TOP PICKS

July 2021

AXIS SECURITIES

Q1FY22 Earnings Commentary Critical; Long-Term Constructive Trends Remain Intact

Axis Top Picks basket has delivered an excellent 82% return since its introduction in May'20 (3% in Jun'21), beating the NIFTY return of 1%. While NIFTY returns stayed limited, the broader market continued to outperform the benchmark, indicating significant market strength. Macroeconomic newsflow was mixed with inflation rising ahead of estimates. COVID-19 cases have continued to decline at a healthy rate and the vaccination drive has taken off. Meanwhile, new COVID-19 variants such as Delta plus continue to pose threats to the economic recovery which has already been hampered by lockdowns. The hospitality sector has been one of the most impacted sectors and it is witnessing a significant number of closures. Sectors such as IT, Telecom, Pharmaceuticals, FMCG, and Commodities as well as the rural segment have not been much impacted by the lockdowns. However, the impact of new lockdown measures on the BFSI sector will be critical and management commentary after the Q1FY22 results will be most crucial.

The market continues to see a robust performance from the Small and Mid Cap stocks as these indices once again delivered a healthy performance during the month. We add a recently initiated coverage stock Orient Cement to the list of our top picks while booking profits in ACC which has delivered healthy double-digit returns. We also book profit in PI industries which has delivered excellent returns during the month and add Ashok Leyland as a 'recovery play' in the CV cycle. Our top themes are as follows:

Q1FY22 earnings commentary to be critical: Q1FY22 earnings are very likely to be a mixed bag. Post-strong Q4FY21 earnings, the consensus further upgraded its earnings estimate (~5%) with significant upgrades coming in the Metals & Mining sector. Interestingly, even after the imposition of lockdowns in Q1FY22, earnings for the BFSI sector have seen marginal upgrades in the last two months. The BFSI sector is seeing a good number of upgrades in its corporate book because of rising commodity prices but the Retail, SME, and MSME sectors are experiencing intense pressure on account of lockdowns. We believe the lockdown challenges are more likely to manifest into lower credit offtake instead of a serious increase in the NPAs. However, consensus expectations continue to remain high and some disappointments are likely. Management commentary stands critical. We continue to maintain our BFSI picks in our top picks unchanged. IT and Pharma will be critical sectors to focus on as they were unaffected by the lockdowns.

The Pharma sector has seen strong tailwinds, both in the domestic as well as in the international space, and is more likely to outperform in the near term. FMCG margins will be critical as the sector faced input cost pressures and the impact of price hikes is yet to be seen. Commentary on the volume growth in discretionary consumption will be very important.

Volatility continues to reduce, indicating continuance of strong bull market: While the markets seemed volatile on a few occasions during the month, the spook index (India VIX) continued to trend downwards. India VIX has trended down to 14 now, which is significantly lower than the long-term average of 22. Lower VIX is a significant positive for the Small and Mid Cap stocks which continued to deliver strong returns during the month. We believe VIX may go up during the Q1FY22 results but do not expect a meaningful rise in the index, which means a sharp market correction is unlikely.

Mid Cap, Small Cap, and Large Cap Value to remain key allocation themes: Our market themes remain unchanged as these continue to deliver strong returns. In the last month, Small and Mid Cap indices delivered 6% and 4% returns, respectively. Value investment style outperformed the Growth and Quality investment style by a significant margin while beating the Large Cap NIFTY index by a healthy margin as well. We believe these themes will continue to deliver strong returns over the medium term and recommend allocation in these strategies.

Raise December NIFTY target to 17400: In our COVID 2.0 note, we had cut our NIFTY earnings by 6% and subsequently our NIFTY target by 6%. However, post Q4FY21 results and significant upgrades across the sectors, our estimates have also seen upgrades by 8%. This is primarily driven by upgrades in the Metals & Mining sector which has seen robust results and high metal prices. Consequently, our Dec'21 NIFTY target has also been upgraded to 17400 (22x FY23E earning) as we maintain our target multiple. Overall, we remain constructive on the market and believe that the dips should be utilized to build positions in the above-mentioned themes.

Based on the above themes, we recommend the following stocks:

ICICI Bank, SBI, Federal Bank, Equitas Small Finance Bank, Varun Beverages, Camlin Fine Sciences, Mold-Tek Packaging, Amber Enterprises India, Minda Corporation, Steel Strips Wheels, Lupin, Tech Mahindra, Bharti Airtel, HCL Technologies, Orient Cement, Ashok Leyland

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Axis Securities Top Picks

Company Name	Sector	Stock price	Target Price	Upside (%)	12 Month Fwd PE	12 Month Fwd P/BV	Dividend Yield	TR 1M%	TR 3M%	TR 6M%	TR YTD%
ICICI Bank Ltd	Financials	631	750	19	15.9	2.7	0.3	-4.8	8.4	17.9	17.9
State Bank of India	Financials	419	510	22	10.7	1.3	1.0	-0.3	16.1	53.9	53.9
Federal Bank Ltd	Financials	87	100	15	11.5	1.0	0.8	-0.2	14.9	30.6	30.6
Equitas Small Finance Bank Ltd	Financials	59	70	19	13.5	1.8	NA	-0.3	-2.2	56.4	56.4
Varun Beverages Ltd	Consumer Staples	729	900	23	48.2	7.6	0.2	8.1	9.1	19.4	19.4
Camlin Fine Sciences Ltd	Materials	187	215	15	24.0	3.5	NA	5.7	32.8	52.3	52.3
Mold-Tek Packaging Ltd	Materials	479	585	22	23.0	4.5	1.5	-3.4	21.8	69.4	69.4
Amber Enterprises India Ltd	Consumer Discretionary	2,926	3,290	12	53.3	5.5	NA	7.3	-11.8	24.4	24.4
Minda Corporation Ltd	Consumer Discretionary	128	148	15	17.6	2.4	0.5	2.1	27.6	43.4	43.4
Steel Strips Wheels Ltd	Consumer Discretionary	842	989	17	NA	NA	0.2	12.4	20.6	66.7	66.7
Lupin Ltd	Health Care	1,149	1,400	22	30.1	3.5	0.6	-5.8	12.6	17.6	17.6
Tech Mahindra Ltd	Information Technology	1,095	1,255	15	18.2	3.5	1.8	7.2	10.5	12.6	12.6
Bharti Airtel Ltd	Communication Services	526	700	33	57.0	4.4	0.4	-1.7	1.6	3.1	3.1
HCL Technologies Ltd	Information Technology	984	1,135	15	19.3	3.9	1.6	4.1	1.8	6.2	6.2
Orient Cement Ltd	Materials	137	180	32	13.4	1.9	1.1	-1.2	39.9	58.2	58.2
Ashok Leyland Ltd	Industrials	123	150	22	41.4	4.8	0.5	-0.7	8.0	28.4	28.4

Source: Company, Axis Securities, CMP as on 30th June 2021

Sector Outlook

Sector	Current View	Outlook
Automobiles	Equal Weight	While the Indian automobile sector has seen a significant improvement in demand and most categories are seeing good traction, the current lockdowns are expected to have an unfavorable impact on the demand scenario. Moreover, the rising input costs are wreaking havoc in the Auto companies with leading companies such as Maruti reporting margin disappointment. Auto companies do expect demand revival and many companies offer decent upside from the current levels. However, the sector remains a mixed bag for now as lower-than-expected volume may result in weaker-than-expected margins. We downgrade the sector to Equal Weight from Over Weight.
Banking and Financial services	Equal Weight	The BFSI outperformed the broader market from November to February as the COVID-19 challenges were less significant than anticipated and banks were better prepared. However, the re-imposition of lockdowns will have an impact on the banks. Even as Axis Bank and ICICI bank reported a good set of numbers, the economic challenges cannot be wished away and the banks will bear the brunt of the challenges. The pick-up in credit demand as the economy gradually recovery remains to be seen. We downgrade the sector to Equal Weight and remain watchful on the developments in the sector.
Capital Goods	Equal Weight	The sector attained normalcy at the end of FY21 with Q4FY21 being supported by a rise in the Gross Fixed Capital Formation. The government's Capex cycle continues to be robust while house registrations in the metro cities continue to witness strong traction. It is only a matter of time that the private Capex cycle will pick up which will aid the capital goods sector. We upgrade our stance on the capital goods sector to Equal Weight from the prior Underweight stance.
Cement	Equal Weight	The cement sector has had pricing power in Q4FY21 and managed to withstand tough times. We maintain our stance to Equal Weight as we foresee better pricing scenario evolving, moving ahead. Demand scenario is also picking up in the number of regions which has been a positive surprise. Overall, we find the cement sector has been able to cope better than expected. Hence, we maintain our outlook.

Sector Outlook (Cont'd)

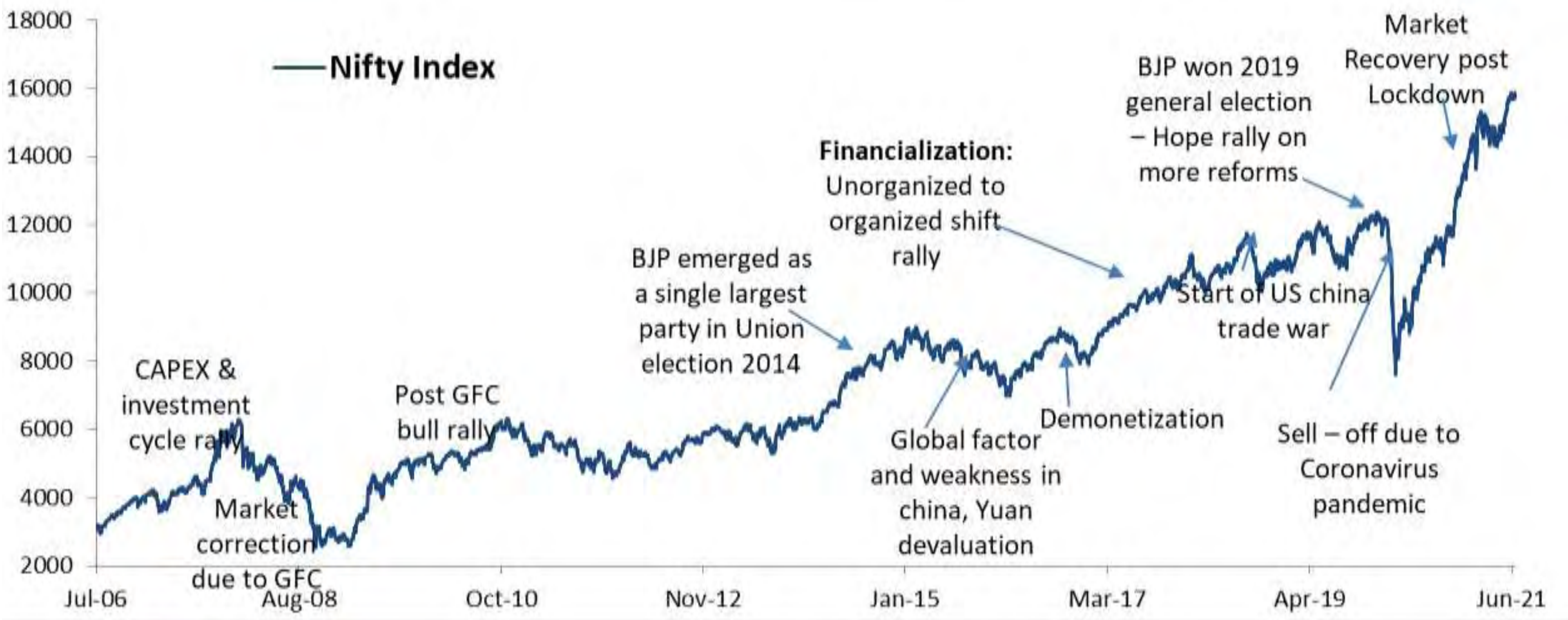
Sector	Current View	Outlook
Consumer staples	Equal Weight	The consumer staples sector witnessed a good demand recovery and posted solid top-line growth in Q4FY21. However, gross margin pressure was clearly visible due to RM headwinds. While the sector has strong earnings visibility and best-in-class return ratios, the expensiveness versus other sectors limits the upside as earnings visibility will improve across the board. We maintain the FMCG sector to Equal Weight.
Consumer Discretionary	Equal Weight	While the consumer discretionary space is witnessing a strong revival and many categories are normalizing, the current lockdowns are posing a serious challenge to the recovery. However, with recovery in the COVID-19 trajectory, the outlook of the sector is improving. We continue with the Equal Weight stance and remain watchful on the development in this space.
Information Technology	Over Weight	Large IT companies continued with a growth momentum in Q4FY21 led by strong deal closures and the in-line performance on the margins front. The sector is in a re-rating cycle and this trend is likely to persist over the medium term. The information technology space is marked by companies having strong balance sheets and play on the current trend of digitization. Even at current levels, the IT sector valuations are reasonable. Thus, we recommend an Overweight stance on the sector.
Metals and Mining	Over Weight	The Metals & Mining sector has seen a significant pricing uptrend with an improvement in the global scenario. This trend is likely to persist in the medium term and Metal stocks are likely to perform well. We upgrade the sector to Over Weight.
Oil and Gas	Equal Weight	Oil marketing companies benefited from the inventory gain and better GRMs in Q4FY21. OMCs delivered better performance overall. The sector's bottom line is likely to stay stable on account of higher crude prices and the likelihood of high refining margins due to improved balance on supply and demand. Upstream companies may surprise positively in the scenario of higher-than-expected crude prices. We upgrade the sector from Underweight to Equal Weight.

Sector Outlook (Cont'd)

Sector	Current View	Outlook
Pharmaceuticals	Equal Weight	Q4FY21 results were a mixed bag with a not-so-encouraging performance from the US business. Margins were strong but a large portion is factored in into the market prices. For the domestic formulation companies, cost-saving measures were the biggest driver in their Q4FY21 performance. We believe moderate recovery is likely to continue in domestic Pharma revenues while significant improvement in operating metrics is needed for further re-rating. We foresee risks to this and continue with an Equal Weight stance on the sector.
Real Estate	Equal Weight	The real estate sector is witnessing record registrations in the metro cities. Demand has picked up as real estate prices are low and interest rates are very attractive. The sector is likely to see more traction in 2021 and hence we upgrade real estate to an Equal Weight stance.
Specialty Chemicals	Over Weight	The specialty chemicals sector has been one of the sunrise sectors of the country. India has been gaining a global market share in this space leveraging its capabilities and supply chain realignment from China to India. We believe Indian companies would gain further ground as companies reduce 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 materials prices would also support margins and reduce working capital needs. However, input costs are a pass-through for most companies and benefits may be limited. Overall the specialty chemicals industry is likely to continue to perform well in the medium term. 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 the businesses up and running. Even before the COVID-19 outbreak, the sector was seeing an improved pricing environment. 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.

Nifty Events Update: Range-Bound Performance in Jun'21

- The Indian equity market touched an all-time high of 15869 on 15th June, up 3% from the previous high on 15th Feb. Multiple factors are driving the market including a) Downward trajectory of Covid-19 cases, b) Robust Q4FY21 performance, c) Unlock trade, and d) Positive global cues.
- The volatility index continues its downward trajectory. Currently, VIX is trading below 14 level vs. the long-term average of 22, indicating a positive setup for the market with limited downside. If VIX continues to head southward, it will trigger a further rally in the broader market.
- The vaccination drive has picked up in Jun'21 vs. vaccine shortages in the month of May'21. In our opinion, vaccinating a significant part of the population will take ~5 to 6 months.



Lifetime high: 15,869 on 15th June

Broad based rally in June:

Benchmark up by 1% while Midcaps/Small caps up by 5%/6%

Source: Bloomberg, Axis Securities

Performance of Asset Classes

- Mid and Small Caps lead the show in the first six months of 2021
- The structural trend for the equity class continues to remain positive
- Top 3 Winners: Mid Caps/ Small Caps - 6 times

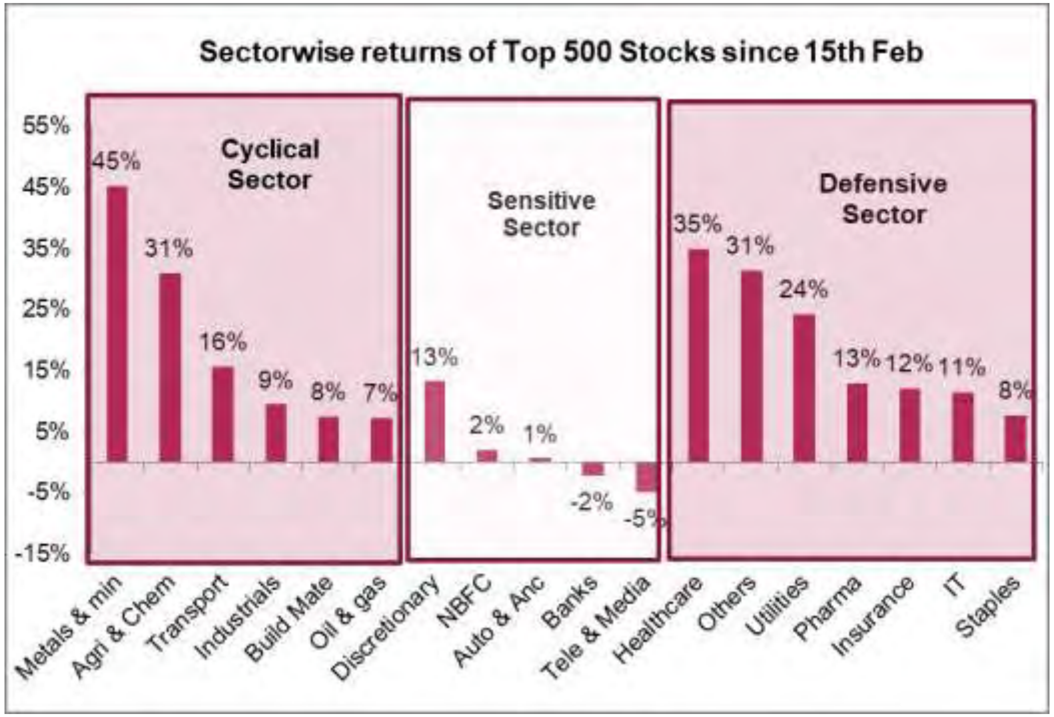
Yearly performance of Asset Classes (%)

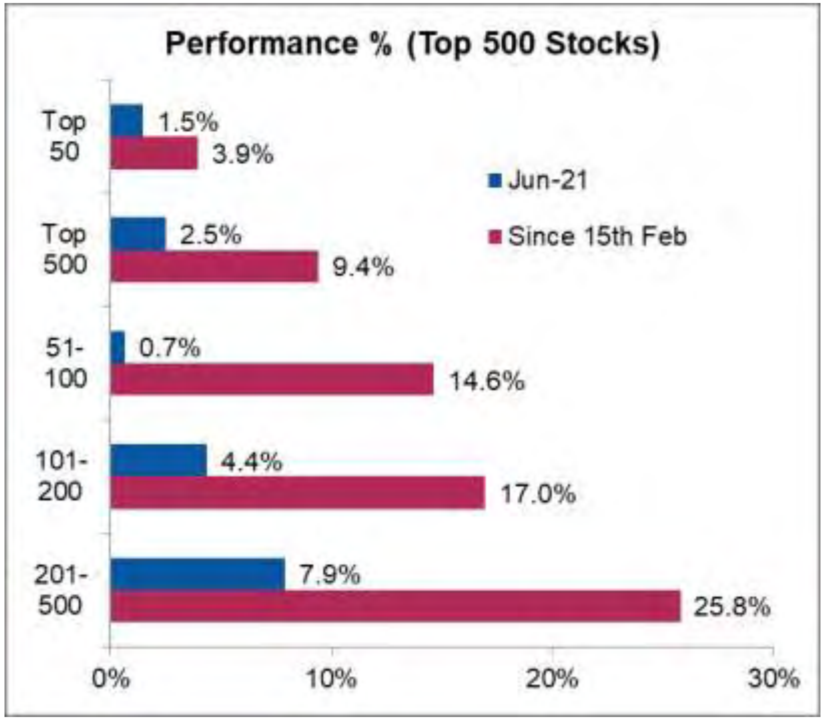
Rank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Jan-June 2021
1	MCX Gold: 32%	Midcap: 39%	S&P 500: 30%	Midcap: 56%	Crisil comp Bond: 9%	Crisil comp Bond: 13%	SmallCap: 57%	MCX Gold: 8%	S&P 500: 29%	MCX Gold: 28%	SmallCap: 37%
2	Crisil comp Bond: 7%	SmallCap: 37%	Nifty 50: 7%	SmallCap: 55%	SmallCap: 7%	EM Index: 10%	Midcap: 47%	Crisil comp Bond: 6%	MCX Gold: 25%	Midcap: 22%	Midcap: 29%
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: 14%
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: 12%
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%	EM Index: 7%
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%	Crisil comp Bond: 1%
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: -7%

Source: Bloomberg, NSE, Axis Securities

What Happened Since 15th Feb – BFSI And Auto Declined Significantly Amidst Volatile Period!

- The equity market scaled a record high of 15869 on 15th June, up by 3% from the previous high of 15314 on 15th Feb. Though the benchmark index scales a new high, the broader market has outperformed the Large Cap universe (top 50 stocks) by a significant margin during the same period. The stocks ranking from 201-500 rallied 17% since 15th Feb while Top 50 stocks were up by only 5% over the same period.
- As anticipated, the market positioning has slowly shifted towards Defensive and selective Cyclical plays which have outperformed the Sensitive sectors' play since 15th Feb. The BFSI and Auto have been the laggards in the current rally owing to challenges posed by the second wave. However, barring Q1FY22, the outlook for these remains positive as the emergence of visibility in sectors may provide significant alpha, moving forward.





Source: Bloomberg, Axis Securities

What Happened Since 15th Feb: Nifty Recovered and is Trading At 3% Above its Previous High!

- Since 15th Feb, a broader market rally was visible across the sectors. Even as the benchmark index is already crossed the previous high for the same period, 80% (398) companies out of the Top 500 companies had given a positive return since 15th Feb. Almost 100 companies have been corrected and given a negative return from the Nifty top level.
- Most of the correction was visible in the NBFC, Auto, and Discretionary space while positive momentum continued in the IT, Healthcare, Pharma, Agri, and Metal space. More than 90% of the PSU universe is up from the 15th Feb levels.

Showcasing no of stocks for different price returns from 15 Feb'21 to 30 Jun'21 for top 500 companies

Sector	No of Stocks	>0%<20%	>20%<50%	>50%	<0%
Agri&Chem	35	6	21	7	1
Auto &Anc	34	14	4	0	16
Banks	28	8	2	4	14
Build Mate	34	17	8	2	7
Discretionary	46	16	12	2	16
Healthcare	46	19	16	2	8
Industrials	47	22	16	5	4
IT	23	8	6	8	1
Metals & min	21	5	5	11	0
NBFC	56	23	11	4	18
Oil & gas	13	7	4	0	1
Others	51	15	22	8	6
Staples	27	15	7	3	2
Tele & Media	16	6	2	1	7
Transport	11	4	5	1	1
Utilities	12	5	4	3	0
Total	**500**	**190**	**145**	**61**	**102**
Large cap	**100**	**50**	**19**	**4**	**27**
Mid cap	**150**	**51**	**48**	**11**	**37**
Small cap	**250**	**89**	**78**	**46**	**38**
PSUs	**55**	**24**	**14**	**13**	**4**

Source: Bloomberg, Axis Securities

Where Are We In The Current Rally?

- **Previous Bull Run in the Mid Caps and Small Caps was seen during 2017 wherein the broader market has traded at all-time high levels. During this time, Mid Caps traded at a 45% premium to Large Caps. However, this was followed by prolonged weakness in Mid Cap and Small Cap universe for 2018 and 2019.**
- **The broader market regained flavor in the second half of 2020 and the performance has continued in 2021. In the first half of 2021, the broader market has emerged as the show's topper.**
- **We conducted a 52W-high comparison of the current market rally with a 52W-high during 2017. This led us to an interesting observation that the 52W high of 184 stocks is still below the higher levels seen in CY17. The majority of the stocks are under Mid and Small Cap universe, indicating more legroom to this broader market rally.**

52-Week high comparison of Top 500 stocks (Current vs. during 1st Jan 17 to 31st Dec 17)

Sector	No of Stocks	>0%<20%	>20%	>-30%<0%	<30%
Agri & Chem	35	2	20	6	4
Auto &Anc	34	5	10	14	4
Banks	28	2	6	4	14
Build Mate	34	4	17	8	4
Discretionary	45	2	25	7	7
Healthcare	46	5	30	9	0
Industrials	47	8	15	10	7
IT	22	0	17	2	2
Metals & min	21	2	9	5	4
NBFC	55	2	22	10	13
Oil & gas	13	2	3	2	5
Others	53	7	27	10	5
Staples	27	1	17	5	4
Tele & Media	16	2	4	3	7
Transport	11	3	3	3	1
Utilities	12	1	5	4	1
Total	**500**	**48**	**230**	**102**	**82**
Large cap	**100**	**8**	**63**	**12**	**13**
Mid cap	**150**	**15**	**75**	**27**	**21**
Small cap	**250**	**25**	**92**	**62**	**48**

Source: Bloomberg, Axis Securities

Top 500 stock performance

- The market cap of top 500 stocks has risen 54% YoY to Rs 209 Tn for the first time in Jun'21 vs. 97.4 Tn on 23rd Mar'20.
- Metal stocks' Mcap is up by 136% since the last one year.

