TOP PICKS

March 2021

AXIS SECURITIES

Structural trends intact; Upgrade Nifty Target to 17,200

Axis top picks have delivered a solid 60% return since introduction in May 2020. The month of February turned out to be a roller coaster ride with the first trading day of the month seeing a ~5% rise in benchmark NIFTY Index (Union Budget Rally) and the last day seeing a correction of ~4%. Even though the month saw a higher volatility than the long-term average, the market trend was constructive. The trend across the core sectors was very strong during the month which is a significant positive. While the market has seen positive traction during the month but there are marked changes in the global interest rate cycle and doubts are being cast on the 'Lower for Longer' trend of interest rates.

There is little doubt about the 2020 pandemic rally was been driven by significant FII buying which was driven by multiple factors including the low-interest rate regime. The upward shift of interest rates will present short term challenges for the market but the structural growth story for India is intact. The earnings for Q3FY21 were very robust with 38 out of the 50 NIFTY companies beating consensus expectations. Consequently, our FY21/22 earnings forecast have been upgraded by 9%/8% respectively. We have also upgraded by FY23 earnings forecast 7% translating to NIFTY earnings of 780. Our December NIFTY target also moves up by 7% to 17,200. We have maintained our top pick recommendations intact. Our key ideas are as follows:

India's structural trends are solid; Yields only a short term challenge: The Q3FY21 GDP grew by 0.4% YoY after registering two consecutive quarters of sharp decline. Interestingly, the Gross Fixed Capital Formation was one of the key drivers of the GDP. Apart from inline GDP numbers, the CPI for the month of January also cooled to 4.1% vs 4.6% in the month of December, the recovery in CPI is primarily due to a sharper decline in vegetable prices. While global inflation is rising on account of multiple factors, India's inflation composition is also markedly different as it is dominated by food inflation. Inflation in India has started cooling off from the months of January and the next leg of food inflation is likely to start in the second half of 2021. We expect inflation to remain in the ~4% zone for 2021 which means that RBI's accommodative policy stance will continue and support economic growth. Moreover, the corporate earnings are seeing strong traction with BFSI's share in earnings rising over the next two years which is a significant positive. Thus, even if the yields were to rise further globally, there is a lot of comfort in the India earnings growth story which can gain further traction in the forthcoming quarters.

Cyclical and Rate sensitive sectors including BFSI hold the key: A closer look at the earnings upgrade for FY21/22 indicates that the bulk of the upgrades have come from core sectors which include 50% earnings upgrade for the Metals sector for FY21. BFSI has also seen double-digit upgrade and so has the cement sector. The earnings contribution of the BFSI sector is also rising to 38% in FY23 from the current 36% in FY21. This is significant considering the already strong earnings trajectory of 23% CAGR for FY21-23E. The banks will still deliver solid returns in the next one year as there is valuation comfort in a number of stocks including the large PSU banks like SBI.

Value and Growth will remain the dominant themes: Value as an investment style has outperformed all the other styles in the last one year by a significant margin but growth has started to catch up. We believe both Value and Growth will outperform the market in the next 12 months. We also find that Value is seeing tremendous traction in the beaten-down sectors. PSU banks have delivered negative returns in both 2019 and 2020 but have staged a major catch up rally in the last 3 months. PSU banks are up by a whopping 90% in the last three months and continued their outperformance in the last one month. We believe that this trend is sustainable in 2021 as many are coming out of a prolonged period of underperformance, trade at attractive valuations and offer the comfort of long-term dividend payouts.

Raising the NIFTY target to 17,200: As we have raised our earnings estimates for FY21/22/23 by 9%/8%/7% respectively, our NIFTY target has also increased in line with our earnings upgrade. Our target multiple at 22x on FY23E earnings remains unchanged as we are seeing consistent earnings recovery. This is the second consecutive quarter of a strong earnings upgrade. The earnings uptrend cycle is likely to persist in the forthcoming quarters providing comfort in the current valuations.

Based on the above themes we recommend the following stocks:

ICICI Bank, Manappuram Finance, Canfin Homes, Federal Bank, Bharti Airtel, HCL Tech, Tech Mahindra, Varun Beverages, RelaxoFootwears, Amber Enterprises, NOCIL, Endurance Technologies, Steel Strip Wheels and Lupin, JK Lakshmi Cement

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	609	666	9%	26.5	2.9	NA	0.9	25.6	55.8	13.9
MANAPPURAM FINANCE LTD	Financials	176	207	18%	8.7	2.1	1	7.4	1.5	15.4	6.4
VARUN BEVERAGES LTD	Consumer Staples	1040	1230	18%	40.3	7.2	0.2	15.3	24.5	36.2	13.6
BHARTI AIRTEL LTD	Communication Services	534	676	27%	NA	4.7	0.4	-7.9	11.3	-2.3	4.7
HCL TECHNOLOGIES LTD	Information Technology	932	1088	17%	19	4.1	1.3	0.4	12.2	36.7	-1.1
ENDURANCE TECHNOLOGIES	Consumer Discretionary	1420	1714	21%	42.2	5.9	0.4	2.2	24.5	33.8	5.3
NOCIL LTD	Materials	169	202	20%	29.5	2.2	1.5	14.5	20.6	32.4	17.5
CAN FIN HOMES	Financials	485	573	18%	13.7	2.5	0.4	0.2	-0.8	27	-2.9
FED BANK LTD	Financials	84	93	11%	12.7	1.1	NA	8.7	28	53.6	25.9
RELAXO FOOTWEAR	Consumer Discretionary	871	1005	15%	89.1	14.7	NA	4.9	19.5	35.5	7.6
AMBER ENTERPRIS	Consumer Discretionary	3198	3614	13%	124.8	7.9	0.1	21.9	31.1	78.6	35.9
STEEL STRIPS WH	Consumer Discretionary	646	877	36%	NA	NA	NA	7.3	28.2	39.1	27.8
LUPIN LT	Health Care	1031	1135	10%	43.1	3.5	0.6	4.3	13.3	8.5	5.5
TECH MAHINDRA L	Information Technology	951	1116	17%	18.2	3.5	1.1	1	4.8	33.1	-2.3
JK Lakshmi Cement	Materials	389	450	16%	14.8	2.3	0.6	16.2	9.8	48.5	14.5

Source: Company, Axis Securities

Sector Outlook

Sector	Current View	Outlook
Automobiles	Overweight	The Indian automobile sector has seen significant improvement in demand and most categories are seeing good traction. CV cycle will continue to be under pressure for some more time but policy changes could help. Two-wheelers and entry-level passenger vehicles in urban markets see revival as a preference for personal mode of travel is seeing an upsurge. Rural demand is likely to be better than urban demand, and tractors are expected to perform better than most segments.
Banking and Financial services	Overweight	The BFSI sector has under-performed the broader market in 2020 by a significant margin owing to issues of the moratorium and the stress in the system. However, both Q2FY21 and Q3FY21 operating and financial performance across the banking sector was better-than-expected. The focus of banks has shifted to growth and as the macroeconomic cycle improves, banks being leveraged play will see stronger earnings growth. Taking the budget and operating performance into consideration, we upgrade BFSI to overweight.
Capital Goods	Equal Weight	Q3FY21 was helped by a rise in the Gross Fixed Capital Formation. The government's Capex cycle continues to be robust and house registrations have continued to remain robust in the metro cities. 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 Underweight stance.
Cement	Equal weight	The cement sector has had pricing power and it has managed to withstand tough times better. We maintain our outlook to equal-weight as we see better pricing scenario evolving. Demand scenario is also picking up in quite a few regions which have been a positive surprise. Overall, we find the cement sector has been able to cope better than expected. Hence, we upgrade our outlook.

Sector Outlook (Cont'd)

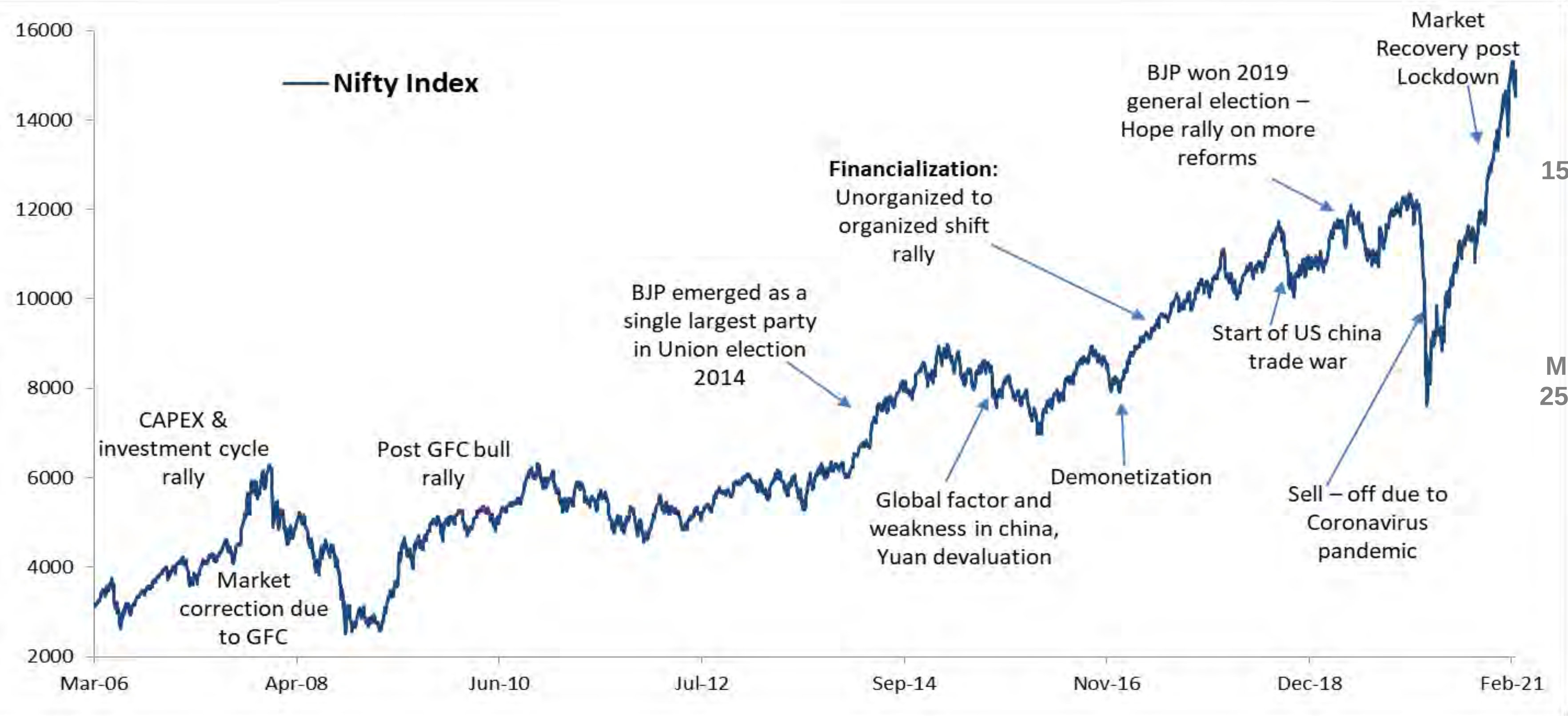
Sector	Current View	Outlook
Consumer staples	Equal weight	The consumer staples sector has seen good demand recovery with Dabur, Marico and Asian paints beating expectations for Q3FY21. While the sector has strong earnings visibility and best in class return ratios, the expensiveness versus other sectors limits the upside as earnings visibility will improve across the board. We maintain the FMCG sector to Equal Weight.
Consumer Discretionary	Overweight	The consumer discretionary space is seeing strong revival and many categories are coming back. All formats of discretionary consumption are seeing improved QoQ traction. This likely to improve further with traction in vaccination in drive. We upgrade Consumer discretionary to Overweight.
Information Technology	Overweight	Q3FY21 earnings for the sector are likely to be robust and further earnings upgrades cannot be ruled out. 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 with a strong balance sheet 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	Equal Weight	The metals and mining sector has seen a significant pricing uptrend as Chinese data has improved and weakening the dollar. This trend is likely to persist in the medium term and metal stocks are likely to perform well. We upgrade the sector to equal weight.
Oil and Gas	Underweight	The Oil and Gas sector has its own set of challenges because of lower GRMs and demand scenario. While the OMCs have seen solid marketing margins but the sustainability remains questionable. We recommend an underweight stance on the sector.

Sector Outlook (Cont'd)

Sector	Current View	Outlook
Pharmaceuticals	Equal Weight	The Q3FY21 results were a mixed bag with a not-so-encouraging performance from the US business. Margins were strong but a significant portion is factored into the market prices. Significant improvement in operating metrics is needed for further re-rating. We see risks to this and downgrade sector stance to Equal Weight from our earlier overweight position.
Real Estate	Equal weight	The real estate sector is seeing record registrations in the metro cities. Demand has picked up as real estate prices are low and interest rates are very attractive. The real estate sector is likely to see more traction in 2021. We upgrade real estate to equal weight stance.
Specialty Chemicals	Overweight	The specialty chemicals sector of India has been one of the sunrise sectors of India. India has been gaining global market share in the space because of India's capabilities in the space and supply chain realignment from China to India. We believe that Indian companies could gain ground further as companies would want to reduce dependence on China after the COVID19 pandemic and shift their supply chains. Apart from the long-term theme of the shift in the supply chain, the manufacturing of many specialty chemicals is part of essentials and the facilities have started opening up. The decline in raw materials prices could also help the margins and reduce working capital needs, however, input costs are a pass-through for most companies and benefits could be limited. Overall the specialty chemicals industry is likely to continue to perform well in the medium term. We recommend an overweight stance on the sector.
Telecom	Overweight	Telecom has become the most critical sector during the current challenging times to keep the businesses up and running. Even before the COVID19 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 overweight stance for the sector.

Nifty events update

The Indian Equity market has bounced back by 100% to 15,315 from the bottom after a major sell-off seen in the month of March. Nifty rallied by 7% in the month of February after a growth-oriented budget presented in a parliament, supported by consistent FII flows & robust corporate earnings. However, a major sell-off was seen in the last trading session of February especially in the BFSI space on account of weaker global cues of US bond yields rising beyond 1.5% in anticipation of higher inflation and due to a sudden spike in crude prices.



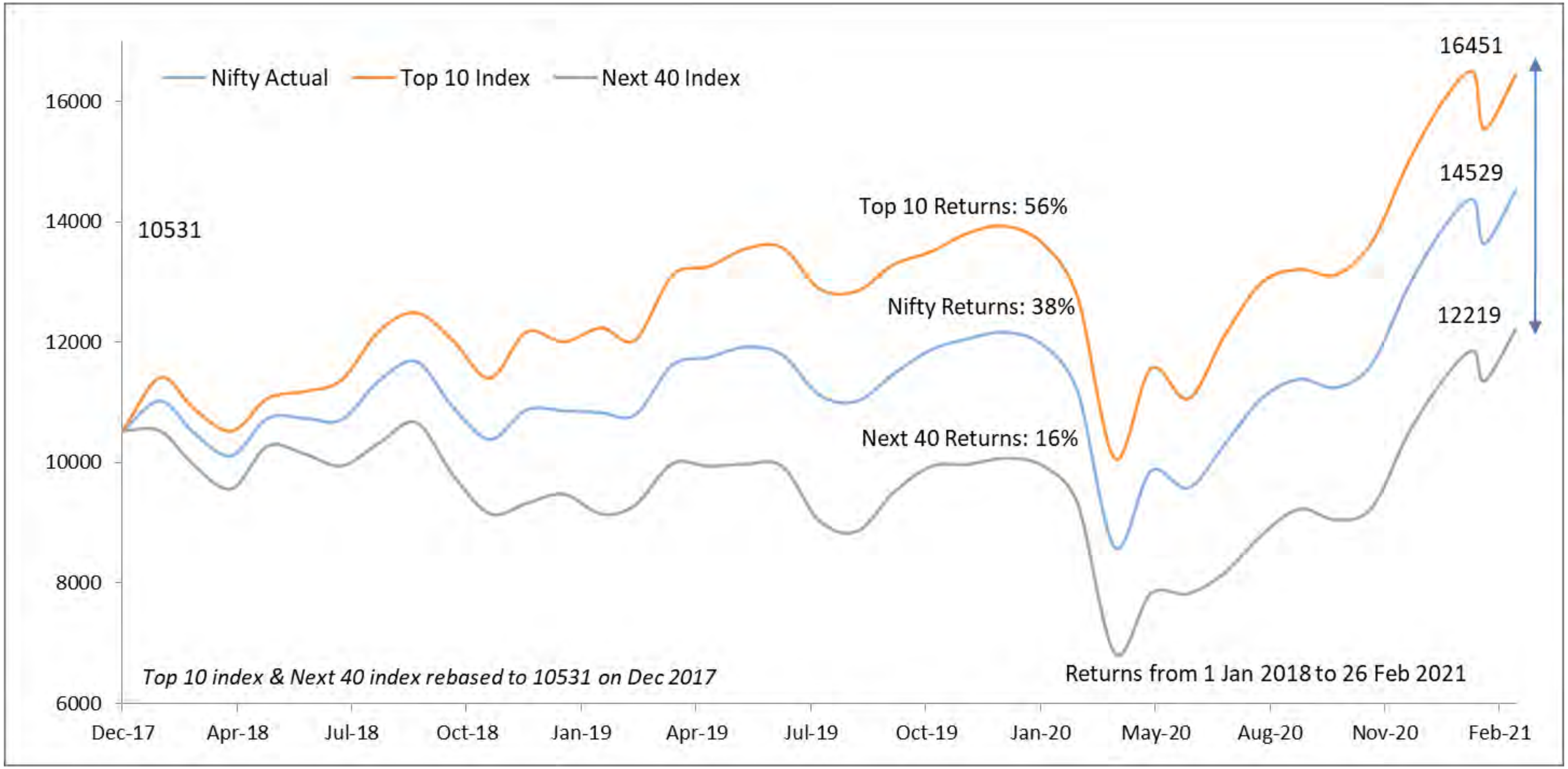
Lifetime high: 15,314 on 15th Feb

Market Rallied by 25% since 1st Nov, 7% in Feb

Source: Bloomberg, Axis Securities

Top 10 stocks domination dwindling in the market

Since Dec 2017, Nifty has delivered a return of 40%. Out of which, the top 10 stocks by free-float market cap have delivered a stellar return of 56% while the remaining 40 stocks had delivered only 16%. This divergence has started narrowing in recent months, based on the top 10 stocks the adjusted Nifty value works out to 16,451 while the remaining 40 would lead NIFTY to just 12,219. **This indicates Nifty is better valued beyond the top 10 names. Long term risk rewards are better in the next 40 names vs. the top 10.**

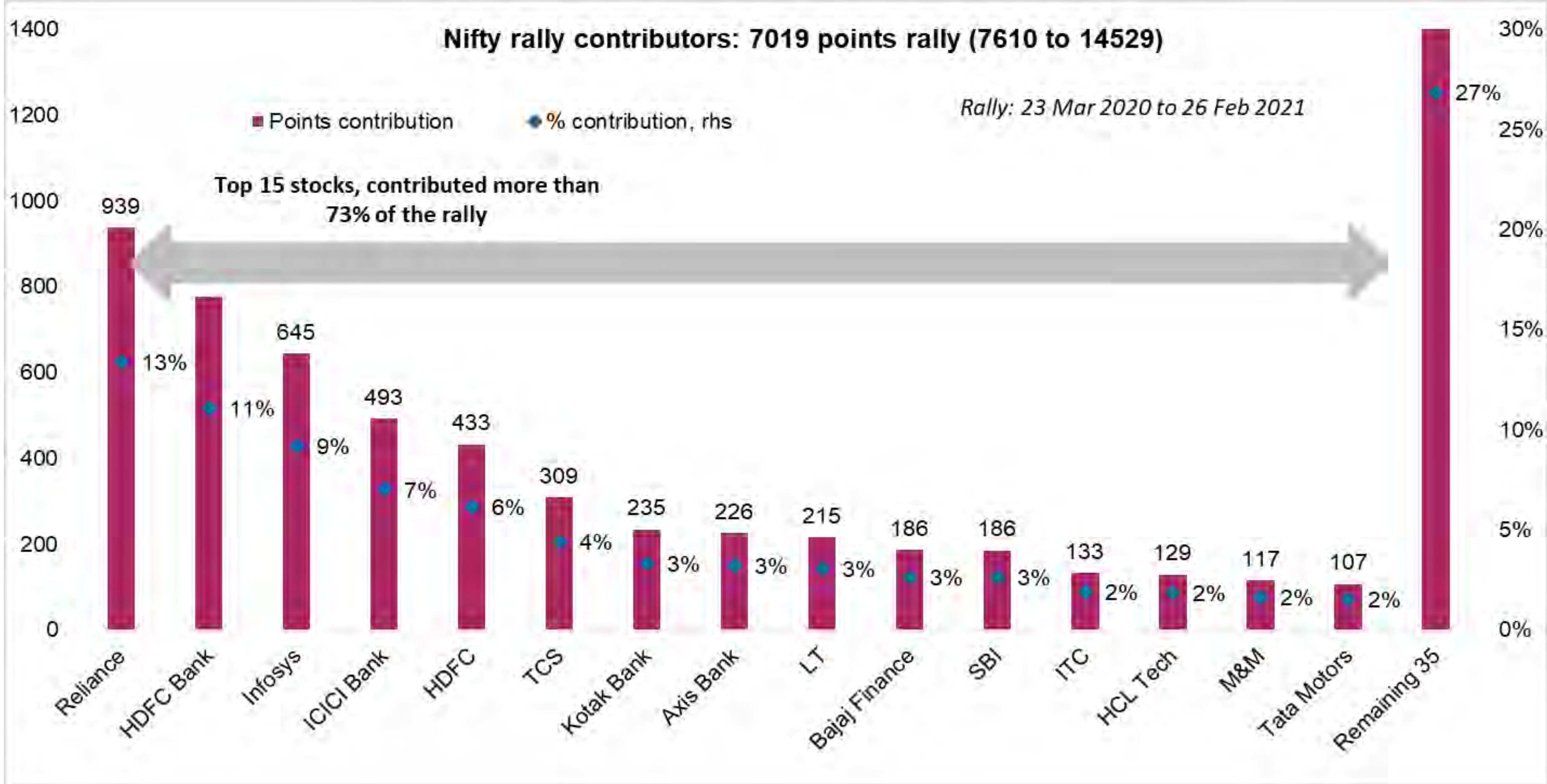


Source: Bloomberg, NSE, Axis Securities, Data till 26 Feb 2021

Rally since 23rd March: Dominance of Reliance has reduced significantly

The nifty index rallied +7019 points (From 7610 to 14,529) after making a bottom on 23rd Mar 2020. In this massive rally, the top 15 stocks have contributed more than 73% to the rally while the remaining 35 stocks have contributed only 27%. During the same time, 47% of the rally is driven by 5 Names: Reliance, HDFC Bank, Infosys, ICICI, and HDFC Ltd.

