	27.5	25.5
Return on capital employed (%)	14.8	24.2	25.0	24.3
Turnover ratios				
Asset turnover (x)	1.3	1.8	2.1	2.3
Receivable days	9.3	9.3	8.5	8.6
Inventory days	61.2	61.2	61.2	61.2
Payable days	36.2	38.0	38.3	38.6
Working capital days	(34.2)	(10.8)	(2.9)	3.0
Liquidity ratios				
Current ratio (x)	0.8	1.3	1.8	2.4
Quick ratio (x)	0.4	0.6	1.1	1.6
Interest cover (x)	6.1	11.6	14.1	16.1
Total debt/Equity (%)	0.6	0.4	0.3	0.3
Net debt/Equity (%)	0.2	(0.2)	(0.4)	(0.6)
Valuation				
PER (x)	76.8	54.8	42.5	35.0
PEG (x) - y-o-y growth	4.4	1.4	1.5	1.6
Price/Book (x)	14.0	15.7	11.7	8.9
EV/Net sales (x)	6.8	6.9	5.6	4.8
EV/EBITDA (x)	35.8	30.7	24.5	20.3

Source: Company, Axis Research

Ashok Leyland – Market Share Gain and Profitability To Sustain Growth

Ashok Leyland (AL) – a flagship company of Hinduja Group, is the third-largest commercial vehicle manufacturer in India. AL's key products comprise buses, trucks, engines, defence, and special vehicles. The company has 6 manufacturing plants across 4 locations in India — Ennore (Tamil Nadu), Hosur (Tamil Nadu), Alwar (Rajasthan), Bhandara (Maharashtra,) and Pantnagar (Uttaranchal) with a capacity of 164k units for Medium & Heavy Commercial Vehicles (M&HCV) and 72k units for Light Commercial Vehicles (LCVs). It focuses on the M&HCV segment and has a significant presence in the bus segment. A separate EV mobility business with headquarters in UK has been established under name "Switch Mobility".

Industry view

Over Weight

CMP
143

Target Price
175

Upside
22%

Key Rationale

- **Industry Outlook:** Cyclical recovery of MHCV and LCV is on track supported by improving freight utilisation, growth in end-user industries, and pent-up replacement demand**.** ICRA expects the domestic CV industry is expected to grow by 9% YoY in FY24E. As per Crisil overall CV demand is expected to grow by 10-12% CAGR over FY22-27 with the bus segment likely to outperform in the long run over the low base.
- **Margins improvement:** AL took a 1% price hike in Q2FY23 and another 1.5% in Q3FY23. Discounts were higher than competitors in year end sale to gain market share. Moving forward, discounts are expected to come down, customer demand pull led by superior product performance (AVTR range of products), leading to retention of price hikes, and new product launches along with softening commodity prices are expected to drive margin improvement over the coming quarters.
- **Market share gain in Q2:** AL MHCV trucks market share grew to 32.3% (vs. 22.2%/31.1% in Q2FY22/Q1FY23), led by strong volumes which grew 1.5x the industry growth. LCV volumes grew by 28%/19% YoY/QoQ (marginally impacted by the chip shortages). Exports grew 25%/10% YoY/QoQ and aftermarket sales grew 26% YoY. To regain market share in the MHCV segment, AL also focused on refreshing the marketing network and bringing in domestic network partners with the potential to scale up sales across regions.
- **SWITCH Mobility:** Switch Mobility continues to bag EV orders from STUs under the GCC contract.It has been able to establish a name as a credible EV manufacturer and has received new orders from BMTC (for BEST double-decker buses) On SWITCH Mobility fund raising – the company is waiting for the right valuation and right partner, however, the finalisation of investors is expected to happen soon.

Key Rationale

- **Focus on Electrification:** The management stated that electric versions of the Dost and Bada Dost (LCV category) will be launched in the middle of 2023 led by increased requirements from many courier/logistic companies for last-mile delivery. Further, the management clarified that EV Bus and LCV segment will be sold by the subsidiary Switch while EV ICV and above range would fall within the AL domain directly.
- **Hinduja Leyland Finance (HLFL):** In Q2FY23 posted an income of Rs 1,620 Cr and PAT of Rs 215 Cr (AUM of Rs 31,700 Cr, GNPA- 6.3%, NNPA- 4.4%). The company has raised Rs 910 Cr from QIB and the business is likely to be listed by Jun'23 (post-merger with NXTL and regulatory clearances).
- **Valuation & Outlook:** AL's broad strategy is focusing not only on the MHCV segment but also expanding its market share/revenue in LCV, Buses, Tractor-Trailer, EVs, Defence Equipment/Vehicles, Exports, Spares and Aftermarket; thereby hedging its dependence on the cyclical truck business. AL is targeting market share gains in its LCV and ICV business with the launch of superior products and expected foray into the electric LCV segment by Jun'23. With improved profitability (RM softening), market share gains (increased demand), new and superior product offerings in the pipeline to cater to growing IC and EV demand; and a focus on better services, AL remains well-positioned to benefit from the CV upcycle. On the back of these growth drivers, we forecast Revenue/EBITDA/PAT CAGR of 23%/28%/71% over FY22-25E. We maintain our BUY rating on the stock, keeping the TP at Rs 175, valuing the stock at 19x its Dec'24E EPS.
- **Key risks:** a) Higher Interest rate, b) Competitive pressures, and c) Higher discounting.