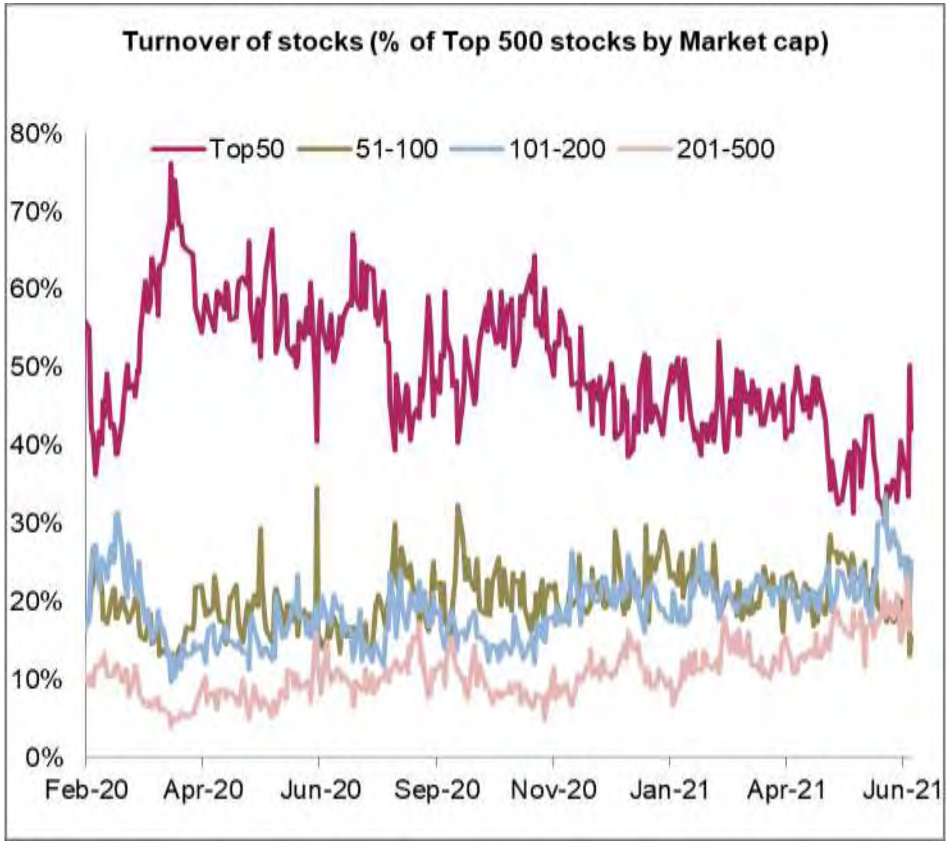
	No of companies	Sectoral market cap of Top 500 stocks in Tn as of										YoY Chg (%)
		Dec'19	31-01-2021	20th Feb	Mar'20	Jan'21	Feb'21	Mar'21	Apr'21	May'21	Jun'21	
Banks	35	24.9	23.9	23.7	13.8	24.0	27.7	26.6	26.1	28.4	28.3	60%
IT	23	16.6	16.7	17.2	12.1	25.5	24.4	26.5	26.0	27.3	29.3	72%
Oil & gas	15	16.0	14.9	15.3	9.4	17.2	19.5	18.8	18.7	20.4	20.2	27%
NBFC	49	14.2	14.3	15.2	8.2	14.4	16.0	15.8	15.9	16.9	17.4	66%
Staples	27	13.8	14.1	14.4	11.1	14.8	14.3	15.5	15.1	15.7	16.1	10%
Discretionary	49	9.8	10.2	11.0	7.3	11.9	12.4	12.9	12.7	13.9	14.5	56%
Auto &Anc	36	9.4	9.3	9.0	5.5	11.2	11.8	11.6	11.3	12.3	12.5	58%
Pharma	35	6.7	6.9	7.2	5.6	9.8	9.6	9.7	10.6	11.0	11.4	35%
Industrials	47	6.2	6.4	6.1	3.8	7.0	8.1	8.1	8.0	8.7	8.8	76%
Build Mate	33	5.6	6.1	6.0	3.8	6.7	7.7	8.3	7.9	8.4	8.5	70%
Metals & min	20	5.6	5.2	5.2	3.1	6.0	7.3	7.4	9.1	9.7	9.7	136%
Tele & Media	18	4.0	4.4	4.6	3.1	4.5	4.6	4.3	4.4	4.5	4.6	-5%
Insurance	6	4.2	4.2	4.0	2.2	4.0	4.2	4.2	4.3	4.4	4.6	24%
Utilities	12	4.0	3.9	3.9	2.7	5.1	6.1	6.4	6.4	7.5	7.2	106%
Others	45	3.2	3.5	3.6	2.1	4.5	5.3	5.5	5.8	6.3	6.8	116%
Agri & Chem	30	3.2	3.4	3.5	2.3	3.9	4.2	4.5	4.7	5.1	5.4	63%
Transport	12	1.2	1.2	1.2	0.7	1.2	1.4	1.4	1.4	1.6	1.6	80%
Healthcare	8	0.7	0.8	0.8	0.6	1.2	1.2	1.3	1.4	1.5	1.7	122%
Total	**500**	149	150	152	97	173	186	189	190	204	209	54%

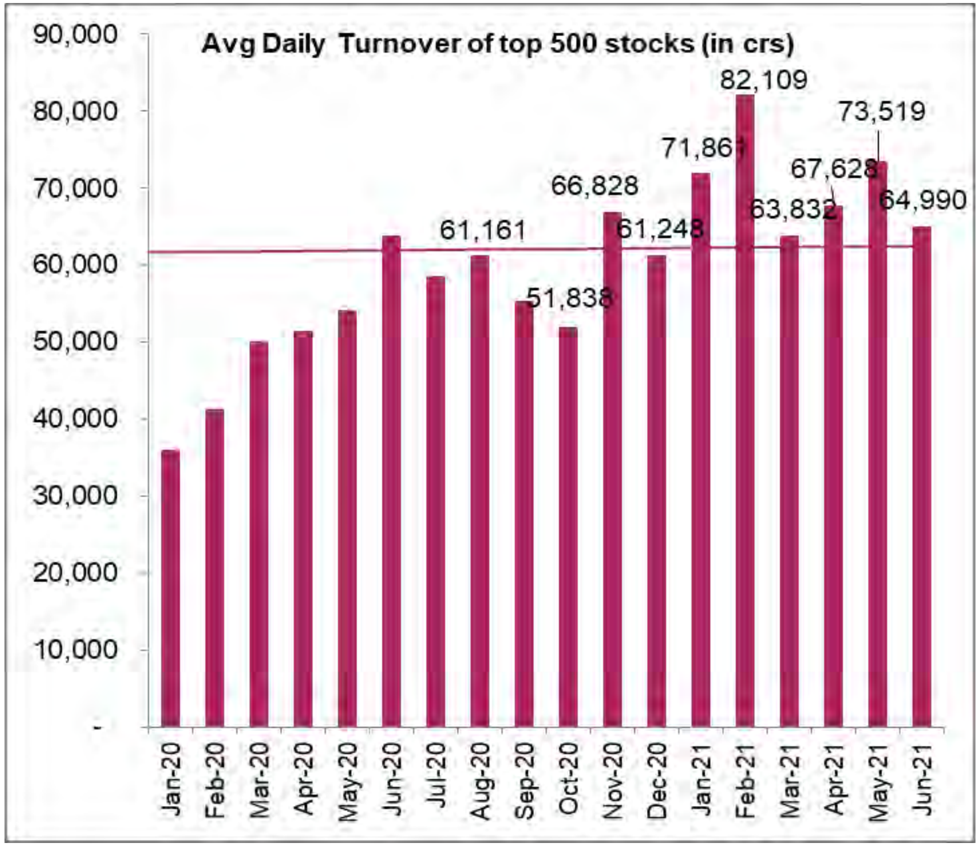
Source: Bloomberg, Axis Securities

Market Turnover (% of top 500 Names)

Market turnover of the Top 50 stocks has been reducing and being consistently below 50% since 1st November, implying broader market participation.

Healthy Turnover: Average daily turnover of the top 500 companies is continuously increasing and has touched a new high of 82,000 Cr in Feb’21. However, turnover reduced to ~67,600 Cr in Apr’21 on account of higher volatility but reclaimed the mark of 73,000 Cr in May’21 due to broader market participation. Jun’21 Turnover is maintained above its long-term average at 65,000 Cr.

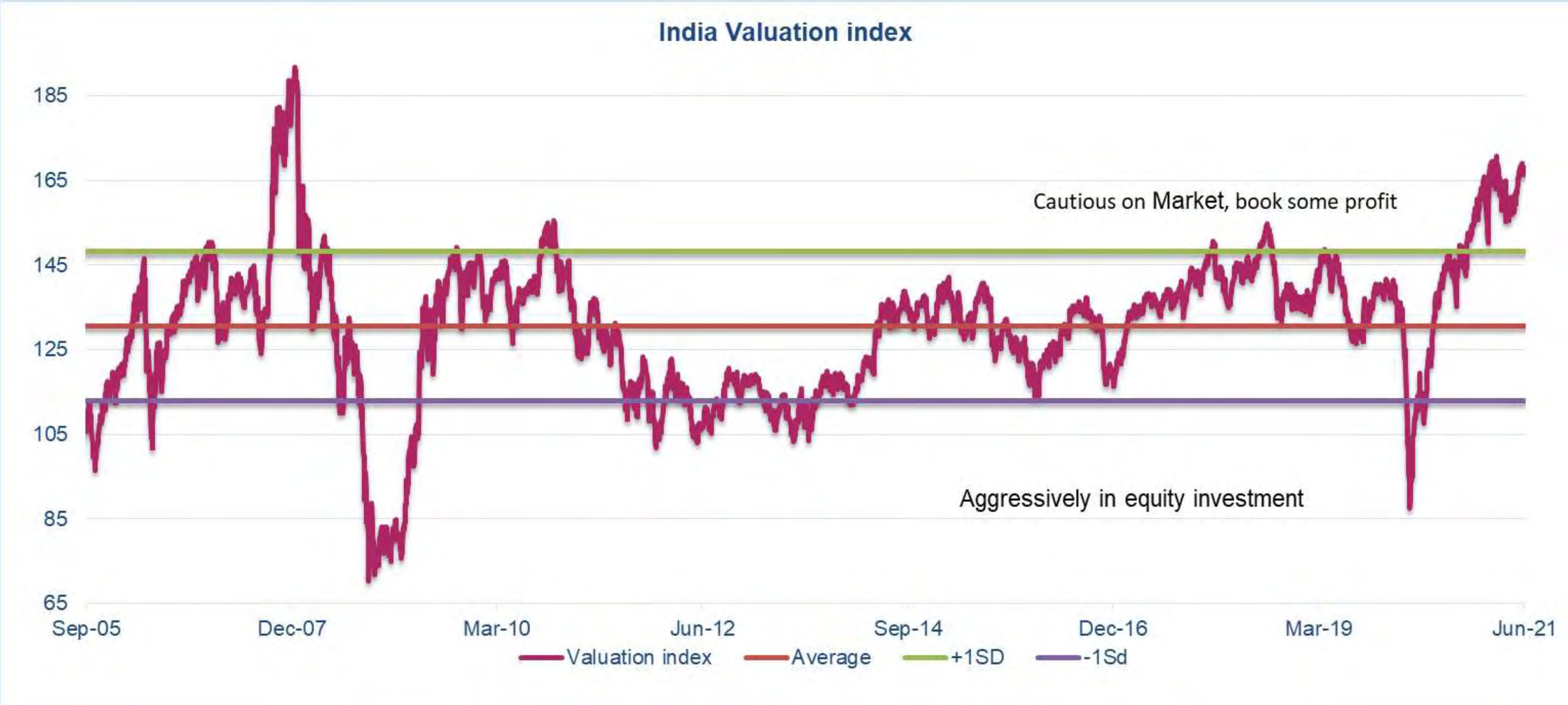




Source: Bloomberg, Axis Securities

India Valuation Index: Retracing Back To Cautious Zone after the Recent Run-Up but Earnings Upgrades More Critical

Our Market valuation index has retraced back to the cautions zone after the recent run-up (earlier seen in 2018). The index value was one standard deviation below its long-term average in Mar'20, meaning one should have aggressively invested in the Equity. However, current levels indicate some profit booking in the market (especially Large Caps). Stock-picking and Sector Rotation are keys at the current levels to achieve outperformance. The calculation of the India valuation index is based on four fundamental market parameters (12m fwd PE, 12m fwd PB, Bond Equity Earning yield ratio, and Mcap to GDP ratio).

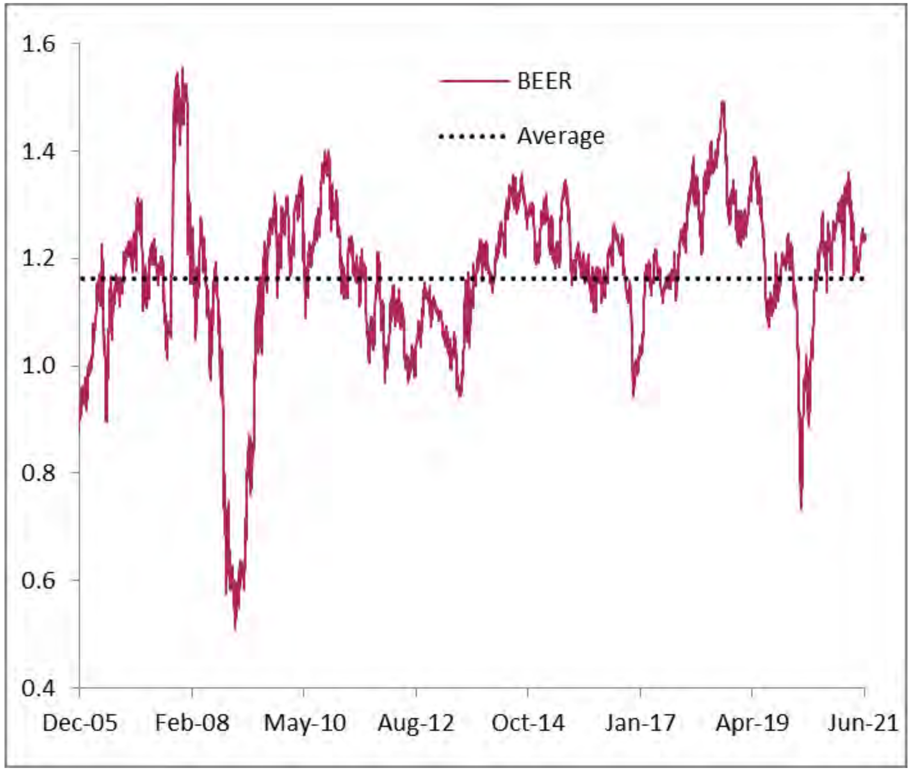


Source: Bloomberg, Axis Securities

Two Fundamental Ratios Are Trading Slightly Above Their LTA after A Recent Run-Up

BEER: With the recent rollover of earnings, the BEER ratio is trading slightly above its LTA which indicates the stock market is slightly expensive at the current level as against the bond market.

India's total market cap to GDP is trading at 118%; above its long-term average. The current Mcap is 11%/21% above the 15th Feb/ 1st Jan levels, indicating a broader market rally. Currently, we are entering into a positive earnings momentum cycle after a sharp downgrade seen in the earlier quarters. Historically, similar upward earning momentum was seen for FY10 earnings immediately after the GFC crisis, which took a market cap to GDP to the range of 95-98%. With this positive earnings momentum in the current cycle, it is likely to see higher levels of Mcap to GDP in the upcoming quarters.

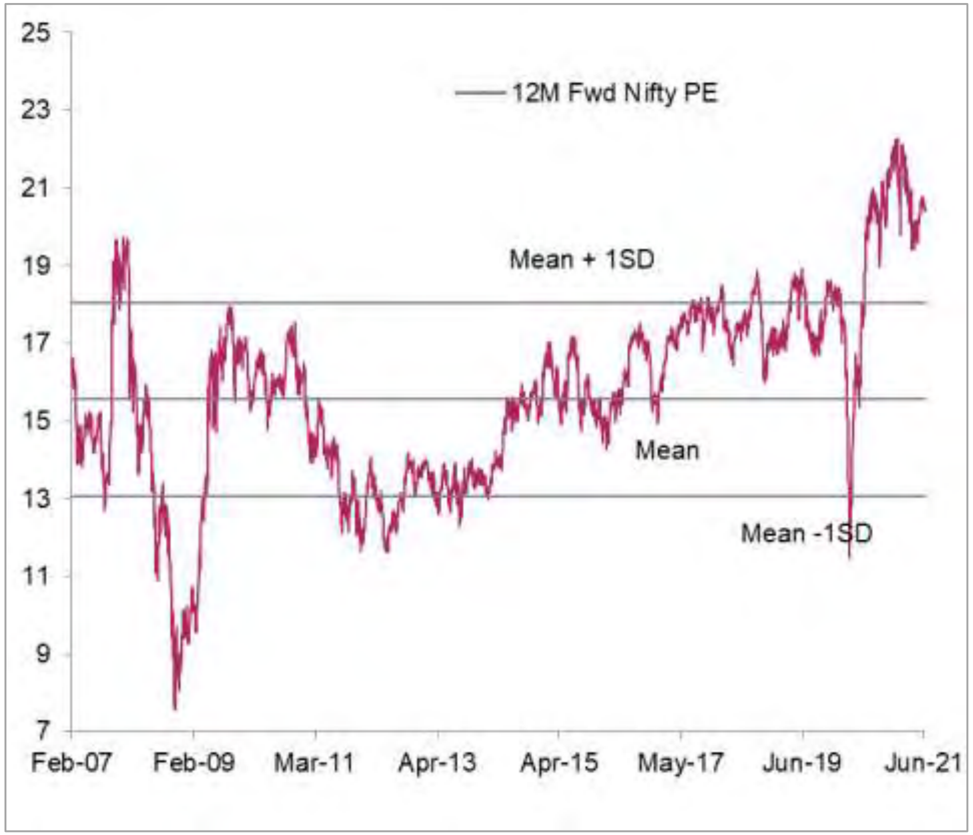


Source: Bloomberg, Axis Securities

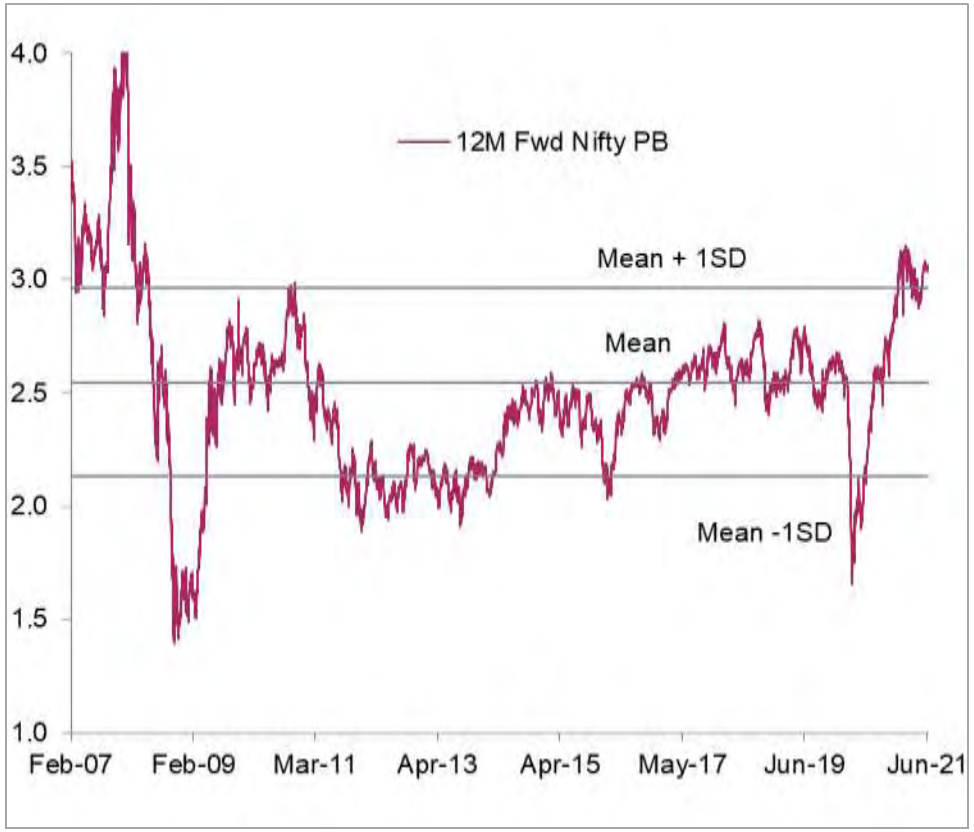
Market Valuations: With Rollover in FY22, 12m Fwd PE Is Now Trading At 20x

- **Nifty** is currently trading at 20.4x on 12m fwd PE, 2 std above its long-term average while it is trading 1.0 std on 12m Fwd PB.
- **The top 10** are trading at 24.0x while the remaining 40 are trading at 18.0x on 12m forward PE.

Nifty 12m Fwd PE



Nifty 12m Fwd PB



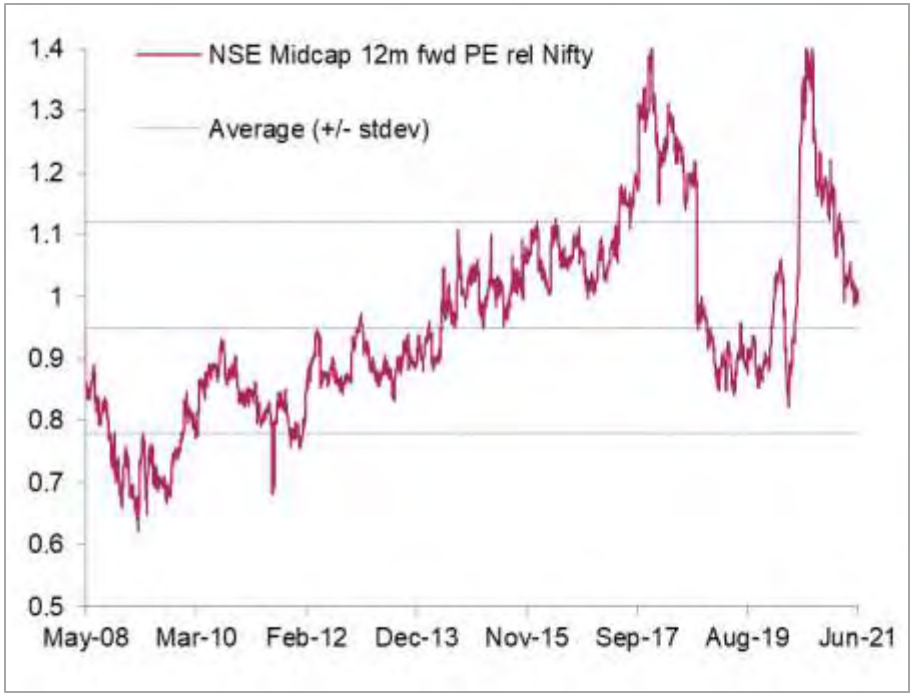
Source: Bloomberg, Axis Securities

Mid-Caps Look Attractive: Rollover in FY22 Brings Mid-Caps at 1% Premium to Large Caps

From a valuation perspective, the Mid-Caps look attractive against the Large Caps. Historically, Mid-Caps traded at a 45% premium to Large Caps during the bull phase of 2017. The recent spate of IPOs and their successes clearly indicate the appetite for Mid and Small Cap stocks. Our case for two-year-rolling returns indicates the market has turned in favor of Small and Mid-Cap stocks which are more reasonably valued and offer greater upside potential.

Since November, Small and Mid-Caps are picking up steam and are expected to deliver excellent returns in 2021 as economic uncertainties reduce and volatility declines.