Reliance contribution to the rally has reduced significantly to 12% vs 28% which was the case three months back.

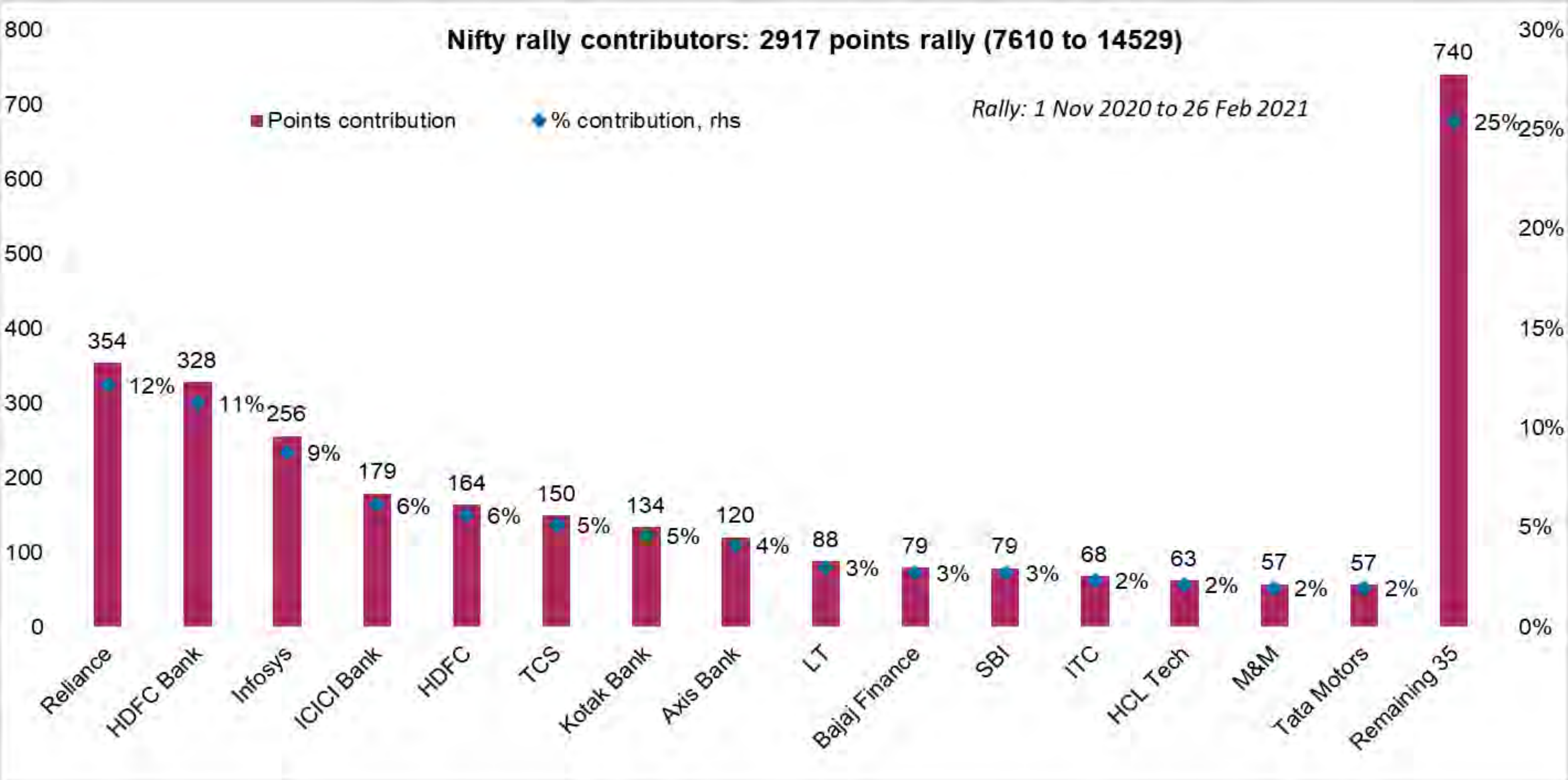


Source: Bloomberg, Axis Securities

Rally since 1st Nov 2020

(2917+ point rally), dominated by BFSI stocks

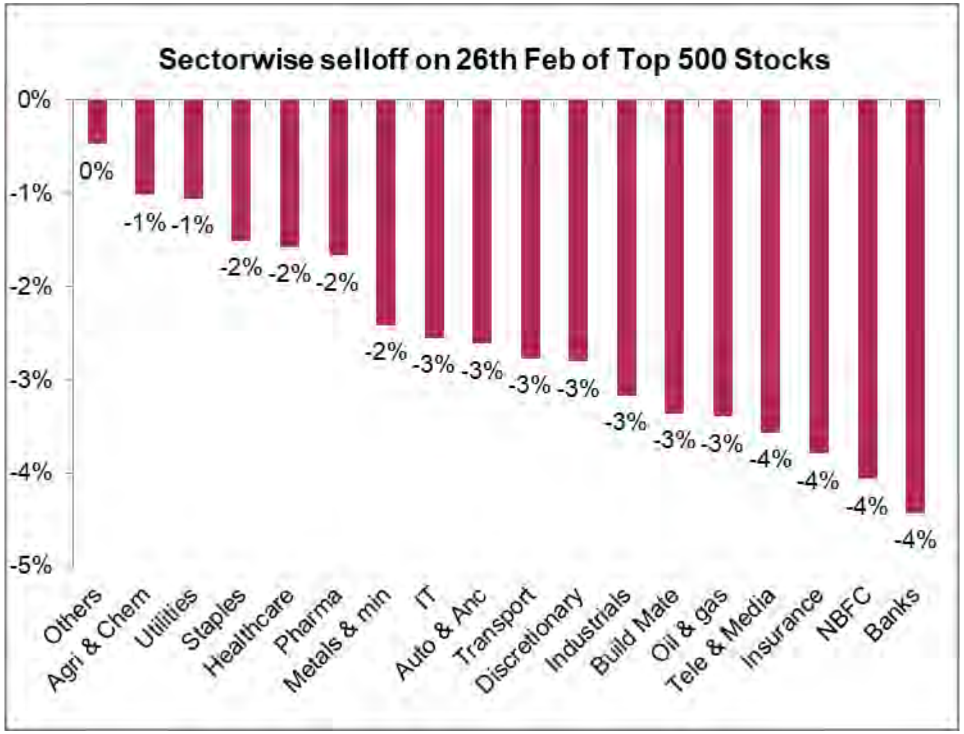
The nifty index rallied +2917 points (From 11642 to 14529) since 1st Nov 2020. In this massive rally, the contribution of the Top 6 stocks is more than 50%. ***In the top 15, 7 stocks are from the BFSI sector.***

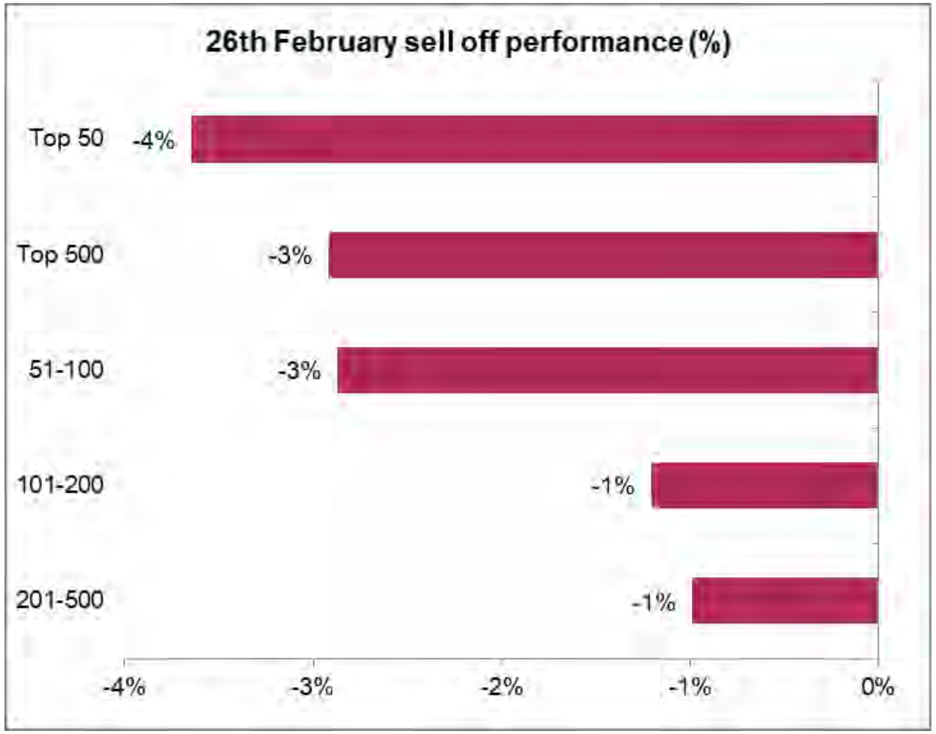


Source: Bloomberg, Axis Securities

What happened on the last trading day? –--- Large caps suffered

Market sell-off happened in the Indian market on 26th February amid weaker global cues on **account of a rise in US bond yields beyond 1.5% on anticipation of higher inflation & due to a sudden spike in crude prices. Mid & Small caps companies performed better than Top 50 companies as a decline in prices of Mid & Small caps were less as compared to large caps. Panic was seen in high beta sectors like BFSI, Telecom, Oil& Gas, Building Materials while Agri, Utilities, Staples fell less as compared to the market.**





Source: Bloomberg, Axis Securities

Top 500 stock performance

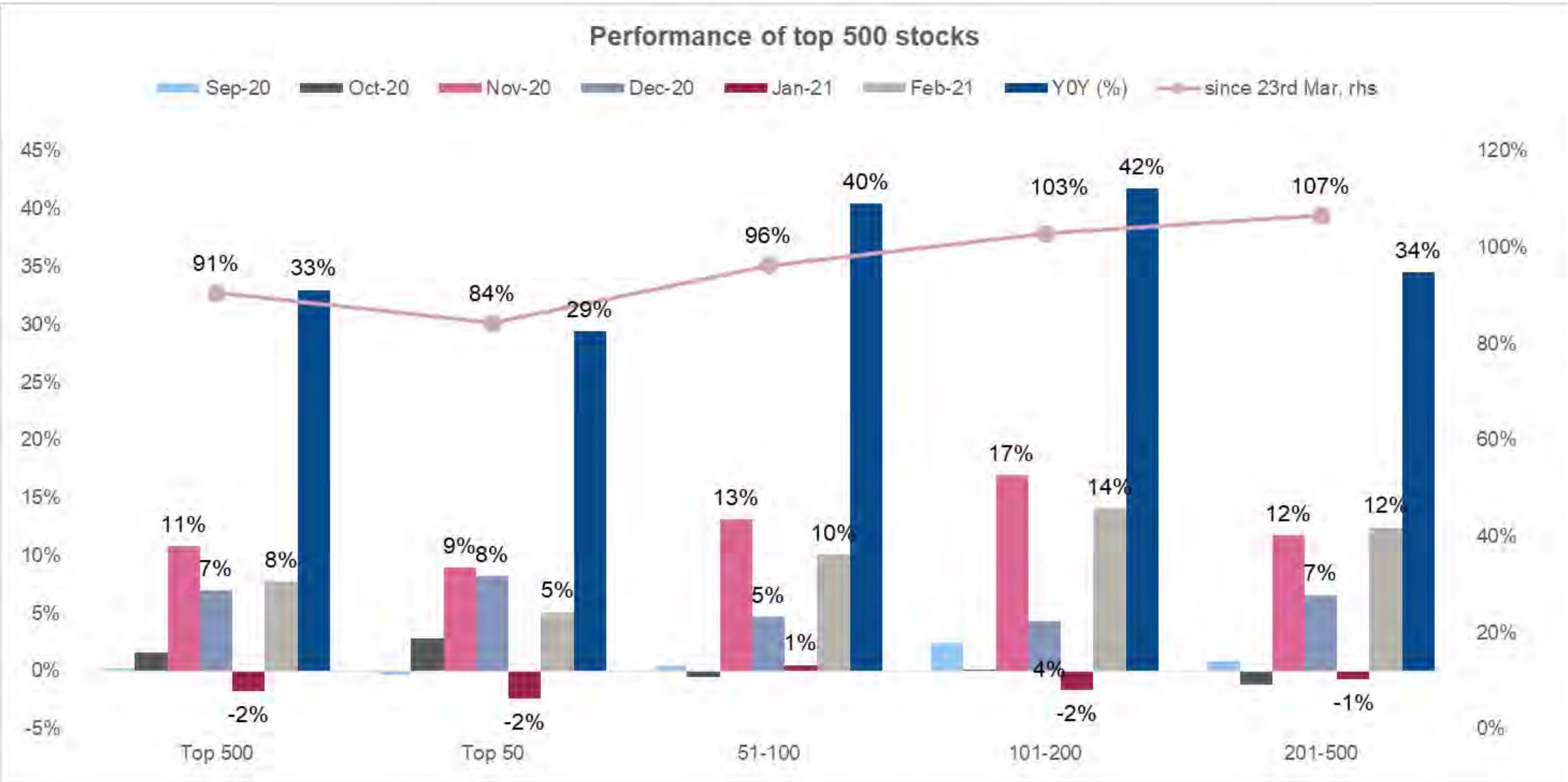
The market cap of top 500 stocks has risen by 91% to 186 trillion on 23rd Feb vs 97.4 trillion on 23rd March, up by 22% on YoY basis. The market was in a selling mode ahead of the budget in the last week of January. However, most of the losses were recovered on the budget day itself. The finance minister presented a growth-focused budget in the parliament which met most of the market expectations with hardly any negative surprises. The FM managed to convince the market that all the assumptions are realistic and manageable. Combined market cap of Top 500 stocks has now reached 186 Trillion, up by 7% in February.

	No of companies	Sectoral market cap of Top 500 stocks in Trillion as of										Current Mcap
		Dec-19	31-01-2021	20th Feb	Mar-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	YOY (%)
Banks	35	24.9	23.9	23.7	13.8	17.5	19.4	23.6	24.8	24.0	27.7	17%
IT	23	16.6	16.7	17.2	12.1	20.5	21.6	22.1	24.4	25.5	24.4	42%
Oil & gas	15	16.0	14.9	15.3	9.4	19.1	17.7	17.8	18.6	17.2	19.5	28%
NBFC	49	14.2	14.3	15.2	8.2	10.8	11.1	14.1	15.1	14.4	16.0	5%
Staples	27	13.8	14.1	14.4	11.1	13.6	13.6	14.3	15.3	14.8	14.3	0%
Discretionary	49	9.8	10.2	11.0	7.3	9.9	10.0	10.8	12.5	11.9	12.4	13%
Auto & Anc	36	9.4	9.3	9.0	5.5	9.1	9.0	10.2	10.6	11.2	11.8	30%
Pharma	35	6.7	6.9	7.2	5.6	9.6	9.2	9.7	10.4	9.8	9.6	33%
Industrials	47	6.2	6.4	6.1	3.8	5.1	5.1	6.0	6.7	7.0	8.1	32%
Build Mate	33	5.6	6.1	6.0	3.8	5.2	5.6	6.2	6.6	6.7	7.7	29%
Metals & min	20	5.6	5.2	5.2	3.1	4.6	4.5	5.5	6.2	6.0	7.3	40%
Tele & Media	18	4.0	4.4	4.6	3.1	4.0	4.1	4.5	4.3	4.5	4.6	0%
Insurance	6	4.2	4.2	4.0	2.2	3.5	3.5	3.9	4.1	4.0	4.2	4%
Utilities	12	4.0	3.9	3.9	2.7	4.1	4.3	5.2	5.3	5.1	6.1	58%
Others	45	3.2	3.5	3.6	2.1	3.5	3.6	4.1	4.5	4.5	5.3	47%
Agri & Chem	30	3.2	3.4	3.5	2.3	3.6	3.6	3.7	4.0	3.9	4.2	20%
Transport	12	1.2	1.2	1.2	0.7	1.0	1.0	1.2	1.3	1.2	1.4	9%
Healthcare	8	0.7	0.8	0.8	0.6	1.0	1.0	1.1	1.2	1.2	1.2	49%
Total	**500**	149.1	149.6	151.9	97.4	145.7	148.0	163.9	175.9	172.9	185.7	22%

Source: Bloomberg, Axis Securities

Performance of top 500 stocks: Broader rally since November

Broad-based market performance was seen in the month of February, especially after the budget. Stocks ranking from 101-200 rallied by 14% in February, and 42% in the last one year which is superior to the large-cap performance. Small and midcaps are picking up steam and they should deliver solid returns in 2021 as economic uncertainties will reduce and volatility will decline. We believe that the landmark growth-focused budget will result in a decline in volatility in 2021 which will lead to a small and mid-cap rally.