Key Financials (Standalone)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	ROCE (%)	ROE (%)	EV/EBIDTA (x)
FY22A	21,688	995	17	0.1	1997	2.9	0.2	37.1
FY23E	32,561	2,451	1,090	3.7	39	11.0	13.8	18.4
FY24E	39,539	4,031	2,299	7.8	18	19.1	24.7	11.2
FY25E	45,153	4,571	2,690	9.2	16	19.2	23.4	9.2

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY22A	FY23E	FY24E	FY25E
Net revenues	21,688	32,561	39,539	45,153
Operating expenses	20,694	30,110	35,507	40,582
EBIDTA	**995**	**2,451**	**4,031**	**4,571**
EBIDTA margin (%)	**4.6**	**7.5**	**10.2**	**10.1**
Other income	76	94	100	104
Interest	301	297	278	247
Depreciation	753	747	829	889
Profit Before Tax	528	1,522	3,025	3,540
Tax	(14)	417	726	850
Reported Net Profit	**542**	**1,106**	**2,299**	**2,690**
Net Margin (%)	2.5	3.4	5.8	6.0
Adjusted Net Profit	**17**	**1,090**	**2,299**	**2,690**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY22A	FY23E	FY24E	FY25E
Equity capital	294	294	294	294
Reserves & surplus	7,043	7,856	9,861	12,258
Shareholders' funds	7,337	8,149	10,155	12,551
Total Loans	3,507	3,607	3,307	2,807
Deferred tax liability	144	144	144	144
Total Liabilities and Equity	**10,988**	**11,901**	**13,606**	**15,503**
Gross block	10,612	11,046	11,686	12,406
Depreciation	3,452	4,199	5,028	5,917
Net block	7,160	6,847	6,659	6,490
Capital WIP	194	360	420	450
Investments	4,820	4,920	5,120	5,320
Inventory	2,075	2,670	3,250	4,330
Debtors	3,111	3,747	4,550	5,196
Cash & Bank Bal	1,047	671	2,095	3,205
Loans & Advances	1,927	2,066	2,356	2,679
Current Assets	8,160	9,154	12,250	15,410
Sundry Creditors	6,875	6,187	7,296	8,339
Other Current Liability	2,470	3,194	3,547	3,827
Current Liability& Provisions	9,345	9,381	10,843	12,166
Net current assets	(1,185)	(226)	1,408	3,244
Total Assets	**10,988**	**11,901**	**13,606**	**15,503**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY22A	FY23E	FY24E	FY25E
EBIT	242	1,704	3,203	3,682
Other Income	76	94	100	104
Depreciation & Amortisation	753	747	829	889
Interest paid(-)	(301)	(297)	(278)	(247)
Tax paid(-)	14	(417)	(726)	(850)
Extra Ord Income	511	21	-	-
Operating Cash Flow	1,295	1,852	3,128	3,579
Change in Working Capital	1,308	(1,334)	(211)	(725)
Cash flow from Operations	**2,603**	**518**	**2,917**	**2,854**
Capex	(198)	(600)	(700)	(750)
Investment	(1,751)	(100)	(200)	(200)
Cash flow from Investing	**(1,949)**	**(700)**	**(900)**	**(950)**
Change in borrowing	(222)	100	(300)	(500)
Others	(32)	-	-	-
Dividends paid (-)	(176)	(294)	(294)	(294)
Cash flow from Financial Activities	**(430)**	**(194)**	**(594)**	**(794)**
Change in Cash	224	(376)	1,423	1,111
Opening cash	823	1,047	671	2,095
Closing cash	1,047	671	2,095	3,205

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY22A	FY23E	FY24E	FY25E
Revenue Growth	41.7	50.1	21.4	14.2
EBITDA Margin	4.6	7.5	10.2	10.1
Net Profit Margin	0.1	3.3	5.8	6.0
ROCE (%)	2.9	11.0	19.1	19.2
ROE (%)	0.2	13.8	24.7	23.4
EPS	0.1	3.7	7.8	9.2
P/E (x)	1,997.3	38.8	18.4	15.7
P/ BV (x)	4.7	5.2	4.2	3.4
EV/ EBITDA (x)	37.1	18.4	10.8	9.2
Fixed Assets Turnover Ratio (x)	3.9	6.0	7.5	8.8
Debt / Equity (x)	0.5	0.4	0.3	0.2
EV/ Sales (x)	1.7	1.4	1.1	0.9

Source: Company, Axis Research

APL APOLLO TUBES (APAT) - SALES VOLUME GROWTH TO DRIVE PROFITABILITY

APL Apollo Tubes (APAT) is a leading structural steel tube brand, operating with 14 brands in 4 product categories. It has 55% market share in structural steel tubes in India with 2.6MTPA structural steel tube capacity. APL Apollo Tubes has a strong distribution network with 800+ distributors across India

Industry view

Equalweight

CMP
1,092

Target Price
1,240

Upside
14%

Key Rationale

- **Volume led growth story:** With 10.3Lc tonnes in H1FY23, the company said they can easily cross 2.2MT volumes in FY23, the target is ~2.4MT in FY23. The Company reiterated its long-term target of achieving 4MTsales volume by FY25 (2.4MT from existing APL facilities, 0.2-0.3MT from debottlenecking existing plants, 1MT from Raipur and rest from Dubai and Kolkata facilities which are 3 and 2Lc tonne capacities respectively).
- **Raipur plant ramp-up:** The 1.5 mtpa Raipur plant project (100% value-added products) is expected to ramp up in phases from Q3FY23. In Q3FY23: 70-75kt, Q4: 1Lc tonnes, FY24: 6-7Lc tonnes, FY25: 1MT and peak capacity of 1.5MT in FY26. Currently, the 500 sqr mill at the plant is facing some ramp-up issues which the company is trying to resolve.
- **EBITDA per tonne to improve:** In H1FY23 EBITDA/t stood at Rs 4,154/t, in H2FY23 Company is targeting Rs 4,500-Rs 5,000/t, so for FY23 blended EBITDA/t guidance is ~Rs 4,500/t (target of Rs 5,000/t looks difficult to achieve due to lower EBITDA/t in this quarter). By FY24, the target is to achieve a blended EBITDA/t of Rs 6,000/t, this will be a blend of Rs 5,000/t from APL's existing plant, 7-8,000/t from Raipur, Rs 10,000/t from Dubai and Rs 5,000/t from Kolkata.
- **Outlook:** Steel prices have come down significantly from Rs 74K/t in 1st week of Apr'22 to ~54K/t on 30th Sep'22. With falling steel prices, the destocking impact was severe in Q1FY23 as the entire channel wanted to destock the material, in Q2FY23 the destocking continued but the company managed to push the material by giving discounts to distributors, in order to maintain market share and liquidating its high-cost inventory. Management said the destocking will however ease in Q3FY23 and further in Q4FY23 as steel prices are expected to stabilize from Q3FY23 onwards. Despite the tough market conditions, APAT managed to release the WC in H1FY23 and achieved a good OCF to EBITDA (At 102% in H1FY23 vs 69% in FY22). Going forward, as steel prices stabilize we expect EBITDA/t should improve as the discounts to distributors decrease and the Raipur plant ramp-up provides richer EBITDA/t in the product mix.
- **Valuation:** We have a BUY rating on the stock with a TP of Rs 1,240/share (unchanged) and value it at 31x PE of Sep'24E EPS.
- **Key risks:** Key risks: 1) Fall in demand for the company's products 2) Delay in Raipur plant ramp up 3) Lower offtake for the value added products.