NSE Mid Cap rel. Nifty 12m fwd PE



NSE Midcap rel. Nifty 12m Fwd PB

Source: Bloomberg, Axis Securities

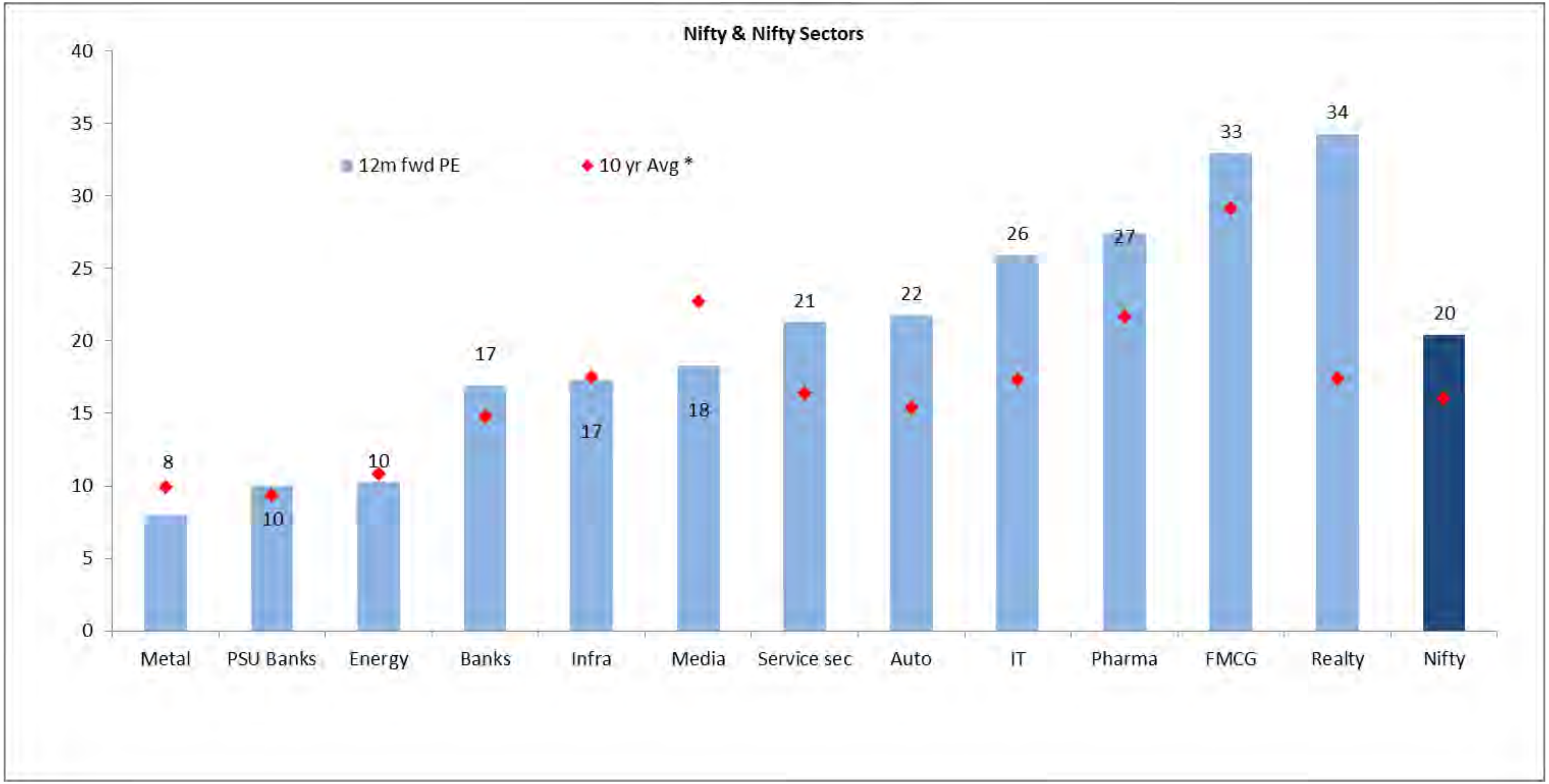
Mean Reversion in Rolling Returns: Midcaps and Small Caps Are Chasing Large Caps

Since Jan'20, we have seen mean reversion in the two–years-rolling returns of Mid-Caps and Small Cap relative to Nifty 50. The broader market has started outperforming after the new SEBI guidelines on Multicap schemes. On expected lines, broader market outperformance has continued in the first six months of 2021 in which Small Cap stocks have outperformed the Large Cap ones. **In Jun'21, the Nifty Small Cap and Mid Cap universe outperformed the Large Cap by a significant margin. The broader market looks attractive at current levels and the sector rotation will play a crucial role in generating alpha in the near term.**

Source: Bloomberg, Axis Securities

Nifty and Sectors

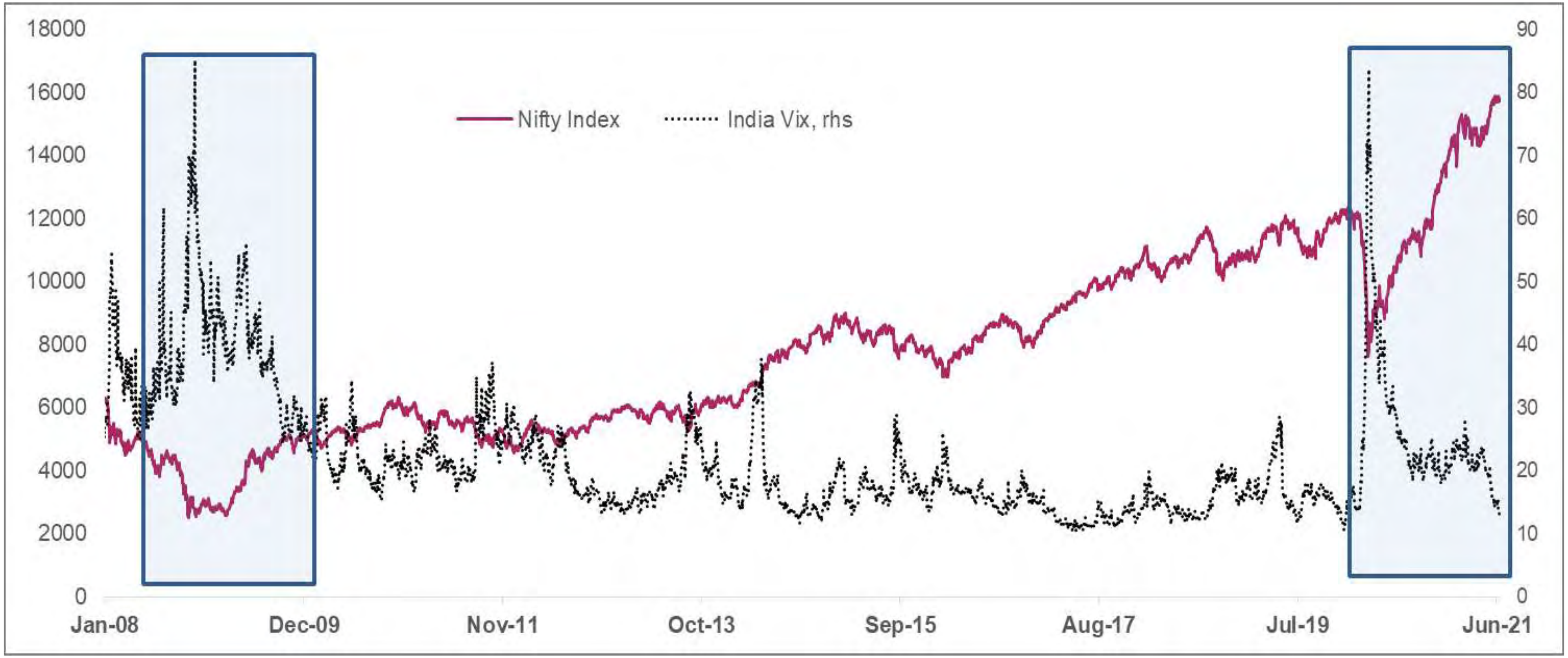
- PSU banks, Energy, and Metal Index provide valuation comfort at the current levels. Valuations for the IT, Pharma, and Auto sector are expensive. IT sector valuations are likely to persist on account of the strong structural theme emerging.



Source: Bloomberg, Axis Securities

India's Nifty Index Vs. VIX: Lead Indicator Of Volatility Is Trending Below To Long Term Average

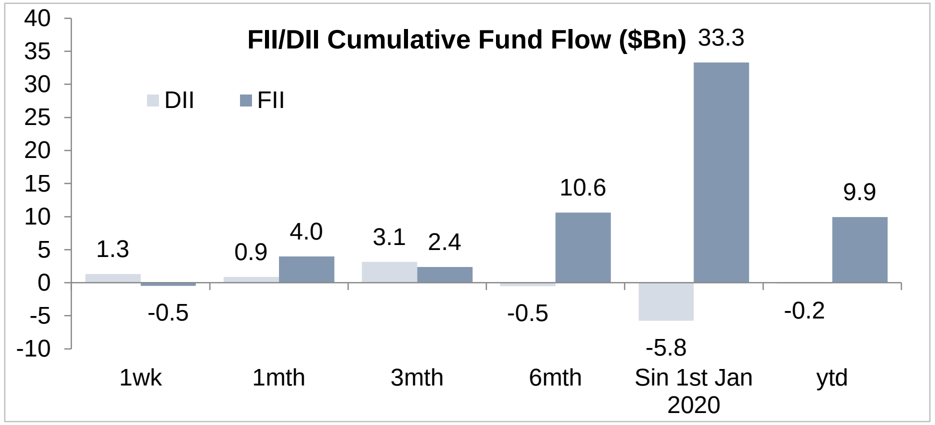
- Volatility has significantly reduced in the last three months. The volatility index is continuing with its downward trajectory. Currently, VIX is trading below 14 level vs. the long-term average of 22, indicating the positive setup of the market with limited downside. If VIX continues to head southward, it will trigger a further rally in the broader market.
- During the first phase of lockdown last year, the VIX index had touched the panic level of 80.

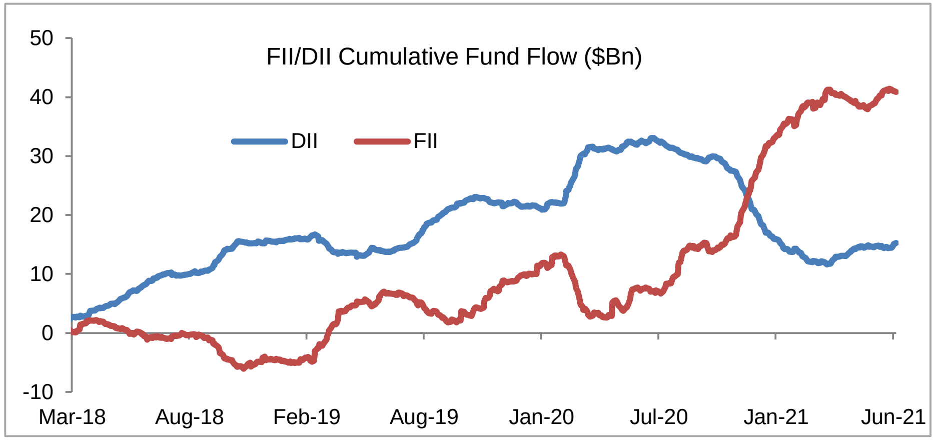


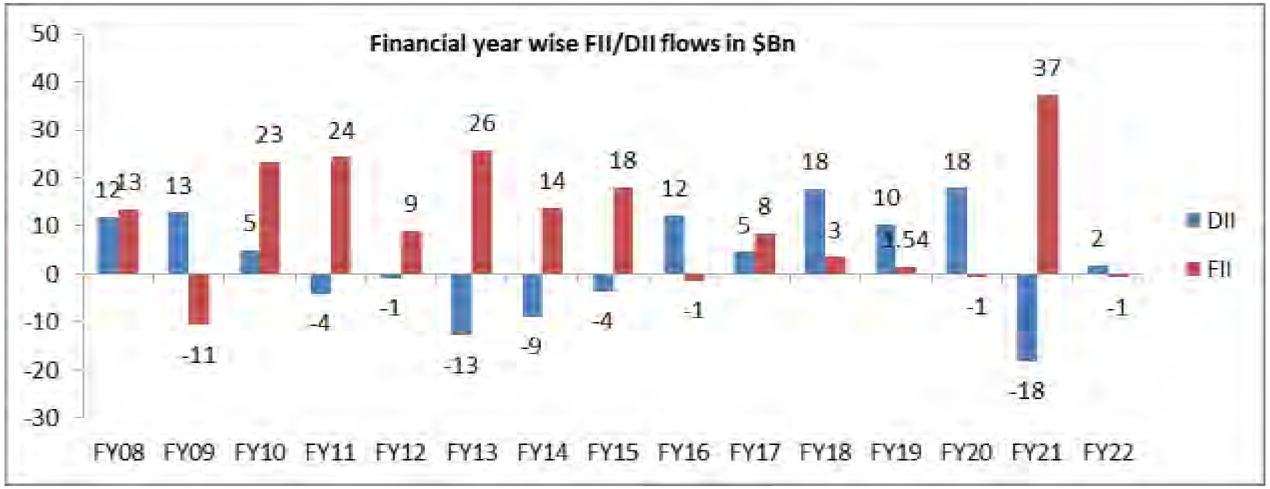
Source: Bloomberg, Axis Securities

Both FII/DIIs Are the Net Buyer in The Last One Month

FIIs added 4.0 Bn USD and DII have added 0.9 Bn USD in the last one month. Since Jan'20, FIIs have bought a massive amount of US$ 33.3 Bn while the DIIs have sold US$ 5.8 Bn from the Indian equity market. The **Highest-ever FII inflows were seen in the FY21 at US$ 37 Bn, higher than FY10/FY11/FY13 levels.**







Source: Bloomberg, Axis Securities

India Starts Outperforming: Small and Mid Caps Lead The Show In 1m

In the last 2 months, the Indian market has played a catch-up rally with the global market as the COVID 2.0 trajectory seemed to head southward, thanks to localized and partial lockdowns. However, the trajectory post-economic re-opening remains to be seen. Earnings season has turned out positive on an expected line and the Metal and Commodity stocks have reported solid numbers. However, concerns on margins due to RM headwinds were clearly visible in the Auto and FMCG sectors. **All the sectoral indices, except the BFSI and Energy, closed in green where the rally in Small and Mid Cap companies has continued in Jun'21.**

Positive Near term Outlook for IT, Pharma, Telecom, Consumer Staples, Rural, and Export themes

Improving Outlook: Discretionary

Mixed bag: BFSI and Auto

Well placed: Metals, Commodities-linked stocks, and Selective Cyclical (Cement)

National Index						
Index Performance (%)	1m	3m	6m	2019	2020	FY2021
Nifty 50	0.9%	5.9%	12.4%	12.0%	14.9%	78.0%
Nifty Next 50	2.2%	13.0%	18.6%	0.5%	14.8%	65.4%
Nifty 500	2.0%	8.8%	17.1%	7.7%	16.7%	82.1%
Nifty Midcap 100	4.7%	14.2%	30.0%	-4.3%	21.9%	106.5%
Nifty SmallCap 250	6.3%	22.2%	39.4%	-8.3%	25.1%	119.3%
Sector Index (%)	1m	3m	6m	2019	2020	FY2021
NIFTY AUTO	1.4%	7.5%	15.7%	-10.7%	11.5%	111.8%
NIFTY BANK	-1.6%	2.6%	11.1%	18.4%	-2.8%	82.9%
NIFTY COMMODITIES	0.9%	14.8%	34.8%	0.0%	10.7%	100.8%
Nifty Financial Services	-1.2%	2.5%	8.4%	25.6%	4.5%	75.7%
NIFTY ENERGY	-0.8%	7.6%	17.0%	11.0%	6.4%	68.8%
NIFTY FMCG	2.4%	4.4%	5.2%	-1.3%	13.5%	32.5%
NIFTY IT	7.5%	11.7%	19.9%	8.4%	54.9%	114.6%
NIFTY INFRA	0.2%	5.7%	18.3%	2.5%	12.2%	79.0%
NIFTY MEDIA	1.7%	16.2%	10.1%	-29.7%	-8.6%	54.3%
NIFTY METAL	1.8%	31.6%	61.4%	-11.2%	16.2%	156.0%
NIFTY PHARMA	1.8%	17.2%	11.6%	-9.3%	60.6%	74.7%
NIFTY PSU BANK	4.4%	18.3%	43.0%	-18.3%	-30.6%	68.2%
Nifty Private Banks	-1.2%	1.1%	6.0%	16.2%	-2.9%	83.4%
NIFTY REALTY	2.9%	4.7%	10.9%	28.5%	5.1%	94.2%
NIFTY SERV SECTOR	1.3%	4.8%	11.7%	16.9%	12.5%	81.4%

International Index						
Index Performance (%)	1m	3m	6m	2019	2020	FY2021
Shanghai Comp	-0.9%	3.9%	5.2%	22.3%	13.9%	25.9%
Bovespa	-0.7%	9.0%	7.0%	31.6%	2.9%	64.3%
Russia	2.5%	13.2%	19.2%	44.9%	-10.4%	49.5%
south africa	-3.9%	-2.1%	10.3%	8.8%	7.0%	52.1%
Korea	2.3%	7.4%	14.7%	7.7%	30.8%	81.6%
Mexico	-0.4%	5.8%	15.2%	3.6%	5.0%	50.1%
Indonesia	0.6%	-1.4%	0.1%	1.7%	-5.1%	34.0%
Argentina	3.1%	30.9%	22.9%	37.6%	22.9%	89.5%
Japan	-0.1%	-2.2%	4.9%	18.2%	16.0%	61.5%
Hongkong	-2.2%	0.9%	6.2%	9.1%	-3.4%	22.9%
Philipines	4.1%	5.4%	-3.3%	4.7%	-8.6%	19.1%
Taiwan	3.5%	7.3%	20.9%	23.3%	22.8%	70.0%
Singapore	-1.8%	-1.9%	9.1%	5.0%	-11.8%	29.7%
Thailand	-1.9%	-0.1%	9.6%	1.0%	-8.3%	43.6%
Veitnam	5.3%	18.7%	28.3%	7.7%	14.9%	75.2%
Dow	-0.8%	3.7%	12.8%	22.3%	7.2%	57.5%
Nasdaq	5.8%	11.4%	12.9%	35.2%	43.6%	80.0%
FTSE 100 INDEX	-0.3%	4.2%	7.6%	12.1%	-14.3%	23.1%
DAX INDEX	0.0%	3.8%	13.5%	25.5%	3.5%	57.2%
CAC 40 INDEX	0.6%	7.3%	16.6%	26.4%	-7.1%	44.2%
S&P 500 Index	2.1%	8.4%	15.0%	28.9%	16.3%	60.8%

Source: Bloomberg, Axis Securities, Note: Data as of 30th June

Market Indicators

Precious Metal: Gold price reversed and are down by 7% in the last one month. It has seen pressure due to the strengthening of the dollar.

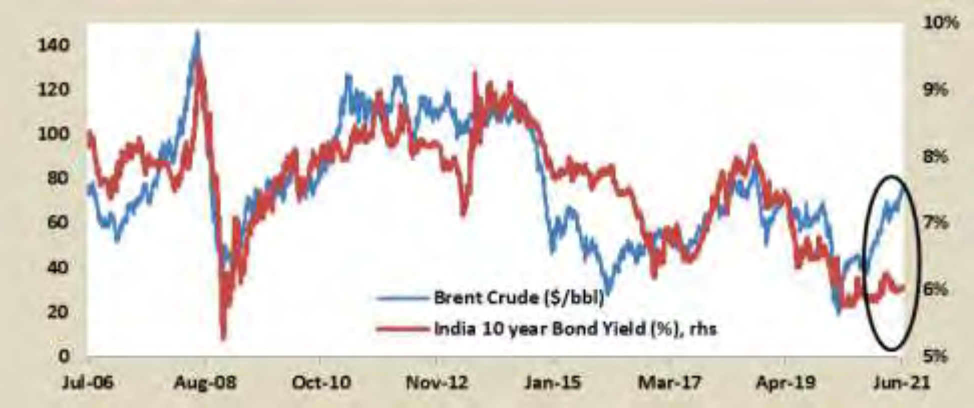
Commodities: Steel prices rallied by 34% while Copper is up by 19% in the last 6 months. However, steel prices have corrected by 2% in the last one month.

Crude: Brent crude has regained the level of $75/bbl on vaccine optimism and improved growth outlook for 2021. However, the gap between the crude prices and the 10-year bond yields have widened in recent months.

Market Indicator	30-06-2021	1m ago	3m ago	Dec-19	Dec-20	01-04-2021
Brent Crude ($/bbl)	75.4	70.3	64.1	66.0	51.8	63.5
Bond Yield (GOi 10Yr)	6.1	6.0	6.1	6.6	5.9	6.2
USD/INR	74.3	72.9	73.4	71.4	73.1	73.1
India Vix	13.0	17.4	20.5	11.7	21.1	20.6

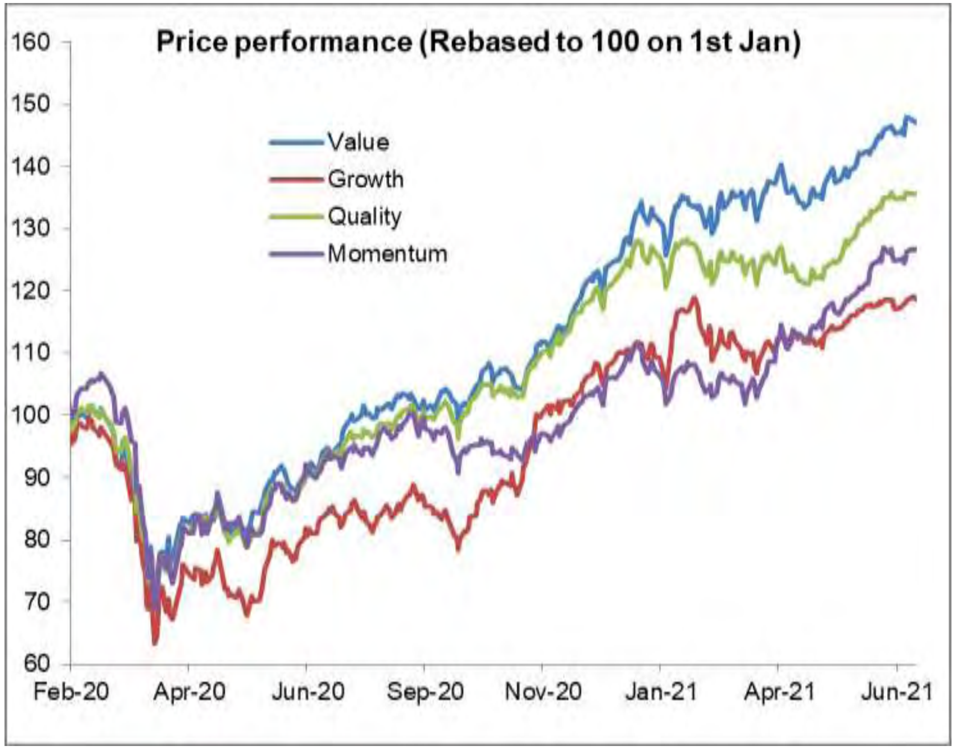
Commodity Index	1m	3m	6m	FY19	FY20	FY21
Gold ($/OZ)	-7.4%	4.5%	-7.1%	18.3%	25.1%	7.3%
Steel ($/ton)	-2.1%	20.4%	33.6%	-1.0%	41.2%	70.8%
Aluminium ($/ton)	2.3%	13.4%	26.2%	-3.7%	9.9%	51.2%
Copper ($/ton)	-9.0%	6.2%	18.9%	3.4%	26.0%	83.6%
Zinc ($/ton)	-3.9%	3.6%	6.4%	-8.7%	18.8%	51.7%

Source: Bloomberg, Axis Securities



Value Has Outperformed In the Last 6 Months

Value and Momentum are the best performers of the last six months while Quality was the laggard. Under COVID 2.0, fear of downgrades is again back in our expectations. In this scenario, Quality stocks are likely to take a lead and outperform in the near term. Moreover, selected value stocks under Metals, Commodity, and Cement space are well-placed to outperform. Value stocks in the BFSI space, which were the underperformers for the last couple of months, will likely outperform from hereon. Furthermore, a structural growth play that offers long-term earnings visibility will continue to do well even amidst this challenging environment.