Source: Bloomberg, Axis Securities

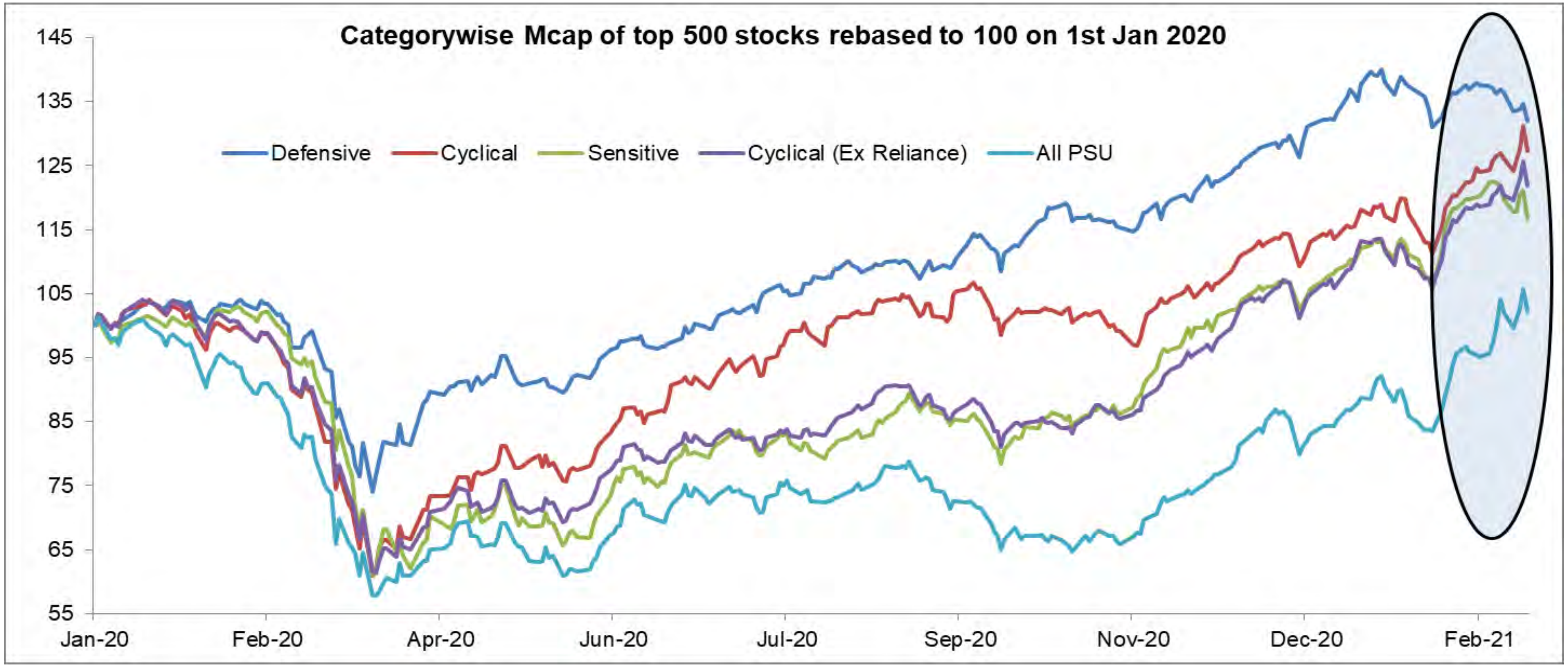
Sector rotation: Cyclical have gained more traction after the budget

During the initial phase of this bull market rally till October 2020, the entire market narrative was positioned towards defensive plays with IT and Pharma stocks outperforming the market. Since November, we are seeing a recovery in BFSI, Auto, Metals, Cyclicals(Ex Reliance). **The budget has given a further boost to cyclical & rate-sensitive stocks which are now outperforming the defensive plays.** PSU stocks which were laggards till October have also started outperforming the market since November and have reached to pre covid level post-budget**.**

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

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

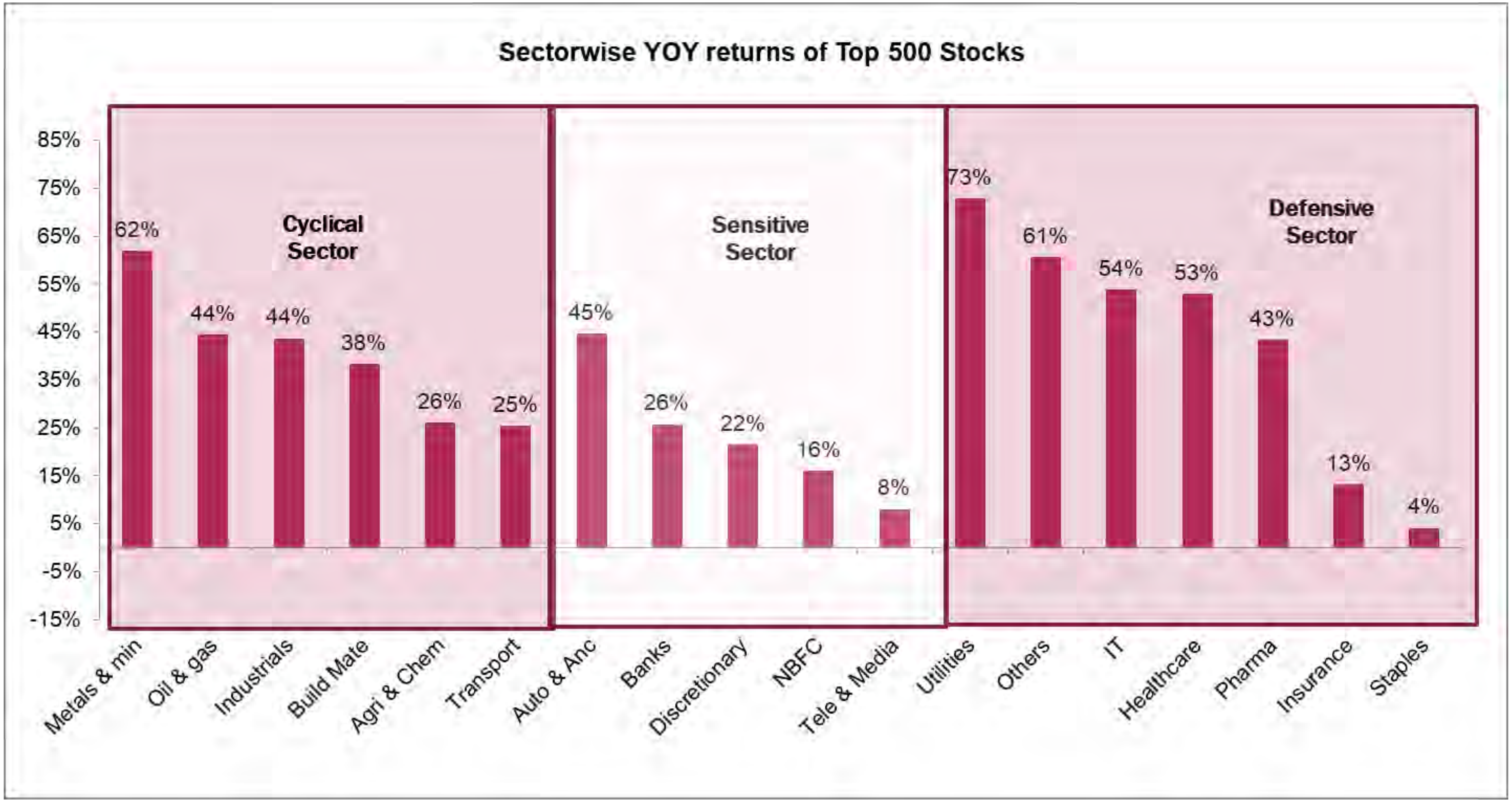
Sensitive: Banks, NBFC, Discretionary, Auto, Telecom



Source: Bloomberg, Axis Securities

Sector rotation: Cyclical & Sensitive sectors are playing a catch-up rally

All the sectors are positive on a YoY basis, Pharma gained 53%, IT up 54% on a YoY basis. Cyclical & Interest rate-sensitive sectors are playing a catch-up rally in recent months, especially after the budget.



Source: Bloomberg, Axis Securities

Where is the next catch-up rally?

26% (130) of the top 500 stocks are still below 20th Feb price. Maximum companies come under BFSI, Industrial & Discretionary space. Almost 31% of the PSU companies are still below from 20th Feb price level. Finance sector reforms proposed in the budget like Privatization of two private sector banks, increase FDI limit for the insurance sector, setting up of asset Reconstruction Company and recapitalization of the public sector banks to the tune of Rs 20000 crores are all positive moves by the government which will be beneficial for BFSI space.

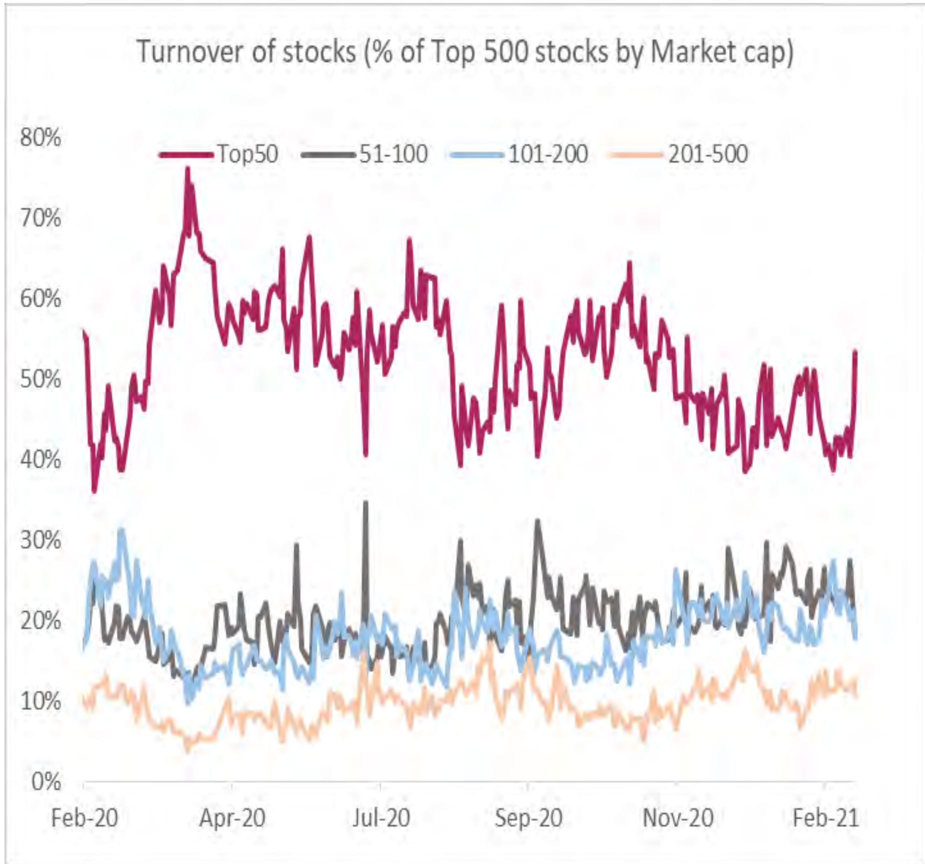
				No. of stocks below 20th Feb price		
	No of Stocks	Total	%	Large Cap	Mid Cap	Small Cap
Agri & Chem	35	5	14%	1	1	3
Auto & Anc	34	5	15%	0	2	3
Banks	28	14	50%	5	7	2
Build Mate	34	7	21%	0	2	5
Discretionary	46	17	37%	2	6	9
Healthcare	46	4	9%	1	0	3
Industrials	47	8	17%	0	0	8
IT	23	0	0%	0	0	0
Metals & min	21	5	24%	1	0	4
NBFC	56	27	48%	7	12	8
Oil & gas	13	4	31%	3	0	1
Others	51	11	22%	0	2	9
Staples	27	9	33%	4	1	4
Tele & Media	16	7	44%	0	2	5
Transport	11	2	18%	0	1	1
Utilities	12	5	42%	1	3	1
Total	500	130	26%	25	39	66
PSUs	55	17	31%	6	5	6

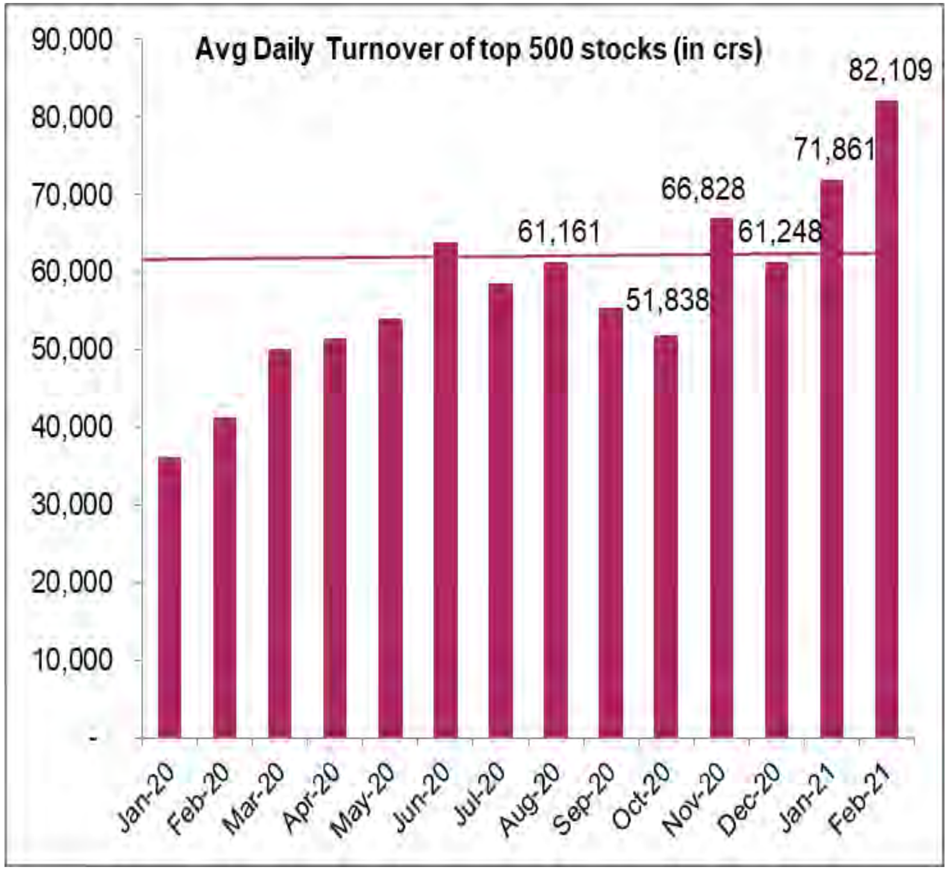
Source: Bloomberg, Axis Securities

Market turnover (% of top 500 Names)

Market turnover of top 50 stocks has been reducing & consistently below 50% since 1st November, implies broader market participation; **however, the participation of top 50 stocks was very on last trading day.**

Healthy Turnover: Average daily turnover for top 500 companies is continuously increasing and has touched a new high of 82,000 cr in February earlier high of 66,828 cr in Nov-20

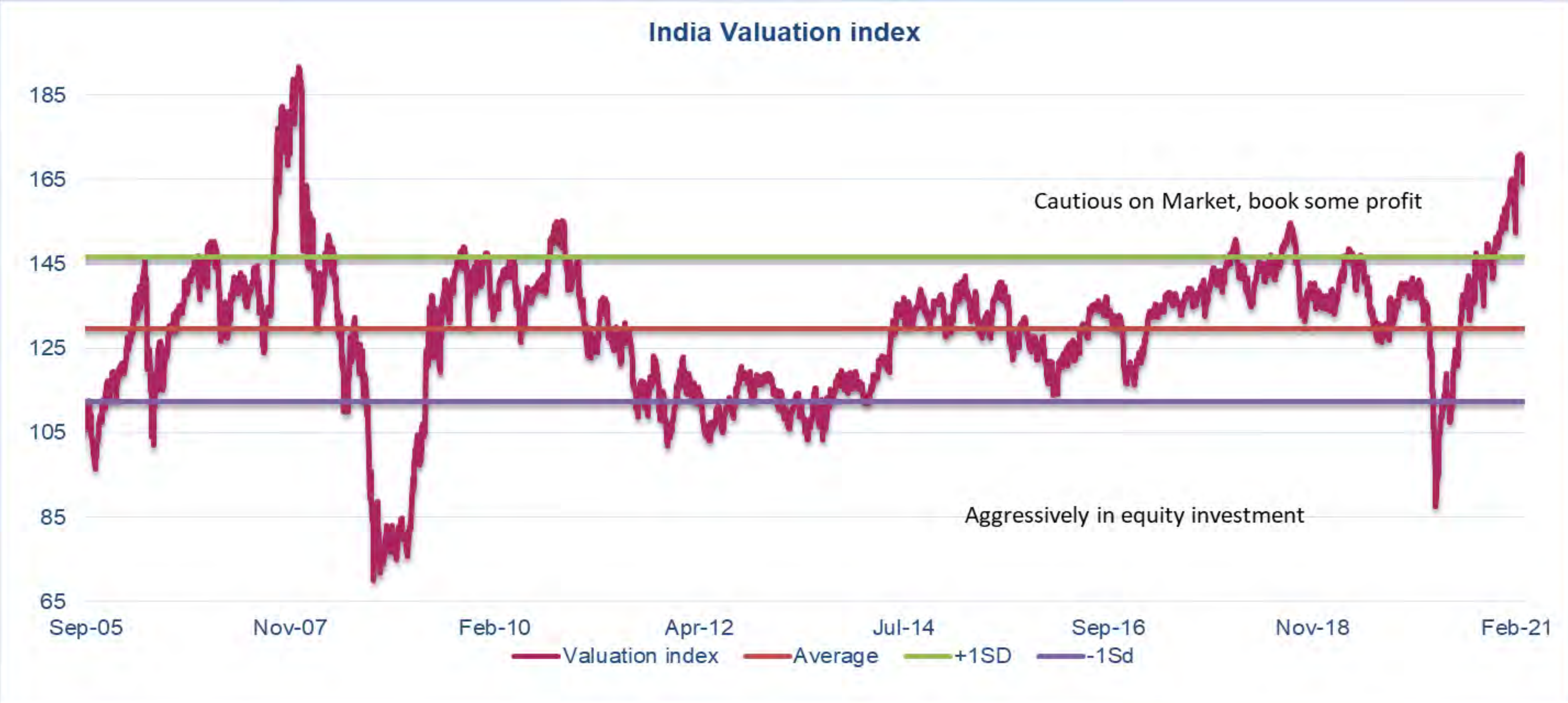




Source: Bloomberg, Axis Securities

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 March 2020, which meant one should have aggressively invested in equity. However, current levels indicate some profit booking in the market (especially large caps), stock picking and sector rotation is key at the current level to generate outperformance. **India valuation index calculated on the basis of four fundamental market parameters (12m fwd PE, 12m fwd PB, Bond Equity Earning yield ratio, Mcap to GDP ratio).**

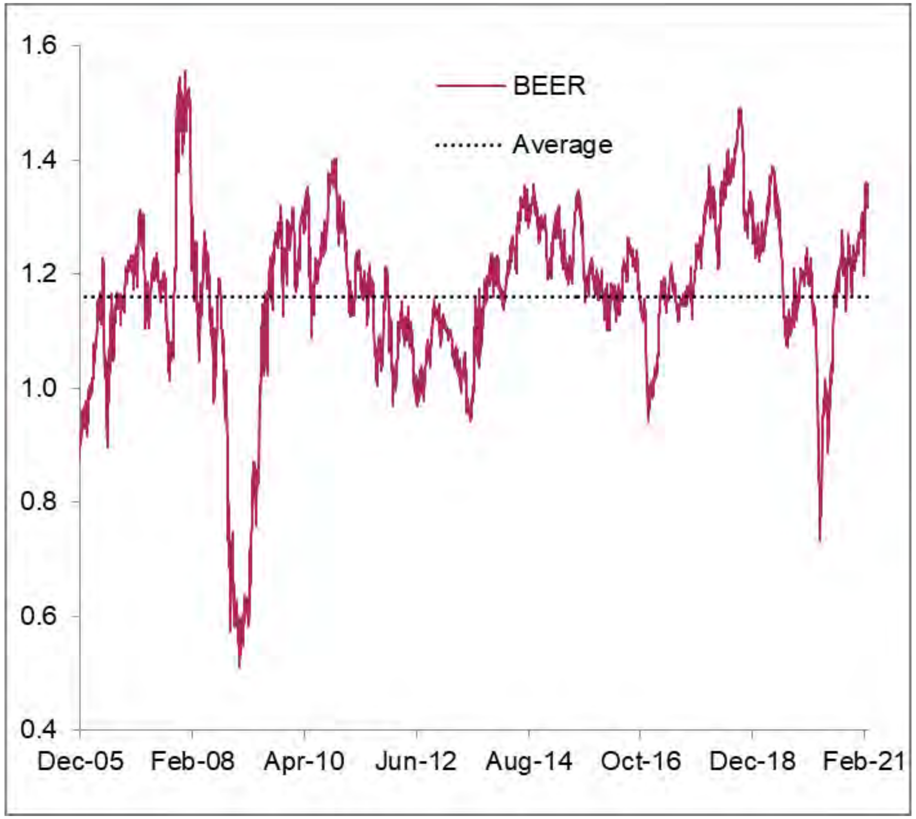


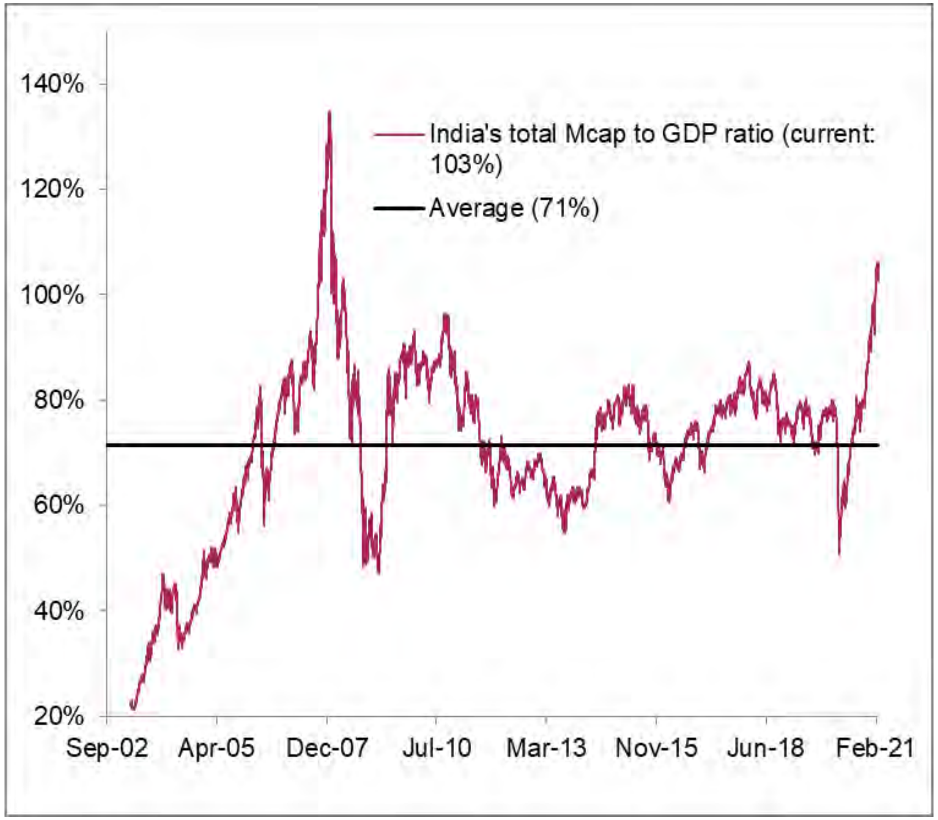
Source: Bloomberg, Axis Securities

Two fundamental ratios are trading slightly above its LTA after a recent run-up

BEER: With the recent run-up in benchmark index, BEER ratio is trading above its LTA which indicates stock market is slightly expensive at the current level vs the bond market.