Key Financials (Consolidated)

Y/E Mar (RsCr)	Revenues (Rs Cr)	PBT (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PE (x)	Div. Payout (%)	RoE (%)
FY21	8,500	546	408	28.8	34.7	0%	24%
FY22	13,063	832	619	22.3	41.1	16%	28%
FY23E	15,907	806	598	21.1	51.7	9%	23%
FY24E	19,151	1,290	956	34.5	31.6	6%	29%

Source: Company, Axis Securities.

Profit & Loss (Rs'Cr)

Y/E March	FY22	FY23E	FY24E	FY25E
Total Sales	**13,063**	**15,907**	**19,151**	**22,269**
Total Raw Materials	11,223	13,860	16,380	18,957
Total Expenditure	11,965	14,775	17,529	20,293
EBITDA	**945**	**930**	**1,373**	**1,687**
Depreciation	109	129	135	137
Interest & Finance charges	44	47	25	14
Other Income	41	52	77	89
EBT (as reported)	832	806	1,290	1,624
Tax	213	208	334	421
RPAT	**619**	**598**	**956**	**1,203**

Source: Company, Axis Research

Balance Sheet (Rs'Cr)

Y/E March	FY22	FY23E	FY24E	FY25E
Equity Share Capital	50	55	55	55
Reserves	2,214	2,757	3,657	4,804
Net worth	2,264	2,812	3,712	4,860
Total loans	581	431	231	131
Deferred tax liability (Net)	119	119	119	119
Capital Employed	**3,256**	**3,690**	**4,411**	**5,481**
Net block	1,604	1,755	1,720	1,633
Investments	86	159	192	223
Inventories	847	1,307	1,574	1,830
Sundry debtors	342	436	787	915
Cash and cash equivalents	164	120	606	1,869
Total Current assets	1,827	2,316	3,477	5,179
Total Current liabilities	1,196	1,619	2,101	2,441
Net Current assets	631	697	1,376	2,738
Capital Deployed	**3,256**	**3,690**	**4,411**	**5,481**

Source: Company, Axis Research

Cash Flow (Rs' Cr)

Y/E March	FY22	FY23E	FY24E	FY25E
PBT	832	806	1,290	1,624
Depriciation & Amortization	109	129	135	137
Incr/(Decr) in Deferred Tax Liability	-	-	-	-
(Incr)/Decr in Working Capital	(115)	(110)	(192)	(100)
Net Cash Flow from Operating	**652**	**612**	**847**	**1,166**
(Incr)/ Decr in Gross PP&E incl Capital Advances	(597)	(400)	(100)	(50)
(Incr)/Decr In Work in Progress	-	-	-	-
(Incr)/Decr In Investments	(82)	(73)	(32)	(31)
(Incr)/Decr in Other Non-Current Assets	-	(24)	(45)	236
Cash Flow from Investing	**(530)**	**(422)**	**(79)**	**266**
(Decr)/Incr in Borrowings	60	(150)	(200)	(100)
Dividend	-	(55)	(55)	(55)
Cash Flow from Financing	**26**	**(239)**	**(281)**	**(170)**
Cash at the Start of the Year	16	164	114	601
Cash at the End of the Year	**164**	**114**	**601**	**1,863**

Source: Company, Axis Research

Ratio Analysis (%/x)

Ratios	FY22	FY23E	FY24E	FY25E
Growth (%)				
Sales	53.7	21.8	20.4	16.3
EBITDA	39.3	-1.6	47.6	22.8
APAT	54.7	4.9	63.5	25.9
Profitability (%)				
EBITDA Margin	7.2	5.8	7.2	7.6
Adj. Net Profit Margin	4.3	3.7	5.0	5.4
ROCE	30.4	23.9	31.5	32.1
ROE	28.2	23.0	29.3	28.1
Per Share Data (Rs.)				
AEPS	22.3	21.1	34.5	43.4
Reported CEPS	29.4	26.4	39.7	48.8
BVPS	90.5	101.5	133.9	175.4
Valuations (x)				
PER (x)	41.1	51.7	31.6	25.1
PEG (x)	-1.8	-9.8	0.5	1.0
P/BV (x)	10.1	10.7	8.1	6.2
EV/EBITDA (x)	25.0	33.2	22.3	18.1
Dividend Yield (%)	0.4	0.2	0.2	0.2
Turnover days				
Inventory Days	24.5	26.6	30.0	30.6
Debtor Days	6.8	9.2	12.0	14.4
Payable Days	32.3	34.8	38.7	40.8
Gearing Ratio				
D/E	0.3	0.2	0.1	0.0

Source: Company, Axis Research

HEALTHCARE GLOBAL ENTERPRISES LTD (HCG) – ATTRACTIVE VALUATIONS

HCG is the largest provider of cancer care in India under the HCG brand. It owns and operates comprehensive cancer diagnosis and treatment services (radiation therapy, medical oncology, and surgery). HCG has a network consisting of 25 comprehensive cancer centers, including the center of excellence in Bengaluru, and 1 center in Africa. Each of the comprehensive cancer center offers comprehensive cancer diagnosis and treatment services at a single location.