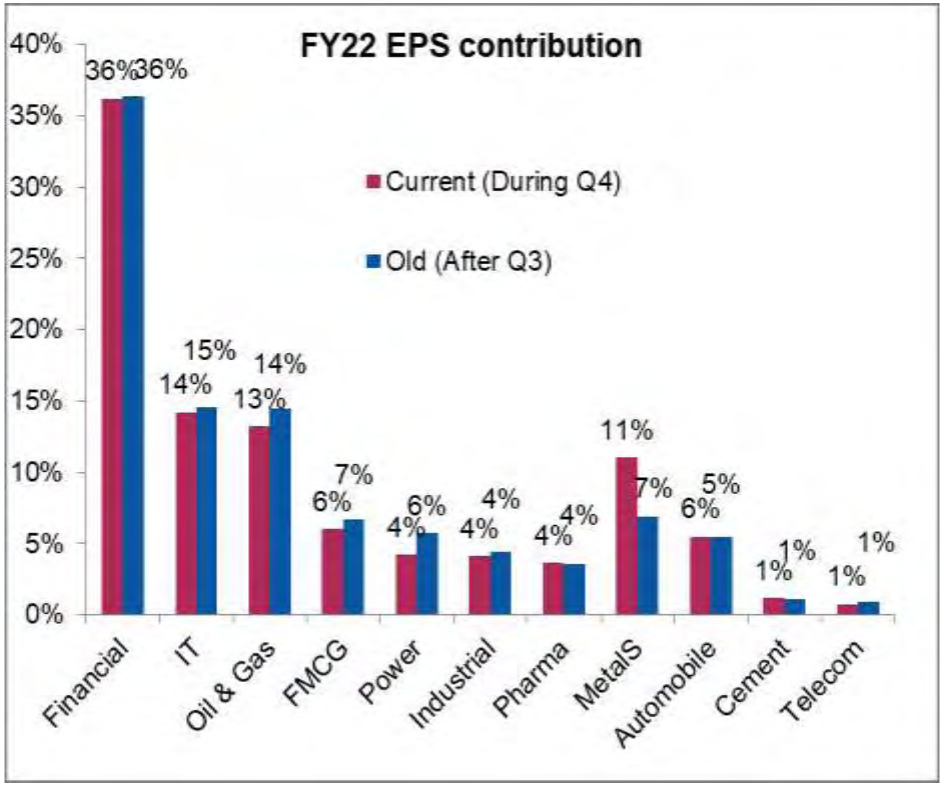


Source: Bloomberg, Axis Securities

	Performance (%)			
Perf	Value	Growth	Quality	Momentum
Till 23 Mar	-28.5%	-36.8%	-30.9%	-31.4%
Since 23 Mar	90.3%	76.4%	81.2%	55.1%
2020	24.9%	10.2%	22.6%	6.6%
1m	3.4%	1.0%	3.0%	4.6%
3m	8.2%	6.6%	8.4%	19.1%
6m	17.9%	7.9%	10.7%	18.9%

Nifty EPS: Upgraded the FY22/23 EPS By 8%, a growth of 31%/13% in FY22/23

In our COVID 2.0 scenario analysis report, we had cut the FY22/23 EPS by 6% under the scenario of the second wave. Q4FY21 earnings ended with a good note, led by strong corporate earnings in the cyclical sectors. The street has not yet fully factored in the demand loss of Q1FY22 in FY22 estimates but a stronger-than-expected earnings upgrade in the Metal sector has led the FY22/23 earnings to upgrade by 8% vs. our stress case scenario in COVID 2.0 report. Now, we see FY22/23 earnings at 698/792, a growth of 31%/13% in FY22/23 respectively. With an 8% in earnings upgrade, we are upgrading our Dec'21 target by 8% to 17,400 subsequently by valuing Nifty at 22x FY23 earnings (Earlier target was 16,100 in COVID 2.0 scenario analysis report).

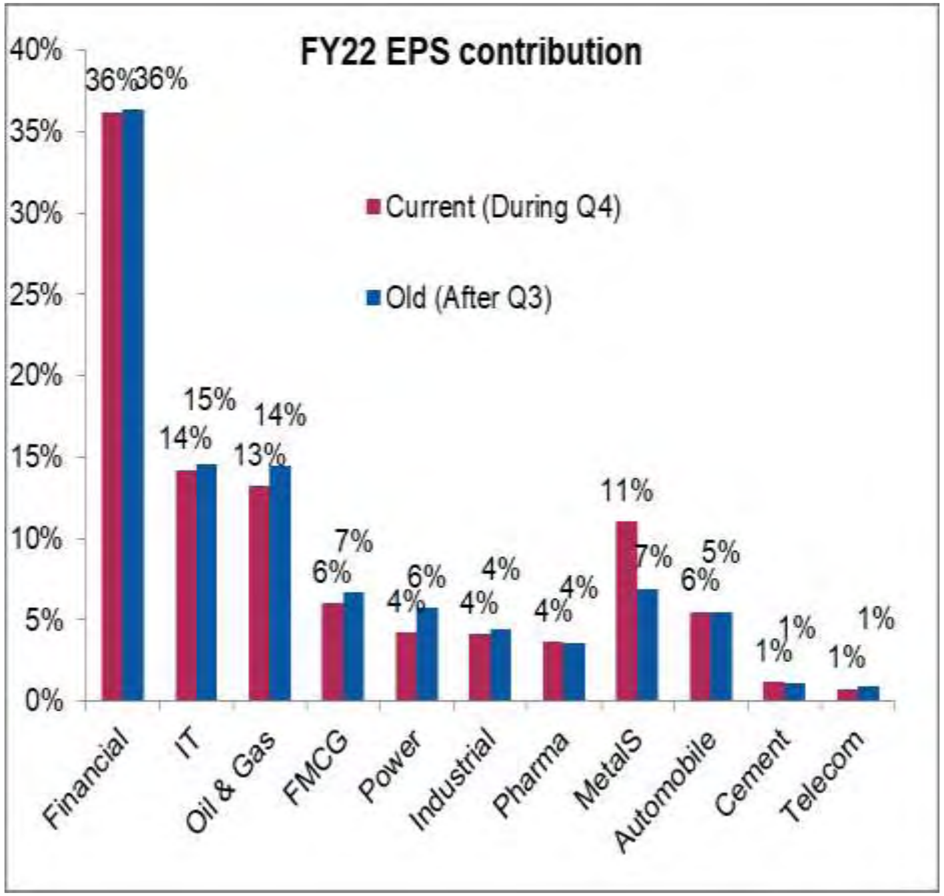


Sector	FY22 EPS After Q3	FY22 EPS In Covid 2.0 report	FY22 EPS After Q4	vs. Covid 2.0 report Chg	vs. Covid 2.0 report % chg
Financial	250	225	242	16.9	8%
IT	100	100	99	-0.9	-1%
Oil & Gas	99	94	93	-1.3	-1%
FMCG	46	41	46	4.7	11%
Power	39	35	33	-2.8	-8%
Industrial	31	27	29	1.3	5%
Pharma	24	27	25	-1.4	-5%
Metals	48	48	79	31.1	65%
Automobile	37	34	38	4.9	15%
Cement	7	7	8	0.6	8%
Telecom	6	6	5	-1.1	-18%
Total	688	646	698	52.0	8%

Source: Bloomberg, Axis Securities

Nifty EPS Contribution

Financials continues to be a dominating sector in Nifty EPS. The metal sector is contributing 11% in FY22 vs. 4% in FY20. Nifty FY22 earnings will be led by cyclical sectors



Source: Bloomberg, Axis Securities

	Nifty EPS			Yoy (22 vs. 21)	
Sector	**FY20**	**FY21**	**FY22**	**Chg**	**% chg**
Financial	167	202	242	40.2	20%
IT	82	84	99	15.5	18%
Oil & Gas	61	95	93	-1.8	-2%
FMCG	40	38	46	7.9	21%
Power	32	29	33	3.7	13%
Industrial	34	33	29	-4.2	-13%
Pharma	13	17	25	8.7	52%
Metals	18	34	79	44.8	132%
Automobile	7	12	38	26.9	232%
Cement	7	7	8	1.0	15%
Telecom	5	-15	5	20.6	-134%
Total	466	534	698	163.4	31%
%Growth		15%	31%		

Macro Indicators – March Reports Better-Than-Expected GDP Growth

- March quarter GDP grew at 1.6% YoY, higher than street expectation, indicating economic momentum strengthening in the quarter. With this expectation beat, FY21 GDP is now closed at -7.3%, far better than anticipated during the first phase of the pandemic. On expected lines, in the recent monetary policy, the RBI cut the FY22 GDP estimates by 100bps to 9.5% on account of a pause in economic momentum in Q1FY22 led by localized lockdowns and a sharp surge in COVID 2.0.
- Activities at E-way bill have improved sequentially in Jun'21 on account of restrictions relaxations across the states. Google mobility data is also suggesting sequential recovery. The vaccination drive has picked up in Jun'21 vs. vaccine shortages in the month of May'21. In our opinion, vaccinating a significant part of the population will take ~5 to 6 months.
- April IIP has surged over 100%, mainly due to a low base of last year. While the IIP growth number seems optically high, production is actually equivalent to Apr'19 levels.
- May CPI rose to 6.3% vs. 4.2% in Apr'21. This higher CPI number led by a mix of global commodity prices and local supply-side disruption. There is potential for improvement in supply for oil commodities as vaccination progress pushes normalcy in supply conditions around the world.

Source: Bloomberg, Axis Securities

ICICI BANK – WELL-POSITIONED FOR GROWTH

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

Industry view

Equalweight

CMP
631

Target Price
750

Upside
19%

Key Rationale

- **Healthy traction in loan book/deposits:** In Q4FY21, overall loan book grew by 14% YoY with domestic loan book growing at 18% YoY. Within domestic loans, Retail/Corporate/SME book grew by 20/10/33% respectively, while Liability franchise remained strong with a deposit growth of 21% YoY. Headline CASA ratio improved to 46% from 45% QoQ.
- **Comfort on asset quality:** With NPA standstill over in Q4FY21, ICICIBC reported asset quality improvement on a like-to-like basis. The bank remains comfortably placed with high PCR of 78% and adequate Tier 1 (18.1%) to absorb any asset quality hiccups. Fresh slippages stood lower at Rs 5,520 Cr as against Rs 7,340 Cr pro-forma slippages in Q3FY21. In addition to the reported PCR, the bank is carrying an additional provision of Rs 7,475 Cr (~1% of loans).
- **Operational performance strengthening:** Reported NIM increased from 3.67% to 3.84% on a QoQ basis, driven by a decline in the cost of funds.

Key Rationale

- **Outlook:** The management expects the NIM to be steady as interest reversals decline and excess liquidity is utilized with growth picking up. Asset quality is likely to strengthen considering adequate provisioning and stable credit costs QoQ. Slippages and restructuring levels have tapered down and indicate a better asset quality going forward.
- **Valuation:** Higher loan growth, improving operating profits, strong provision buffer coupled with strong deposit franchise will help ROAE/ROAA expansion over FY22-23E. Valuation-wise, we believe the bank has further scope for expansions vis-à-vis its peers. We maintain a Buy on the stock with a revised target price of Rs 750/share (SOTP basis core book at 2.4x FY23E and Rs 169 Subs. Value), implying an upside potential of 17% from CMP
- **Key risks:** a)Significant deterioration in retail asset quality b) Delay in the resolution of stressed assets

Key Financials (Standalone)

Y/E Mar (Rs Cr)	NII (Rs)	PPOP (Rs)	PAT (Rs)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY20	33,267	28,101	7,931	12.3	144.7	3.7	0.8	1.5
FY21P	38,989	36,397	16,193	23.4	181.3	2.9	1.4	1.2
FY22E	45,548	39,803	20,177	29.2	205.8	2.4	1.5	1.2
FY23E	52,243	46,441	25,763	37.2	236.7	1.8	1.7	1.2

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY20	FY21P	FY22E	FY23E
Net Interest Income	33,267	38,989	45,548	52,243
Other Income	16,449	18,969	19,881	22,941
Total Income	49,716	57,958	65,429	75,185
Total Operating Exp	21,614	21,561	25,626	28,744
PPOP	28,101	36,397	39,803	46,441
Provisions & Contingencies	14,053	16,214	12,351	11,626
PBT	14,048	20,183	27,452	34,814
Provision for Tax	6,117	3,990	7,275	9,052
PAT	7,931	16,193	20,177	25,763

Source: Company, Axis Research

Balance Sheet (Rs Cr)]

Y/E March	FY20	FY21P	FY22E	FY23E
SOURCES OF FUNDS				
Share Capital	1,295	1,383	1,383	1,383
Reserves	1,15,206	1,46,126	1,64,089	1,87,025
Shareholder's Funds	1,16,501	1,47,509	1,65,472	1,88,408
Total Deposits	7,70,969	9,32,522	10,95,793	12,92,331
Borrowings	1,62,900	91,631	1,00,561	1,16,353
Other Liabilities & Provisions	47,995	58,770	62,184	68,395
Total Liabilities	10,98,365	12,30,433	14,24,011	16,65,487
APPLICATION OF FUNDS				
Cash & Bank Balance	1,19,156	1,33,128	1,33,607	1,56,604
Investments	2,49,531	2,81,287	3,47,073	4,03,676
Advances	6,45,290	7,33,729	8,54,524	10,07,788
Fixed Assets	8,410	8,878	9,321	9,788
Other Assets	75,978	73,411	79,485	87,630
Total Assets	10,98,365	12,30,433	14,24,011	16,65,487

Source: Company, Axis Research

Valuation ratios (%)

Y/E March	FY20	FY21P	FY22E	FY23E
EPS	12.3	23.4	29.2	37.2
Earnings growth (%)	134.8	91.1	24.6	27.7
Adj. BVPS	144.7	181.3	205.8	236.7
ROAA (%)	0.77	1.39	1.52	1.67
ROAE (%)	7.1	12.3	12.9	14.6
Core P/ABV (x)	3.7	2.9	2.4	1.8
Dividend Yield (%)	0.0	0.4	0.5	0.7
PROFITABILITY				
Yield on Advances (%)	9.3	8.3	8.4	8.5
Yield on Investment (%)	6.4	6.2	6.1	6.1
Cost of Funds (%)	4.7	4.1	4.1	4.3
Cost of Deposits (%)	4.6	4.2	4.1	4.2
NIM (%)	3.7	3.7	3.8	3.7
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	2.4	2.1	2.1	2.1
Cost-Income Ratio (%)	43.5	37.2	39.2	38.2

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E March	FY20	FY21P	FY22E	FY23E
Loan Growth (%)	10.0	13.7	16.5	17.9
Deposit Growth (%)	18.1	21.0	17.5	17.9
C/D Ratio (%)	83.7	78.7	78.0	78.0
Equity/Assets (%)	10.6	12.0	11.6	11.3
Equity/Advances (%)	18.1	20.1	19.4	18.7
CASA (%)	45.1	46.3	43.3	40.4
Total Capital Adequacy Ratio	16.1	17.6	16.9	16.4
Tier I CAR	14.7	16.3	15.9	15.5
ASSET QUALITY				
Gross NPLs	41,409	41,373	44,451	49,449
Net NPLs	9,923	9,180	10,216	11,733
Gross NPLs (%)	6.4	5.6	5.2	4.9
Net NPLs (%)	1.5	1.2	1.2	1.2
Coverage Ratio (%)	76.0	77.8	77.0	76.3
Provision/Avg. Loans (%)	1.5	2.0	1.5	1.2
ROAA TREE				
Net Interest Income	3.23	3.35	3.43	3.38
Non Interest Income	1.59	1.63	1.50	1.49
Operating Cost	2.10	1.85	1.93	1.86
Provisions	1.36	1.39	0.93	0.75
Tax	0.59	0.34	0.55	0.59
ROAA	0.77	1.39	1.52	1.67
Leverage (x)	9.2	8.8	8.5	8.7
ROAE	7.05	12.27	12.89	14.56

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 is critical for the economy.

Industry view

Equalweight

CMP
419

Target Price
510

Upside
22%

Key Rationale

- **Asset quality outlook improves**: SBIN maintained a strong asset quality performance in Q4FY21 with slippages at ~ Rs 55 Bn (less than 1% of the book) and a stable restructured book (Rs 179 Bn). Headline GNPAs were restricted to ~5.0% vs. 5.44% QoQ (on a pro-forma basis). For FY21, the overall stressed asset accrual of Rs 464 Bn, was much below the management's initial guidance of Rs 600 Bn with slippage for the bank at 1.2% and restructured loans at 0.73%. PCR improved to 71% in FY21 from 65% in FY20. The bank has ~Rs 254 Bn (104bps of loans) of additional non-specific provisions as well. The SMA pool (1&2) also dipped to Rs 115 Bn (~50bps of loans from ~ 80bps QoQ). Credit Cost as of FY21 end has declined 75 bps YoY to 1.12%.
- **Non-banking subsidiaries to boost overall performance:** Apart from core banking, SBI's subsidiaries will continue to add further value. It has a strong presence in various financial services operations such as credit cards, insurance (life and general), asset management, pension funds, investment banking, institutional, and retail broking, among others. Most of these financial services are generating stable returns and boosting the overall performance of the bank.

Key Rationale

- **Outlook**: We believe SBIN's unsecured lending profile is strong with >90% comprising salaried government employees. Retail book traction at 16% remains healthy, is supported by home loans and express credit, and further improvement is likely in coming quarters. Bank's market share in Home loans and Auto Loans is +30%. The management indicated the impact of the second wave of Covid-19 is manageable. The bank's ROAs are expected to recover back to the historical range of 0.7-1% after a 6 year down cycle on account of contained stress formation, recoveries from legacy NPAs, and broad-based growth in the loan book.
- **Valuation:** Given a healthy PCR, robust capitalization, a strong liability franchise, and an improved asset quality outlook, SBIN continues to be the best play among PSU banks on the gradual recovery in the Indian economy. We believe credit costs normalization and improved operational performance will lead to double-digit ROEs of 13-15% by FY22-23E. We maintain a BUY on the stock with a target price of Rs 510/share (SOTP basis core book at 1.1x and subsidiaries at Rs 152), implying an upside potential of 21%.
- **Key risks:** a) Slower than expected recovery cycle

Key Financials (Standalone)

Y/E Mar (Rs00'Cr)	NII (Rs00'Cr)	PPOP (Rs00'Cr)	Net Profit (Rs00'Cr)	EPS (Rs)	ABV (%)	P/ABV (%)	ROAA (%)	NNPA (%)
2020	981	681	144	16	222	1.9	0.2	2.2
2021	1,107	716	204	23	243	1.7	0.5	1.5
2022E	1,240	782	334	37	275	1.5	0.7	1.3
2023E	1,402	888	437	49	327	1.3	0.8	1.1

Source: Company, Axis Securities;

Profit & Loss (Rs00'Cr)

Y/E MAR	FY20	FY21	FY22E	FY23E
Net Interest Income	981	1,107	1,240	1,402
Other Income	452	435	391	411
Total Income	1,433	1,542	1,632	1,813
Total Operating Exp	752	827	850	924
Staff expenses	457	509	535	588
Other operating expenses	295	317	315	336
PPOP	681	716	782	888
Provisions & Contingencies	431	440	330	297
PBT	250	276	452	591
Provision for Tax	106	71	117	154
PAT	144	204	334	437

Source: Company, Axis Research

Balance Sheet (Rs00'Cr)

Y/E MAR	FY20	FY21	FY22E	FY23E
SOURCES OF FUNDS				
Share capital	9	9	9	9
Reserves and surplus	2,074	2,530	2,864	3,301
Shareholders' funds	2,083	2,539	2,798	3,235
Total Deposits	32,416	36,813	40,126	43,737
Total Borrowings	3,147	4,173	2,866	2,959
Other Liabilities, provisions	1,868	1,820	1,965	2,123
Total	39,514	45,344	47,756	52,054
APPLICATION OF FUNDS				
Cash & Bank Balance	2,511	3,430	2,269	2,137
Investments	10,470	13,517	14,328	15,188
Advances	23,253	24,495	26,944	30,178
Fixed Assets & Other Assets	3,280	3,902	4,214	4,551
Total assets	39,514	45,344	47,756	52,054

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY20	FY21	FY22E	FY23E
VALUATION RATIOS				
EPS	16.0	22.9	37.5	49.0
Earnings Growth (%)	1502.8	43.0	63.5	30.9
DPS	0.0	4.6	3.0	3.0
BVPS	231.4	284.6	313.7	362.7
Adj. BVPS	222.4	242.6	274.7	326.7
ROAA (%)	0.2	0.5	0.7	0.8
ROAE (%)	3.5	8.8	12.5	14.5
P/E (x)	26.3	18.4	11.3	8.6
P/ABV (x)	1.9	1.7	1.5	1.3
Dividend Yield (%)	0.0	1.1	0.7	0.7
PROFITABILITY				
NIM (%)	2.8	2.9	2.9	3.0
Cost-Income Ratio	52.5	53.6	52.1	51.0

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY20	FY21	FY22E	FY23E
Loan Growth (%)	6.4	5.3	10.0	12.0
Deposit Growth (%)	11.3	13.6	9.0	9.0
C/D Ratio (%)	71.7	66.5	67.1	69.0
CASA	44.0	44.0	43.0	43.0
Tier 1	11.0	10.8	11.0	11.3
CAR	13.1	13.3	13.2	13.2
ASSET QUALITY				
Gross NPLs (%)	6.2	5.0	4.7	4.1
Net NPLs (%)	2.2	1.5	1.3	1.1
PCR	65.2	70.9	73.0	74.5
Credit costs	1.9	1.1	1.2	1.0

Source: Company, Axis Research

FEDERAL BANK – OPERATIONAL IMPROVEMENT ON TRACK

Federal Bank (FB) is a Kerala-based private sector bank. 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

Overweight

CMP
87

Target Price
100

Upside
15%

Key Rationale

- **Improving liability franchise:** FB has been amongst the few mid-tier banks which have improved its deposit base consistently. In Q4FY21, deposits growth was strong at 13% YoY, led by CASA up 26% YoY. CASA ratio remains stable at 33.5%. Retail deposits are high at ~90%. Being a preferred banker for NRIs, NR deposits (~40% share) have also been growing robustly.
- **Improved loan-mix balance:** FB's loan book growth of 8%YoY led by Retail, up 19% YoY w/w Gold loans grew 70% YoY. Business banking grew 13% YoY while commercial banking grew 11% YoY. While the bank already had Rupeek as a gold-lending partner, it has now tied up with Orocorp Tech for door-step gold loans. Gold loan growth is expected at 30-40% going forward.
- **Asset quality manageable:** Asset quality stood stable with G/NNPA of 3.41%/1.19% vs. proforma 3.38%/2.71% QoQ. Provisioning was lower by 57.3%/42.4% YoY/QoQ. Total SMA book stands at ~4.6% of the loan book. Total restructuring is ~1.2% of the book with retail forming 68%. The management expects ~30%–40% of the restructuring book may slip in coming quarters but the major chunk is secured with only ~6% of the restructured book being unsecured. Reported total slippages were Rs 16.9 Bn (1.38% annualized). With a granular and largely secured portfolio, we expect slippages to remain range-bound for FY22E as well.