India's total market cap to GDP is trading at 103%, above its long term average. Currently, we are entering into a positive earnings momentum cycle after a sharp downgrade seen in earlier quarters. Historically, immediately after the GFC crisis similar upward earning momentum was seen for FY10 earnings 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 upcoming quarters.**



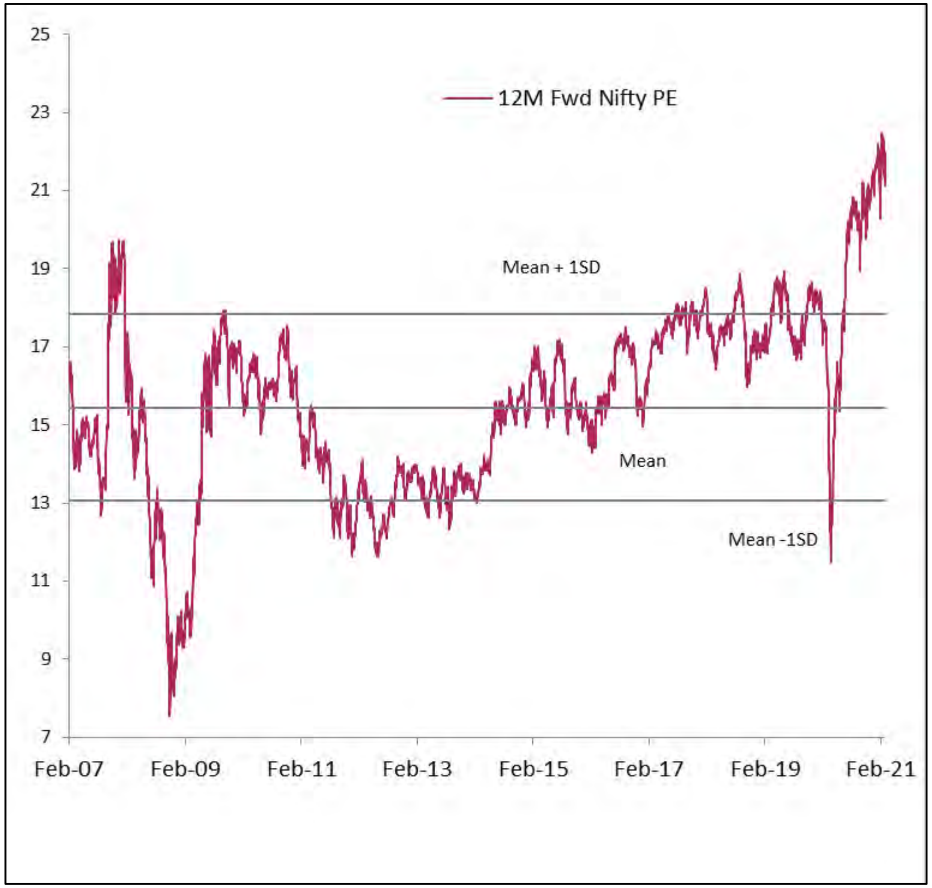


Source: Bloomberg, Axis Securities

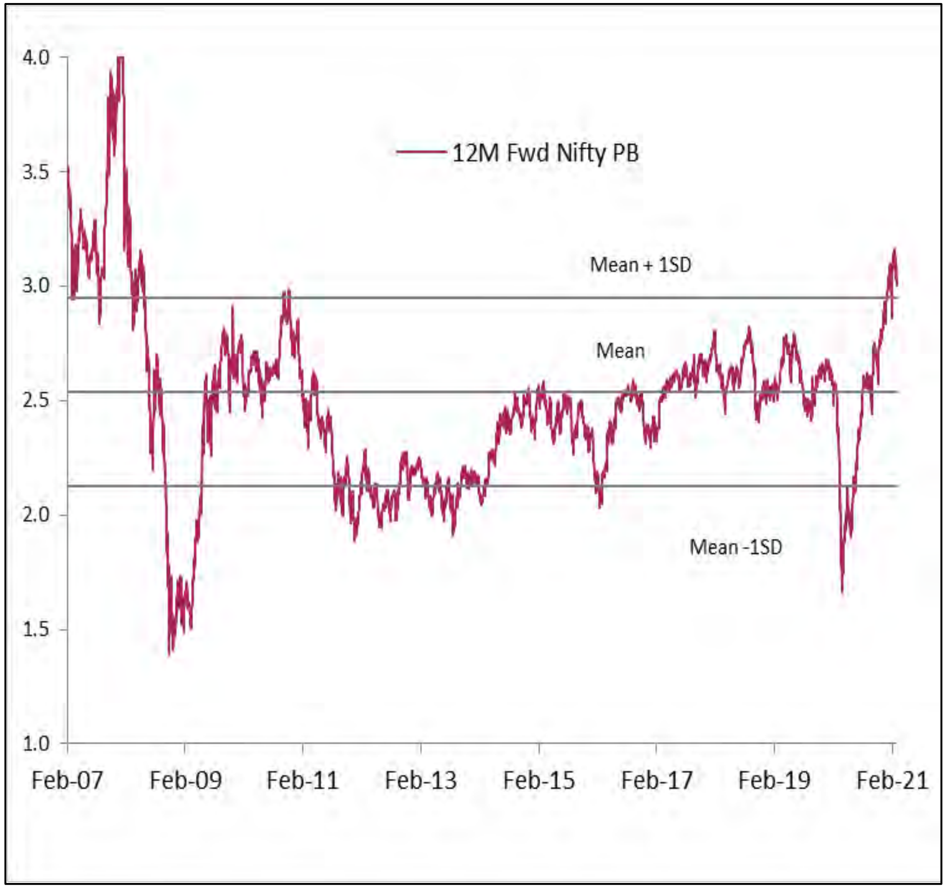
Market Valuations: Expensive but operating performance also picking up

Nifty is currently trading at 21.2x on 12m fwd PE, 2.4 std above its long-term average while Nifty is trading 1.0 std on 12m Fwd PB.The top 10 are trading at 26.0x while the remaining 40 are trading at 20.0x on 12m forward PE.

Nifty 12m Fwd PE



Nifty 12m Fwd PB



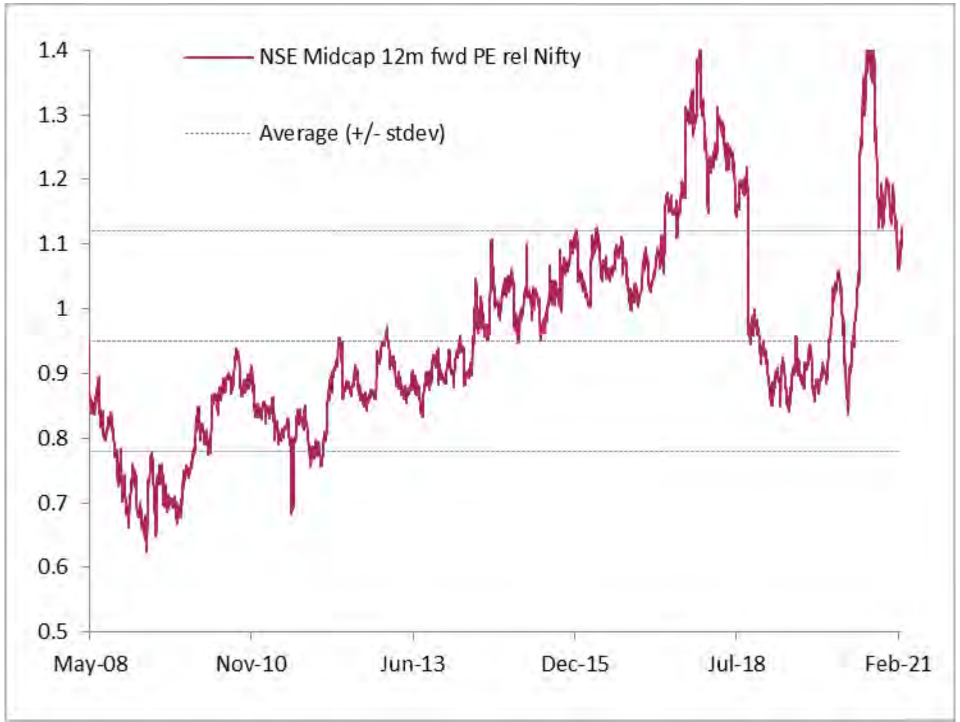
Source: Bloomberg, Axis Securities

Midcaps look attractive: Trading at 12% premium to large caps

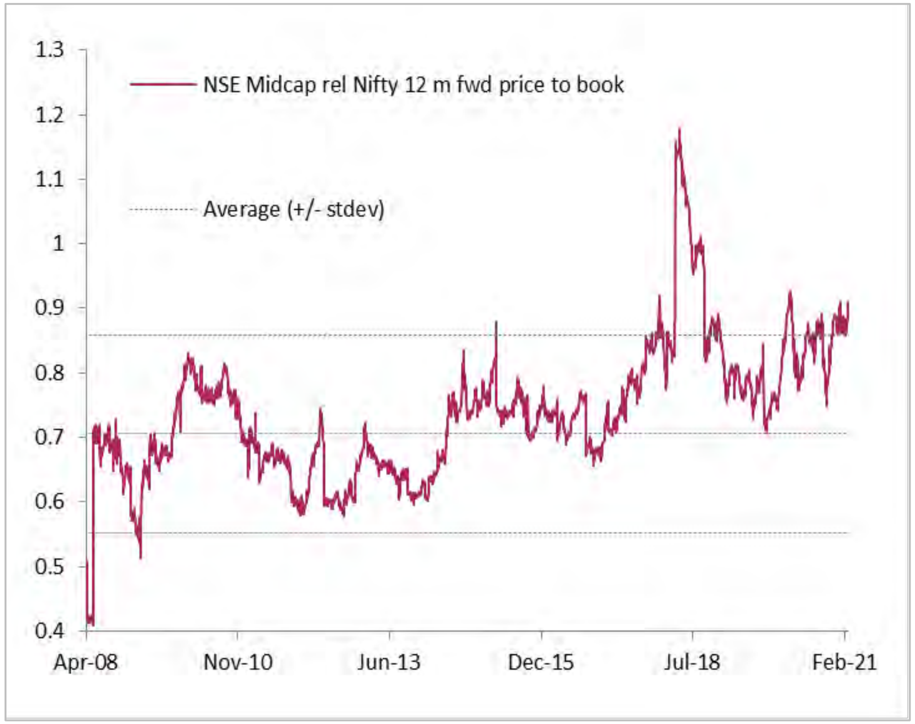
From a valuation perspective, the Midcaps look attractive vs. large caps. Historically, during the bull phase of 2017, midcaps were trading at 45% premium to large caps. The recent spate of IPOs and their success clearly indicates that the appetite for mid and small-cap stocks. Our case for two year rolling returns indicates that the market has turned in favour of small and mid-cap stocks which are more reasonably valued and offer greater upside potential. Also, SEBI's new guidelines on multi-cap funds have clearly tilted the favour in the case of mid and small-cap stocks which will keep the space in vogue over the medium term.

Since November, Small and midcaps are picking up steam and they should deliver solid returns in 2021 as economic uncertainties will reduce and volatility will decline. We believe volatility will decline significantly in 2021 which will lead to a small and mid-cap rally.

NSE Midcap rel Nifty 12m fwd PE



NSE Midcap rel Nifty 12m Fwd PB



Source: Bloomberg, Axis Securities

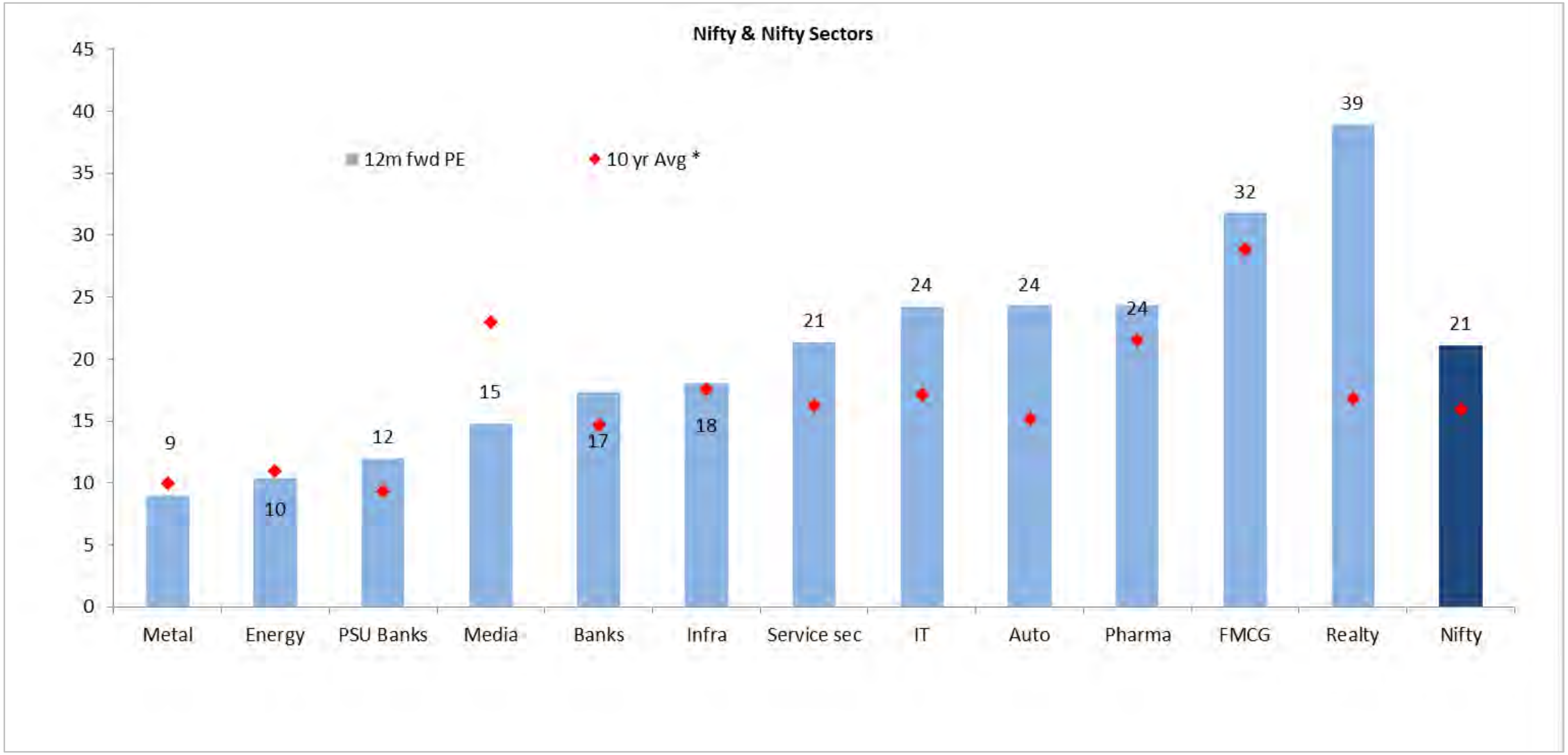
Mean reversion in rolling returns: Midcaps and Small caps are chasing large caps

Since Jan 2020, we have seen mean reversion in the two years rolling returns of Midcaps 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 February as uncertainty over the US election eased, consistent FII flows, a weaker dollar, better than expected Q3 Earnings, optimism on the vaccine development, all favouring equities. **However, some losses were seen in the last week of January which recovered on the budget day after a landmark budget presented in parliament.**

Source: Bloomberg, Axis Securities

Nifty and Sectors

PSU banks, Energy and Metal Index provide valuation comfort at the current level. 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.

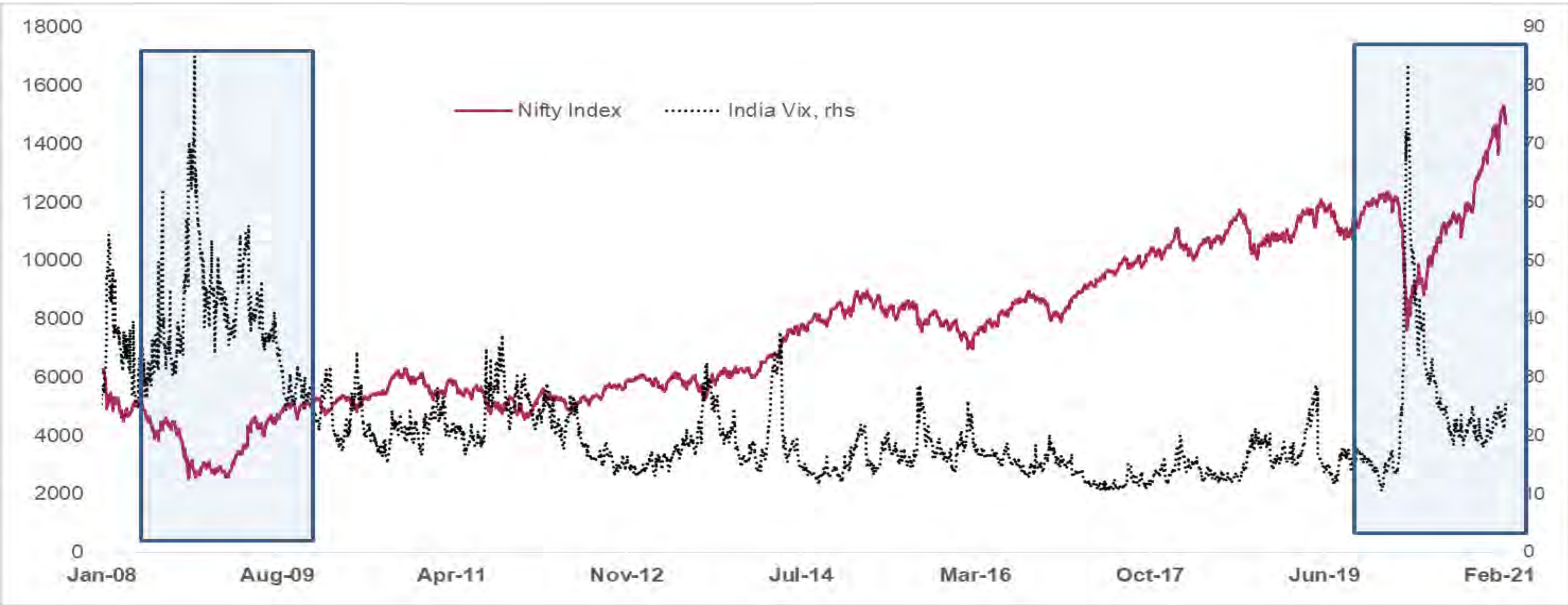


Source: Bloomberg,Axis Securities

India's Nifty Index vs VIX: Volatility has reduced after the budget

Volatility significantly reduced in the last two months. India VIX was trading around the average level in the month of February; however, VIX rose by 23% to 28.1 vs the historical average of 22 on the last trading session. The sudden spike in VIX is the reflection of risk aversion in the market amid a **rise in US bond yields beyond 1.5% in anticipation of higher inflation & due to a sudden spike in crude prices.**

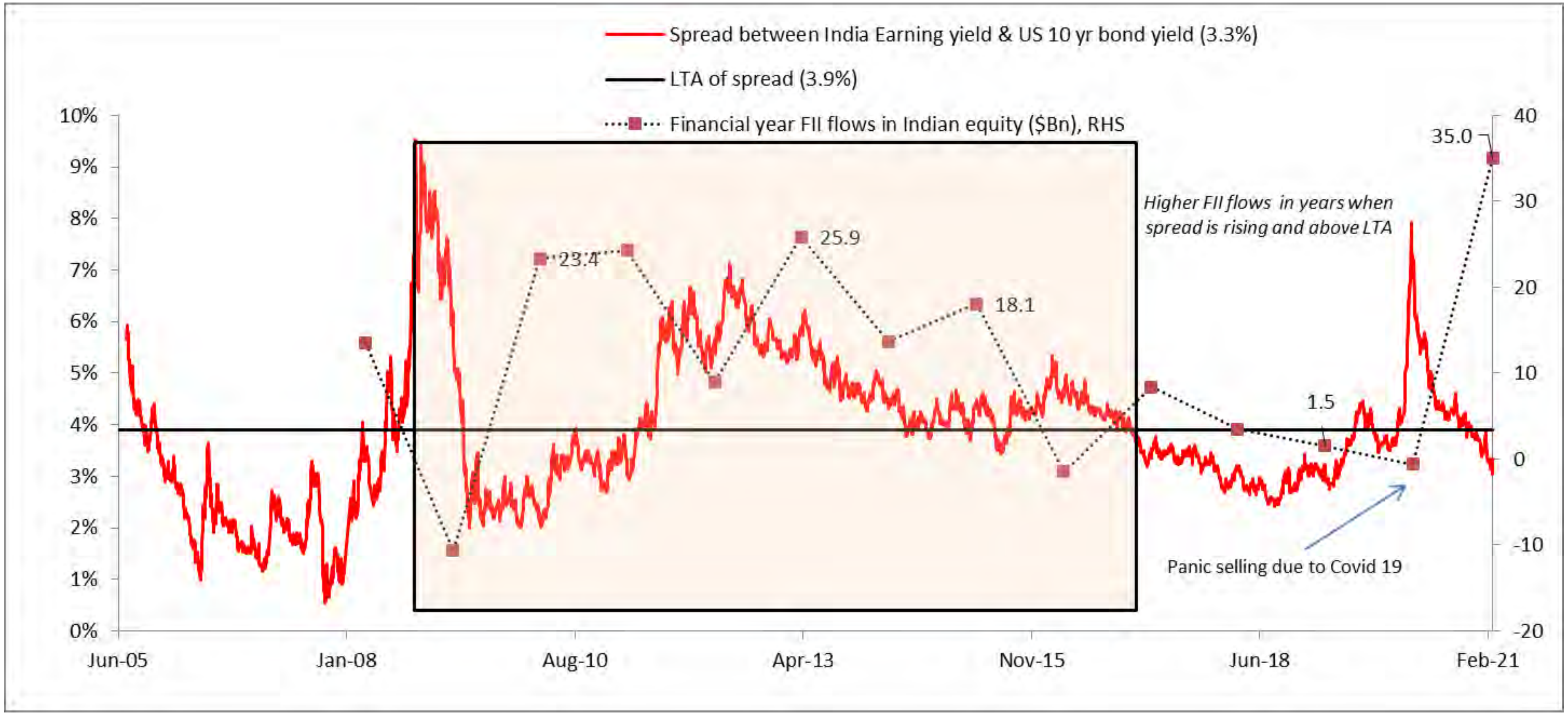
Business normalization continued in Q3 which was ahead of street expectation; we have seen more upgrades than downgrades during the quarter. Overall visibility of growth has improved significantly during the quarter which also helped in the overall reduction of the volatility. Finance Minister has presented a landmark budget in a parliament with the overall focus on growth which has set the path not only for FY22 but for upcoming years also. **As the economy is reviving, the uptrend in the corporate earnings cycle is more likely to sustain in the forthcoming quarters. We strongly believe that the market will do well in the earnings upgrade cycle which leads to normalized volatility for 2021.**



Source: Bloomberg,Axis Securities

Spread between India's earning yield and US 10-year Bond yields – trending below LTA

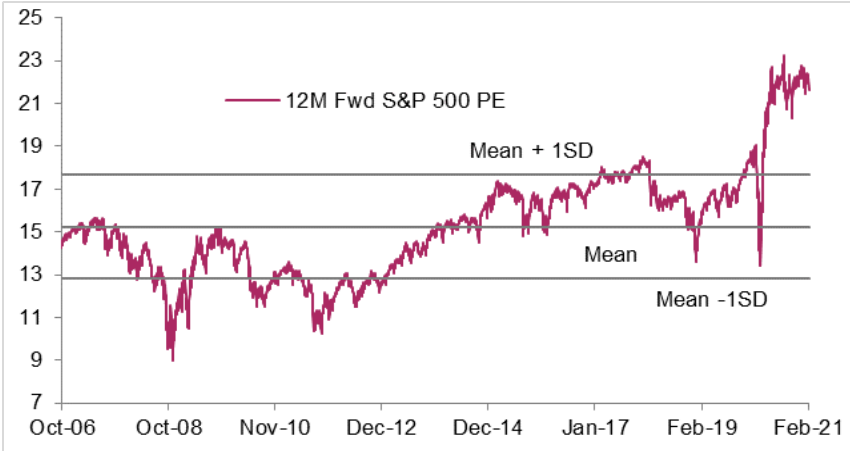
Historically, India sees positive FII flows whenever the spread between India earning yield and US 10-year bond yield is on a rising trend or above the long-term average. Rising and above-average spread gives valuation comfort to the investors which were seen during FY10-15 where we had witnessed strong FII flows in the Indian market. IN FY21 FII has already added USD 35 bn in the Indian equity market which is way higher than a net figure of FY10/11 & 12. However, this spread is trending below LTA after a recent spike in US bond yields on the expectation of higher inflation.