Industry view

Equal Weight

CMP
287

Target Price
330

Upside
15%

Key Rationale

- **Oncology opportunity growing faster than the Healthcare market:** Oncology, with a 13% CAGR over FY16-19, is the fastest growing industry in the Healthcare market. The size of the Oncology industry is ~Rs 165 Bn and reports 1.5 Mn new cases every year. HCG has been outpacing the industry growth with revenue CAGR of 19% and new patients' registration CAGR of 24.6% over FY16-FY19. The company has set up a strong network of 25 centers across the country which stands 2x the capacity of the immediate competitor. We believe HCG is well-placed to grow new patient registrations backed by its competitive strengths such as high-end works, strong brand recall, easily access to centers, and reasonable prices.
- **High-End Work leads to an increase in ARPOB for HCG:** HCG's ARPOB reached Rs 38,345 (+21.9% Q3FY22 YoY) due to high end works such as robotic surgery and Cyberknife in Oncology verticals of Head & Neck, Urology, Bone Marrow transplantation, Liver Surgery and complicated tumours. Furthermore, the increase in the volume of international patients may improve ARPOB (Waned Covid-19 impact) in the upcoming quarters. (International patients comprise 2% of the sales now which was 6% before the Covid-19 pandemic). We believe the current ARPOB are sustainable and may report a CAGR of 10% over FY21-FY24E.

Key Rationale

- **On the cusp of turning around the company's operating profitability:** HCG is expected to turn around its operating profitability with Operating EBITDA Margins improving by 680bps over FY21-FY24E, majorly driven by a) Operating leverage driven by the increase in Average Occupancy rates (53%-58%) b) Increase in ARPOB led by the increase in international patients and high end works, and c) Operating leverage in new centers that have already achieved breakeven. Given variable and fixed costs comprise 35% and 65% in hospitals respectively, we believe strong operating leverage in new centers may improve margins to 12%-15% over FY21-FY24E.

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBITDA (x)	P/BV (x)	ROE (%)
FY21	1,013	127	-221	-17.6	-	34.3	4.9	-
FY22E	1,347	206	-37	-2.7	-	21.6	4.8	-
FY23E	1,576	273	32	2.3	117.3	16.1	4.6	3.9%
FY24E	1,807	349	100	7.2	33.1	10.9	3.6	10.8%

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Net Sales	1,013	1,347	1,576	1,807
Growth (%)	-7.5%	32.9%	17.0%	14.6%
Total Expenditure	887	1,141	1,303	1,458
Raw Material Consumed	238	306	350	392
% of sales	23.7%	22.7%	22.2%	21.7%
Gross margins (%)	76.3%	77.3%	77.8%	78.3%
Employee Expenses	196	256	300	343
% of sales	19.3%	19.0%	19.0%	19.0%
Other Expenses	451	579	654	722
% of sales	44.5%	43.0%	41.5%	40.0%
EBIDTA	127	206	273	349
EBITDAM (%)	12.5%	15.3%	17.3%	19.3%
Depreciation	159	155	159	163
EBIT	-33	52	114	186
EBITM (%)	-3.2%	3.8%	7.2%	10.3%
Interest	119	103	92	81
Other Income	17	10	12	14
Exceptional Items	-93	0	0	0
Share of P/L of Associates	-0	4	6	6
PBT	-229	-37	40	125
Tax Rate (%)	3.3%	0.0%	20.0%	20.0%
Tax	-8	0	8	25
Reported PAT	-221	-37	32	100

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Share Capital	125	139	139	139
Reserves & Surplus	572	654	687	787
Shareholders Fund	697	793	826	926
Minority Interest	17	21	27	33
- Long Term Borrowings	815	735	655	575
- Deferred Tax Liabilities(Net)	4	4	4	4
- Other Long Term Liabilities	28	37	43	50
- Long Term Provisions	9	9	9	9
Total Non Current Liabilities	856	785	711	638
- Short Term Borrowings	162	162	162	162
- Trade Payables	146	185	216	248
- Other Current Liabilities	147	185	194	198
- Short Term Provisions	10	10	10	10
Total Current Liabilities	465	541	583	618
Total Liabilities	2,036	2,141	2,147	2,214
Gross Block	1,256	1,241	1,291	1,341
Depreciation	403	508	618	732
% of GB	32.1%	41.0%	47.9%	54.6%
- Fixed Assets	1,433	1,312	1,252	1,188
- Non Current Investments	6	6	6	6
- Deferred Tax Asset(Net)	34	34	34	34
- Long Term Loans & Advances	45	45	45	45
- Other Non Current Assets	82	81	95	108
Total Non Current Assets	1,600	1,478	1,432	1,382
- Inventories	21	28	33	38
- Trade Receivables	187	240	281	322
- Cash & Cash Equivalents	41	223	202	246
- Short Term Loans & Advances	10	10	10	10
- Other Current Assets	177	162	189	217
Total Current Assets	436	663	715	832
TOTAL ASSETS	2,036	2,141	2,147	2,214

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
PBT	-229	-37	40	125
Add: depreciation	159	155	159	163
Add: Interest	119	103	92	81
Cash flow from operations	50	220	291	369
Change in working capital	286	-42	39	46
Taxes	-8	0	8	25
Miscellaneous expenses	0	0	0	0
Net cash from operations	-229	262	244	298
Capital expenditure	127	-34	-99	-99
Change in Investments	2	0	0	0
Net cash from investing	129	-34	-99	-99
Increase/Decrease in debt	-277	-80	-80	-80
Dividends	0	0	0	0
Proceedings from equity	37	14	0	0
Interest	-119	-103	-92	-81
Others	468	124	6	6
Net cash from financing	109	-45	-166	-155
Net Inc./(Dec.) in Cash	8	182	-21	44
Opening cash balance	32	41	223	202
Closing cash balance	40	223	202	246