Key Rationale

- **Outlook:** FB is cautiously building the loan mix toward high-rated corporate and retail loans. The bank's liability franchise remains strong with CASA plus Retail TD of +90% and one of the highest LCR amongst banks. Restructuring levels are also lower than expected. The management intends to keep PCR in the range of 65-70% as a high proportion of the book is secured and LGDs historically have treaded below 40%. FB has been consistently improving across parameters including Efficiency, Deposits, and Fee Income, among others. In recent years, it has professionalized its senior management and done well on the corporate and retail loans (especially gold) fronts.
- **Valuation:** Key positives are increasing retail focus, strong fee income, adequate capitalization, and prudent provisioning. Given strong underwriting standards, changing loan mix, and strong retail deposit franchise, we expect the bank's valuation to improve from current levels if asset quality trends are maintained and ROA improvement keeps on track. We maintain a BUY with a target price of Rs 100/share (1.1x FY23E ABV), implying a 15% upside from the CMP.
- **Key risks:** a) Asset quality trends in coming quarters, b) Loan growth outlook

Key Financials (Standalone)

Y/E Mar (Rs Cr)	NII (Rs Cr)	PPOP (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	ABV (%)	P/ABV (%)	ROAA (%)	NNPA (%)
2020	4,649	3,205	1,543	7.8	64.9	1.3	0.9	1.3
2021	5,534	3,787	1,590	8.0	73.8	1.2	0.6	1.2
2022E	6,087	3,978	1,766	8.9	82.0	1.1	0.8	1.1
2023E	6,878	4,520	2,274	8.0	92.6	0.9	1.0	1.0

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E MAR	FY20	FY21	FY22E	FY23E
Net Interest Income	4,649	5,534	6,087	6,878
Other Income	1,931	1,945	1,731	1,869
Total Income	6,580	7,479	7,818	8,748
Total Operating Exp	3,376	3,692	3,840	4,228
PPOP	3,205	3,787	3,978	4,520
Provisions & Contingencies	1,172	1,650	1,591	1,446
PBT	2,033	2,137	2,387	3,074
Provision for Tax	490	547	621	799
PAT	1,543	1,590	1,766	2,274

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E MAR	FY20	FY21	FY22E	FY23E
SOURCES OF FUNDS				
Share Capital	399	399	399	399
Reserves	14,518	15,724	17,341	19,445
Shareholder's Funds	14,916	16,124	17,739	19,844
Total Deposits	1,52,290	1,72,644	1,94,570	2,20,837
Borrowings	10,372	9,069	12,955	14,704
Other Liabilities & Provisions	3,458	3,531	3,885	3,885
Total Liabilities	1,81,037	2,01,367	2,29,150	2,59,270
APPLICATION OF FUNDS				
Cash & Bank Balance	12,575	19,591	27,328	31,928
Investments	35,893	37,186	41,430	44,430
Advances	1,22,268	1,31,879	1,47,045	1,66,896
Fixed Assets & Other Assets	10,301	12,711	13,347	16,016
Total Assets	1,81,037	2,01,367	2,29,150	2,59,270

Source: Company, Axis Research

Key Ratios (%)

Y/E MAR	FY20	FY21	FY22E	FY23E
VALUATION RATIOS				
EPS	7.8	8.0	8.9	11.4
Earnings Growth (%)	23.8	2.1	11.3	28.8
DPS	1.0	0.7	1.0	1.0
BVPS	72.8	80.8	88.0	98.6
Adj. BVPS	64.9	73.8	82.0	92.6
ROAA (%)	0.9	0.6	0.8	1.0
ROAE (%)	10.8	7.8	9.6	12.1
P/E (x)	10.5	10.3	9.3	7.2
P/ABV (x)	1.3	1.1	1.0	0.9
Dividend Yield (%)	1.2	0.9	1.2	1.2
PROFITABILITY				
NIM (%)	2.9	3.2	3.1	3.2
Cost-Income Ratio	51.3	49.4	49.1	48.3

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY20	FY21	FY22E	FY23E
Loan Growth (%)	10.9	7.9	11.5	13.5
Deposit Growth (%)	12.8	13.4	12.7	13.5
C/D Ratio (%)	80.3	76.4	75.6	75.6
CAR	14.3	14.2	14.1	14.1
CAR Tier I	13.3	13.2	13.2	13.3
ASSET QUALITY				
Gross NPLs (%)	2.8	3.4	3.2	3.0
Net NPLs (%)	1.3	1.2	1.1	1.0
Coverage Ratio (%)	53.2	65.0	65.6	66.7
Net Interest Income	2.7	2.5	2.6	2.8
Non Interest Income	1.1	1.0	0.8	0.8
Operating Cost	2.0	1.9	1.8	1.8
Provisions	0.5	0.8	0.5	0.4
Tax	0.3	0.3	0.3	0.3
ROAA	1.1	0.5	0.8	1.1
Leverage (x)	12.2	12.5	12.8	12.9
ROAE	11.1	8.3	9.2	10.1

Source: Company, Axis Research

EQUITAS SMALL FINANCE BANK – WELL-PLACED TO TIDE THROUGH COVID 2.0!

Equitas SFB (EQSFB) offers a diversified suite of products spread across Microfinance, Small Business Loans, Vehicle Finance, Housing finance, SME Financing, and NBFC Financing. The bank primarily caters to the low and middle-income individuals and businesses that have limited or no access to formal banking and finance channels.

Industry view

Equal weight

CMP
59

Target Price
70

Upside
19%

Key Rationale

- **Improving liability franchise:** The bank continues to witness good traction in deposits, especially in the retail deposits and expects the momentum to continue. We expect the deposits to grow at ~29% CAGR over FY21-23E with a continued focus on the retail TDs and retail CASA deposits. This is expected to improve the CASA ratio to ~37.0% in FY23E from 34.4% in FY21.
- **Diversified book skewed towards secured lending:** EQSFB's focus to diversify the non-MFI secured book (~82% mix in FY21) is visible with a continuous reduction in the mix of MFI loans (18% in FY21) in the portfolio. With non-MFI products driving growth, the MFI loans mix is expected to reduce further. Huge unmet demand and a large addressable market will help EQSFB growth the book by~24% CAGR over FY21-23E.
- **Asset quality stress to taper as macro conditions normalize:** ~81% of EQSFB's book is secured and LGDs across segments have been historically low. EQSFB also holds adequate provisions against each segment. Though the advent of COVID 2.0 has put stress on the MFI and vehicle finance book, we believe the bank is well-positioned to tackle this stress. We expect credit costs to peak out in FY21E but remain cautious of any incremental stress build-up with COVID 2.0 impacting borrowers' cash flows. The collection efficiency (CE) over Apr-May'21, especially in the vehicle finance and MFI segment, has been impacted due to strict regional lockdowns. However, we expect CE to improve with the phased unlock across geographies, though it is likely to remain below pre-COVID levels in the near term.

Key Rationale

- **Outlook:** EQSFB has been proactively reducing the share of MFI loans to build a strong, diversified, and secured product-dominated book. The bank continues to witness good traction in the deposits, especially retail deposits, and expects it to improve further. Improving liability franchise will help lower CoF which will support NIMs as the bank shifts towards lower yielding secured lending. The recent consultative paper released by the RBI on the harmonization of norms for all MFI players has not indicated any cap on margins for SFBs, thus removing the overhang of NIM compression. The operating efficiency is improving as a result of improving branch productivity and effectively leveraging technology to source deposits. This is expected to drive ROA/ROE expansion, moving forward. EQSFB is also well-capitalised to fuel growth for the medium term, with Tier I at 23.2%.
- **Valuation:** We believe EQSFB is eligible for re-rating given the improving profitability, asset quality, and return ratios. The bank is planning to apply for a reverse merger with Equitas Holdings in Sep'21 as it completes 5 years since commencing the banking operations. This, coupled with its application for a universal banking license, further supports our re-rating rationale. We recommend a BUY with a target price of Rs 70 (1.9x FY23E ABV), implying an upside potential of 17% from CMP.
- **Key risks:** a) Asset quality stress, b) Near-term impact on CE, and c) AUM growth moderation due to COVID 2.0 headwinds.

Key Financials (Standalone)

Y/E Mar (Rs Cr)	NII (Rs. Cr)	PPOP (Rs. Cr)	Net Profit (Rs. Cr)	EPS (Rs.)	ABV (Rs.)	P/ABV (x)	ROAA (%)	NNPA (%)
FY20	1,495	598	244	2.3	23.9	2.5	1.4	1.7
FY21P	1,798	887	384	3.4	27.5	2.2	1.7	1.6
FY22E	2,167	1,067	484	4.2	31.5	1.9	1.8	1.4
FY23E	2,591	1,316	662	5.8	37.0	1.6	2.1	1.2

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E MAR	FY20	FY21E	FY22E	FY23E
Net Interest Income	1,495	1,798	2,167	2,591
Other Income	282	418	414	494
Total Income	1,778	2,216	2,581	3,086
Total Operating Exp	1,180	1,329	1,514	1,770
PPOP	598	887	1,067	1,316
Provisions & Contingencies	247	375	420	431
PBT	351	511	647	885
Provision for Tax	107	127	163	223
PAT	244	384	484	662

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E MAR	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS				
Share Capital	1,053	1,139	1,139	1,139
Reserves	1,691	2,257	2,741	3,402
Shareholder's Funds	2,744	3,396	3,880	4,542
Total Deposits	10,788	16,392	21,869	27,349
Borrowings	5,135	4,165	2,406	2,078
Other Liabilities & Provisions	647	762	876	981
Total Liabilities	**19,315**	**24,715**	**29,031**	**34,950**
APPLICATION OF FUNDS				
Cash & Bank Balance	2,537	3,379	3,061	3,007
Investments	2,343	3,705	4,375	4,787
Advances	13,747	16,848	20,769	26,258
Fixed Assets & Other Assets	688	783	827	897
Total Assets	**19,315**	**24,715**	**29,031**	**34,950**

Source: Company, Axis Research

Key Ratios (Rs Cr)

Y/E MAR	FY20	FY21E	FY22E	FY23E
VALUATION RATIOS				
EPS	2.3	3.4	4.2	5.8
Earnings Growth (%)	11%	46%	26%	37%
BVPS	26.1	29.8	34.1	39.9
Adj. BVPS	23.9	27.5	31.5	37.0
RoAA (%)	1.4%	1.7%	1.8%	2.1%
ROAE (%)	9.7%	12.5%	13.3%	15.7%
P/E (x)	25.7	17.6	14.0	10.2
P/ABV (x)	2.5	2.2	1.9	1.6
P/PPOP (x)	0.1	0.1	0.1	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
PROFITABILITY				
NIM (%)	9.1	8.4	8.3	8.3
Cost-Income Ratio	66.4	58.2	58.7	57.4

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY20	FY21E	FY22E	FY23E
Loan Growth (%)	18.6	22.6	23.3	26.4
Deposit Growth (%)	19.8	51.9	33.3	25.1
C/D Ratio (%)	127.4	102.8	95.0	96.0
CAR	23.6	25.1	23.9	22.5
CAR Tier I	22.4	24.2	23.1	21.9
ASSET QUALITY				
Gross NPLs (%)	2.7	3.6	3.3	2.9
Net NPLs (%)	1.7	1.6	1.4	1.3
Coverage Ratio (%)	45.0	59.0	60.0	60.0
Net Interest Income	8.5	8.2	8.1	8.1
Non-Interest Income	1.6	1.9	1.5	1.5
Operating Cost	6.7	6.0	5.6	5.5
Provisions	1.4	1.7	1.6	1.3
Tax	0.6	0.6	0.6	0.7
ROAA	1.4	1.7	1.8	2.1
Leverage (x)	7.0	7.2	7.4	7.6
ROAE	9.7	12.5	13.3	15.7

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. It operates in India and is also the exclusive bottler for PepsiCo in Nepal, Sri Lanka, Morocco, Zambia, and Zimbabwe.

Industry view

Equal Weight

CMP
729

Target Price
900

Upside
23%

Key Rationale

- **Q2CY21 peak season impacted but still better YoY:** Even though lockdown was imposed across 95% states during April-May (peak season), the company performed better as it was well-prepared, thanks to the learning from CY20 lockdown, as well as due to partial operating hours at essential/grocery shops. In Q2CY21, the management expects the company to report volume growth of 35-40% YoY as the base quarter witnessed impact of nationwide lockdown. Also, demand for larger or over 1 litre SKUs has witnessed a healthy traction. This was led by favorable in-home consumption trend which continues to report a healthy growth seen in Q1CY21. Despite rural being hit harder in second wave, it is expected to outgrow urban regions Higher CSD contribution is likely to drive realization/case, going ahead.
- **Low per-capita soft drink consumption in India** of 44 bottles as of 2016 as compared to 271 bottles in China, 1,496 bottles in the USA, and 1,489 bottles in Mexico offers massive growth headroom. Deeper penetration of soft drinks in India is a structural growth opportunity.
- **Key risks:** a) Seasonality, b) Re-imposition of lockdown to control COVID 2.0 and newer variants (50% OOH* consumption), c) Regulatory actions against soft drinks if any.
- **Outlook**: While COVID 2.0 and consequent state-wide lockdowns adversely impacted Q2CY21, management remains hopeful of matching up the performance of Q1CY21 in volume terms. This translates into a ~40% YoY volume growth which is healthy given the business disruptions observed in the quarter. This is likely to be driven by positive in-home consumption trend, higher demand for larger SKUs (>1 litre), product portfolio expansion, and some distribution-led market share gains in South and West territories from smaller players during Q2CY21. The trend of in-home consumption is likely to sustain as consumers are habituated to spend more time at home. Rural would outpace urban despite being hit harder by COVID 2.0 owing to better Rabi harvest, government support, and a normal monsoon forecast.
- **Valuation**. We expect VBL to register Revenues/Earnings CAGR of 17%/35% respectively over CY20-23E on account of a low base in CY20. This growth will be driven by 1) Further in-roads in under-serviced South and West territories, 2) Distribution-led market share gains, 3) Debt reduction, and 4) Positive cash flow generation. **We value VBL at a premium of 17x its CY23 EV/EBITDA to arrive at our TP of Rs 900/share**.

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	Net Sales	EBIDTA	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
CY20	6,450	1,202	358	11.4	63.5	19.5	10.3	10.1
CY21E	8,800	1,866	847	19.5	37.1	17.6	21.4	18.8
CY22E	9,575	2,087	1,049	24.2	29.9	15.2	22.0	20.3
CY23E	10,428	2,273	1,205	27.8	26.1	13.4	20.9	21.0

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

Profit & Loss (Rs Cr)

Y/E DEC	CY20	CY21E	CY22E	CY23E
Total Net Sales	**6,450**	**8,800**	**9,575**	**10,428**
% Change	-9.5%	36.4%	8.8%	8.9%
Total Raw material Consumption	2,764	3,828	4,108	4,474
Staff costs	890	1,038	1130	1230
Other Expenditure	1,595	2,068	2,250	2,451
Total Expenditure	5,248	6,934	7,488	8,155
EBITDA	**1,202**	**1,866**	**2,087**	**2,273**
% Change	-17.0%	55.2%	11.9%	8.9%
EBITDA Margin %	**18.6%**	**21.2%**	**21.8%**	**21.8%**
Depreciation	529	561	590	619
EBIT	673	1,304	1497	1654
% Change	-29.8%	93.7%	14.8%	10.5%
EBIT Margin %	10.4%	14.8%	15.6%	15.9%
Interest	281	234	161	116
Other Income	37	62	67	73
PBT	**363**	**1,132**	**1,403**	**1,611**
Tax	5	285	353	406
Tax Rate %	*28.0%*	*25.2%*	*25.2%*	*25.2%*
APAT	**358**	**847**	**1,049**	**1,205**
% Change	-24.3%	136.7%	23.9%	14.8%

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E DEC	CY20	CY21E	CY22E	CY23E
Share Capital*	**289**	**433**	**433**	**433**
Reserves & Surplus	3,235	3,819	4,742	5,803
Net Worth	3,589	4,317	5,240	6,300
Total Loan funds	2,693	2,293	1793	1293
Deferred Tax Liability	226	226	226	226
Long Term Provisions	204	282	303	330
Other Long Term Liability	25	35	37	41
Capital Employed	**6,737**	**7,153**	**7,600**	**8,191**
Gross Block	8,357	8,837	9,317	9,797
Less: Depreciation	2,529	3,090	3,681	4,300
Net Block	5,828	5,746	5,636	5,497
Investments	42	57	62	68
Sundry Debtors	242	241	262	286
Cash & Bank Bal	190	826	1545	2281
Loans & Advances	10	10	10	10
Inventory	929	965	844	919
Other Current Assets	429	585	637	693
Total Current Assets	**1,799**	**2,627**	**3,298**	**4,189**
Current Liabilities & Provisions	1,721	2,133	2,286	2,487
Net Current Assets	78	494	1,012	1,703
Total Assets	**6,737**	**7,153**	**7,600**	**8,191**

Source: Company, Axis Research; * Bonus Share Adjustment

Cash Flow (Rs Cr)

Cash Flow	CY20	CY21E	CY22E	CY23E
PBT	363	1,132	1,403	1,611
Depreciation & Amortization	529	561	590	619
Other Adjustment	273	234	161	116
Chg in Deferred tax	36	-	-	-
Chg in Working cap	(111)	293	219	70
Direct tax paid	(78)	(285)	(353)	(406)
Cash flow from operations	**1,012**	**1,935**	**2,020**	**2,010**
Chg in Gross Block	(560)	(547)	(513)	(513)
Chg in Investments	-	-	-	-
Chg in WIP	(19)	-	-	-
Cash flow from investing	**(579)**	**(547)**	**(513)**	**(513)**
Proceeds / (Repayment) of Short Term Borrowings (Net)	247	-	-	-
Repayment of Long Term Borrowings	(471)	-	-	-
Loan Repayment	-	(400)	(500)	(500)
Finance Cost paid	(277)	(234)	(161)	(116)
Dividends paid	(72)	(119)	(126)	(145)
Cash flow from financing	**(574)**	**(752)**	**(787)**	**(761)**
Change in cash	**(32)**	**636**	**719**	**736**
Cash at Start	137	190	826	1,545
Cash at End	105	826	1,545	2,281

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY20	CY21E	CY22E	CY23E
Growth (%)				
Net Sales	-9.5%	36.4%	8.8%	8.9%
EBITDA	-17.0%	55.2%	11.9%	8.9%
APAT	-24.3%	136.7%	23.9%	14.8%
Per Share Data (Rs.)				
Adj. EPS	11.4	19.5	24.2	27.8
BVPS	124.3	99.7	121.0	145.5
Profitability (%)				
EBITDA Margin	18.6%	21.2%	21.8%	21.8%
Adj. PAT Margin	5.5%	9.6%	11.0%	11.6%
ROCE	10.1%	18.8%	20.3%	21.0%
ROE	10.3%	21.4%	22.0%	20.9%
ROIC	10.4%	20.4%	24.4%	28.0%
Valuations (x)				
PER	63.5	37.1	29.9	26.1
P/BV	5.8	7.3	6.0	5.0
EV / EBITDA	19.5	17.6	15.2	13.4
EV / Net Sales	3.6	3.7	3.3	2.9
Turnover Days				
Asset Turnover	0.8	1.0	1.0	1.0
Inventory days	119.5	90.3	80.4	71.9
Debtors days	11.7	10.0	9.6	9.6
Creditors days	65.3	46.9	43.5	43.2
Working Capital Days	66.0	53.4	46.5	38.4
Gearing Ratio				
Debt: Equity (x)	0.8	0.5	0.3	0.2

Source: Company, Axis Research

MOLD-TEK PACKAGING – CONSISTENT PERFORMER; ATTRACTIVE VALUATION

Mold-Tek Packaging Ltd (MTEP), established in 1986, is the leader in rigid plastic packaging in India. It is involved in the manufacturing of injection-molded containers for lubes, paints, food, and other products. MTPL has seven processing plants and three stock points spread across India with a total capacity of around 41,000 MTPA. MTEP is the pioneer in the field of In-Mold label (IML) decoration in India and is the only completely backward-integrated company with its state-of-the-art integrated facility for IML.

Industry view

Over weight

CMP
479

Target Price
585

Upside
22%

Key Rationale

- **Consistent volumes growth:** MTEP has consistently reported +10-15% volume growth since Q1FY19. In Q4FY21, it reported a 30% YoY volume growth, driven by robust off-take and recovery across segments led by Paints and F&F sectors while Lubes saw a flattish growth. Paints volume increased by 15% QoQ on account of significant improvement in utilization levels at Mysuru and Vizag plants aided by Asian Paints. F&F volumes grew 55% YoY owing to strong demand for packaged food items, traction in ice-cream thin wall pails, and new product launches. Lubricant volumes were higher 21% YoY. IML/Non-IML volume/value mix for Q4FY21 was 67%/33% and 65%/35% respectively.
- **New product innovation helps maintain leadership:** MTEP has consistently launched new products in F&F, Paints, and Lubes segment. Its 'QR Code Printed IML pails' - a first of its kind product in the market, has received encouraging responses from customers in the market. Moreover, MTEP has also launched pumps (import substitution), hygienic packaging solutions for sweet boxes, and adhesive square pails, among others for F&F and the Personal Care industry. These innovative products have widened the technological gap between the company and its competition, allowing MTEP to maintain its leadership position.
- **Key risks:** a) COVID-19 led uncertainties; b) Sudden spike in RM prices and inability to pass price increases to the customers.
- **EBITDA/kg to grow with rising IML contribution:** Over the last three years, contribution of IML pails has increased from 50% to 63% in volume terms. This also led to a ~30% increment in EBITDA/Kg to over 35-37/kg from 22-24/kg over FY19-21. In Q4FY21, EBITDA/Kg stood healthy at Rs 37/Kg despite a 39% rise in RM prices, mainly on account of superior product mix. IML packaging is receiving increasing acceptance across key end-user industries. Additionally, entry into higher-margin pumps (import substitution opportunity) can further drive EBITDA/kg.
- **Healthy guidance for FY22 despite challenges:** For FY22, the company has guided for a 15-18% volume growth and sustainable EBITDA/Kg of Rs. 37/Kg driven by better volume off-take, superior product mix, and foray into new higher-margin industries (personal care/healthcare). In light of new product launches and rising IML share, MTEP expects to achieve EBITDA/Kg of Rs. 42/Kg over the next 2-3 years.
- **Valuation**: We expect Mold-Tek Packaging to register Revenue/EBITDA/PAT CAGR of 18%/23%/30% respectively over FY20-23E. For FY22, the management remains hopeful of scaling back to a positive volume growth trajectory despite Q1FY22 being impacted by the lockdown. **At CMP, the stock trades at 17x PE FY23E which is at a discount to its 5-year average valuation of 31x PE. We assign a target PE multiple of 20x FY23E EPS and arrive at a target price of Rs 585/share.**

Key Financials (Consolidated)

Y/E Mar	Net sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY20	438.2	76.8	34.6	13.5	36.1	19.0	17.5%	18.1%
FY21	478.9	94.5	48.8	17.2	28.4	15.5	19.9%	19.7%
FY22E	628.5	120.0	67.4	23.9	20.4	12.2	21.5%	22.2%
FY23E	716.6	141.9	82.4	29.2	16.7	10.0	21.5%	23.2%

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
Total Sales	**438.2**	**478.9**	**628.5**	**716.6**
Total RM Consumption	257.5	272.4	359.5	407.1
Staff Costs	50.0	32.9	71.7	81.0
Other Expenses	53.9	79.1	77.3	86.7
Total Expenditure	361.4	384.4	508.5	574.7
EBITDA	**76.8**	**94.5**	**120.0**	**141.9**
Depreciation	19.2	21.5	23.0	25.5
EBIT	57.6	73.0	97.1	116.7
Interest & Finance charges	10.4	9.9	9.8	9.3
Other Income	1.2	0.9	1.8	1.8
PBT (as reported)	48.3	63.9	89.1	109.1
Tax	10.9	16.0	22.4	27.5
APAT	**34.6**	**48.8**	**67.4**	**82.4**
EPS	**13.5**	**17.2**	**23.9**	**29.2**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
Equity Share Capital	13.9	14.0	14.0	14.0
Reserves	183.6	242.0	299.3	369.4
Net worth	**197.5**	**256.0**	**313.3**	**383.3**
Total loans	106.6	98.9	108.6	103.6
Deferred tax liability (Net)	11.6	12.0	12.0	12.0
Long Term Provisions	2.6	3.5	3.5	3.5
Other Long Term Liability	0.1	0.0	0.0	0.0
Capital Employed	**318.4**	**370.4**	**437.5**	**502.5**
Net Block	**198.4**	**235.3**	**282.0**	**286.8**
CWIP	11.5	11.3	11.3	11.3
Inventories	50.0	70.8	77.5	88.4
Sundry debtors	58.9	90.1	108.5	123.7
Cash and bank	1.1	0.4	6.6	51.2
Loans and advances	0.2	0.3	0.3	0.3
Other Current Assets	18.0	7.8	7.8	7.8
Total Current assets	128.3	170.3	201.5	272.2
Total Current liabilities	44.9	66.1	76.4	86.8
Net Current assets	83.4	104.2	125.1	185.5
Capital Deployed	**318.4**	**370.4**	**437.5**	**502.5**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
PBT	**48.3**	**63.9**	**89.1**	**109.1**
Depreciation & Amortization	19.6	21.9	23.0	25.2
Finance costs	10.4	9.9	9.8	9.3
Changes in Working Capital	(4.7)	(12.5)	(14.7)	(15.7)
Cash Flow from Operations	**83.2**	**57.9**	**68.4**	**85.5**
(Increase)/ Decrease in Gross Block	(41.0)	(59.5)	(69.1)	(30.0)
Proceeds from sale of fixed asset	10.1	-	-	-
Sale/destroyed of fixed assets	10.1	-	-	-
Cash Flow from Investing Activities	**(23.4)**	**(58.8)**	**(69.1)**	**(30.0)**
(Decrease)/Increase in Debt	7.7	(11.1)	9.8	(5.0)
Payment of finance costs	(10.4)	(9.5)	(9.8)	(9.3)
Dividend	0	(8.4)	(10.1)	(12.4)
Cash Flow From Financing Activities	**(34.3)**	**(9.6)**	**(10.1)**	**(26.7)**
Change in Cash	**0.2**	**0.1**	**6.2**	**44.6**
Cash at Start	0.2	0.4	0.4	6.6
Cash at End	**0.4**	**0.4**	**6.6**	**51.2**

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21	FY22E	FY23E
Growth (%)				
Total Sales	8.0%	9.3%	31.2%	14.0%
EBITDA	9.2%	23.1%	27.0%	18.2%
APAT	10.2%	40.8%	38.3%	22.2%
Profitability (%)				
EBITDA Margin	17.5%	19.7%	19.1%	19.8%
Net Profit Margin	7.9%	10.2%	10.7%	11.5%
ROCE	18.1%	19.7%	22.2%	23.2%
ROE	17.5%	19.0%	21.5%	21.5%
Per Share Data (Rs.)				
EPS	13.5	17.2	23.9	29.2
BVPS	71.2	91.7	112.2	137.3
Valuations (x)				
PER (x)	36.1	28.4	20.4	16.7
P/BV (x)	6.9	5.3	4.3	3.6
EV/EBITDA (x)	19.0	15.5	12.2	10.0
Turnover days				
Debtor Days	53.8	56.8	57.7	55.3
Payable Days	25.7	33.7	29.2	22.6
Gearing Ratio				
D/E	0.5	0.4	0.3	0.3

Source: Company, Axis Research

Camlin Fine Sciences – Strong Integrated Player with Focus on Growth

Camlin Fine Sciences (CFS) was formed after de-merging the fine chemical business of Kokoyu Camlin in 2006. The company is vertically integrated and engaged in the research, development, manufacturing, commercializing, and marketing of specialty chemicals and blends. Its products find applications in a wide array of sectors such as Food, Feed & Pet Nutrition, Pharma, Petro-chemicals, Polymers, Flavours and Fragrances, Agro chemicals, Dyes and Pigments and Bio-diesel among others.