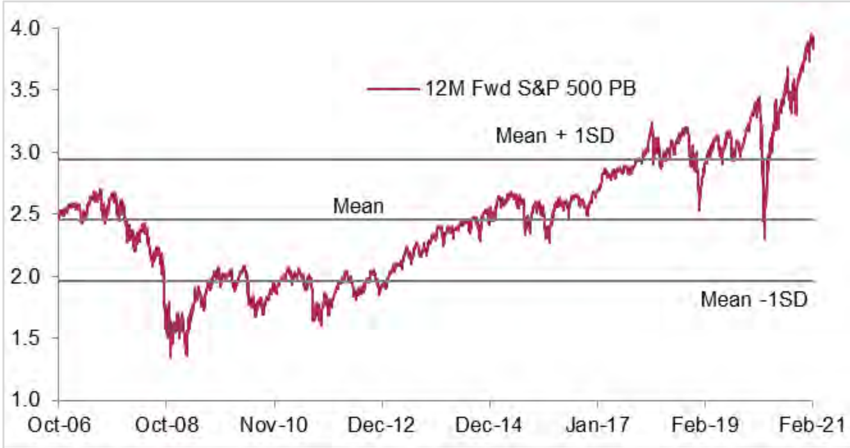


Source: Bloomberg, Axis Securities

US Market Valuations

S&P 500 is trading at 21.6x on 12m fwd PE, 2.6 std above its long-term average. **US Market capitalization to GDP** is trading at 218% vs Long term average of 122%. The recent rise in US bond yields by 40 bps has reduced the attractiveness of the equity market in the month of February, now the **US bond equity earnings yield ratio** is trading at 1 standard to its long-term average which is a risk to stretched equity valuations. (Two months back this ratio was trading below 2 stdev to LTA)

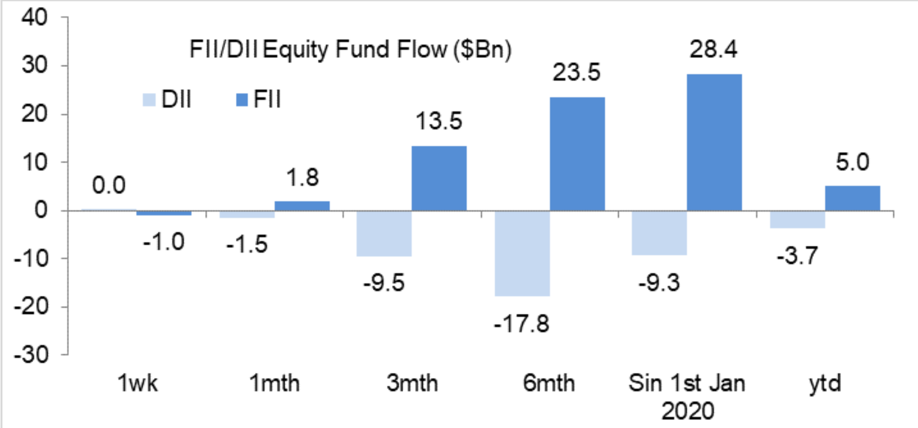


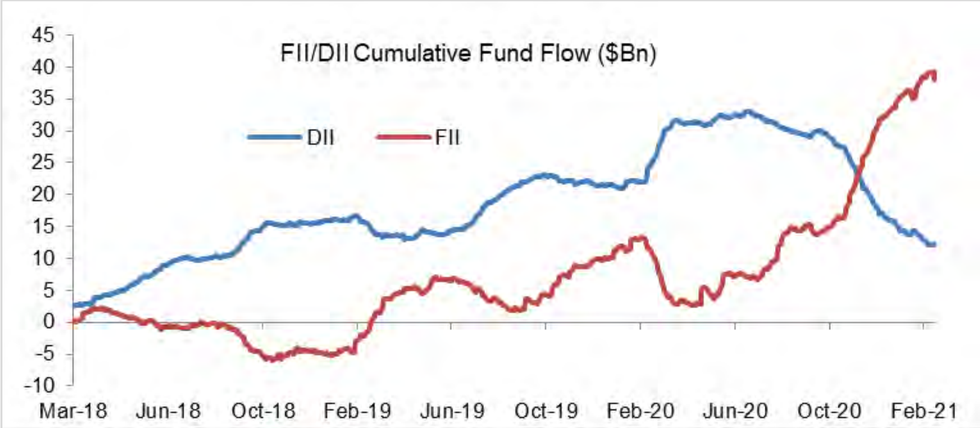


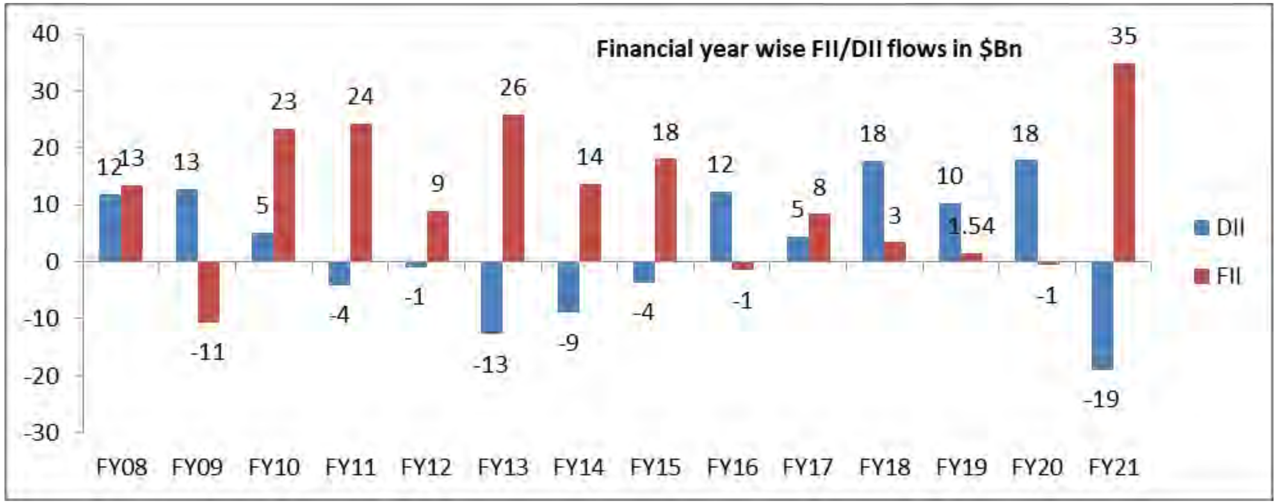
Source: Bloomberg, Axis Securities

Flows continue to drive the momentum: Stronger FII flows since November

FIIs are net buyers; FIIs have added US$ 13.5 bn while DIIs have pulled out US$ 9.5 bn from the Indian equity market in the last 3 months. Since Jan 2020, FIIs have bought a massive amount of US$ 23.5 bn while the DIIs have sold US$ 17.8 bn from the Indian equity market. **Highest ever FII inflows seen in the current financial year: US$ 35 bn, higher than FY10/11/13 levels.**







Source: Bloomberg,Axis Securities

Strongest FII flows in the last two months vs. other EMs

'Risk on' trade in global markets: Emerging markets are the biggest beneficiary of FII flows. Huge FII flows in EM since November. India, Brazil, S Korea, Taiwan are the biggest beneficiaries.

Based on the assumption of more predictable policymaking under the Presidency of Biden which will lead to a realignment of global portfolios, with more investments shifting to riskier assets, the emerging markets are the biggest beneficiaries of the huge FII flows. The trend for a weaker dollar in 2021 is on account of higher fiscal spending and lower interest rates. Based on this trend the emerging markets are likely to see consistent FII flows even in 2021. Further, till the time the rate differentials between India's earning yield and US bond yield is high, India continues to be in the sweet spot for FII flows.

Fundamentals are getting better for long term equity investment in India which is attracting liquidity driven by FIIs with positive inflows. Though all the major emerging market countries were witnessing inflows since November, the quantum of flows into India was better than other comparable emerging economies.

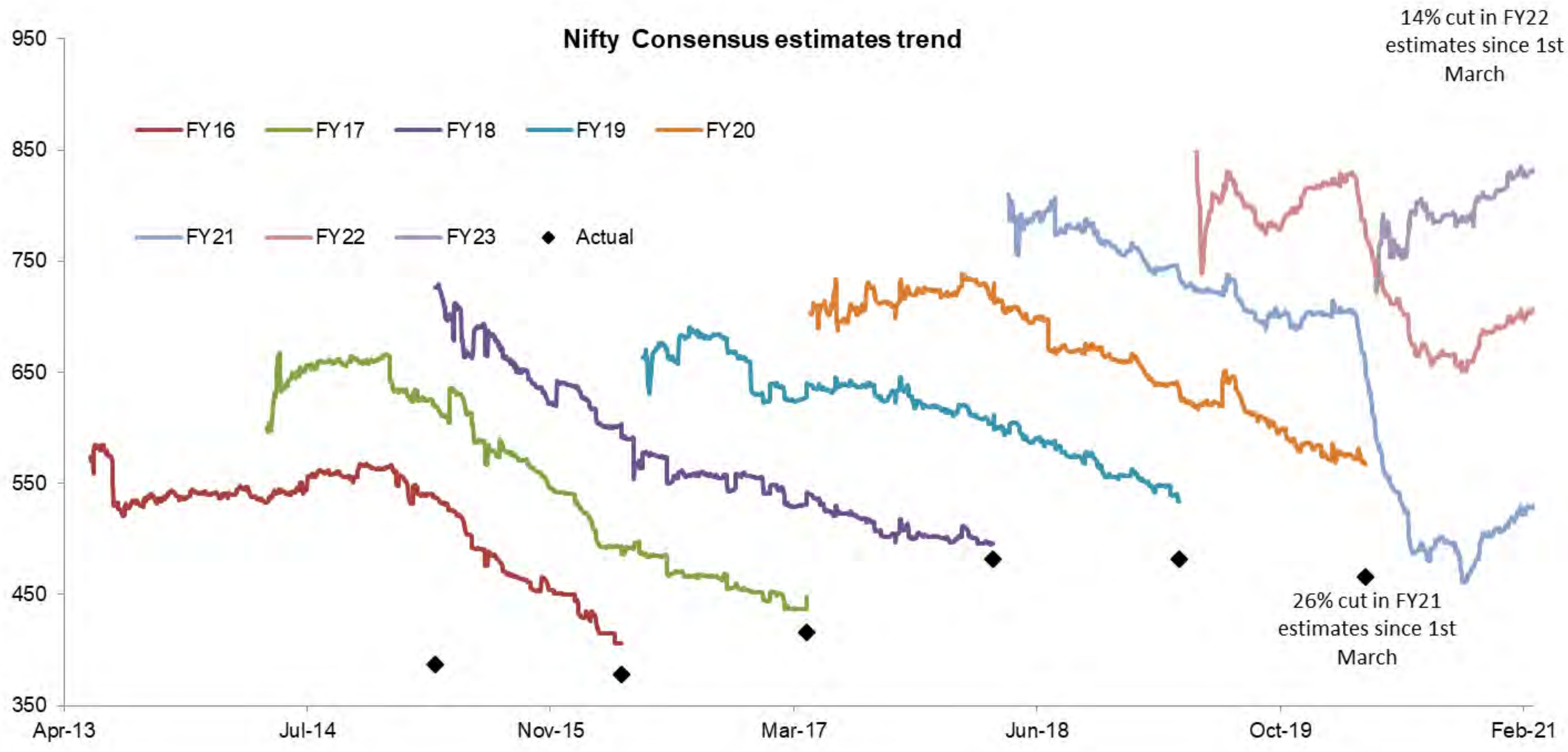
Monthly FII equity flows in Emerging market $Bn

Month	India	Indonesia	Malaysia	Brazil	Phillipines	S. Korea	Sri Lanka	Taiwan	Thailand	Vietnam	China
Apr-20	0.0	-0.6	-0.6	-0.9	-0.3	-4.0	0.0	0.8	-1.4	-0.3	32.0
May-20	1.7	0.6	-0.7	-1.3	-0.2	-3.3	0.0	-5.1	-1.0	0.0	6.5
Jun-20	2.5	-0.3	-0.7	0.1	-0.2	-0.7	0.0	3.3	-0.7	0.6	39.6
Jul-20	1.2	-0.3	-0.6	-1.6	-0.1	0.7	0.0	0.3	-0.3	0.0	55.5
Aug-20	6.1	-0.6	-0.4	-0.1	-0.3	-2.3	0.0	-2.2	-0.9	-0.1	18.0
Sep-20	-0.8	-1.0	-0.5	-0.5	-0.3	-1.0	0.0	-1.4	-0.7	0.1	-16.6
Oct-20	2.5	-0.3	-0.2	0.5	-0.2	-0.4	0.0	-0.6	-0.7	-0.3	NA
Nov-20	9.6	0.2	-0.3	6.2	-0.2	5.2	0.0	4.5	1.1	-0.1	NA
Dec-20	7.3	-0.3	-0.1	3.8	-0.2	-0.6	0.0	2.3	0.1	-0.1	NA
Jan-21	2.0	0.8	-0.2	4.4	-0.3	-5.3	0.0	-3.4	-0.4	-0.1	NA
Feb-21	3.0	0.3	-0.2	-0.9	-0.2	-1.8	0.0	-3.2	-0.6	-0.1	NA
2020	**23.4**	**-3.2**	**-5.8**	**-8.1**	**-2.5**	**-20.1**	**-0.3**	**-15.6**	**-8.3**	**-0.7**	**104.0**

Source: Bloomberg, Axis Securities

Consensus Nifty EPS trend

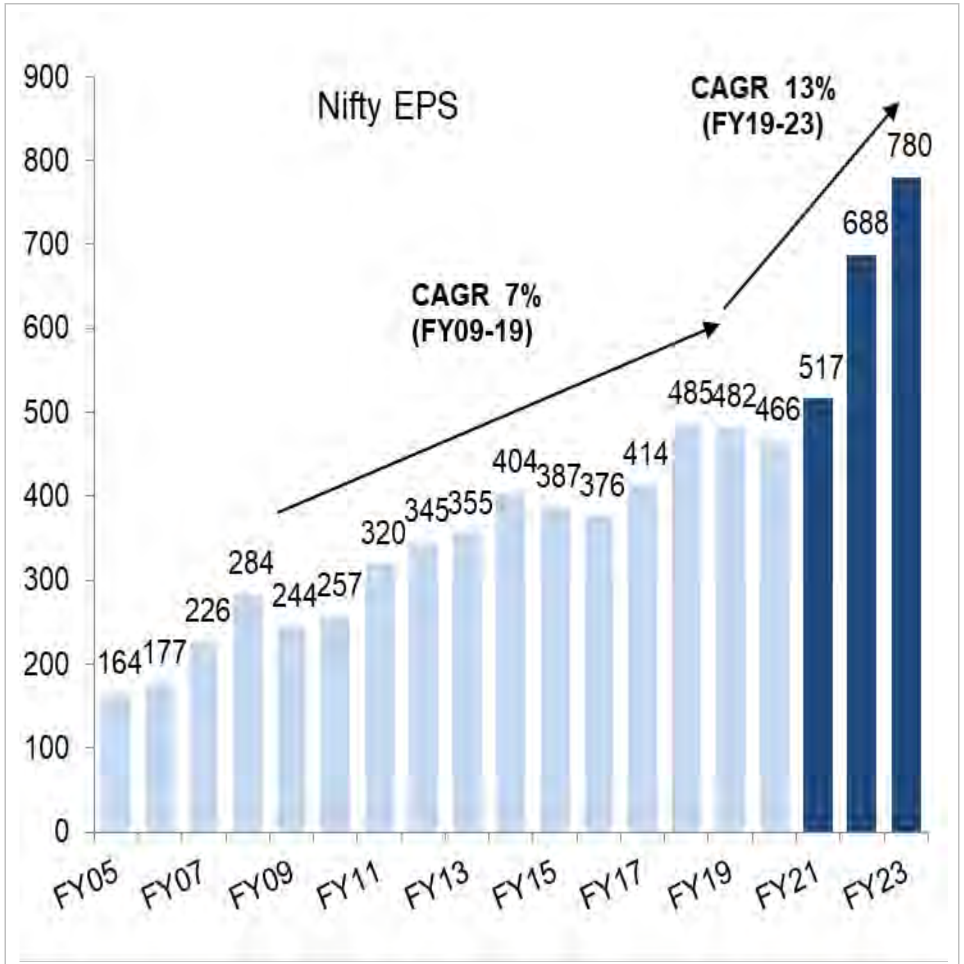
Earnings upgrade momentum continues in Q3: Earnings downgrades seem to have bottomed out and the upgrade momentum of Q2 has continued in Q3 also. Based on this, Nifty consensus Earnings for FY21/22 has been upgraded by 15%/8% from the bottom. Earlier Covid-19 led uncertainty was visible in Nifty downgrades which led the Nifty to downgrade by 26%/14% for FY21/22.



Source: Bloomberg, Axis Securities

Nifty EPS: Upgraded the FY21/22/23 EPS by 9%/8%/7%, see Nifty at 17,200 in December 2021

Positive Earnings momentum is continuing in Q3 also. We have upgraded our FY21/22 EPS by 9%/8% after Q3. We have also upgraded our FY23 EPS by 7% to 780. Consequently, our December 2021 NIFTY target also moves up by 7% maintaining our target multiple at 22x to 17,200. We also see the possibility of further earnings upgrade considering the strong demand cycle.