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY21	FY22E	FY23E	FY24E
Sales growth	-7.5%	32.9%	17.0%	14.6%
OPM	**12.5%**	**15.3%**	**17.3%**	**19.3%**
Oper. profit growth	-26.4%	63.1%	32.3%	27.8%
COGS / Net sales	23.7%	22.7%	22.2%	21.7%
Overheads/Net sales	44.5%	43.0%	41.5%	40.0%
Depreciation / G. block	12.7%	8.0%	8.0%	8.0%
Effective interest rate	12.7%	8.0%	8.0%	8.0%
Net wkg.cap / Net sales	18.0%	10.4%	11.4%	12.5%
Net sales / Gr block (x)	0.8	1.1	1.2	1.3
RoCE	**-2.2**	**3.7**	**8.4**	**14.3**
Debt / equity (x)	1.4	1.1	1.0	0.8
Effective tax rate	0.0	0.0	0.2	0.2
RoE	-31.7	-4.7	3.9	10.8
Payout ratio (Div/NP)	1.0	2.0	3.0	4.0
EPS (Rs.)	**-17.6**	**-2.7**	**2.3**	**7.2**
EPS Growth	25%	-85%	-186%	211%
CEPS (Rs.)	-4.9	8.5	13.8	19.0
DPS (Rs.)	0.0	0.0	0.0	0.0

Source: Company, Axis Research

Praj Industries Ltd – Well-Placed To Grow, Less Impact of Global Geo-Political Volatility on Business

Praj Industries Ltd, incorporated in 1985 and headquartered in Pune is a supplier/constructor of ethanol plants, a global company providing various engineering solutions with a focus on the environment, energy, and agri-process industry. Praj has a presence across the globe with more than 750 references in more than 75 countries. It is the Indian market leader in the Ethanol Plant market and among the top ZLD players in the country.

Industry view

Overweight

CMP
356

Target Price
550

Upside
54%

Key Rationale

- **Traction Continues for Domestic Ethanol Business:** During Q2 FY23, Grain-based capacity (starchy feedstock) continued momentum. This will ensure a wide spread of Ethanol across the country and help in achieving preponed EBP-20 targets. The BSPD has announced the availability of 17 MMT of surplus grains which will help the company continue its starchy feedstock momentum.
- **Key Business Updates:** India has achieved the highest-ever Ethanol blend of ~10% in 2022. The government had announced a cap of 10 MMT on Sugar Exports which will help to improve the availability of sugar in the country. On the International front, the company is seeing good momentum in capacity building in North and South America (the company commissioned its first plant in Brazil). The Euro mandates and carbon policies will expedite global bio energy transformation.
- **Strong Execution**: The company is witnessing more growth in Grain-based distilleries which has reduced the seasonality of the business which was predominantly based on the sugar cycle. This has led to year-round utilisation of assets resulting in an improved asset turnover ratio from 0.98 to 1.23 in FY22. This has also led to less strain on the supply chain and improved order execution rate.
- **CBG Update:** Thegovernment hiked the price of CBG from Rs 46 to Rs 54 and has indexed it to the price of CNG. This, along with the positive traction in the co-product development, shall improve the overall commercial feasibility of the CBG plant.
- **Improving demand for CPS and ZLD business:** Praj CPS business is expected to do well with the increasing focus on Hydrogen based energy development we shall see good traction. Increasing Environmental focus shall abode well for ZLDS business.
- Praj is witnessing strong growth in its key segment Bioenergy in Domestic business, the overall demand-supply gap of Ethanol, increased interest in grain-based distilleries and decarbonization impetus is auguring well for Praj along with development in other key verticals such as CPS, ZLD & High Purity gaining traction. Praj is a key beneficiary of multiple tailwinds provided by the bio-economic revolution, giving strong growth &revenue visibility for the next 3-5 years. The company's key growth levers remain strong & therefore we maintain our BUY rating with a Target Price of Rs 550 valuing the company at 35x FY24E.
- **Key risks:** a) Raw material cost pressure in steel; b) Volatile RM weighing on operating profitability in the near term; c) Russia-Ukraine crisis to dampen business in the Euro region.

Key Financials (Consolidated)

Y/E Mar	Net sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY21	1,305	112	81	4.42	44.0	24.9	10.7%	14.7%
FY22	2,333	194	150	8.18	43.9	33.5	17.5%	23.3%
FY23E	3,667	355	282	15.35	23.4	18.3	26.7%	34.8%
FY24E	3,772	506	395	21.52	16.7	12.8	28.3%	37.1%

Source: Company, Axis Securities

Profit & Loss **(Rs Cr)**

Y/E March	FY21	FY22E	FY23E	FY24E
Net sales	1,305	2,333	3,667	3,772
Raw Material	736	1,454	2,310	2,216
Employee benefit expenses	172	218	243	257
Other Expenses	284	468	759	792
EBITDA	112	194	355	506
Other income	26	36	45	45
PBIDT	138	230	400	552
Depreciation	22	23	22	22
Interest & Fin Chg.	3	3	3	3
E/o income / (Expense)	-	-	-	-
Pre-tax profit	113	205	376	527
Tax provision	32	55	94	132
RPAT	81	150	282	395

Source: Company, Axis Research

Balance Sheet **(Rs Cr)**

Y/E March	FY21	FY22E	FY23E	FY24E
Share Capital	37	37	37	37
Reserves & Surplus	765	879	1,161	1,556
Total Equity	803	916	1,198	1,594
Total Non-Current Liabilities	27	32	32	32
Trades Payable	342	425	829	795
Other Current Liabilities	376	776	776	776
Total Current Liabilities	764	1,265	1,669	1,635
Total Capital Employed	**1,594**	**2,213**	**2,899**	**3,260**
Net Block	206	209	208	204
Goodwill	63	63	63	63
Total Non-Current Assets	358	372	371	368
Cash	101	107	212	590
Inventory	129	345	361	334
Receivables	453	512	1,075	1,085
Investments	295	398	398	398
Total Current Assets	1,235	1,841	2,528	2,892
Total Assets	**1,594**	**2,213**	**2,899**	**3,260**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Net Profit before Tax	113	205	376	527
Depreciation	22	23	22	22
Working Capital Changes	116	9	-181	-24
Tax Paid	-15	-45	-94	-132
Cash From Operating Activities	225	175	80	351
Cash From Investing Act	-164	-127	24	27
Cash Flow from Financing	-6	-44	-2	-2
Change in Cash	54	4	102	375
Opening Cash	46	101	107	212
Closing Cash	101	107	212	590