Industry view

Over Weight

CMP
187

Target Price
215

Upside
15%

Key Rationale

- **Margin Accretive Blends Segment to be a Value Creator:** CFS intends to evolve as a global food blender and has commissioned facilities in Mexico, Brazil, North America, Europe and India to meet its objective. The Blends segment contributes 30% to the top-line while Blends margins stood at 20%. The same is expected to improve further by 500 bps to 25% in the coming years. The top-line is expected to grow by ~22%-25% in the next 3 years in the backdrop of new launches, expansion in new geographies, and growth in existing geographies.
- **Strategically Integrated Player:** CFS is one of the world's leading and integrated manufacturers of the most preferred traditional antioxidants and vanillin and manufacture various other shelf life solutions, aroma ingredients and performance chemicals. CFS has also commercialized a plant to produce di-phenols at Dahej, thus mitigating the single location risk.
- **Improving Balance Sheet:** There has been a significant YoY improvement in the company's debt position with the Debt to EBITDA ratio falling from 4.02x in FY20 to 2.73x in FY21, the ROE rose 7.7% in FY20 to 13.9% in FY21 and ROCE improved to 15.8% from 14.7% as the operational performance improved.

Key Rationale

- **Second Phase of Growth:** CFS plans to scale up its MEHQ capacity utilization to 70% and commence HQEE production, which is high GM generating products. Alongside, the Omega 3 fermentation business is another long term growth driver for the company given the market size and a limited number of players to procure Omega 3 from algae. The management believes the food additive segment will be Rs.1000+ Cr business in the next 4-5 years. Furthermore, the commercialization of the Ethyl Vanillin plant will create an Rs.400-500 Cr addition to the top-line in FY23 while, the the Dahej plant scale-up will lead to cost savings enhancing the EBITDA Margins further. With regards to the Lockheed Martin deal, it has announced the commercialization of the Gridstar battery. The supply is expected to start by H2FY23 for the company will make capex related announcements in H2FY22 for the same
- **Valuation:** We expect the company to register Revenue/EBITDA/PAT CAGR of 21/29/34% respectively over FY21-23E. We recommend a BUY on the stock and value the company at 18x FY23E EPS of Rs.12/share to arrive at a target price of Rs.215/share, implying at an upside potential of 24% from CMP.

Key Financials

Y/E Mar (Rs Cr)	Net Sales	EBIDTA	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY20	1,049	131	30	2.5	70.7	19.5	6.4	10.9
FY21	1,187	182	65	5.1	33.9	14.5	9.2	12.3
FY22E	1,554	266	108	8.4	20.6	10.0	13.7	16.3
FY23E	1,837	334	156	12.2	14.2	8.0	16.5	19.0

Source: Company, Axis Research

Profit & Loss (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
Net sales	**1,049**	**1,187**	**1,554**	**1,837**
% change	17.6	13.1	30.9	17.0
Raw material expenses	534	583	754	878
Employee expenses	100	120	151	184
Other Operating expenses	285	301	384	441
Total Expenditure	**918**	**1005**	**1,289**	**1,502**
EBITDA	**131**	**182**	**266**	**334**
% change	90.4	39.2	46.1	25.8
EBITDA Margin %	**12.5**	**15.3**	**17.1**	**18.2**
Depreciation	33	44	63	70
EBIT	**98**	**138**	**203**	**264**
% change	146.8	40.6	47.5	30.1
EBIT Margin %	9.3	11.6	13.1	14.4
Interest paid	43	38	44	44
Other Non-Operating Income	3	5	6	9
PBT	**58**	**105**	**166**	**229**
Tax	28	40	58	73
Tax %	**48.7**	**37.8**	**35.0**	**32.0**
Net Profit	**30**	**65**	**108**	**156**
% change	873.4	119.1	64.8	44.7

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
Share Capital	**12**	**13**	**13**	**13**
Reserves & Surplus	391	631	704	860
Net Worth	460	713	787	942
Total Loan funds	490	490	544	551
Deferred Tax Liability	2	6	6	6
Long Term Provisions	3	3	5	6
Capital Employed	**964**	**1,221**	**1,351**	**1,514**
Net Fixed Assets	485	607	631	688
Sundry Debtors	253	271	319	377
Cash & Bank Bal	52	138	152	170
Inventory	298	320	392	445
Other Current Assets	46	55	78	92
Total Current Assets	675	795	952	1,095
Current Liabilities & Provisions	270	261	306	345
Net Current Assets	405	534	646	750
Capital Deployed	**964**	**1,221**	**1,351**	**1,514**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
PBT	58	105	166	229
Depreciation & Amortization	34	44	63	70
Chg in Working cap	-41	-66	-99	-86
Direct tax paid	-18	-36	-58	-73
Cash flow from operations	**86**	**117**	**109**	**175**
Chg in Gross Block	-134	-84	-165	-128
Chg in Investments	38	-50	0	0
Proceeds on redemption of Fin. Assets	0	0	0	0
Cash flow from investing	**-90**	**-133**	**-153**	**-120**
Proceeds / (Repayment) of Short Term Borrowings (Net)	34	-61	110	5
Proceeds from issue of Equity Instruments of the company	0	0	0	0
Loans	17	84	-56	3
Finance Cost paid	-39	-48	-44	-44
Dividends paid	-3	-5	0	0
Cash flow from financing	**3**	**39**	**58**	**-36**
Chg in cash	**-1**	**23**	**13**	**18**
Cash at start	**53**	**52**	**76**	**89**
Cash at end	**52**	**76**	**89**	**107**

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21	FY22E	FY23E
Growth (%)				
Net Sales	17.6%	13.1%	30.9%	18.2%
EBITDA	90.4%	39.2%	46.1%	25.8%
APAT	873.4%	119.1%	64.8%	44.7%
Per Share Data (Rs.)				
Adj. EPS	2.5	5.1	8.4	12.2
BVPS	37.9	55.9	61.7	73.9
DPS	2.5	0.0	0.0	0.0
Profitability (%)				
EBITDA Margin	12.5%	15.3%	17.1%	18.2%
Adj. PAT Margin	2.8%	5.5%	6.9%	8.5%
ROCE	10.9%	12.3%	16.3%	19.0%
ROE	6.4%	9.2%	13.7%	16.5%
Valuations (X)				
PER	70.7	33.9	20.6	14.2
P/BV	4.6	3.1	2.8	2.4
EV / EBITDA	19.5	14.5	10.1	8.0
EV / Net Sales	2.4	2.2	1.7	1.4
Turnover Days				
Asset Turnover	3.6	2.5	2.4	2.5
Inventory days	199	193	172	174
Debtors days	80	80	69	69
Creditors days	116	104	88	90
Working Capital Days	164	170	153	153
Gearing Ratio				
Total Debt to Equity (x)	1.0	0.6	0.6	0.5

AMBER ENTERPRISES – A KEY BENEFICIARY OF ATMANIRBHAR BHARAT

Amber Enterprises Ltd. (AEL) is a leading solution provider to the Indian Air conditioner OEM/ODM Industry. It caters to 9 out of top 10 Indian AC brands which cumulatively command 75%+ market share in India. Amber also manufactures AC/NON-AC components and stands as a total solutions provider for the Indian RAC industry. It has expanded its offerings further through the acquisition of Sidwal (mobility solutions) and has recently forayed into commercial AC's as well.

Industry view

Equal Weight

CMP
2,926

Target Price
3,290

Upside
12%

Key Rationale

- **Fully backward-integrated player with strategically located plants:** AEL has been able to provide cost-efficient solutions to RAC brands/OEMs owing to its highly backward-integrated and strategically located plants. It caters to the majority of clients' requirements for ACs commanding 49% of outdoor units, 78% of indoor units, and 60% of window ACs.
- **Healthy recovery witnessed in Q4FY21:** Strong RAC demand was seen in Metros and Tier 1 cities while demand uptick was seen in Tier 2/3 cities as well. While the current demand has been impacted due to localized lockdowns in many markets, gradual economic re-opening as well as delay in the onset of summer in the north region is expected to revive and release the pent-up demand significantly.
- **Beneficiary of government schemes:** Amber has benefited from the import ban on RAC with refrigerants and an increase in duties on ACs and components. The company has added 6 new clients for Gas Filling and plans to increase the wallet share by providing them with full RAC solutions, moving forward.
- **Participation in the PLI Scheme:** Amber plans to participate in the PLI scheme for components where it is already present (PCBs and Motors). Post-examining the fine print of the scheme (which is awaited), the company will apply for the license for components manufacturing.

Key Rationale

- **Evaluating a partnership option:** On participation in high-value products such as compressors, the company is evaluating a partnership option with an existing manufacturer in high-value components to participate in the scheme. We believe there is a high probability of Amber being granted a license under the scheme and is well-placed to capitalize on the opportunity.
- **Outlook**: While the short-term outlook remains uncertain due to lockdown-led restrictions, we believe the long-term growth remains intact. It will be driven by demand recovery post-lockdown relaxations, foray into the Commercial AC segment, entry into export markets, participation in the PLI scheme, and increasing opportunities in the mobility business (Sidwal subsidiary).
- **Valuation**: We expect Amber to register Revenue CAGR of 37% over FY21-23E. The long-term outlook remains intact, albeit immediate term challenges due to lockdown. We have adjusted our FY22E/FY23E revenues downward by 10%/6% respectively and value Amber at 40 x FY23 E EPS of Rs 82.3 to arrive at a target price of Rs 3,290/share.
- **Key risks:** a) Slower-than-expected growth led by lockdowns; b) Delayed ramp-up of component manufacturing and its green-field Capex.

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	NetSales (Rs cr)	EBIDTA (Rs cr)	Net Profit (Rs cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY20	3,963	317	164	52.2	56.1	28.9	15.4	17.3
FY21	3,031	253	83	24.7	116.9	38.7	7.2	10.7
FY22E	4,205	355	162	48.0	60.6	27.8	12.6	15.6
FY23E	5,705	512	277	82.3	35.4	18.9	18.5	21.9

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
Net sales	**3,963**	**3,031**	**4,205**	**5,705**
Other operating inc.	8.2	33.1	19.3	22.8
Total income	3,971	3,064	4,225	5,728
Cost of goods sold	3,654	2,810	3,869	5,216
Contribution (%)	7.8%	7.3%	8.0%	8.6%
Operating Profit	**317**	**253**	**355**	**512**
Depreciation	85	92	101	107
Interest & Fin Chg.	42	41	38	35
E/o income / (Expense)	0	0	0	0
Pre-tax profit	191	120	216	370
Tax provision	27	37	54	93
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	**163**	**84**	**162**	**277**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
Total assets	**1,638**	**1,728**	**1,899**	**2,194**
Net Block	1,106	1,223	1,345	1,351
CWIP	6	20	23	10
Investments	45	45	45	45
Wkg. cap. (excl cash)	361	310	407	541
Cash / Bank balance	120	129	79	247
Misc. Assets	0	0.0	0.0	0.0
Capital employed	**1,638**	**1,728**	**1,899**	**2,194**
Equity capital	31	34	34	34
Reserves	1,097	1,175	1,330	1,600
Pref. Share Capital	0	0	0	0
Minority Interests	35	35	35	35
Borrowings	405	405	410	430
Def tax Liabilities	70	80	90	96

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Sources	**318.9**	**182.3**	**266.9**	**382.1**
Cash profit	290.8	216.5	300.9	419.1
(-) Dividends	12.1	5.5	6.3	7.3
Retained earnings	278.7	211.1	294.6	411.9
Issue of equity	0.0	2.2	0.0	0.0
Change in Oth. Reserves	15.8	0.0	0.0	0.0
Borrowings	(4.5)	0.0	0.0	0.0
Others	28.9	(31.0)	(27.7)	(29.7)
Applications	**318.9**	**182.3**	**266.9**	**382.1**
Capital expenditure	369.2	224.1	225.0	100.0
Investments	(15.2)	0.0	0.0	0.0
Net current assets	(121.4)	(50.6)	91.8	113.9
Change in cash	86.3	8.8	(49.9)	168.2

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21E	FY22E	FY23E
Sales growth	**44.0**	**(23.5)**	**38.8**	**35.7**
OPM	8.0	8.3	8.4	8.9
Oper. profit growth	42.5	(20.2)	40.2	44.1
COGS / Net sales	92.2	92.7	92.0	91.4
Overheads/Net sales	0.0	0.0	0.0	0.0
Depreciation / G. block	5.8	5.5	5.3	5.3
Effective interest rate	15.1	12.8	11.8	10.5
Net wkg.cap / Net sales	0.09	0.11	0.08	0.08
Net sales / Gr block (x)	2.7	1.8	2.2	2.8
RoCE	17.3	10.7	15.6	21.9
Debt / equity (x)	0.28	0.27	0.24	0.21
Effective tax rate	13.9	30.7	25.1	25.1
RoE	15.4	7.2	12.6	18.5
Payout ratio (Div/NP)	7.4	6.5	3.9	2.6
EPS (Rs.)	52.2	24.7	48.0	82.3
EPS Growth	73.2	(52.6)	94.4	71.4
CEPS (Rs.)	78.9	52.3	77.9	114.0
DPS (Rs.)	3.2	1.5	1.9	1.9

Source: Company, Axis Research

MINDA CORPORATION – PREMIUMISATION AND ELECTRIFICATION TO DRIVE GROWTH

Minda Corporation (Minda Corp) is the flagship company of the Spark Minda group and is a leading supplier of key auto components to domestic and global OEMs. It has a well-diversified presence across segments 2W, CV, PV, and Aftermarket that contributed 52%, 21%, 11%, and 16% of its sales in FY21, respectively. Geographically, India commands ~85% of sales while the rest ~15% is contributed by overseas. Its customer base comprises all leading Indian OEMs with top clients being Bajaj Auto, Ashok Leyland, TVS Motors, Suzuki Motors, and M&M, among others.

Industry view

Equal Weight

CMP
128

Target Price
148

Upside
15%

Key Rationale

- **Beneficiary of migration to BS6:** Minda Corp will be a key beneficiary of migration to BS6 as its wire harness product (25-30% market share) will likely witness a massive demand both in terms of value and volume. We continue to like the growth story of the company driven by increasing value of kit-per-vehicle, exit from loss-making operations, and the possibility of an opportunistic inorganic acquisition by leveraging its cash-rich position.
- **Robust growth headroom in EV space:** The company has a large portfolio of EV products for e2Ws and e3Ws. The company's 3x3x3 EV strategy will provide complete drive-train solutions to 3 segments (2Ws/3Ws/Entry cars) with 3 products (DC-DCconverter, Battery Charger, Motor Controllers) and products less than 3kW. It has started receiving orders for multiple products in the EV space from leading OEMs such as Bajaj's Chetak and other Indian OEMs as well. The management believes the shift to EVs in India would happen faster due to earlier adoption and cutting out the hybrid phase as the latter is not cost-effective.

Key Rationale

- **Multiple growth drivers in place:** A few other growth drivers for Minda Corp include a) Connected mobility solutions, b) Light-weighting solutions, and c) Vehicle access systems. The demand recovery in CVs (20% of Minda Corp's revenues) will further boost its topline over the next two to three years.
- **Valuation:** We expect Minda Corp's profitability to improve over FY21-23E in the backdrop of a wide product basket, robust market share, new product addition, and operating leverage. We expect an excellent growth in the company's profitability by FY23E owing to the attributes such as improved content-per-vehicle as well as higher indigenous content. Return ratios, too, would improve by FY23 led by improving profit margins and asset turnover crossing 2x (peak of 3x seen between FY13-16). We maintain a BUY and value the company at 12x FY23E EPS to arrive at a target price of Rs 148, implying an upside potential of 16% from CMP.
- **Key risks:** a) Delay in the automobile demand recovery, especially in the 2W segment. b) Slower-than-expected transition to EV.

Key Financials (Consol)

Y/E Mar (Rs Cr)	Sales (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	D/E (x)
FY20	2,223	-200	-8.79	-12.6	-18.3	15.9	8.9	0.5
FY21P	2,368	53	2.21	50.0	5.0	12.7	10.4	0.4
FY22E	2,832	155	6.49	17.0	12.8	18.2	7.3	0.3
FY23E	3,500	231	9.66	11.4	16.7	23.2	5.3	0.1

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY20	FY21P	FY22E	FY23E
Net sales	**2,223**	**2,368**	**2,832**	**3,500**
Other operating income	0	0	0	0
Total income	2,223	2,368	2,832	3,500
Cost of goods sold	1,338	1,493	1,701	2,086
Contribution (%)	356.6	382.7	470.4	570.4
Advt/Sales/Distrn O/H	282.1	275.7	352.5	437.5
Operating Profit	**245**	**217**	**308**	**406**
Other income	43	33	41	37
PBIDT	**288**	**250**	**350**	**443**
Depreciation	87	94	108	109
Interest & Fin Chg.	39	36	34	25
E/o income / (Expense)	-293	-42	0	0
Pre-tax profit	**-131**	**79**	**208**	**309**
Tax provision	45	31	52	78
(-) Minority Interests	0	0	0	0
Associates	-24	5	0	0
Adjusted PAT	**195**	**78**	**155**	**231**
Reported PAT	**93**	**94**	**155**	**231**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21P	FY22E	FY23E
Total assets	**1,524**	**1,623**	**1,664**	**1,735**
Gross block	529.2	574.5	529.2	505.6
Net Block	28.5	17.9	15.0	15.0
CWIP	29.9	29.9	29.9	29.9
Goodwill	176.1	180.5	180.5	180.5
Investments	288	321	479	533
Wkg. cap. (excl cash)	472.4	499.3	430.0	471.4
Cash / Bank balance	0.0	0.0	0.0	0.0
Misc. Assets				
	1,524	**1,623**	**1,664**	**1,735**
Capital employed	45.4	47.8	47.8	47.8
Equity capital	930	1,099	1,221	1,442
Reserves	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	544	473	389	239
Def tax Liabilities	4.8	3.4	5.7	6.2

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	FY20	FY21P	FY22E	FY23E
Sources	**-137**	**156**	**171**	**180**
Cash profit	-51	177	297	365
(-) Dividends	19	10	10	10
Retained earnings	-70	167	287	355
Issue of equity	0.2	2.4	0.0	0.0
Change in Oth. Reserves	0.0	95.2	0.0	0.0
Borrowings	-17	-71	-84	-150
Others	-50	-38	-32	-25
Applications	**-137**	**156**	**171**	**180**
Capital expenditure	(97.4)	76.2	82.1	85.0
Investments	11.2	4.3	0.0	0.0
Net current assets	(158.7)	31.1	158.5	53.6
Change in cash	107.7	44.8	(69.3)	41.3

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21P	FY22E	FY23E
Sales growth	**(28.1)**	**6.5**	**19.6**	**23.6**
OPM	**11.0**	**9.2**	**10.9**	**11.6**
Oper. profit growth	(16.0)	(11.6)	41.9	31.8
COGS / Net sales	28.7	27.8	29.1	28.8
Overheads/Net sales	32.1	32.2	32.1	31.9
Depreciation / G. block	10.1	9.9	10.5	9.8
Effective interest rate	5.4	7.5	7.4	7.5
Net wkg.cap / Net sales	0.15	0.11	0.13	0.13
Net sales / Gr block (x)	2.6	2.5	2.8	3.1
RoCE	**15.9**	**12.7**	**18.2**	**23.2**
Debt / equity (x)	0.53	0.39	0.28	0.14
Effective tax rate	(34.7)	39.4	25.2	25.2
RoE	**(18.3)**	**5.0**	**12.8**	**16.7**
Payout ratio (Div/NP)	(9.6)	19.1	6.5	4.4
EPS (Rs.)	**-8.79**	**2.21**	**6.49**	**9.66**
EPS Growth	(218.8)	(125.1)	194.0	48.8
Adj EPS (Rs.)	**4.1**	**4.0**	**6.5**	**9.7**
Adj EPS growth	(37.9)	(4.0)	64.3	48.8
CEPS (Rs.)	(5.0)	6.1	11.0	14.2
DPS (Rs.)	0.7	0.4	0.4	0.4

Source: Company, Axis Research

STEEL STRIP WHEELS - OPERATING LEVERAGE TO KICK-IN AS CAPACITY UTILIZATION IMPROVES

Steel Strip Wheels Ltd. (SSWL) is a tier 1 Auto ancillary engaged in designing, manufacturing, and supplying automotive steel wheels for 2W, PV, and CV OEMs since 1991. The company has 4 plants: 2W, PV, and tractor wheel plant at Dapper, Chandigarh, CV plant at Jamshedpur, CV and PV plant at Chennai, and Al-alloy wheel plant at Mehsana, Gujarat. SSWL has a technology tie-up with Sumitomo Metals, Japan, and Kalink, Korea who along with Tata Steel are also strategic investors.

Industry view

Equal Weight

CMP
842

Target Price
989

Upside
17%

Key Rationale

- **Robust production capacity:** SSWL has built massive capacity across auto segments including 2W, PV, CV, Tractors, OTR, and Al-alloy wheels, all of which are currently underutilized owing to the slowdown in the Auto sector post-IL&FS crisis in 2018. The company has a production capacity of 0.73 Cr steel wheel rims for 2W & PVs and 0.18 Cr for CV, OTR, and tractors at Dapper, Chandigarh. It has a 0.6 Cr steel wheel manufacturing capacity for PVs and 0.15 Cr for CVs at Chennai and 0.21 Cr steel wheel capacity for CVs at Jamshedpur. The company has 0.15 Cr Al-alloy wheels manufacturing facility at Mehsana, Gujarat, which will be expanded to 0.24 Cr by Q4FY21. Recovery in automobile demand would help SSWL optimally utilize its capacity, which in turn, would help it improve its profitability over the next two years.
- **Encouraging exports opportunities:** Export opportunities are opening up as the USA and EU have levied huge Anti Dumping Duties (ADD) on imports from China. The estimated imports value of steel wheels from China was around \$1,300 Mn (US: \$400 Mn, EU: \$900 Mn) before the imposition of import tariffs. SSWL is well-positioned to capitalize on the exports opportunity as its Chennai plant (having both CV and PV steel making facility) is located close to the port. The company intends to take exports to over Rs 300 Cr by FY22.

Key Rationale

- **Al-alloy wheel to boost margins and PAT growth:** The increasing contribution of high margin Al-alloy wheel rims in overall revenues is expected to support margin expansion. Al-alloy wheels contributed ~20% to SSWL's revenues in FY21, a huge jump from ~7% in FY20. The contribution is expected to increase further to 25% plus over the next couple of years and has order visibility for the next 5 years. SSWL is expanding Al-alloy wheel capacity to 0.24 Cr wheels and being a high-margin product (margin differential of ~500-600 bps over steel wheels), PAT is expected to grow at a faster pace as the contribution of the Al-alloy wheel increases in the overall sales.
- **Leading market share:** Being in an oligopoly market, SSWL commands leadership with a ~55% market share in the steel wheel rims and ~20% in alloy wheels. We expect SSWL to outperform the industry growth given its sticky relations with OEMs across all the auto segments viz., 2/3W, PV, CV, and Tractors. We have penciled in Revenue/EBIDTA/PAT CAGR of 34%/43%/139% over FY20-23E respectively vis-à-vis 7%/9%/(1)% CAGR for FY13-20. The higher growth estimates are supported by operating leverage kicking in through better capacity utilization owing to the domestic auto-recovery and improving exports.
- **Key risks:** a) Delay in automobile demand recovery, especially PV and CV, and b) Sharp INR appreciation hampering the company's rising exports opportunities.