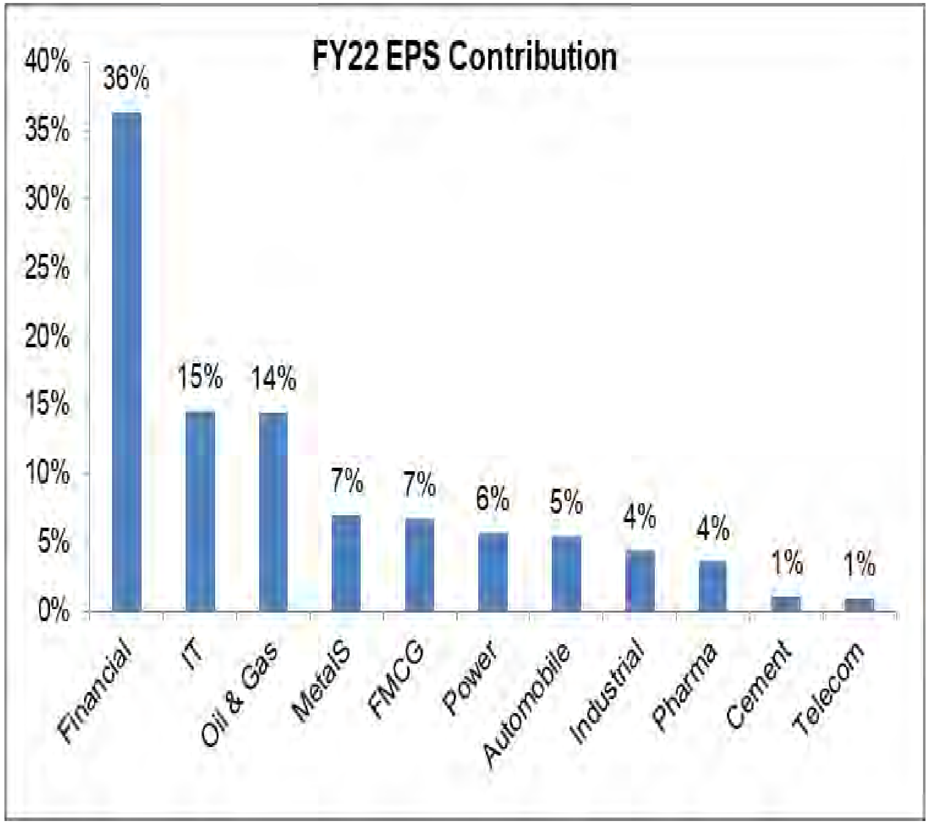


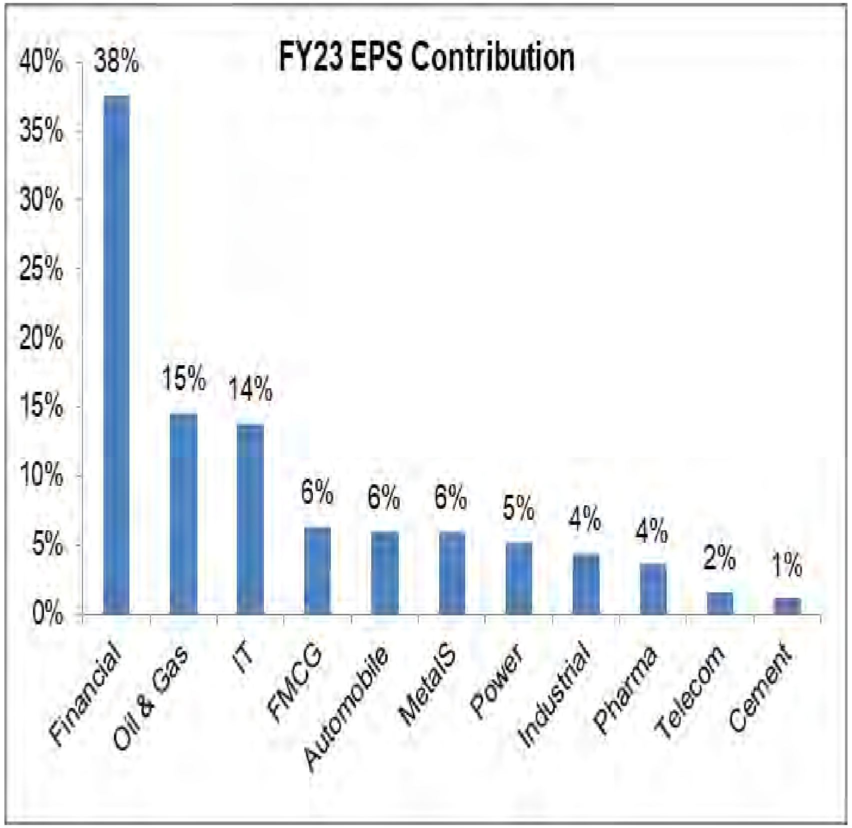
Source: Axis Securities

FY21 Nifty EPS Change				% chg	
	Before Q2	After Q2	After Q3	After Q2	After Q3
Financial	159.2	170.5	187.3	7%	10%
IT	79.3	82.9	87.2	5%	5%
Oil & Gas	66.9	69.8	75.6	4%	8%
FMCG	38.0	37.4	37.6	-2%	1%
Power	32.1	31.9	33.4	-1%	5%
Industrial	20.6	26.5	22.0	28%	-17%
Pharma	19.4	20.8	21.5	7%	4%
Metals	15.5	22.1	34.0	43%	54%
Automobile	12.8	15.0	19.6	17%	31%
Cement	4.5	5.5	6.4	21%	16%
Telecom	-4.5	-7.3	-7.1	NA	-2%
Total	**449**	**475**	**517**	**6%**	**9%**

Nifty EPS: Financials sector holds the key for Nifty EPS

Contribution of the Financial sector in Nifty EPS is more than 36% in FY22/23. Taking the budget and operating performance into consideration, we recently upgraded BFSI to overweight from equal weight. BFSI sector has under-performed the broader market in 2020 by a significant margin owing to issues of moratorium and the stress in the system. However, both Q2FY21 and Q3FY21 operating and financial performance across the banking sector was better-than-expected. The focus of banks has shifted to growth and as the macroeconomic cycle improves, banks being leveraged play will see stronger earnings growth. **With this, we could see further positive surprises in Nifty EPS.**





Source: Axis Securities

Q3FY21 Earnings: All round recovery continues in Q3 with sustained momentum of demand recovery seen across the sector.

Two positive trends of last quarter continue in Q3 also: a) visible expansion in the margin across the board led by better control over cost by the management and b) stronger-than-expected sales and volume numbers led by festive season reflect stronger economic recovery. **Commodity cost sustaining at a higher level remains a risk area for the margins, however, some price increase seen in Auto and consumer durable to mitigate the impact of higher input cost.**

Key Highlights: 1) IT sector continues to beat the expectations, better than expected guidance has changed the outlook for the sector resulting in further earning upgrade. 2) Asian paints has posted a solid all-round result, sharp recovery in volume growth on account of strong festive/ marriage season, pent-up demand, pickup in construction activities in tier-1 cities. 3) Better realization in the metal sector has impressed the street on PAT & EBITDA expectation which is led by sharp demand recovery driven by demand from Automobiles, Machinery, construction & infra sector

Q3FY21 Performance:

Beat results: IT, Discretionary Banks, Metals, Auto, Cement

Nifty Q3FY21	Earnings			EBITDA			Revenue		
Results Out	Beat	In Line	Miss	Beat	In Line	Miss	Beat	In Line	Miss
50	38	2	10	38	4	6	41	6	3

FY21 EPS

Key Upgrade: JSW Steel (+40%), L&T (+11%), Asian Paints (+10%), M&M (10%), HCL tech (8%), HDFC Bank (11%), Wipro(+7%)

Key Downgrades: Dr Reddy (-10%), Coal India (5%), HUL (3%)

FY21 EBITDA

Key Upgrade: Tata Steel (22%), JSW Steel (+19%), HDFC bank (11%), M&M (8%), Asian Paints (+8%), Wipro (7%), Bajaj Auto (5%)

India starts outperforming: Broader market rally since 1st Nov

BFSI & cyclical sectors are playing a catch-up rally

Outperformer of 2020: Pharma, IT **Underperformer of 2020:** PSU Bank, banks, Media

The market has consistently risen on account of positive FII flows and vaccination rollout, Overall risk appetite has increased and now investors are betting more on riskier assets like equity on account of positive recovery in high-frequency indicators, consistent FII flows, a weaker dollar, better than expected earnings, all favouring equities. Broader market outperformance continued in last month where PSU banks is the best performing index followed by Metals & Commodities while IT, FMCG & pharma index closed negative. Earning scenario has further improved after the Q3 earnings, we could see further surprises in corporate earnings with broader economic recovery.

National Index

	National Index					
Index Performance (%)	**1m**	**3m**	**6m**	**2020**	**2019**	**1st Nov**
Nifty 50	6.6%	12.0%	24.7%	14.9%	12.0%	24.8%
Nifty Next 50	7.8%	12.8%	22.2%	14.8%	0.5%	25.1%
Nifty 500	7.8%	13.6%	26.3%	16.7%	7.7%	27.1%
Nifty Midcap 100	11.3%	18.0%	34.0%	21.9%	-4.3%	36.3%
Nifty SmallCap 250	12.3%	23.0%	36.2%	25.1%	-8.3%	38.5%
Sector Index (%)	**1m**	**3m**	**6m**	**2020**	**2019**	**1st Nov**
NIFTY AUTO	3.6%	14.4%	25.4%	11.5%	-10.7%	31.1%
NIFTY BANK	13.9%	17.5%	41.9%	-2.8%	18.4%	45.6%
NIFTY COMMODITIES	15.9%	19.4%	31.8%	10.7%	0.0%	33.1%
Nifty Financial Services	10.2%	12.5%	37.2%	4.5%	25.6%	38.2%
NIFTY ENERGY	16.3%	15.6%	17.7%	6.4%	11.0%	25.5%
NIFTY FMCG	-2.0%	2.3%	3.8%	13.5%	-1.3%	10.2%
NIFTY IT	-1.4%	11.7%	34.1%	54.9%	8.4%	16.2%
NIFTY INFRA	11.9%	20.0%	26.3%	12.2%	2.5%	31.3%
NIFTY MEDIA	-1.5%	8.1%	-2.7%	-8.6%	-29.7%	14.5%
NIFTY METAL	24.2%	30.7%	51.7%	16.2%	-11.2%	63.1%
NIFTY PHARMA	-2.0%	0.7%	2.6%	60.6%	-9.3%	6.1%
NIFTY PSU BANK	31.9%	53.5%	49.4%	-30.6%	-18.3%	89.8%
Nifty Private Banks	11.1%	12.6%	37.4%	-2.9%	16.2%	39.9%
NIFTY REALTY	14.4%	33.9%	50.1%	5.1%	28.5%	53.3%
NIFTY SERV SECTOR	6.9%	12.9%	33.9%	12.5%	16.9%	30.9%

International Index

	International Index					
Index Performance (%)	**1m**	**3m**	**6m**	**2020**	**2019**	**1st Nov**
Shanghai Comp	0.7%	3.0%	3.1%	13.9%	22.3%	8.8%
Bovespa	-4.4%	-0.5%	7.7%	2.9%	31.6%	17.1%
Russia	3.2%	8.4%	11.6%	-10.4%	44.9%	32.4%
south africa	6.0%	14.6%	17.4%	7.0%	8.8%	28.0%
Korea	1.2%	14.4%	28.0%	30.8%	7.7%	32.9%
Mexico	4.9%	8.9%	21.6%	5.0%	3.6%	23.1%
Indonesia	6.5%	7.9%	16.7%	-5.1%	1.7%	21.7%
Argentina	0.4%	-12.6%	4.4%	22.9%	37.6%	6.9%
Japan	4.7%	8.7%	26.6%	16.0%	18.2%	26.1%
Hongkong	2.5%	7.8%	14.0%	-3.4%	9.1%	20.2%
Philipines	2.8%	0.1%	15.5%	-8.6%	4.7%	7.4%
Taiwan	5.4%	15.0%	25.3%	22.8%	23.3%	27.2%
Singapore	1.6%	3.3%	16.1%	-11.8%	5.0%	21.7%
Thailand	2.0%	4.1%	13.1%	-8.3%	1.0%	25.3%
Veitnam	10.6%	15.7%	32.9%	14.9%	7.7%	26.3%
Dow	3.2%	3.4%	8.0%	7.2%	22.3%	16.7%
Nasdaq	0.9%	8.1%	12.8%	43.6%	35.2%	20.9%
FTSE 100 INDEX	1.2%	1.8%	8.7%	-14.3%	12.1%	16.2%
DAX INDEX	2.6%	3.4%	5.8%	3.5%	25.5%	19.3%
CAC 40 INDEX	5.6%	1.9%	14.0%	-7.1%	26.4%	24.1%
S&P 500 Index	2.6%	4.7%	8.6%	16.3%	28.9%	16.6%

Source: Bloomberg, Axis Securities, Note: Data as of 26th Feb

Broader market rally across the markets since 1st Nov

Markets in Developed as well as in Emerging economies are seeing a broad-based rally across all with Large, Mid & small caps participating in the rally since 1st November. Broader market outperformance was seen in Emerging markets where the maximum FII money is flowing (Brazil, Taiwan, S Korea also seen huge FII flows like India since November). **However, market across the countries performed weakly in the last few trading sessions on account of a rise in US bond yields beyond 1.5% in anticipation of higher inflation & due to a sudden spike in crude prices.**

	International Index							
	Index Performance (%)	**1wk**	**1m**	**Since Nov 1**	**3m**	**6m**	**2020**	**1 Year**
INDIA	Nifty 50	-3.0%	6.6%	24.8%	12.0%	24.7%	14.8%	24.9%
	Nifty Next 50	-1.9%	7.8%	25.1%	12.8%	22.2%	14.9%	24.9%
	Nifty 500	-2.1%	7.8%	27.1%	13.6%	26.3%	16.5%	27.2%
	Nifty Midcap 100	0.6%	11.3%	36.3%	18.0%	34.0%	21.6%	34.0%
	Nifty SmallCap 250	1.7%	12.3%	38.5%	23.0%	36.2%	24.2%	37.2%
US	S&P 500	-2.4%	2.6%	16.6%	4.7%	8.6%	16.3%	27.9%
	S&P 400 Midcap	-1.5%	6.7%	31.4%	13.2%	28.2%	11.8%	34.8%
	S&P 600 Smallcap	-0.8%	7.6%	45.9%	20.7%	40.2%	9.6%	42.1%
UK	FTSE 100	-2.1%	1.2%	16.2%	1.8%	8.7%	-14.3%	-4.6%
	FTSE 250	-0.6%	3.4%	21.5%	7.4%	17.6%	-6.4%	5.7%
	FTSE Smallcap	-0.3%	4.0%	27.2%	9.6%	26.7%	4.5%	16.7%
BRAZIL	S&P/BMV Largecap	-1.0%	3.8%	19.5%	6.4%	15.8%	-2.3%	4.4%
	S&P/BMV Midcap	0.5%	2.5%	16.7%	4.8%	16.0%	7.7%	11.5%
	S&P/BMV Smallcap	4.8%	10.1%	29.4%	11.8%	22.9%	10.9%	18.8%
SOUTH KOREA	KOSPI LargeCap	-2.9%	1.0%	35.4%	16.0%	30.0%	31.5%	47.1%
	KOSPI MidCap	-2.2%	3.6%	26.1%	10.4%	25.1%	32.0%	55.0%
	KOSPI SmallCap	-4.1%	2.5%	18.4%	6.7%	18.3%	22.1%	37.1%
TAIWAN	FTSE TWSE LARGECAP 50	-4.5%	3.7%	31.6%	18.2%	30.4%	27.8%	49.7%
	FTSE TWSE MIDCAP 100	1.3%	7.9%	24.4%	14.1%	19.7%	24.1%	40.6%
	FTSE TWSE SMALLCAP 300	1.4%	9.1%	16.0%	7.1%	15.2%	14.1%	26.4%

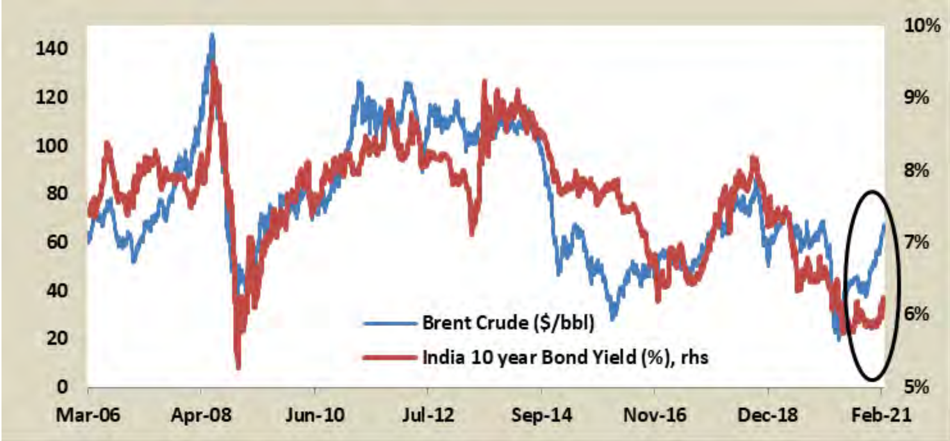
Source: Bloomberg, Axis Securities

Market Indicators

Precious Metal: Gold price remained muted in the last few months while Gold was one of the best asset class of 2020 with returns of 25%.
Commodities: Steel prices rallied by 41%, Copper up by 26% in 2020 while some correction seen in the last one month.
Crude: Brent crude has crossed 65 $/bbl first time since March on vaccine optimism and improved growth outlook for 2021. Sudden rise in crude prices is creating upward pressure on long term yields.

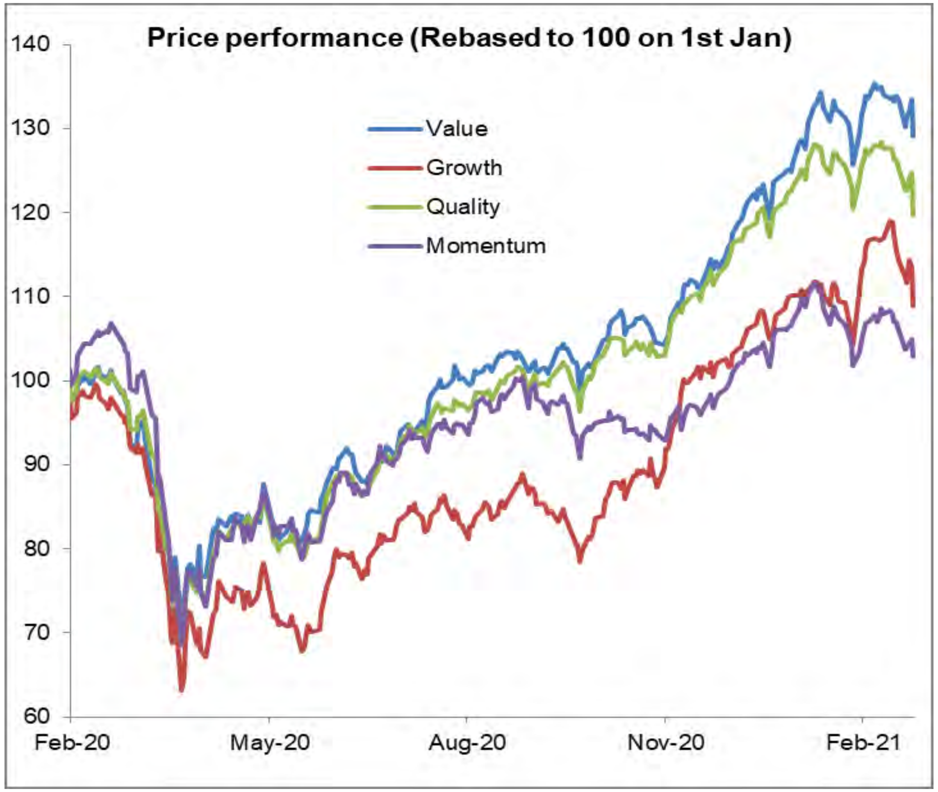
Market Indicator	26-02-2021	1m ago	3m ago	Dec-20	Dec-19	1st Nov
Brent Crude ($/bbl)	66.1	55.9	48.2	51.8	66.0	37.5
Bond Yield (GOi 10Yr)	6.2	5.9	5.9	5.9	6.6	5.9
USD/INR	73.5	73.0	74.0	73.1	71.4	74.1
India Vix	28.1	25.3	19.8	21.1	11.7	24.8
Commodity Index	**1m**	**3m**	**6m**	**2020**	**2019**	**1st Nov**
Gold ($/OZ)	-6.1%	-3.0%	-11.7%	25.1%	18.3%	-7.7%
Steel ($/ton)	-0.8%	13.3%	28.0%	41.2%	-1.0%	24.3%
Aluminium ($/ton)	10.8%	11.5%	25.0%	9.9%	-3.7%	21.0%
Copper ($/ton)	16.2%	22.1%	36.5%	26.0%	3.4%	36.3%
Zinc ($/ton)	10.0%	2.2%	11.5%	18.8%	-8.7%	11.7%

Source: Bloomberg, Axis Securities



Value outperformed other styles on 2020: Growth as an investment style started recovering since November

Value is the best performer in 2020 while Growth is the laggard. After the budget, we now believe that Value and Growth will be the top themes for 2021. As the economy improves Value stocks see significant improvement in financial metrics. Also, broader economic growth will mean strong earnings growth. Quality could take a back seat as the 'Buy Quality at any price' theme may not work as there will be multiple opportunities across sectors with improving financial metrics and earnings visibility.