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY21	FY22E	FY23E	FY24E
Operational Ratios				
Gross profit margin	38%	37%	41%	38%
EBITDA margin	8%	10%	13%	8%
PAT margin	6%	8%	10%	6%
Growth Indicators				
Sales growth	79%	57%	3%	79%
EBITDA growth	72%	83%	43%	72%
PAT growth	85%	88%	40%	85%
Efficiency Ratios				
Total Asset turnover (x)	1.2	1.4	1.2	1.2
Inventory turnover (x)	6.1	6.5	6.4	6.1
Sales/Working Capital	4.2	4.9	6.0	4.2
Sales/ Total Assets				
Liquidity Ratios				
Total Debt/Equity(x)	0.00	0.00	0.00	0.00
Total Asset/Equity(x)	2.42	2.21	1.94	2.42
Current Ratio(x)	1.46	1.51	1.77	1.46
Quick Ratio(x)	1.18	1.30	1.56	1.18
Interest Cover(x)	77.21	124.29	177.24	77.21

Source: Company, Axis Research

CCL PRODUCTS LTD – WELL-PLACED TO GROW

CCL Products (CCLP) was incorporated in 1994 as an Export Oriented company engaged in the manufacture of Instant Coffee globally. It can import green coffee into India from any part of the world, and export the same to any part of the world, free of all duties.CCL Products manufactures Soluble Instant Spray Dried Coffee Powder, Spray Dried Agglomerated / Granulated Coffee, Freeze Dried Coffee, as well as Freeze Concentrated Liquid Coffee. Today, the company is India's largest manufacturer and exporter (36% market share) of instant coffee and the largest player in the private label market (with a 10% market share).

Industry view

Overweight

CMP
530

Target Price
600

Upside
13%

Key Rationale

- **Post Q3FY23 guidance strong:** The management remains confident maintaned its volume guidance from 15% to 20-25% volume growth. Moreover, 10-15% price growth should aid the company's overall topline growth of ~40% in FY23. It further alluded to Domestic branded business to achieve Rs +200cr in FY23 as it deepen further into the different geographies.
- **New capacity expansion:** In Q1FY23, CCL announced a new greenfield (fourth unit) spray dried manufacturing facility in Tirupati (AP) with an annual capacity of 16,000 tonnes which is expected to be commercialised by Q1FY24. This is an additional expansion on the back of the ongoing expansion of 16,500 tonnes (to 30,000 tonnes) of Vietnam's capacity (commercialised in Q4FY23). The company's capacity in FY22 stood at 38,500 tonnes, which will increase to 71,000 tonnes across Vietnam and India by FY24.The management's confidence in building new capacity is driven by 1) Strong domestic business outlook going ahead with expected growth of 30-40% over the next 3-4 years, 2) Robust international business outlook backed by several new business wins, and 3) Improving competitive edge over key competitors in Brazil with increasing economies of scale. Further post the capcity expansion CCL market share would increase from 6-8% to 10-12% in next 3-4 years as capacity utilisation improves.
- **Europe:** CCL highligted due to higher cost of production in Europe due to energy crisis companies in Europe are outsourcing the production to other countries in Brazil, India, Vietnam which will to some extend benefit CCL, currently Europe accouts for 10% of sales for CCL Products.
- **Domestic business on a strong footing:** The company's overall domestic sales reported revenue of Rs 110 H1FY23.The branded business comprises ~70% of the domestic sales. In Q1FY23, the domestic business grew ~40% YoY and the company aims at ~30-40% topline growth with breakeven in FY23 as it is looking for large distribution expansion beyond southmarkets, moreover its NPD (flavoured, cold brews, functional coffee) has further stregthen CCL footing in domestic and internal markets. Recently launched plant-based meat protein is in a trial stage in three cities to gauge customer feedback.
- **Valuation:** We remain positive on CCL Products given1) Strong footing in the International markets as it continues to gain market share and access new business, 2) Cost-efficient business model; 3) Doubling of Vietnam's capacity from the current 13,500 MT to 30,000 MT and new capacity expansion in India leading to strong volume growth visibility for the next 2-3 years; 4) Capacity addition in the value-added products (FDC and small packs), and 5)Foray into high-margin branded retail business (Continental Coffee, Plant-based meat protein). We expect CCLP's Sales/EBITDA/PAT to grow at 31%/27%/26% CAGR over FY22-25E and maintaina high conviction BUY rating on the stock with a TP of Rs 600/share as we roll over our estimates to 23x Sept-24 EPS.

Key Financials (Consolidated)

Y/E Mar	Net sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY22	1,462	331	204	15.4	34.4	22.8	16.3	16.0
FY23E	2,051	392	218	16.4	32.3	20.1	15.5	16.5
FY24E	2,617	525	304	22.9	23.1	15.5	18.6	19.9
FY25E	3,311	683	410	30.8	17.2	12.2	20.7	22.5

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar, Rs Cr	FY22	FY23E	FY24E	FY25E
Net sales	**1,462**	**2,051**	**2,617**	**3,311**
Growth, %	18	40	28	27
Total income	1,462	2,051	2,617	3,311
Raw material expenses	-723	-1,106	-1,383	-1,728
Employee expenses	-98	-122	-156	-195
Other Operating expenses	-310	-431	-554	-705
EBITDA (Core)	**331**	**392**	**525**	**683**
Growth, %	11.2	18.4	33.8	30.1
Margin, %	22.6	19.1	20.0	20.6
Depreciation	-57	-70	-83	-95
EBIT	**274**	**322**	**442**	**588**
Growth, %	10.2	17.7	37.3	32.9
Margin, %	18.7	15.7	16.9	17.7
Interest paid	-16	-33	-36	-40
Other Income	4	5	5	6
Non-recurring Items	0	0	0	0
Pre-tax profit	**261**	**294**	**411**	**554**
Tax provided	-57	-76	-107	-144
Profit after tax	**204**	**218**	**304**	**410**
Growth, %	12.1	6.5	39.9	34.6
Net Profit (adjusted)	**204**	**218**	**304**	**410**
Unadj. shares (Crs)	13	13	13	13