Key Financials (Consol)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs.)	PER (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	D/E (x)
FY20	1,563	23	15	56.4	3.4	8.9	10.3	1.40
FY21P	1,749	49	32	26.9	6.8	10.7	8.5	1.13
FY22E	2,799	185	119	7.2	22.0	20.9	4.5	0.75
FY23E	3,779	329	211	4.0	30.1	29.2	2.7	0.42

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY20	FY21P	FY22E	FY23E
Net sales	**1,563**	**1,749**	**2,799**	**3,779**
Other operating income	0	0	0	0
Total income	1,563	1,749	2,799	3,779
Cost of goods sold	1,311	1,458	2,303	3,083
Contribution (%)	*16.1%*	*16.7%*	*17.7%*	*18.4%*
Advt/Sales/Distrn O/H	80.9	88.1	140.2	189.3
Operating Profit	**171**	**204**	**355**	**506**
Other income	22	16	17	18
PBIDT	**193**	**220**	**372**	**525**
Depreciation	72	72	77	83
Interest & Fin Chg.	89	84	64	50
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**33**	**64**	**231**	**391**
Tax provision	9	15	46	62
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	**23**	**49**	**185**	**329**
Reported PAT	**23**	**49**	**185**	**329**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21P	FY22E	FY23E
Total assets	**1,734**	**1,845**	**1,895**	**2,050**
Net Block	1,329.2	1,306.5	1,411.7	1,348.2
CWIP	52.8	85.5	10.0	10.0
Investments	0.2	0.2	0.2	110.0
Wkg. cap. (excl cash)	231	361	397	440
Cash / Bank balance	121.0	91.7	75.9	141.7
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	**1,734**	**1,845**	**1,895**	**2,050**
Equity capital	15.6	15.6	15.6	15.6
Reserves	666	682	1,023	1,347
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	927	994	705	535
Def tax Liabilities	125.7	153.5	150.8	152.2

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	FY20	FY21P	FY22E	FY23E
Sources	**169**	**179**	**88**	**238**
Cash profit	237	184	327	463
(-) Dividends	8	8	6	6
Retained earnings	229	177	321	457
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	22.8	1.3	0.0	0.0
Borrowings	-11	67	-155	-170
Others	-72	-65	-77	-49
Applications	**169**	**179**	**88**	**238**
Capital expenditure	93.4	80.2	20.0	20.0
Investments	0.0	0.0	0.0	109.8
Net current assets	85.2	128.6	45.5	42.7
Change in cash	(9.6)	(29.3)	22.7	65.8

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21P	FY22E	FY23E
Sales growth	**(23.4)**	**11.9**	**60.0**	**35.0**
OPM	**11.0**	**11.6**	**12.7**	**13.4**
Oper. profit growth	(30.4)	19.0	74.5	42.4
COGS / Net sales	83.9	83.3	82.3	81.6
Overheads/Net sales	5.2	5.0	5.0	5.0
Depreciation / G. block	3.8	3.6	3.6	3.8
Effective interest rate	9.4	9.2	8.4	8.3
	1.5	2.8	6.6	8.7
Net wkg.cap / Net sales	0.18	0.18	0.11	0.10
Net sales / Gr block (x)	0.8	0.9	1.3	1.7
RoCE	**8.9**	**10.7**	**20.9**	**29.2**
Debt / equity (x)	1.40	1.13	0.75	0.42
Effective tax rate	28.3	22.8	19.9	15.8
RoE	**3.4**	**6.8**	**22.0**	**30.1**
Payout ratio (Div/NP)	32.1	11.5	3.1	1.7
EPS (Rs.)	**15.0**	**31.6**	**118.5**	**211.1**
EPS Growth	(71.5)	110.0	275.2	78.1
CEPS (Rs.)	61.2	78.0	168.1	264.6
DPS (Rs.)	4.0	3.0	3.0	3.0

Source: Company, Axis Research

LUPIN LTD – COMPLEX MOLECULES LED TO SEQUENTIAL GROWTH

Lupin's specialty product portfolio includes (Albuterol, Solosec& Levothyroxine) in the US, a strong chronic portfolio in India and biosimilars& geographical expansion in emerging and growth markets could drive topline.

Industry view

Equal Weight

CMP
1149

Target Price
1400

Upside
22%

Key Rationale

- Lupin's specialty product portfolio includes (Albuterol, Solosec& Levothyroxine) in the US, a strong chronic portfolio in India and biosimilars& geographical expansion in emerging and growth markets could drive topline. Gross margins expansion with the launch of value-added products, digital promotion in the marketing of Solosec, cost rationalization in R&D and employee segment could improve EBITDA margins by 590 basis points while better capital allocation could result in the improvement of RoCE by 560 bps over the period FY20-FY23E.
- Lupin' specialty business (USD$ 200 mn) includes Levothroxine, Solosec and ProAir could add strong incremental growth in the US. In Developed and Emerging markets the launch of biosimilar etanercept and NaMuscla& extension of products in CVS, OTC and Ophthalmology therapeutics could drive topline. Further, Lupin has a strong presence in API categories like Tuberculosis (TB), HIV, Malaria, and CRVs in the product basket is well placed to grab upcoming opportunities in the API sector.

Key Rationale

- The domestic formulations market in India has recorded ~9.5% CAGR in 2014-19 to reach US$ 22 bn is expected to grow at 8%-11% CAGR to US$ 31-35 bn by 2040. Within the pharma market, the chronic segments (Cardiac, Anti-Diabetic & Respiratory) has outpaced the industry growth by 300-400 bps. Lupin has a 65% contribution from the chronic segment in the overall portfolio in the domestic market and expected to deliver revenue CAGR 7.6% over the period FY20-23E.
- Lupin has taken several steps to improve overall EBITDA margins 1.) launch of value-added products including biosimilars could improve gross margins 2.) alternate vendor strategies to bring down the overall procurement costs, 3.) bring down manpower costs to rationalize expenses for launch of new products 4.) rationalization of R&D costs to have more focus on complex products (8% R&D costs over the long term) 5.) lower cost in Solosec promotions could improve EBITDA margins by 590 basis points over the period FY20-FY23E.
- Key risks: Increase in API prices, Further, Price erosion in US market, an extension of lockdown

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales(Rs)	EBIDTA (Rs)	Net Profit(Rs)	FDEPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	RoE (%)
2020	15,375	2,357	-271	(6.0)	NA	20.6	3.7	NA
2021E	14,945	2,391	1,021	22.5	45.7	20.0	3.5	7.6
2022E	16,218	3,098	1,539	34.0	30.3	15.0	3.1	10.3
2023E	17,661	3,744	2,012	44.4	23.2	12.1	2.8	12.1

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**15,375**	**14,945**	**16,218**	**17,661**
Other operating income	0	0	0	0
Net Revenue	15,375	14,945	16,218	17,661
Cost of goods sold	5,430	5,380	5,514	5,810
Contribution (%)	*35.3%*	*36.0%*	*34.0%*	*32.9%*
Other operating costs	7,589	7,173	7,606	8,106
EBITDA	**2,357**	**2,391**	**3,098**	**3,744**
Other income	484	306	322	338
PBIDT	**2,840**	**2,697**	**3,419**	**4,082**
Depreciation	970	1,005	1,075	1,145
Interest & Fin Chg.	363	322	279	237
E/o income / (Expense)	-752	0	0	0
Pre-tax profit	**756**	**1,371**	**2,065**	**2,700**
Tax provision	1,157	350	527	689
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	**-402**	**1,021**	**1,539**	**2,012**
Other Comprehensive Income	0	0	0	0
Reported PAT	**-271**	**1,021**	**1,539**	**2,012**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	**24,983**	**25,065**	**26,613**	**28,191**
Net Block	4,366	3,861	3,286	2,642
CWIP	758	758	758	758
Investments	2,344	2,644	2,944	3,444
Wkg. cap. (excl cash)	3,733	4,818	6,015	7,902
Cash / Bank balance	2,454	2,638	3,505	4,192
Misc. Assets	0	0	0	0
Capital employed	**24,983**	**25,065**	**26,613**	**28,191**
Equity capital	91	91	91	91
Reserves	12,490	13,409	14,794	16,605
Pref. Share Capital	0	0	0	0
Minority Interests	0	0	0	0
Borrowings	4,286	3,786	3,286	2,786
Def tax Liabilities	0	0	0	0

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
PBT	756	1,371	2,065	2,700
Add: depreciation	970	1,005	1,075	1,145
Add: Interest	363	322	279	237
Cash flow from operations	2,088	2,697	3,419	4,082
Change in working capital	-2,282	440	292	769
Taxes	1,157	350	527	689
Miscellaneous expenses	-130	0	0	0
Net cash from operations	3,343	1,907	2,600	2,625
Capital expenditure	2,873	-500	-500	-500
Change in Investments	-74	-300	-300	-500
Net cash from investing	2,800	-800	-800	-1,000
Increase/Decrease in debt	-3,936	-500	-500	-500
Dividends	-273	-102	-154	-201
Proceedings from equity	0	0	0	0
Interest	-363	-322	-279	-237
Others	-104	0	0	0
Net cash from financing	-4,675	-924	-933	-938
Net Inc./(Dec.) in Cash	1,467	184	867	687
Opening cash balance	987	2,454	2,638	3,505
Closing cash balance	2,454	2,638	3,505	4,192

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Sales growth	**4.8**	**(2.8)**	**8.5**	**8.9**
OPM	**15.3**	**16.0**	**19.1**	**21.2**
Oper. profit growth	(8.0)	1.5	29.5	20.9
COGS / Net sales	35.3	36.0	34.0	32.9
Overheads/Net sales	49.4	48.0	46.9	45.9
Depreciation / G. block	14.5	14.0	14.0	14.0
Effective interest rate	153.2	25.5	25.5	25.5
Net wkg.cap / Net sales	19.4	22.9	22.9	25.4
Net sales / Gr block (x)	2.3	2.1	2.1	2.2
RoCE	**8.2**	**8.0**	**11.1**	**13.3**
Debt / equity (x)	0.3	0.3	0.2	0.2
Effective tax rate	153.2	25.5	25.5	25.5
RoE	**(2.2)**	**7.6**	**10.3**	**12.1**
Payout ratio (Div/NP)	249.9	112.7	169.8	222.1
EPS (Rs.)	**(6.0)**	**22.5**	**34.0**	**44.4**
EPS Growth	(144.9)	(476.2)	50.6	30.8
CEPS (Rs.)	15.4	44.7	57.7	69.7
DPS (Rs.)	5.0	2.3	3.4	4.4

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

Over weight

CMP
1095

Target Price
1,255

Upside
15%

Key Rationale

- **Strong Q4FY21 performance**: Q4FY21 revenue showed a growth of 1.6% QoQ cc. The growth was equally split between demand traction and easing of supply-side issues. The management expects demand momentum, led by acceleration in Digital, to aid further growth. Growth is expected to be in both: (a) Communications led by the transformation of IT, network, systems, and processes over the next 2 years and (b) Enterprise led by traction in Digital with near term momentum expected to be led by Manufacturing, Retail, and Utilities.
- **Strong deal wins and pipeline reflects demand acceleration:** Net new deal wins remained at an all-time high at $1.04 Bn out of which $518 Mn are from Communication and $525 Mn is from Enterprise. The management is expecting a strong recovery from supply-side constraints and expects growth with a 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.
- Tech Mahindra posted robust broad-based growth. Its Telecommunication vertical grew by 1.4% QoQ, Enterprise vertical grew by 1.8% QoQ, Technologies Media & Entertainment vertical grew by 0.6% QoQ, BFSI vertical grew by 4.9% QoQ, and Retail Transportations & Entertainment grew by 3.2% QoQ.

Key Rationale

- **Initial traction in 5G; may pick up in FY22**: 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 FY23. We expect initial traction and pipeline build-up to aid network and core modernization for 5G within Communications in FY22. We see 5G for Enterprise as a long-term opportunity and expect it to pick up in FY23 and beyond.
- **Strong and sustainable margin growth:** Q4FY21 operating margin expanded 130 bps to 16.5%. Margin expansion was aided mainly by (a) Higher offshoring (+160 bps), (b) Utilization and sub-contracting cost (+160 bps), and (c) Normalization of seasonality in mobility business and lower visa costs (+70 bps) which partially offset by wage hike and one-time bonus.
- **Valuations** We believe Tech Mahindra has a resilient business structure and better revenue growth visibility from a long-term perspective but trading at discount as compared to its Indian peers. We recommend a **BUY** and assign 18x P/E multiple to its FY23E earnings of Rs 69.7/share, which gives a **TP of Rs. 1,130/share.**

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	34.0	20%	19%
FY21	37,548	3,849	4,230	50.9	26.0	21%	19%
FY22E	43,556	7,498	4,852	59.0	12.3	23%	21%
FY23E	49,218	10,495	5,531	69.7	10.3	25%	23%

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**36,354**	**37,548**	**43,556**	**49,218**
Growth, %	5%	3%	16%	13%
Other income	1,090	1,232	1,380	1,561
Total income	3,744	3,878	4,494	5,078
Employee expenses	18,718	20,767	22,858	23,099
Other Operating expenses	6,561	7,611	8,307	9,194
EBITDA (Core)	5,832	3,849	7,498	10,495
Growth, %	-8%	-34%	95%	40%
Margin, %	16%	10%	17%	21%
Depreciation	1,379	1,434	1,267	1,578
EBIT	4,453	2,414	6,231	8,918
Growth, %	-14%	-46%	158%	43%
Margin, %	12%	6%	14%	18%
Interest paid	185	133	104	95
Pre-tax profit	**5,358**	**3,513**	**7,507**	**10,384**
Tax provided	1,268	1,667	2,009	3,228
Profit after tax	4,089	1,847	5,498	7,155
Net Profit	**4,130**	**4,230**	**4,852**	**5,531**
Growth, %	**-4%**	**2%**	**15%**	**14%**
Net Profit (adjusted)	4,130	4,230	4,852	5,531

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Cash & bank	1,722	1,043	2,848	7,789
Debtors	7,370	7,778	9,225	10,209
Other current assets	6,590	6,590	6,590	6,590
Total current assets	**22,065**	**22,134**	**25,689**	**31,337**
Net fixed assets	1,971	1,243	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	**361**	**288**	**207**	**207**
	0	0	0	0
Total assets	**33,543**	**33,252**	**36,613**	**41,639**
	0	0	0	0
Creditors	2,592	2,795	2,971	3,114
Provisions	395	395	395	395
Total current liabilities	**9,800**	**9,763**	**9,939**	**10,082**
Other liabilities	42	42	42	42
Paid-up capital	433	433	433	433
Reserves & surplus	20,125	22,492	25,718	30,602
Shareholders' equity	2,056	2,293	2,615	3,104
Total equity & liabilities	**33,543**	**33,252**	**36,613**	**41,639**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	5,358	3,513	7,507	10,384
Depreciation	1,379	1,434	1,267	1,578
Chg in working capital	-820	-748	-1,750	-706
Total tax paid	1,268	1,667	2,009	3,228
Cash flow from operating activities	**5,812**	**4,043**	**6,853**	**11,238**
Capital expenditure	727	662	673	745
Cash flow from investing activities	**-727**	**-662**	**-673**	**-745**
Free cash flow	5,812	4,043	6,853	11,238
Dividend (incl. tax)	3,846	2,112	2,323	2,323
Cash flow from financing activities	**-291**	**-281**	**-42**	**24**
Net chg in cash	-321	-679	1,805	4,941

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share data				
EPS (INR)	48.0	50.9	59.0	69.7
Growth, %	-2%	6%	16%	18%
Book NAV/share (INR)	233.6	260.5	297.2	352.7
FDEPS (INR)	39	42	46	46
CEPS (INR)	62.6	67.2	77.5	99.8
CFPS (INR)	36.5	43.8	42.8	42.8
DPS (INR)	24	21	24	24
Return ratios				
Return on assets (%)	12%	13%	15%	17%
Return on equity (%)	20%	21%	23%	25%
Return on capital emp. (%)	19%	19%	21%	23%
Turnover ratios				
Asset turnover (x)	18.4	31.6	74.2	65.0
Sales/Total assets (x)	18.4	31.6	74.2	65.0
Receivables Days	102.4	102.4	102.4	102.4
Cash conversion cycle	25.5	34.5	5.0	2.4
Liquidity ratios				
Current ratio (x)	2.2	2.2	2.5	3.0
Quick Ratio	1.4	1.4	1.6	2.0
Net debt/Equity (%)	0	0	0	0
Leverage Ratio	2	1	1	1
Valuation				
PER (x)	34.0	26.0	20.0	18.0
Price/Book (x)	3.3	3.0	2.6	2.2
EV/Net sales (x)	3.1	2.9	2.8	2.8
EV/EBITDA (x)	7.3	7.3	6.4	6.4
Dividend Yeild	4.4	2.9	4.4	4.4

Source: Company, Axis Research

BHARTI AIRTEL – MARKET LEADING OPERATING PERFORMANCE

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

Key Rationale

- Bharti Airtel Bharti Airtel Ltd (Airtel) reported muted growth in Q4FY21 but reported better numbers than our expectations. Revenues at Rs 25,747 Cr declined 2.9% QoQ and grew 11.9% YoY . EBIDTA grew by 2.3% QoQ at Rs 12,331 Cr and the margin expanded by 380 bps QoQ to 47.5%, aided by strong execution and better customer mix.
- The Africa business continues to perform well and it has been adding significant value in terms of consistent growth in operating profits and cash flows.
- Capex for the quarter at Rs 6,846 Cr was in line with expectations has guided by the management it has declined from the peak levels.
- The Indian Bharti Airtel is to maintain an industry-leading ARPU with leading per-user data consumption (16.4 GB/month). We expect it to benefit from the operating leverage as ARPU improves and 60-70% of the revenue is pass-through to EBIT. Enterprise revenue was up by 2.2% QoQ and margin expanded by 145 bps QoQ. Enterprise and Africa margins are also likely to see operating leverage benefits as revenue increases with the addition of more subscribers.
- Net debt increased by Rs 5,300 Cr in Q4FY21 (excluding lease obligations at Rs 1, 15, 500 Cr at end of Q4FY21). Bharti Airtel's Operating Free Cash Flow (EBITDA - Capex) improved in FY21 to Rs 21,970 Cr from Rs 10,280 Cr in FY20. However, net debt (including lease liability) has increased from Rs 1, 24,500 Cr to Rs 1, 48,500 Cr, with a Capex of Rs 24,160 Cr in FY21.

Key Rationale

- The company has further acquired Rs 18,700Cr worth of spectrum in an auction (made upfront cash payment of Rs 6,300 Cr). This will further increase the debt level offset partially by Rs 1,500 Cr expected from RJio for spectrum trading. Rising debt is likely to bring free cash flow to focus.
- The management's strategic bets in digital continue to gain traction through rate of customer addition has moderated: (i) Over 1.2 Mn (flat QoQ; 1.2 Mn/1.1 Mn in Q3/Q2) retailers transacting and making payments every day on Mitra App; (ii) 200 Mn (vs. 190 Mn/ 160 Mn/ 155 Mn in Q3/ Q2/ Q1) Monthly Active Users (MAU) across Airtel Thanks, Wynk, Xstream with 10 Mn QoQ addition (moderation from 30 Mn added in Q3); (iii) Wynk MAUs increased by 5.5 Mn (+7.3 Mn/ +9 Mn during Q3/Q2) to 72.5 Mn in Q4FY21; (iv) Airtel Xstream crossed 37.5 Mn MAUs vs. 40 Mn at end of Q4; and (v) Online recharges continue to contribute ~50% to overall revenue.
- Market share for the connectivity part of the business has increased from 23-31% in 2 years with 80% of revenue coming from 20% of the customers. Airtel sees headroom to gain market share with opportunities in (i) Cloud communication by offering voice, video, chat through API; and (ii) Cyber security integrated with connectivity for SME; (iii) IOT which was launched recently. The company is to focus on partnerships for cloud and cyber security.
- **Valuation:** We value and recommend a BUY with SOTP based valuation at Rs 700/share aided by better margins, stronger subscriber growth, and higher 4G conversions. TP indicates an upside of 31% from CMP.

Industry view

Overweight

CMP
526

Target Price
700

Upside
33%

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	RoE (%)
2020	86,835	36,034	(5,405)	(63.0)	-	10.0	3.2	(37.7)
2021	1,00,616	45,372	(2,879)	(14.6)	-	8.7	3.5	(9.6)
2022E	1,06,072	50,722	5,735	11.2	48.0	7.6	3.3	6.8
2023E	1,16,125	54,967	10,630	20.7	25.9	6.9	2.9	11.2

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**86,835**	**1,00,616**	**1,06,072**	**1,16,125**
Growth, %	7	16	5	9
Total income	**86,835**	**1,00,616**	**1,06,072**	**1,16,125**
Raw material expenses	-10,740	-10,352	-9,191	-9,959
Employee expenses	-3,728	-4,115	-4,361	-4,726
Other Operating expenses	-49,355	-53,797	-53,995	-59,690
EBITDA (Core)	**36,034**	**45,372**	**50,722**	**54,967**
Growth, %	39.6	25.9	11.8	8.4
Margin, %	41.5	45.1	47.8	47.3
Depreciation	-27,496	-29,404	-28,870	-26,851
EBIT	**8,537**	**15,967**	**21,852**	**28,115**
Growth, %	90.9	87.0	36.9	28.7
Margin, %	9.8	15.9	20.6	24.2
Interest paid	-13,222	-15,091	-14,172	-12,753
Other Non-Operating Income	1,037	643	286	289
Non-recurring Items	-40,180	0	0	0
Pre-tax profit	**-43,390**	**1,426**	**8,824**	**16,354**
Tax provided	12,301	-8,933	-3,088	-5,724
Profit after tax	**-31,090**	**-7,506**	**5,735**	**10,630**
Others (Minorities, Associates)	-1,259	0	0	0
Net Profit	**-32,349**	**-7,506**	**5,735**	**10,630**
Growth, %	1,288.4	(76.8)	(176.4)	85.3
Net Profit (adjusted)	**(32,349)**	**(7,506)**	**5,735**	**10,630**
Unadj. shares (bn)	513.4	513.4	513.4	513.4
Wtdavg shares (bn)	513.4	513.4	513.4	513.4

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Cash & bank	31,688	17,582	17,841	18,398
Marketable securities at cost	0	0	0	0
Debtors	0	0	0	0
Inventory	0	0	0	0
Loans & advances	0	0	0	0
Other current assets	46,983	37,209	37,181	37,336
Total current assets	78,671	54,791	55,022	55,734
Investments	0	0	0	0
Gross fixed assets	2,43,219	2,52,641	2,50,714	2,48,943
Less: Depreciation	0	0	0	0
Add: Capital WIP	0	0	0	0
Net fixed assets	2,43,219	2,52,641	2,50,714	2,48,943
Non-current assets	38,889	38,597	39,175	39,763
Total assets	**3,69,336**	**3,65,271**	**3,63,930**	**3,68,701**
Current liabilities	1,31,488	1,11,636	1,10,377	1,09,541
Provisions	0	0	0	0
Total current liabilities	1,31,488	1,11,636	1,10,377	1,09,541
Non-current liabilities	1,27,162	1,53,165	1,47,348	1,42,326
Total liabilities	2,58,650	2,64,801	2,57,725	2,51,866
Paid-up capital	2,567	2,567	2,567	2,567
Reserves & surplus	83,135	75,629	81,364	91,994
Shareholders' equity	1,10,687	1,00,470	1,06,205	1,16,835
Total equity & liabilities	**3,69,336**	**3,65,271**	**3,63,930**	**3,68,701**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	-43,390	1,426	8,824	16,354
Depreciation	27,496	29,404	28,870	26,851
Chg in working capital	-41,068	14,948	1,241	1,320
Total tax paid	12,859	-9,010	-2,741	-5,302
Other operating activities	0	0	0	0
Cash flow from operating activities	**-46,784**	**37,747**	**36,195**	**39,208**
Capital expenditure	-30,008	-38,827	-26,943	-25,080
Chg in investments	0	0	0	0
Chg in marketable securities	-26,806	9,774	28	-155
Other investing activities	28,523	-2,603	-6,560	-12,647
Cash flow from investing activities	**-1,048**	**-41,522**	**-32,646**	**-37,024**
Free cash flow	-47,833	-3,775	3,550	2,184
Equity raised/(repaid)	46,628	0	0	0
Debt raised/(repaid)	28,202	20,222	-7,959	-7,492
Dividend (incl. tax)	0	0	0	0
Other financing activities	0	0	0	0
Cash flow from financing activities	**85,030**	**17,511**	**-7,959**	**-7,492**
Net chg in cash	37,197	13,736	-4,409	-5,308
Opening cash balance	14,923	31,688	17,582	17,841
Closing cash balance	31,688	17,582	17,841	18,398

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share data				
EPS (INR)	(63.0)	(14.6)	11.2	20.7
Growth, %	981.1	(76.8)	(176.4)	85.3
Book NAV/share (INR)	166.9	152.3	163.5	184.2
FDEPS (INR)	(63.0)	(14.6)	11.2	20.7
CEPS (INR)	(9.5)	42.7	67.4	73.0
CFPS (INR)	94.5	33.2	67.0	74.0
DPS (INR)	-	-	-	-
Return ratios				
Return on assets (%)	(7.3)	0.4	4.0	5.2
Return on equity (%)	(37.7)	(9.6)	6.8	11.2
Return on capital employed (%)	(11.0)	0.6	5.5	7.0
Turnover ratios				
Asset turnover (x)	0.6	0.6	0.7	0.7
Sales/Total assets (x)	0.3	0.3	0.3	0.3
Sales/Net FA (x)	0.4	0.4	0.4	0.5
Working capital/Sales (x)	(1.0)	(0.7)	(0.7)	(0.6)
Fixed capital/Sales (x)	2.7	2.3	2.1	1.9
Working capital days	(355.2)	(270.0)	(251.9)	(227.0)
Liquidity ratios				
Current ratio (x)	0.6	0.5	0.5	0.5
Quick ratio (x)	0.6	0.5	0.5	0.5
Interest cover (x)	0.6	1.1	1.5	2.2
Total debt/Equity (%)	134.7	173.5	152.2	127.1
Net debt/Equity (%)	97.7	151.0	130.9	107.7
Valuation				
PER (x)	(8.5)	(36.7)	48.0	25.9
Price/Book (x)	3.2	3.5	3.3	2.9
EV/Net sales (x)	4.1	3.9	3.6	3.2
EV/EBITDA (x)	10.0	8.7	7.6	6.9
EV/EBIT (x)	42.0	24.6	17.6	13.4

Source: Company, Axis Research

HCL TECHNOLOGIES – BETTER PRODUCT MIX, STRONG EXECUTION

HCL Technologies Limited, an Indian Information technology (IT) service and consulting company headquartered in Noida, UP is a next-generation global technology company that helps enterprises re-imagine their businesses for the digital age. HCL technologies products, services, and engineering are built on strong innovation making a more sustainable business model even in uncertainties.