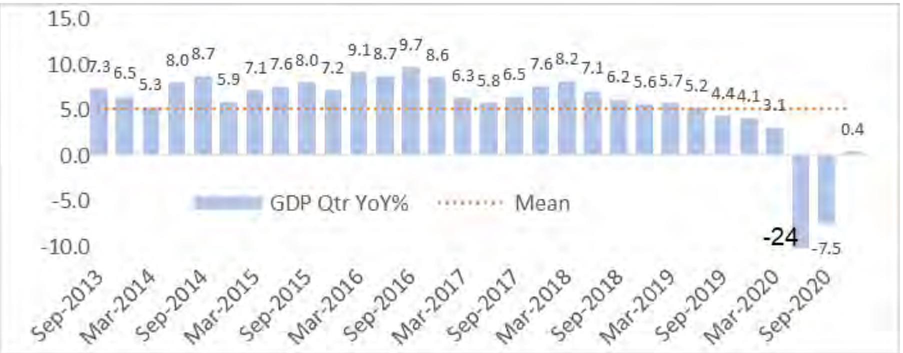
Source: Bloomberg, Axis Securities

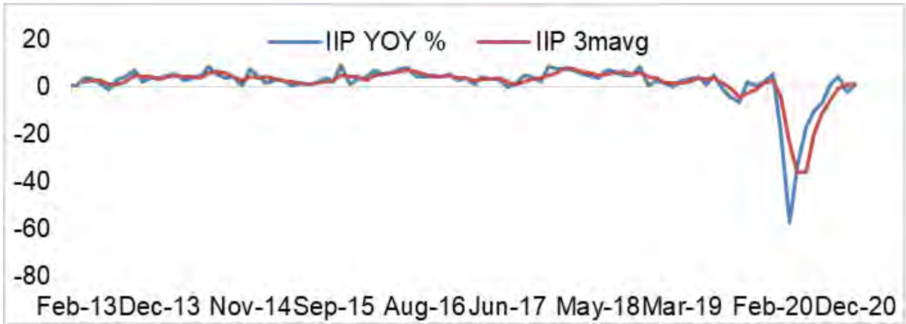
Performance (%)				
Perf	Value	Growth	Quality	Momentum
Till 23 Mar	-28.5%	-36.8%	-30.9%	-31.4%
Since 23 Mar	80.6%	72.2%	73.3%	49.9%
2020	24.9%	10.2%	22.6%	6.6%
1m	2.8%	4.4%	-0.7%	1.1%
3m	12.4%	6.2%	5.4%	3.8%
6m	27.6%	24.8%	20.3%	4.2%

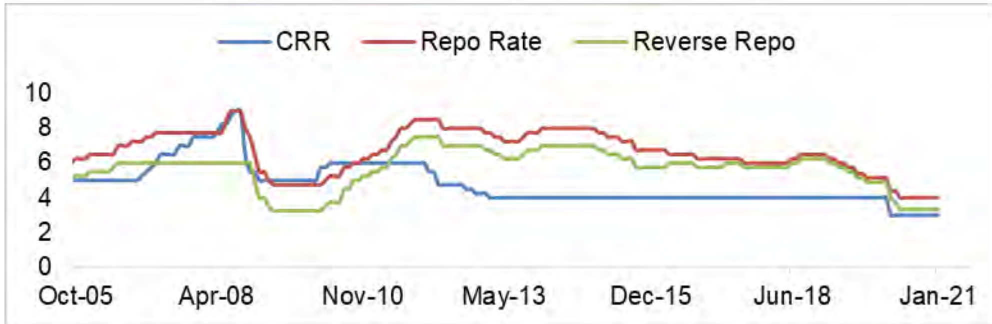
Macro Indicators – Sequential recovery, December GDP turned positive

December GDP print turned positive to 0.4%, in line with the street expectation. Sequential recovery in GDP is driven by the uptick in all the components of the supply-side while on the demand side growth was led by private and government consumption and investments. Economic activity has improved faster than expected so far with positive momentum of high-frequency indicators is continued in February also. Vaccination will be the next trigger of economic recovery beyond the current point, an increase in COVID cases leading to activities restrictions will remain a key risk in the medium term.

January CPI eased to 4.1% vs 4.6% in the month of December, the recovery in CPI is primarily due to a sharper decline in vegetable prices. While global inflation is rising on account of multiple factors, India's inflation composition is also markedly different as it is dominated by food inflation. Inflation in India has started cooling off from the months of January and the next leg of food inflation is likely to start in the second half of 2021. We expect inflation to remain in the ~4% zone for 2021 which means that RBI's accommodative policy stance will continue and support economic growth.







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 etc. It is supported by a strong liability franchise and healthy retail corporate mix.Its subsidiaries ICICI Venture Funds, ICICIPru AMC, ICICI Securities, ICICI Prudential and ICICI Lombard are amongst the leading companies in their respective segments.

Industry view

Overweight

CMP
609

Target Price
666

Upside
9%

Key Rationale

- **Healthy traction in loan book/ deposits:** Overall loan growth in Q3FY21 was 10%YoY with domestic loan book growing 13% YoY. Within domestic loans, Retail/Corporate/SME grew 15/7/25% reflecting gradual normalisation to pre-Covid levels. Deposit growth was strong at 22%YoY. Headline CASA ratio improved to 45% from 44%QoQ.
- **Improving asset quality trends:** On a pro-forma basis, the bank reported a slippage of 1% in Q3FY21, bulk from the retail portfolio. The trends in collections and overdues continued to improve for the bank. Credit costs came down to 1.6% vs 1.8% QoQ with further improvement in coming quarters expected.
- **Operational performance strengthening:** Overall reported NIM increased ~10 bps QoQ to 3.7%, driven by ~30bps decline in cost of funds and relatively lower decline in the yield on earning assets. Fee income, too, has gained traction in Q3FY21.

Key Rationale

- **At Inflection points:** Management expects NIM to improve further as interest reversals decline and excess liquidity is utilised with growth picking up. Asset quality is likely to strengthen following adequate provisioning and guidance of lower credit costs. Outlook on credit costs and loan growth has picked up. Slippages and restructuring levels have tapered down and indicate a better asset quality going forward with adequate provisioning buffers in place.
- **Valuation:** Higher loan growth, improving operating profits, strong provision buffer coupled with a strong deposit franchise will help ROAE/ROAA expansion over FY22-23E for the bank. We maintain Buy on the stock with a revised target price of Rs 666 (SOTP basis core book at 2.1x FY23E and Rs 158 Subs. Value).
- **Key risks:** Significant deterioration in retail asset quality, 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	3.4	1.5	0.8
FY21E	38,672	36,253	16,054	23.1	144.7	2.6	0.8	1.4
FY22E	41,902	36,936	20,169	29	144.7	2.2	0.7	1.6
FY23E	43,555	38,724	23,280	33.5	144.7	1.7	0.8	1.7

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net Interest Income	33,267	38,672	41,902	43,555
Other Income	16,449	19,210	19,808	21,933
Total Income	49,716	57,882	61,710	65,488
Total Operating Exp	21,614	21,629	24,774	26,764
PPOP	28,101	36,253	36,936	38,724
Provisions & Contingencies	14,053	15,965	9,496	7,264
PBT	14,048	20,288	27,440	31,459
Provision for Tax	6,117	4,234	7,272	8,179
PAT	7,931	16,054	20,169	23,280

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS				
Share Capital	1,295	1,391	1,391	1,391
Reserves	1,15,206	1,45,438	1,63,393	1,84,119
Shareholder's Funds	1,16,501	1,46,829	1,64,785	1,85,510
Total Deposits	7,70,969	8,97,504	9,84,487	10,88,594
Borrowings	1,62,900	1,13,122	1,24,201	1,41,766
Other Liabilities & Provisions	47,995	57,594	60,949	67,036
Total Liabilities	10,98,365	12,15,049	13,34,422	14,82,906
APPLICATION OF FUNDS				
Cash & Bank Balance	1,19,156	1,19,445	1,22,316	1,43,619
Investments	2,49,531	2,82,551	3,19,327	3,52,889
Advances	6,45,290	7,26,978	7,99,895	8,84,482
Fixed Assets	8,410	8,621	9,052	9,504
Other Assets	75,978	77,455	83,832	92,412
Total Assets	10,98,365	12,15,049	13,34,422	14,82,906

Source: Company, Axis Research

Valuation ratios (%)

Y/E March	FY20	FY21E	FY22E	FY23E
EPS	12.3	23.1	29.0	33.5
Earnings growth (%)	134.8	88.4	25.6	15.4
Adj. BVPS	144.7	184.0	209.8	237.4
ROAA (%)	0.77	1.39	1.58	1.65
ROAE (%)	7.1	12.2	12.9	13.3
Core P/ABV (x)	3.4	2.6	2.2	1.7
Dividend Yield (%)	0.0	0.4	0.5	0.6
PROFITABILITY				
Yield on Advances (%)	9.3	8.3	8.3	8.3
Yield on Investment (%)	6.4	6.3	6.2	6.1
Cost of Funds (%)	4.7	4.2	4.4	4.6
Cost of Deposits (%)	4.6	4.3	4.3	4.6
NIM (%)	3.7	3.7	3.6	3.4
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	2.4	2.1	2.2	2.1
Cost-Income Ratio (%)	43.5	37.4	40.1	40.9

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Loan Growth (%)	10.0	12.7	10.0	10.6
Deposit Growth (%)	18.1	16.4	9.7	10.6
C/D Ratio (%)	83.7	81.0	81.3	81.3
Equity/Assets (%)	10.6	12.1	12.3	12.5
Equity/Advances (%)	18.1	20.2	20.6	21.0
CASA (%)	45.1	41.9	42.1	41.8
Total Capital Adequacy Ratio	16.1	17.7	18.0	18.2
Tier I CAR	14.7	16.5	16.9	17.2
ASSET QUALITY				
Gross NPLs	40,829	40,526	37,124	37,114
Net NPLs	9,923	5,900	5,940	7,415
Gross NPLs (%)	6.3	5.6	4.6	4.2
Net NPLs (%)	1.5	0.8	0.7	0.8
Coverage Ratio (%)	75.7	85.4	84.0	80.0
Provision/Avg. Loans (%)	1.5	2.0	1.2	0.8
ROAA TREE				
Net Interest Income	3.23%	3.34%	3.29%	3.09%
Non Interest Income	1.59%	1.66%	1.55%	1.56%
Operating Cost	2.10%	1.87%	1.94%	1.90%
Provisions	1.36%	1.38%	0.74%	0.52%
Tax	0.59%	0.37%	0.57%	0.58%
ROAA	0.77%	1.39%	1.58%	1.65%
Leverage (x)	9.17	8.79	8.18	8.04
ROAE	7.05%	12.19%	12.94%	13.29%

Source: Company, Axis Research

MANAPPURAM FINANCE – CONTINUE TO SHINE

Manappuram Finance (MGFL) is amongst the leading gold loan NBFCs in India and is well diversified into other business segments like housing loan, vehicle loan and microfinance, with a branch network size of around 4,623 spread across the country.

Industry view

Overweight

CMP
176

Target Price
207

Upside
18%

Key Rationale

- **Stable Gold loan book**: For MGFL, the Gold loan is ~70% of the AUM mix which lends stability to the overall portfolio mix. Growth in gold loan book marginally slowed down (24/2.4% YoY/QoQ) in Q3FY21 on the transient impact of customer movement towards banks benefitting from higher LTVs. Online gold loan now makes up ~60% of the total gold book, which is a positive as collections/repayments will be insulated from the complete branch-shutdown to a large extent.
- **Encouraging trends in the non-gold book:**MFI AUM growth picked up by 7.8% QoQ compared to de-growth in the previous two quarters.Provisioning in the MFI book was Rs 48cr with management indicating that provisioning was now complete. Collection efficiency in MFI has improved to ~99%.
- **Operational performance steady:** NIMs remain stable QoQ due to stable yields on gold loans while the cost of funds declined further. Opex/AUM improved further to 5.1% vs. 5.3% QoQ. Liquidity remains adequate with excess cash and the ability to raise the funds from the capital market.

Key Rationale

- **High ROE business:** MGFL can sustain its performance in a critical business environment due to its well-matched ALM profile, strong liquidity, and cost controls. Low LTVs of 63%, provide a comfortable margin of safety against gold price correction. Management has applied to RBI for 300 branches in north India and expect permission to come soon.
- **Valuation:**We believe credit costs will come down over FY22-FY23E. We expect cost optimization to aid profitability. Balance sheet liquidity remains comfortable with no funding challenges.Management expects to maintain ROAs of 6-7% over FY21-22E. We expect MGFL to maintain ROAE of +24% over FY21/FY22. Gold lending is a high moat business and specialists like MGFL will continue to benefit. We maintain BUY with a target price of Rs 207 (1.5x FY23E ABV)
- **Key risks:** Near term asset quality risk in MFI portfolio,a slowdown in the gold loan business

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	NII (Rs)	PPOP (Rs)	PAT (Rs)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
2020	3,385	2,245	1,480	17.6	66.9	2.6	6.0	0.4
2021E	3,957	2,729	1,752	20.8	82.5	2.1	5.7	0.6
2022E	4,590	3,144	2,152	25.5	103.6	1.7	6.1	0.5
2023E	5,210	3,604	2,569	30.5	137.9	1.3	6.3	0.4

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Interest Earned	5,217	6,339	7,353	8,346
Interest Expended	1,832	2,382	2,763	3,136
Net Interest Income	3,385	3,957	4,590	5,210
Other Income	334	207	290	420
Total Income	3,719	4,164	4,880	5,630
Total Operating Exp	1,474	1,435	1,736	2,026
Employee Expense	830	830	980	1,156
Other Operating Expense	644	605	757	870
PPOP	2,245	2,729	3,144	3,604
Provisions & Contingencies	238	392	274	178
PBT	2,007	2,337	2,869	3,426
Provision for Tax	527	584	717	856
PAT	1,480	1,752	2,152	2,569

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Sources of Funds				
Share Capital	169	169	169	169
Reserves	5,577	7,160	9,162	11,581
Shareholder's Funds	5,746	7,328	9,330	11,750
Borrowings	21,817	24,435	27,367	30,651
Other Liabilities & Provisions	1,330	1,263	1,200	1,140
Total Liabilities	28,951	33,026	37,897	43,541
Application of Funds				
Cash & Bank Balance	3,646	4,238	4,890	6,013
Investments	90	90	90	90
Advances	23,189	26,204	30,134	34,655
Fixed Assets	387	445	512	512
Other Assets	1,639	2,050	2,271	2,271
Total Assets	28,951	33,026	37,897	43,541

Source: Company, Axis Research

Valuation ratios (%)

Y/E March	FY20	FY21E	FY22E	FY23E
EPS	17.6	20.8	25.5	30.5
Earnings growth (%)	59.6	18.4	22.8	19.4
BVPS	68.0	86.9	110.7	139.4
Adj. BVPS	66.9	82.5	103.6	137.9
ROAA (%)	6.00	5.7	6.1	6.3
ROAE (%)	28.8	26.8	25.8	24.4
P/E (x)	10.0	8.5	6.9	5.8
P/ABV (x)	2.6	2.1	1.7	1.3
PROFITABILITY				
Yield on Advances (%)	25.4	24.8	24.7	24.7
Cost of Funds (%)	9.9	9.7	9.8	9.8
NIM (%)	16.5	15.7	15.5	15.5
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	39.6	34.5	35.6	36.0
Cost-Income Ratio (%)	7.2	6.3	6.2	6.2

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Loan Growth (%)	30.2	13.0	15.0	15.0
Total Capital Adequacy Ratio	23.4	24.6	26.6	26.6
Tier I CAR	22.9	23.1	25.5	27.8
ASSET QUALITY				
Gross NPLs (%)	0.9	2.6	1.3	1.1
Net NPLs (%)	0.4	0.6	0.5	0.4
Coverage Ratio (%)	50.5	75.4	60.5	57.5
Credit Cost (%)	0.8	1.5	0.9	0.5

Source: Company, Axis Research

CAN FIN HOMES – STEADY PLAYER

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

Industry view

Overweight

CMP
485

Target Price
573

Upside
18%

Key Rationale

- **Loan book mix best in class**: 90% of its total loans are housing loans and salaried employees contribute to 71% of total loans. Even on an incremental basis, the numbers remain similar. In Q3FY21, while disbursements improved sequentially, they were still 25% below on account of the one-off impact from Telangana (~17% of disbursements) closing home registrations for 2.5 months during the quarter.
- **NIM maintained on lower CoF:** Yield on loans and cost of funds both declined 20bp QoQ to 9.8%/6.9%. The company reduced its lowest home loan rate to 6.95% tocompete with large banks. It is able to offer such low rates as its incremental cost of funds is ~5.5%.
- **Stable asset quality:**For Q3FY21, GNPA improved 4bp QoQ to 68bp. Even excluding the impact of the SC dispensation, the GNPL ratio is less than 1%. Given the nature of its loan mix with negligible developer exposure, we expect asset quality to be benign. The company took Rs 1.6cr provisions in the quarter. PCR increased to 40%, from 36% in Q2FY21 and 26% in Q3FY20.

Key Rationale

- **Outlook**: CANF is one of the better-positioned players in the housing finance sector with a strong balance sheet, low NPAs, granular loan book and sound underwriting standards. With demand back completely, the management is now focusingmore on the growth front and re-priced its loan book with competitive rates of6.95% and mitigating risk of balance transfers. It is also targeting large cities andmetros along-with its earlier strategy to expand into tier 3-4 cities.
- **Valuation**:Its ability to improve NIMs even in a tough environment reflects its entrenched business model, even as book size is much smaller than peers. We expect loan growth to pick up gradually as the company embarks to push growth through competitive rates and new geographies. Loan mix profile skewed towards salaried segment will help in maintaining asset quality. Proforma GNPAs are less than 1%.We remain positive on the stock given its favourable loan mix, sustained margins, comfortable liquidity position and robust CAR (24%) and recommend BUY with a target price of Rs 573 (2.5x FY23E ABV).
- **Key risks:** Lower than expected demand pick-up

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	675	579	376	28.3	3.0	3.0	1.9	0.5
2021E	832	727	483	36.3	2.4	2.5	2.2	0.8
2022E	916	793	548	41.2	2.0	2.1	2.3	0.6
2023E	1035	889	619	46.6	1.7	1.7	2.3	0.6

Source: Company, Axis Securities;

Profit & Loss (Rs Cr)

Y/E MAR	FY20	FY21E	FY22E	FY23E
Net Interest Income	675	832	916	1,035
Other Income	12	10	10	10
Total Income	686	843	926	1,045
Total Operating Exp	108	115	132	156
PPOP	579	727	793	889
Provisions & Contingencies	60	75	53	51
PBT	518	652	741	837
Provision for Tax	142	170	193	218
PAT	376	483	548	619

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E MAR	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS				
Share capital	27	27	27	27
Reserves and surplus	2,123	2,606	3,129	3,724
Shareholders' funds	2,150	2,633	3,156	3,751
Total Borrowings	18,748	18,785	20,664	22,730
Other Liabilities, provisions	145	158	150	150
Total	21,044	22,295	24,739	28,362
APPLICATION OF FUNDS				
Cash & Bank Balance	392	402	442	442
Investments	24	24	24	24
Advances	20,526	21,757	24,151	27,773
Fixed Assets & Other Assets	101	111	122	122
Total assets	21,044	22,295	24,739	28,362

Source: Company, Axis Research

KEY RATIOS (Rs Cr)

Y/E MAR	FY20	FY21E	FY22E	FY23E
VALUATION RATIOS				
EPS	28.3	36.3	41.2	46.6
Earnings Growth (%)	26.8	28.4	13.6	13.0
BVPS	161.7	198.0	237.3	282.0
Adj. BVPS	153.1	188.0	229.3	275.0
ROAA (%)	1.9	2.2	2.3	2.3
ROAE (%)	19.1	19.5	19.2	19.2
P/E (x)	16.9	13.2	11.6	10.3
P/ABV (x)	3.0	2.4	2.0	1.7
PROFITABILITY				
Yield on Advances	10.4	10.1	10.2	10.2
Cost of Borrowings	7.6	7.3	7.5	7.5
NIM (%)	3.5	3.8	3.5	3.5
Cost-Income Ratio	15.7	13.7	14.3	15.0

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY20	FY21E	FY22E	FY23E
Loan Growth (%)	12.3	6.0	11.0	15.0
CAR	22.3	24.3	22.1	22.1
Tier 1	20.5	22.8	20.8	20.8
ASSET QUALITY				
Gross NPLs (%)	0.8	1.3	1.0	1.0
Net NPLs (%)	0.5	0.8	0.6	0.6
PCR	28.8	35.0	37.0	37.0
Credit costs	0.3	0.3	0.2	0.2

Source: Company, Axis Research

FEDERAL BANK – OPERATIONAL IMPROVEMENT ON TRACK

Federal Bank (FB) is a Kerala-based private sector bank. It hasexposure to insurance and NBFC business through its joint venture with IDBI and wholly-owned subsidiary Fedfinarespectively.The bank has been proactively managing its strategy from being a regional player towards being branch-light distribution-heavy franchise with a push towards digital banking.

Industry view

Overweight

CMP
84

Target Price
93

Upside
11%

Key Rationale

- **Improving liability franchise:** As FB entrenches its presence pan – India, it is amongst the few mid-tier banks which haveimproved its deposit base. In Q3FY21, Deposits growth was strong at 12% YoY, led by CASA up ~23/6% YoY/QoQ. CASA ratio at 34.5%, up from 31.5% YoY. Retail deposits ~92%. NR deposits have also been growing with share at ~40%, being preferred banker for NRIs.
- **Loan mix more balanced:** FB's loan book growth is being led by retail (incl. Agri) is >40% and granular in nature. In Q3FY21, Loan growth of 6% YoY was led by Retail up 16% w/w Gold loans grew 67% YoY. SME grew 11.7/4.7% YoY/QoQ with ECLGS disbursement amounting to Rs 26bn.Corporate book de-grew 2% YoY. Gold loan is a key segment where the bank intends to grow.
- **Asset quality manageable:**The restructuring pool was much lower than expectations, at 0.9% of loans and is largely in retail (mainly mortgage), wherein LGDs will below. Management expects a further ~40-50 bps to come in Q4FY21. In FY21, the bank expects a restructuring of ~Rs 1500-1600 with currently approved Rs1000-1100cr. It intends to hold a 15-20% provision on the restructuring book.Pro-forma slippages of Rs 830cr includes one large infra account (Rs 210cr) likely to be resolved in Q4.