Source: Company, Axis Research

Balance Sheet (Rs Cr)

As at 31st Mar, Rs Cr	FY22	FY23E	FY24E	FY25E
Cash & bank	56	-292	-529	-717
Marketable securities at cost	0	0	0	0
Debtors	320	448	572	724
Inventory	519	728	929	1,176
Other current assets	96	96	96	96
Total current assets	991	981	1,069	1,279
Investments	0	0	0	0
Gross fixed assets	1,146	1,396	1,646	1,896
Less: Depreciation	-264	-334	-416	-511
Add: Capital WIP	160	160	160	160
Net fixed assets	1,042	1,222	1,390	1,545
Non-current assets	36	36	36	36
Total assets	**2,070**	**2,239**	**2,495**	**2,860**
Current liabilities	630	648	666	688
Provisions	1	1	1	1
Total current liabilities	631	649	667	689
Non-current liabilities	188	188	188	188
Total liabilities	819	838	855	877
Paid-up capital	27	27	27	27
Reserves & surplus	1,224	1,375	1,613	1,956
Shareholders' equity	1,251	1,402	1,640	1,983
Total equity & liabilities	**2,070**	**2,239**	**2,495**	**2,860**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar (Rs Cr)	FY22	FY23E	FY24E	FY25E
Pre-tax profit	261	294	411	554
Depreciation	57	70	83	95
Chg in working capital	-91	-320	-307	-376
Total tax paid	-33	-76	-107	-144
Other operating activities	-40	-10	-10	-10
Cash flow from operating activities	**154**	**-42**	**70**	**119**
Capital expenditure	-152	-250	-250	-250
Other investing activities	0	0	0	0
Cash flow from investing activities	**-152**	**-250**	**-250**	**-250**
Free cash flow	2	-292	-180	-131
Other financing activities	3	-40	-59	-59
Cash flow from financing activities	**-62**	**-40**	**-59**	**-59**
Net chg in cash	-60	-332	-239	-190
Opening cash balance	120	56	-292	-529
Closing cash balance	56	-292	-529	-717

Source: Company, Axis Research

Ratio Analysis (%)

Y/E Mar	FY22	FY23E	FY24E	FY25E
EPS (INR)	15.4	16.4	22.9	30.8
Growth, %	12.1	6.5	39.9	34.6
Book NAV/share (INR)	94.0	105.4	123.2	149.0
FDEPS (INR)	15.4	16.4	22.9	30.8
CEPS (INR)	19.7	21.6	29.1	37.9
CFPS (INR)	1.9	(2.8)	5.6	9.2
Return ratios				
Return on assets (%)	11.4	11.6	14.4	16.8
Return on equity (%)	16.3	15.5	18.6	20.7
Return on capital employed (%)	16.0	16.5	19.9	22.5
Turnover ratios				
Asset turnover (x)	0.9	1.0	1.0	1.1
Sales/Total assets (x)	0.8	1.0	1.1	1.2
Sales/Net FA (x)	1.5	1.8	2.0	2.3
Working capital/Sales (x)	0.2	0.3	0.4	0.4
Receivable days	79.8	79.8	79.8	79.8
Inventory days	129.6	129.6	129.6	129.6
Payable days	14.7	14.1	14.3	14.4
Working capital days	76.1	111.1	129.9	144.2
Liquidity ratios				
Current ratio (x)	1.6	1.5	1.6	1.9
Quick ratio (x)	0.7	0.4	0.2	0.1
Interest cover (x)	16.7	9.8	12.3	14.8
Total debt/Equity (%)	0.4	0.4	0.3	0.3
Valuation				
PER (x)	34.4	32.3	23.1	17.2
PEG (x) - y-o-y growth	2.8	5.0	0.6	0.5
Price/Book (x)	5.6	5.0	4.3	3.5
EV/Net sales (x)	5.2	3.8	3.1	2.5
EV/EBITDA (x)	22.8	20.1	15.5	12.2
EV/EBIT (x)	27.6	24.5	18.4	14.2

Source: Company, Axis Research

PNC Infratech Limited– Robust order book to drive growth

PNC Infratech Limited was incorporated on August 09, 1999, as PNC Construction Company Private Limited. It has played a crucial role in India's infrastructural growth, particularly in the Highway and Airport sectors. The company was converted into a limited company in 2001 and was renamed PNC Infratech limited in 2007. Over the past 20 years, PNC Infratech has emerged as one of the most efficient players across several infra-segments such as roads and highways, bridges, and airport runways. Today, it is one of the leading highway development, construction and management companies in the country.

Industry view

CMP
288

Target Price
340

Upside
18%

Key Rationale

- **Robust & Diversified Order Book:** As of Sept'22-end, PNCIL's order book stands robust at Rs.19,261 Cr (3x of FY22 revenue) and comprises of road projects both EPC and HAM and also Water projects. The company's order book is comprised of road projects commanding 61% share and the balance 39% is contributed by water projects The order book gives revenue visibility for the next 2-3 years. We expect the company to deliver healthy revenue growth of 17% CAGR over FY21-24E. The company expects order inflow of Rs 8,000-10,000 Cr in FY23E and the same for FY24E.
- **Established track record:** PNCIL is one of the leading EPC contractors in India having a demonstrated project execution experience of more than three decades. Leveraging this, it has efficiently and timely delivered complex and prestigious projects including highways, bridges, flyovers, power transmission lines, airport runways, and development of industrial areas, amongst other. Factoring in better order inflows, we expect the company to maintain its margin profile between 13%-14% over FY22-24E
- **Favourable Industry tailwind:** The road construction industry in India is undergoing a paradigm shift with notable investments in the segment and proactive policy support of the government. NHAI asset monetization plan, National Infrastructure Pipeline, and unveiling of the Gati Shakti Plan will provide further momentum to the execution and avoid unnecessary delays. Various initiatives undertaken by the Central government are expected to significantly support the overall development of the road sector moving ahead, thereby creating massive growth opportunities for the company