Industry view

Overweight

CMP
984

Target Price
1,135

Upside
15%

Key Rationale

- **Robust deal wins and better outlook:** HCL Technologies Ltd (HCL Tech) management expects traction within services (ITS and ERS), but P&P to be soft and grow in low single digit in FY22. Management has moved away from quantitative revenue guidance and guided for double digit growth in cc terms in FY22. Reduced disclosure blurs visibility for FY22 revenue. Nevertheless, given the strong demand environment and strength of bookings. HCL Tech won 19 transformational deals in this quarter. Deal wins for the quarter remained strong and showed a growth of 13% QoQ. Total TCV for the quarter stood at $3.1 Bn. FY22 revenue growth guidance stated at double-digit revenue growth and EBIT margins will be in the range of 19%-21%.

- **Digital transformation business is a great opportunity for HCL tech even in the global pandemic:** IT service provider's engagement with its partner network has expanded beyond certifications into the setup of co-innovation centres, building industry solutions, ISV partnerships, and joint sourcing of deals. These partnerships play a significant role in implementation, rollouts & upgrades, validation, and support services.

Key Rationale

- The recent deal trend continues to be healthy for HCL tech and is reflective of traction in Retail & CPG, Manufacturing, and BFSI verticals. HCL Tech has received 13 digital transformational deals in Q3FY21. We believe the COVID-19 outbreak will create huge opportunities across geographies and services for HCL Tech to post strong organic growth over different verticals.
- **Healthy growth aided by Product and Platform business:** HCL Tech had reported better than expected Q4FY21 numbers on both margin and revenue front. Strong revenue growth in Mode 2 business (10.9% YoY) helps HCL Tech to achieve higher growth momentum in longer-term with more advanced technologies. A better business matrix will help to generate higher operating business even if there is pricing pressure across verticals. We believe a better business matrix and large long-term contracts make HCL Tech a promising investment as compared to its Indian peers.
- **Valuations** We believe HCLT has a resilient business structure from a long-term perspective. We recommend a **BUY** and assign 19x P/E multiple to its FY23E earnings of Rs. 59.8/share which gives a TP of Rs 1,135/share, an upside of 15%.

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
2020	70,678	16,694	11,062	41	26	15	6	24%
2021	75,379	15,267	10,098	46	23	12	5	22%
2022E	87,393	22,082	15,305	53	19	10	4	21%
2023E	98,323	28,345	19,864	60	17	9	3	21%

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**70,678**	**75,379**	**87,393**	**98,323**
Growth, %	17%	7%	16%	13%
Other income	193	814	1,116	1,238
Total income	7,087	7,619	8,851	9,956
Employee expenses	44,018	50,313	54,823	58,179
Other Operating expenses	9,966	9,799	10,487	11,799
EBITDA	**16,694**	**15,267**	**22,082**	**28,345**
Growth, %	20%	-9%	45%	28%
Margin, %	24%	20%	25%	29%
Depreciation	2,841	2,404	2,602	2,922
EBIT	1,385	1,368	2,060	2,666
Growth, %	17%	-1%	51%	29%
Margin, %	2%	2%	2%	3%
Interest paid	-15	262	148	134
Pre-tax profit	14,061	13,415	20,448	26,527
Tax provided	**2,938**	**3,287**	**5,112**	**6,632**
Profit after tax	11,123	10,129	15,336	19,895
Net Profit	**11,062**	**10,098**	**15,305**	**19,864**
Growth, %	**9%**	**-9%**	**52%**	**30%**
Net Profit (adjusted)	11,062	10,098	15,305	19,864

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Cash & bank	8,385	9,912	12,915	23,926
Debtors	14,134	15,447	18,386	20,685
Other current assets	5,188	5,188	5,188	5,188
Total current assets	**38,333**	**42,065**	**49,446**	**63,503**
Goodwill & Intangible Assets	0	0	0	0
Net fixed assets	5,713	1,909	1,492	1,028
CWIP	531	531	531	531
Other Noncurrent assets	0	0	0	0
Total Non-Current Assets	**2,946**	**2,998**	**3,080**	**3,080**
	0	0	0	0
Total assets	**83,216**	**92,562**	**1,10,420**	**1,10,420**
	0	0	0	0
Creditors	1,917	1,971	1,963	2,103
Provisions	8,000	7,500	7,500	7,500
Total current liabilities	**20,889**	**18,929**	**19,344**	**20,490**
Other liabilities	2,548	2,548	2,548	2,548
Paid-up capital	543	543	543	543
Reserves & surplus	51,143	58,701	71,466	88,790
Total equity & liabilities	**83,216**	**92,562**	**1,10,420**	**1,10,420**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	14,062	13,417	20,449	26,528
Depreciation	2,841	2,404	2,602	2,922
Chg in working capital	338	-4,165	-3,963	-1,900
Total tax paid	294	329	511	663
Cash flow from operating activities	**14,345**	**12,433**	**19,866**	**28,328**
Capital expenditure	0	1,884	2,185	2,458
Cash flow from investing activities	**-11,374**	**-7,572**	**-7,872**	**-8,146**
Free cash flow	297	298	981	1,772
Dividend (incl. tax)	2,540	2,540	2,540	2,540
Cash flow from financing activities	**5,551**	**-1,339**	**-1,339**	**0**
Net chg in cash	3,045	1,578	3,003	11,011

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share data				
EPS (INR)	40.76	46.06	52.51	59.86
Growth, %	10%	13%	14%	14%
Book NAV/share (INR)	375.7	430.6	523.4	649.3
FDEPS (INR)	39	42	46	46
CEPS (INR)	100.5	90.3	129.6	165.0
CFPS (INR)	36.5	43.8	42.8	47.936
DPS (INR)	23	25	27	30.24
Return ratios				
Return on assets (%)	24%	18%	23%	25%
Return on equity (%)	24%	22%	21%	21%
Return on capital employed (%)	14%	12%	16%	17%
Turnover ratios				
Asset turnover (x)	0.9	0.9	0.9	0.8
Sales/Total assets (x)	1.2	1.2	1.3	1.456
Receivables Days	70.4	70.4	70.4	70.4
Cash conversion cycle	36	35	35	39.2
Liquidity ratios				
Current ratio (x)	2.4	2.6	2.8	3.136
Interest cover (x)	0.0	112	132	147.84
Net debt/Equity (%)				
Valuation				
PER (x)	17.9	18.1	15.7	14.4
Price/Book (x)	3.1	3.7	3.2	2.7
EV/Net sales (x)	2.6	2.4	2.1	1.8
EV/EBITDA (x)	9.0	9.5	12.0	9.0
Dividend Yield	1.0	1.5	1.9	2.2

Source: Company, Axis Research

ORIENT CEMENT LTD – CAPACITY EXPANSION AND STRUCTURAL COST ADVANTAGE TO DRIVE GROWTH

OCL - set up in 1979, was formely a part of Orient Paper and Industries Limited. It commenced cement production in the year 1982 at Devapur, Adilabad district, Telangana. The company was demerged in 2012 and has since made a considerable progress to emerge as India's one of the most efficient cement producers. Presently it has cement manufacturing capacity of 8 mntpa and has plants located in Telengana, Karnataka and Maharashtra. It's a CK Birla group company.

Industry view

Equal weight

CMP
137

Target Price
180

Upside
32%

Key Rationale

- **Capacity expansion to sustain growth:** OCL is expanding its cement grinding capacity by 44% from the present 8.0 million tonnes per annum (mtpa) to 11.5 mtpa. The company is expanding its Devapur plant capacity by 0.5 mntpa through a de-bottlenecking process and it is expected to be commissioned in Q2FY22. Additionally, it is also undetaking further expansion by setting up 3 mntpa clinker and 3 mntpa grinding unit in and near by Devapur expected to get opeartional by FY24E. We expect the company to deliver revenue CAGR of 14% over FY21-FY23E, driven by a volume CAGR of 13% over the same period.
- **Structural cost advantages to boost EBITDA margins:** Despite being a mid-sized cement company, OCL is one of the lowest cost producer of cement in India owing to its proximity to raw material resources, captive power plants (95 MW), and other operational cost advantages. Furthermore, the company is proposing to increase share of green energy in the overall power mix going forward which will further reduce power and fuel costs. Backed by cost optimization measures and price realization, we expect OCL's EBITDA margin to improve from 16% in FY20A to 23% in FY23E and EBITDA per tonne to Rs 1082 over the same period.
- **Focus on premium cement and improving financials to support future growth:** OCL's focus on premiumization strategies has resulted in higher sale of Birla A1. StrongCrete over the last two years. Furthermore, its financials have improved significantly owing to robust cement demand and healthy price realization, helping company to repay its long-term debt. This has strengthened its Balance sheet which will support its future growth prospect. We expect OCL's capital structure to remain healthy from medium to long- term perspective.

Key Rationale

- **Outlook**: The company reported stellar Q4FY21 results as Revenue/EBITDA/APAT grew by 27%/62%/127% on a YoY basis respectively. We believe the company is well-positioned to grow its revenue and profitability going forward with a revival of cement demand in its key markets in both trade and non-trade segment as well as cost optimization measures and increasing sell of premium cement aided by capacity expansions.
- **Valuation**: The stock is currently trading at 5.5x FY22E and 4.1x FY23E EV/EBITDA respectively. We recommend a BUY rating on the stock, valuing the company at 5.5x FY23E EV/EBITDA, to arrive at a target price of Rs 180/share, implying an upside potential of %.
- **Key risks:** a) Extension of current lockdown restrictions impacting expected volume growth b) Rise in input prices hampering margin profile.

Key Financials

Y/E Dec (Rs Cr)	NetSales (Rs cr)	EBIDTA (Rs cr)	Net Profit (Rs cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
FY20	2422	383	87	4	11	5.4	0.8	7.7
FY21	2324	551	214	10	13	6.4	2.1	16.4
FY22E	2744	616	266	13	10	5.2	1.8	17.2
FY23E	3004	693	327	16	9	4.1	1.5	17.6

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	CY20	CY21E	CY22E	CY23E
Net sales	2422	2324	2744	3004
Other operating income	0	0	0	0
Total income	2422	2324	2744	3004
Raw Material	203	325	369	403
Power & Fuel	591	451	568	619
Freight & Forwarding	693	609	747	815
Employee benefit expenses	155	153	167	177
Other Expenses	396	237	276	298
EBITDA	383	551	616	693
Other income	18	18	22	24
PBIDT	401	569	638	716
Depreciation	141	142	146	150
Interest & Fin Chg.	122	94	78	58
E/o income / (Expense)	0	0	0	0
Pre-tax profit	137	334	415	509
Tax provision	51	119	148	182
RPAT	87	214	266	327
Minority Interests	0	0	0	0
Associates	0	0	0	0
APAT after EO item	87	214	266	327

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	CY20	CY21E	CY22E	CY23E
Total assets	2900	2812	2949	3076
Net Block	2210	2146	2078	2013
CWIP	67	41	50	50
Investments	0	115	225	375
Working Capital (excl cash)	222	96	114	125
Cash / Bank balance	35	35	63	74
Misc. Assets	366	378	419	439
Capital employed	2900	2812	2949	3076
Equity capital	20	20	20	20
Reserves	1098	1285	1531	1837
Minority Interests	0	0	0	0
Borrowings	1135	784	634	434
Def tax Liabilities	122	181	181	181
Other Liabilities and Provision	524	541	583	603

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	CY20	CY21E	CY22E	CY23E
Profit before tax	137	334	415	509
Depriciation	141	142	146	150
Interest Expenses	122	94	78	58
Non operating/ EO item	-13	-12	-22	-24
Change in W/C	-63	216	-18	-11
Income Tax	31	59	148	182
Operating Cash Flow	293	714	450	500
Capital Expenditure	-77	-51	-86	-84
Investments	-191	-444	-110	-150
Others	195	333	22	24
Investing Cash Flow	-73	-162	-174	-210
Borrowings	-60	-431	-150	-200
Interest Expenses	-121	-93	-78	-58
Dividend paid	-19	-26	-20	-20
Others	-7	-3	0	0
Financing Cash Flow	-206	-552	-248	-278
Change in Cash	13.9	0.4	28	11
Opening Cash	22	35	35	63
Closing Cash	15	35	63	74

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY20	CY21E	CY22E	CY23E
Operational Ratios				
Gross profit margin	39%	40%	39%	39%
EBITDA margin	16%	24%	22%	23%
PAT margin	4%	9%	10%	11%
COGS / Net sales	61%	60%	61%	61%
Overheads/Net sales	23%	17%	16%	16%
Depreciation / G. block	5.1%	5.0%	5.0%	5.0%
Growth Indicators				
Sales growth	-4%	-4%	18%	9%
EBITDA growth	23%	44%	12%	12%
PAT growth	82%	147%	24%	23%
Efficiency Ratios				
Total Asset turnover (x)	0.9	0.8	0.9	1.0
Sales/Gross block (x)	0.9	0.8	0.9	1.0
Sales/Net block(x)	1.0	1.0	1.2	1.4
Working capital/Sales (%)	0.24	0.20	0.21	0.21
Valuation Ratios				
PE (x)	11	13	10	9
P/BV (x)	0.8	2.1	1.8	1.5
EV/Ebitda (x)	5.4	6.4	5.2	4.1
EV/Sales (x)	0.9	1.5	1.2	1.0
MCap/ Sales (x)	0.4	1.2	1.0	0.9

Source: Company, Axis Research

ASHOK LEYLAND – IN A SWEET SPOT TO RIDE THE ECONOMIC RECOVERY

Ashok Leyland (AL) is the flagship company of Hinduja Group and is the second largest commercial vehicle manufacturer in India. AL's key products include buses, trucks, engines, defense, 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 1,64,000 units for Medium & Heavy Commercial Vehicles (M&HCV) and 72,000 units for Light Commercial Vehicles (LCVs). It focuses on the M&HCV segment and has a significant presence in the bus segment.

Industry view

Equal Weight

CMP
123

Target Price
150

Upside
22%

Key Rationale

- **Best play on the MHCV up-cycle:** We believe the MHCV industry is at the cusp of the next up-cycle and with >60% revenue coming from MHCVs, Ashok Leyland is best-placed to capture the surge in demand. The pick-up in economic activities, especially in the infrastructure development, road construction, and mining, would likely spur demand for new trucks.
- **Well-poised to grow in the LCV segment:** Despite the pandemic's impact, LCVs have witnessed a robust demand largely driven by a surge in e-commerce and transport of dairy and fresh produce. AL launched 'Bada Dost', built on its in-house platform PHOENIX. The Bada Dost range has gained extremely strong traction among customers due to better mileage vs. peers and cheaper service costs. AL is improving its LCV business and is targeting market share gains with the launch of new products.
- **Diversification to add long-term stability:** AL is focusing on reducing its dependence on the cyclical truck business, which currently constitutes about 65% of revenues. AL is improving its LCV business and is targeting market share gains with the launch of new products. The company has also identified CV exports, power solutions, defense and spares and services as other key focus areas.
- **Ramping up Exports Business:** AL currently operates in the markets such as Middle East, SAARC, Bangladesh, and Sri Lanka. AL is also planning to venture into the new markets and focusing on the highly under--penetrated African market. In FY21, AL has added 6-7 strategic and large

Key Rationale

distributors in Africa and the Middle East. Though export markets have not yet opened fully, AL is ready with a comprehensive range of products to cater to the pent-up demand once they resume normal functioning.

- **Focus on Electrification**: AL is focusing on electric vehicles (EVs). In light of enhancing green mobility, the company has created a dedicated EV-only entity called SWITCH Mobility, headquartered in the UK. It expects EVs to form a large part of the business in the coming years and to tap this potential; it has been proactively investing in the EV technology. AL is giving a lot of weight to the total cost of ownership of an electric vehicle as this is a critical component for the wider adoption of EVs.
- **Valuation & Outlook**: AL is focusing on reducing its dependence on the cyclical truck business by increasing the revenue share of Exports, Defence, Power Solutions, LCV, and after sales spare parts business. It remains well-positioned to benefit from a strong recovery in the CV cycle on the back of new product launches and a well-diversified product portfolio. **We maintain our BUY rating on the stock and value it at 18x FY23E EPS to arrive at a TP to Rs 150, implying an upside of 20%**.
- **Key risks:** a) Gradual pick-up in demand, b) Commodity pressures, and c) Higher discounting.

Key Financials (Standalone)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY20A	17,467	1,174	311	1.1	40.6	12.3	3.7	3.6
FY21P	15,301	535	(305)	(1.0)	(118.3)	72.9	(4.3)	(0.6)
FY22E	25,478	2,262	1,050	3.6	34.4	17.1	14.0	10.9
FY23E	34,806	4,061	2,450	8.3	14.7	9.3	28.7	21.8

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY20A	FY21P	FY22E	FY23E
Net revenues	17,467	15,301	25,478	34,806
Operating expenses	16,294	14,766	23,215	30,745
EBIDTA	**1,174**	**535**	**2,262**	**4,061**
EBIDTA margin (%)	**6.7**	**3.5**	**8.9**	**11.7**
Other income	76	120	158	199
Interest	109	307	257	217
Depreciation	670	748	759	768
Profit Before Tax	362	(412)	1,404	3,275
Tax	122	(98)	353	824
Reported Net Profit	**240**	**(314)**	**1,050**	**2,450**
Net Margin (%)	1.4	(2.1)	4.1	7.0
Adjusted Net Profit	**311**	**(305)**	**1,050**	**2,450**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY20A	FY21P	FY22E	FY23E
Equity capital	294	294	294	294
Reserves & surplus	6,970	6,684	7,028	8,773
Shareholders funds	**7,264**	**6,977**	**7,322**	**9,067**
Total Loans	3,065	3,716	3,216	2,716
Deferred tax liability	265	171	171	171
Total Liabilities and Equity	**10,594**	**10,864**	**10,709**	**11,954**
Gross block	10,019	10,684	11,431	12,181
Depreciation	2,400	3,147	3,907	4,675
Net block	7,619	7,537	7,524	7,506
Capital WIP	594	372	375	375
Investments	2,720	3,069	3,269	3,369
Inventory	1,238	2,142	2,792	3,624
Debtors	1,180	2,816	2,443	3,147
Cash & Bank Bal	1,322	823	727	1,028
Loans & Advances	1,716	1,691	1,374	1,872
Current Assets	5,456	7,472	7,336	9,670
Sundry Creditors	2,624	5,165	4,770	5,475
Other Current Liability	3,172	2,421	3,025	3,491
Current Liability& Provisions	5,796	7,586	7,795	8,966
Net current assets	(339)	(113)	(459)	704
Total Assets	**10,594**	**10,864**	**10,709**	**11,954**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY20A	FY21P	FY22E	FY23E
EBIT	504	(213)	1,503	3,293
Other Income	76	120	158	199
Depreciation & Amortisation	670	748	759	768
Interest paid(-)	(109)	(307)	(257)	(217)
Tax paid(-)	(122)	98	(353)	(824)
Extra Ord Income	(108)	(12)	-	-
Operating Cash Flow	909	434	1,810	3,219
Change in Working Capital	(737)	(726)	249	(862)
Cash flow from Operations	**172**	**(292)**	**2,059**	**2,357**
Capex	(1,514)	(443)	(750)	(750)
Investment	(83)	(349)	(200)	(100)
Cash flow from Investing	**(1,597)**	**(792)**	**(950)**	**(850)**
Change in borrowing	2,666	651	(500)	(500)
Others	(23)	21	-	-
Dividends paid(-)	(1,270)	(88)	(706)	(706)
Cashflow from Financial Activities	**1,374**	**584**	**(1,206)**	**(1,206)**
Change in Cash	(51)	(500)	(96)	301
Opening cash	1,374	1,322	823	727
Closing cash	**1,322**	**823**	**727**	**1,028**

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20A	FY21P	FY22E	FY23E
Revenue Growth	(39.9)	(12.4)	66.5	36.6
EBITDA Margin	6.7	3.5	8.9	11.7
Net Profit Margin	1.8	(2.0)	4.1	7.0
ROCE (%)	3.6	(0.6)	10.9	21.8
ROE (%)	3.7	(4.3)	14.0	28.7
EPS	1.1	(1.0)	3.6	8.3
P/E (x)	40.6	(120.2)	34.9	15.0
P/ BV (x)	1.7	5.3	5.0	4.0
EV/ EBITDA (x)	12.3	74.0	17.3	9.5
Fixed Assets Turnover Ratio (x)	2.9	2.6	4.3	5.9
Debt / Equity (x)	0.4	0.5	0.4	0.3
EV/ Sales (x)	0.8	2.6	1.5	1.1

Source: Company, Axis Research

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Sr. No	Name	Designation	E-mail
1	Naveen Kulkarni	Chief Investment Officer	naveen.kulkarni@axissecurities.in
3	Neeraj Chadawar	Quantitative Head	neeraj.chadawar@axissecurities.in
4	Suvarna Joshi	Research Analyst	suvarna.joshi@axissecurities.in
5	Siji Philip	Research Analyst	siji.philip@axissecurities.in
6	Omkar Tanksale	Research Analyst	omkar.tanksale@axissecurities.in
7	Uttamkumar Srimal	Research Analyst	uttamkumar.srimal@axissecurities.in
8	Gaurav Uttrani	Research Analyst	gaurav.uttrani@axissecurities.in
9	Dnyanada Vaidya	Research Analyst	dnyanada.vaidya@axissecurities.in
10	Sneha Prashant	Research Analyst	sneha.prashant@axissecurities.in
11	Hiren Trivedi	Research Associate	hiren.trivedi@axissecurities.in
12	Darshan Gangar	Research Associate	darshan.gangar@axissecurities.in
13	Darshita Shah	Research Associate	darshita.shah@axissecurities.in

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