Key Rationale

- **Outlook:** The Road sector is witnessing good development owing to increased government thrust on infrastructure investment. Furthermore, the tightening of norms in bidding on road projects by the NHAI augurs well for an organised player such as PNCIL. Considering strong and diversified order book position, healthy bidding pipeline, new order inflows, emerging opportunities in the construction space, the company's efficient and timely execution and strong financial credence, we expect PNCIL to report Revenue/EBITDA/APAT CAGR of 17%/16%/23% respectively over FY21-FY24E.
- **Valuation:** Stock is currently trading at 12x and 10x FY23E/FY24E EPS which is attractive. We recommend a BUY rating on the company and value the stock at 10.5x FY24 EPS and HAM portfolio at 1x book value to arrive at a target price of Rs 340/share, implying an upside potential of % from CMP.
- **Key risks:** a) Delay in getting Appointed date for new HAM projects; b) Lower Order inflow than expected c) Delay in HAM asset monetization.

Key Financials

Y/E Mar (Rs Cr)	NetSales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY22	6,306	787	448	17.5	16	8.5	14	18
FY23E	7.034	967	605	23.5	12	7.0	17	20
FY24E	7,878	1,063	670	26.0	10	6.0	16	19

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY22	FY23E	FY24E
Net sales	6,306	7,034	7,878
Other operating inc.	0	0	0
Total income	6,306	7,034	7,878
Cost of goods sold	4,452	5,092	5,554
Contribution (%)	29.4%	27.6%	29.5%
Operating Profit	1,067	975	1,260
Depreciation	787	967	1,063
Interest & Fin Chg.	54	42	55
E/o income / (Expense)	841	1,009	1,119
Pre-tax profit	130	118	139
Tax provision	80	85	87
(-) Minority Interests	631	806	893
Associates	184	201	223
Adjusted PAT	448	605	670

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY22	FY23E	FY24E
Total assets	**5,302**	**6,126**	**6,943**
Net Block	576	582	523
CWIP	14	14	14
Investments	0	0	0
Wkg. cap. (excl cash)	871	1321	1671
Cash / Bank balance	1246	1183	1324
Misc. Assets	528	678	635
	2068	2348	2775
Capital employed			
Equity capital	**5,302**	**6,126**	**6,943**
Reserves	51	51	51
Pref. Share Capital	3289	3894	4564
Minority Interests	0	0	0
Borrowings	216	216	216
Def tax Liabilities	1746	1965	2111

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY22	FY23E	FY24E
PBT	631	806	893
Depreciation	130	118	139
Interest Expense	42	85	87
Changes in Working Capital	-658	99	-104
Others	117	-42	-55
Tax Paid	-175	-201	-223
Net Cash from Operations	**88**	**866**	**736**
Capex	-75	-125	-80
Investment	-154	-450	-550
Others	103	42	55
Net Cash from Investing	**(126)**	**(533)**	**(575)**
Borrowings	48	0	0
Interest Expense	-42	-85	-87
Dividend paid	-13	0	0
Others	-235	-98	-117
Net Cash from Financing	**(243)**	**(182)**	**(204)**
Net Change in Cash	**(281)**	**150**	**(43)**
Opening cash	688	407	557
Closing cash	**407**	**557**	**514**

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY22	FY23E	FY24E
Growth Indicator	28%	12%	12%
Sales Growth	17%	23%	10%
Ebitda Growth	24%	35%	11%
PAT Growth			
PROFITABILITY RATIOS	12.5%	13.7%	13.5%
EBITDA Margin	7.1%	8.6%	8.5%
Adjusted net margin			
EFFICIENCY RATIOS (x)	1.89	1.78	1.71
Capital Turnover	1.49	1.45	1.41
Total Asset Turnover	11.0	12.1	15.1
Fixed Asset Turnover	74	70	70
Debtor days	32	30	30
Inventory days	34	40	40
Payable days	72	60	60
Cash Conversion Cycle (days)			
Leverage ratios	0.13	0.12	0.10
Debt to equity	-0.08	-0.10	-0.08
Net debt to equity	10	11	12
Interest coverage			
PER SHARE DATA	17.5	23.6	26.1
Diluted EPS (Rs)	130	154	180
Book value per share (Rs)	28%	12%	12%

Source: Company, Axis Research

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Sr. No	Name	Designation	E-mail
1	Naveen Kulkarni	Chief Investment Officer	naveen.kulkarni@axissecurities.in
2	Neeraj Chadawar	Quantitative Head	neeraj.chadawar@axissecurities.in
3	Preeyam Tolia	Research Analyst	preeyam.tolia@axissecurities.in
4	Omkar Tanksale	Research Analyst	omkar.tanksale@axissecurities.in
5	Uttamkumar Srimal	Research Analyst	uttamkumar.srimal@axissecurities.in
6	Ankush Mahajan	Research Analyst	ankush.mahajan@axissecurities.in
7	Dnyanada Vaidya	Research Analyst	dnyanada.vaidya@axissecurities.in
8	Aditya Welekar	Research Analyst	aditya.welekar@axissecurities.in
9	Prathamesh Sawant	Research Analyst	prathamesh.sawant@axissecurities.in
10	Sumit Rathi	Research Analyst	sumit.rathi@axissecurities.in
11	Hiren Trivedi	Research Associate	hiren.trivedi@axissecurities.in
12	Sikha Doshi	Research Associate	Sikha.doshi@axissecurities.in
13	Dhananjay Choudhury	Research Associate	dhananjay.choudhury@axissecurities.in
14	Shridhar Kallani	Research Associate	shridhar.kallani@axissecurities.in
15	Bhavya Shah	Research Associate	bhavya1.shah@axissecurities.in

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