Key Rationale

- **Outlook:**FB continues withits cautious approach in building the loan mix toward high-rated corporates 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. Management intends to keep PCR in the range of 65-70% as the high proportion of the book is secured and LGDs historically have treaded below 40%. FB has been consistently improving across parameters – efficiency, deposits, fee income etc. It hasprofessionalized its senior management in recent years and done well on corporate and retail loans (especially gold).
- **Valuation:**We believe that key positives are increasing retail focus, strong fee income, adequate capitalisation (Tier-1 at 13%), and prudent provisioning. Given strong underwriting standards, changing loan mix and strong retail deposit franchise, we expect the valuation to improve from current levels if asset quality trends maintain and ROA improvement keeps on track. We maintain Buy with a revised target price of Rs93 (1x FY23E ABV).
- **Key risks:**Asset quality trends in coming quarters

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	1.2	0.9	1.3
2021E	5,532	3,859	1,408	7.1	74.9	1.0	0.6	1.3
2022E	6,085	3,988	1,741	8.7	82.9	0.9	0.8	1.2
2023E	6,877	4,532	2,280	7.1	92.5	0.8	1.0	1.0

Source: Company, Axis Securities

Profit & Loss

(Rs Cr)

Y/E MAR	FY20	FY21E	FY22E	FY23E
Net Interest Income	4,649	5,532	6,085	6,877
Other Income	1,931	1,970	1,753	1,894
Total Income	6,580	7,502	7,839	8,770
Total Operating Exp	3,376	3,643	3,850	4,239
PPOP	3,205	3,859	3,988	4,532
Provisions & Contingencies	1,172	1,957	1,635	1,450
PBT	2,033	1,903	2,353	3,081
Provision for Tax	490	495	612	801
PAT	1,543	1,408	1,741	2,280

Source: Company, Axis Research

Balance Sheet

(Rs Cr)

Y/E MAR	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS				
Share Capital	399	399	399	399
Reserves	14,518	15,925	17,517	19,627
Shareholder's Funds	14,916	16,324	17,915	20,026
Total Deposits	1,52,290	1,69,194	1,90,682	2,16,424
Borrowings	10,372	10,788	12,876	14,614
Other Liabilities & Provisions	3,458	3,631	3,885	3,885
Total Liabilities	1,81,037	1,99,937	2,25,358	2,54,949
APPLICATION OF FUNDS				
Cash & Bank Balance	12,575	14,447	22,100	25,825
Investments	35,893	39,482	41,430	44,430
Advances	1,22,268	1,31,071	1,46,144	1,65,874
Fixed Assets & Other Assets	10,301	14,937	15,684	18,820
Total Assets	1,81,037	1,99,937	2,25,358	2,54,949

Source: Company, Axis Research

Key Ratios (Rs Cr)

Y/E MAR	FY20	FY21E	FY22E	FY23E
VALUATION RATIOS				
EPS	7.8	7.1	8.7	11.4
Earnings Growth (%)	23.8	-9.4	23.7	31.0
BVPS	1.0	0.0	1.0	1.0
Adj. BVPS	72.8	81.9	88.9	99.5
RoAA (%)	64.9	74.9	82.9	92.5
ROAE (%)	0.9	0.6	0.8	1.0
P/E (x)	10.8	11.9	9.6	7.3
P/ABV (x)	1.2	1.0	0.9	0.8
Dividend Yield (%)	1.3	0.0	1.3	1.3
PROFITABILITY				
NIM (%)	2.9	3.2	3.1	3.2
Cost-Income Ratio	51.3	48.6	49.1	48.3

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY20	FY21E	FY22E	FY23E
Loan Growth (%)	10.9	7.2	11.5	13.5
Deposit Growth (%)	12.8	11.1	12.7	13.5
C/D Ratio (%)	80.3	77.5	76.6	76.6
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	3.4	3.0
Net NPLs (%)	1.3	1.3	1.2	1.0
Coverage Ratio (%)	53.2	63.2	65.3	65.1
Net Interest Income	2.7	2.5	2.6	2.9
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	0.6	0.8	1.0
Leverage (x)	12.2	12.5	12.8	12.9
ROAE	11.1	8.3	9.2	10.1

Source: Company, Axis Research

NOCIL LTD.– HEALTHY GROWTH OUTLOOK

NOCIL Limited, part of the Arvind Mafatlal Group, is the largest rubber chemicals company in India. The company has manufacturing units in Navi Mumbai, Maharashtra and Dahej, Gujarat. Its portfolio includes accelerators, anti-oxidants, pre/post vulcanization products. The products manufactured are used by the tyre industry and other rubber processing industries.

Industry view

Overweight

CMP
169

Target Price
202

Upside
20%

Key Rationale

- **Healthy volume performance:**NOCIL Ltd. posted strong growth of 46%/ 25% on a YoY/QoQ basis respectively in Q3FY21. This was led by increasing demand by tyre customers, better demand outlook for the OEM segment, and increasing capacity utilization. Thus we expect Q4FY21 to report volume improvment and price-led growth and clock 8-10% topline growth in FY21E.
- **Positive outlook on Margins:**TheGross Margin performance has been weak during Q3 and 9MFY21.However, with pricesbottoming out and product price hikes expected from January 2021 onwards, GMs may see an improvement in QoQ.Management has guided GMs to peak at 50% levels and the transition will happen over the quarters. Further, as fixed cost absorption improves, EBITDA Margins are also expected to stabilize going forward.
- **Encouraging long-term prospects:** With increasing preference and enquiries by tyre manufacturers to look for non-Chinese suppliers, NOCIL is sweetly positioned to capitalise significant growth opportunities over the medium to long term. The shift in the strategy of supply chains being independent of China is here to stay with NOCIL being a key beneficiary at the global and domestic level.

Key Rationale

- **Upward revision in guidance a positive:**The management revised its guidance upwards from flattish to 8%-10% volume and sales growth for FY21E, despite a weak Q1FY21 and indicated that the growth is expected to continue in Q1FY22 as well. The management indicated: 1) The restrictions on tyre import helped the domestic tyre customers to see huge pick up in volumes; 2) uptick in demand in the domestic and global market due to buoyant replacement demand and improving OEM segmentdrove strong growth in volumes; 3) healthy monthly sales number posted by OEMs provides more confidence for the growth momentum to sustain in the coming quarters.
- **Valuations:** We expect FY22E to see a healthy performance on the back of improving opportunities in the export markets and demand traction in domestic markets. The improvement in pricing scenario showingan increasing trend, expansion in new geographies, improving product mix and strong relationships with its customers will lead to strong operational performance for the next few quarters.We expect the company to register Revenue/EBITDA/PAT CAGR of 34/42/37% over FY20-23E.
- **Key Risks:** Concern on COVIDs second wave and frizzling out of Auto Sector demand thereby impacting demand for tyres

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	NetSales (Rscr)	EBIDTA (Rscr)	Net Profit (Rscr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY20	846	178	131	7.9	18.2	13.3	9	11
FY21E	926	177	110	7	26.0	13.4	9	10
FY22E	1,116	256	166	10	16.1	9.1	12	14
FY23E	1,523	358	244	15	11.7	6.5	15	18

Profit & Loss (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Total Net Sales	**846**	**926**	**1,116**	**1,523**
% Change	-18.9%	9.4%	20.6%	36.4%
Total Raw material Consumption	388	444	514	697
Staff costs	77	79	84	114
Other Expenditure	203	226	263	353
Total Expenditure	668	749	861	1,165
EBITDA	**178**	**177**	**256**	**358**
% Change	-39.1%	-0.8%	44.6%	40.0%
EBITDA Margin %	**21.1%**	**19.1%**	**22.9%**	**23.5%**
Depreciation	33.7	40.6	46.1	49.6
EBIT	144	136	210	308
% Change	-46.2%	-5.7%	53.8%	47.1%
Interest	1	1	1	1
Other Income	9	11	13	18
PBT	152	147	222	326
Tax	22	37	56	82
Tax Rate %	*14.2%*	*25.2%*	*25.2%*	*25.2%*
APAT	**131**	**110**	**166**	**244**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Share Capital	**166**	**166**	**166**	**166**
Reserves & Surplus	1,020	1,107	1,241	1,436
Net Worth	1,185	1,273	1,406	1,601
Total Loan funds	7	7	7	7
Deferred Tax Liability	93	93	93	93
Long Term Provisions	17	14	17	22
Capital Employed	**1,302**	**1,387**	**1,522**	**1,723**
Gross Block	1,019	1,159	1,279	1,379
Less: Depreciation	224	264	310	360
Net Block	796	895	969	1,019
Investments	39	42	51	69
Sundry Debtors	203	228	281	375
Cash & Bank Bal	9	15	59	54
Inventory	136	170	201	273
Other Current Assets	41	28	33	46
Total Current Assets	426	478	617	784
Current Liabilities & Provisions	141	161	175	219
Net Current Assets	285	317	436	565
Total Assets	**1,302**	**1,387**	**1,522**	**1,723**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
PBT	152	147	222	326
Depreciation & Amortization	35	41	46	50
Chg in Working cap	52	-33	-77	-136
Direct tax paid	-51	-37	-56	-82
Cash flow from operations	**181**	**118**	**136**	**158**
Chg in Gross Block	-418	-90	-54	-103
Chg in Investments	0	0	0	0
Proceeds on redemption of Fin. Assets	307	1	-5	-10
Cash flow from investing	**-106**	**-89**	**-59**	**-113**
Proceeds / (Repayment) of Short Term Borrowings (Net)	0	0	0	0
Proceeds from issue of Equity Instruments of the company	1	0	0	0
Loans	0	0	0	0
Finance Cost paid	0	-1	-1	-1
Dividends paid	-98	-22	-33	-49
Cash flow from financing	**-101**	**-23**	**-34**	**-49**
Chg in cash	**-27**	**6**	**43**	**-5**
Cash at start	37	9	15	59
Cash at end	11	15	59	54

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21E	FY22E	FY23E
Growth (%)				
Net Sales	-18.9%	9.4%	20.6%	36.4%
EBITDA	-39.1%	-0.8%	44.6%	40.0%
APAT	-29.3%	-16.0%	51.6%	46.6%
Per Share Data (Rs.)				
Adj. EPS	7.9	6.6	10.0	14.7
BVPS	71.6	76.9	84.9	96.7
DPS	2.5	1.3	2.0	2.9
Profitability (%)				
EBITDA Margin	21.1%	19.1%	22.9%	23.5%
Adj. PAT Margin	12.3%	11.9%	14.9%	16.0%
ROCE	11.1%	9.8%	13.8%	17.9%
ROE	8.8%	8.6%	11.8%	15.2%
Valuations (X)				
PER	18.2	21.6	14.3	9.7
P/BV	2.0	1.9	1.7	1.5
EV / EBITDA	13.3	13.4	9.1	6.5
Turnover Days				
Inventory days	144.5	126.0	132.1	124.1
Debtors days	93.9	85.1	83.3	78.7
Creditors days	88.4	81.8	82.9	76.4
Working Capital Days	150.0	129.3	132.4	126.5
Gearing Ratio				
Total Debt to Equity (x)	0.0	0.0	0.0	0.0

Source: Company, Axis Research

Varun Beverages – Geared For Growth

VBL is the 2nd largest franchisee for 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
1040

Target Price
1,230

Upside
18%

Key Rationale

- VBL's overall revenue grew moderately in Q4CY20in the backdrop of flatIndia volumes at 63mn cases while IBD volumes grew 25% to 24mn cases. For CY20, total salesvolume declined by 13.7% YoY and organic sales volume declined by20.8% primarily due to a decline of 46% in Q2CY20 that was impacted by COVID led lockdown. In CY20, India volumes fell by 17% YoY, while international business volumes were flattish. Management indicated thatQ1CY21 volumes trajectory seems to have recovered significantly across all segments andgeographies given sustained relaxation and easing of lockdown and improved prospects in the rural economy.
- Low per capita soft drink consumption in Indiaat 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 a structural growth opportunityfor deeper penetration of soft drinks in India.
- **Key risks:** seasonality, concerns on COVID's second wave (50% OOH* consumption), regulatory actions against soft drinks products.

Key Rationale

- **Outlook**:With business growth restoring, aided by lockdown relaxations as witnessed in Q3CY20 and Q4CY20, we do expect this momentum to continue in CY21. The trend of in-home consumption has seen an increase and is likely to sustain as consumers get habituated to consuming soft drinks at home. Further, OOH is also returning to normalcy, where, too, growth is being seen. Rural regions are likely to outpace urban counterparts supported by a healthy outlook for the Rabi crop. Share gain opportunities from smaller players are expected to boost the company's market share especially in acquired territories of South and West where it will look to add dealers ahead of the season in CY21.
- **Valuation**. We expect VBL to register Revenues/EBITDA/Earnings CAGR of 11%/14%/31% resp. over CY19-22E. This growth will be driven by 1) Consolidation in newly acquired territories, 2) Distribution led market share gains, and 3) Margin tailwinds from cost efficiencies. Healthy outlook on the upcoming season and tie-ups with leading and fast-growing QSR players in India are expected to propel VBLs growth into a new orbit going ahead.

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	Net Sales	EBIDTA	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
CY19	7,130	1,448	472	16.8	42.1	15.9	6.1	17.6
CY20E	6,450	1,202	357	12.7	82.0	27.1	8.4	10.3
CY21E	8,943	1,896	861	29.8	35.0	16.8	6.9	21.7
CY22E	9,729	2,121	1,066	36.9	28.2	14.4	5.7	22.2

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

Profit & Loss (Rs Cr)

Y/E DEC	CY19	CY20E	CY21E	CY22E
Total Net Sales	**7,130**	**6,450**	**8,943**	**9,729**
% Change	39.7%	-9.5%	38.7%	8.8%
Total Raw material Consumption	3,219	2,764	3,890	4,174
Staff costs	811	890	1,055	1148
Other Expenditure	1,652	1,595	2,102	2,286
Total Expenditure	5,682	5,248	7,047	7,608
EBITDA	**1,448**	**1,202**	**1,896**	**2,121**
% Change	43.8%	-17.0%	57.7%	11.9%
EBITDA Margin %	**20.3%**	**18.6%**	**21.2%**	**21.8%**
Depreciation	489	529	574	603
EBIT	959	673	1,322	1518
% Change	54.3%	-29.8%	96.3%	14.8%
EBIT Margin %	13.5%	10.4%	14.8%	15.6%
Interest	310	281	234	161
Other Income	43	37	63	68
PBT	696	362	1,150	1425
Tax	224	5	290	359
Tax Rate %	*32.2%*	*28.0%*	*25.2%*	*25.2%*
APAT	**472**	**357**	**861**	**1066**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E DEC	CY19	CY20E	CY21E	CY22E
Share Capital	**289**	**289**	**289**	**289**
Reserves & Surplus	3,040	3,235	3,975	4,913
Net Worth	3,359	3,589	4,329	5,267
Total Loan funds	2,823	2,693	2,293	1793
Deferred Tax Liability	283	226	226	226
Long Term Provisions	170	204	206	221
Other Long Term Liability	1	26	1	1
Capital Employed	**6,635**	**6,738**	**7,055**	**7,508**
Gross Block	8,079	8,543	9,049	9,529
Less: Depreciation	2,187	2,715	3,290	3,892
Net Block	5,893	5,828	5,760	5,637
Investments	45	42	57	62
Sundry Debtors	173	242	245	267
Cash & Bank Bal	171	190	553	1285
Loans & Advances	7	10	10	10
Inventory	882	929	981	858
Other Current Assets	440	429	552	600
Total Current Assets	**1,672**	**1,799**	**2,340**	**3,020**
CurrLiab&Prov	1,753	1,721	2,022	2,166
Net Current Assets	(81)	79	319	853
Total Assets	**6,635**	**6,738**	**7,055**	**7,508**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	CY19	CY20E	CY21E	CY22E
PBT	696	362	1,150	1425
Depreciation & Amortization	489	529	574	603
Provision for Taxes	295	281	234	161
Chg in Working cap	(85)	(135)	85	208
Direct tax paid	(120)	(5)	(290)	(359)
Cash flow from operations	**1,310**	**1,032**	**1,754**	**2038**
Chg in Gross Block	(754)	(462)	(636)	(516)
Chg in Investments	(1,625)	-	-	-
Cash flow from investing	**(2,311)**	**(462)**	**(636)**	**(516)**
Proceeds / (Repayment) of Short Term Borrowings (Net)	560	-	-	-
Repayment of Long Term Borrowings	46	-	-	-
Loans Repayment	-	(129)	(400)	(500)
Finance Cost paid	(301)	(281)	(234)	(161)
Dividends paid	(69)	(38)	(120)	(128)
Dividend Distribution Tax paid	(9)	-	-	-
Cash flow from financing	**1,110**	**(449)**	**(754)**	**(789)**
Chg in cash	**100**	**121**	**363**	**732**
Cash at start	42	171	190	553
Cash at end	**142**	**293**	**553**	**1,285**

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY19	CY20E	CY21E	CY22E
Growth (%)				
Net Sales	39.7%	-9.5%	38.7%	8.8%
EBITDA	43.8%	-17.0%	57.7%	11.9%
APAT	57.5%	-24.3%	140.8%	23.8%
Per Share Data (Rs.)				
Adj. EPS	16.8	12.7	29.8	36.9
BVPS	116.4	124.3	149.9	182.4
Profitability (%)				
EBITDA Margin	20.3%	18.6%	21.2%	21.8%
Adj. PAT Margin	6.6%	5.5%	9.6%	11.0%
ROCE	17.0%	10.1%	19.2%	20.8%
ROE	17.6%	10.3%	21.7%	22.2%
ROIC	17.5%	10.4%	20.4%	24.1%
Valuations (X)				
PER	42.1	82.0	35.0	28.2
P/BV	6.1	8.4	6.9	5.7
EV / EBITDA	15.9	27.1	16.8	14.4
EV / Net Sales	3.2	5.1	3.6	3.1
Turnover Days				
Asset Turnover	1.0	0.8	1.0	1.0
Inventory days	82.8	119.5	89.6	80.4
Debtors days	7.7	11.7	9.9	9.6
Creditors days	45.0	65.3	46.5	43.5
Working Capital Days	45.4	66.0	53.0	46.5
Gearing Ratio				
Debt: Equity (x)	0.8	0.8	0.5	0.3

Source: Company, Axis Research

RELAXO FOOTWEAR– STRONG & RESILIENT BUSINESS MODEL

Relaxo is a footwear manufacturing company with headquarter in New Delhi. The company's products include rubber/EVA slippers, canvas shoes, sports shoes, sandals, and school shoes with the negligible presence of leather footwear. It has a market share of ~5% in the footwear market and has a prominent presence in mass and value category products catering to the entire family. The company has effectively increased its reach in tier II, III & IV cities with a limited presence in metro and tier I cities.

Industry view

Equal Weight

CMP
871

Target Price
1005

Upside
15%

Key Rationale

- **Volumes driven by open footwear with demand for closed footwear inching up:** Open footwear majorly contributed to the revenues during 9MFY21 as there was a strong demand for these due to the extension of work-from-home trend. We expect further demand for open footwear with better recovery in demand for closed footwear from West and South with lockdown easing up and winter season.
- **Margin to improve on cost rationalization:**Gross Margin expanded in 9MFY21 bps in on the back of benign raw material prices. We expect prices of raw material to rise as demand reverts to normalcy in turn levelling margins to previous trends. EBITDA Margin witnessed sharp improvement on account of better product mix and saving in selling and administrative expenses. We expect margins to improve by 60-70 bps in FY21E vs FY20.

Key Rationale

- **Valuation:**Relaxo has maintained healthy operating cashflows, asset turns (~3x) and EBITDA Margins over the years making it a capital-efficient business. We believe a strong balance sheet with a D/E ratio of 0.1x and efficient working capital should help Relaxo sail through the current situation comfortably. We expect the company to be the beneficiary of market share gains as most players in the unorganized segment mainly dominant in the mass and value category would be facing liquidity constraints. We remain positive on the stock from a long term perspective given immense growth potential. We expect the company to register Revenue/EBITDA/PAT CAGR of 16/21/25% over FY20-23E.
- **Key Risks:**Currently,~ 40% of rawmaterials used by the company are imported (EVA, PU etc). As these raw materials are derivatives of crude, therefore any fluctuation in prices of crude would impact the pricing of its key raw material.

Key Financials

Y/E Mar (Rs Cr)	Net Sales	EBIDTA	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY20	2,410	409	227	9.1	68.6	38.1	18.0	22.0
FY21E	2,327	410	202	8.2	106.7	52.5	14.0	18.0
FY22E	3,066	580	330	13.3	65.4	36.9	19.0	24.0
FY23E	3,773	732	441	17.8	49.0	28.9	21.0	27.0

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Total Net Sales	**2,410**	**2,327**	**3,066**	**3,773**
Total Raw material Consumption	1,039	1,012	1,319	1,611
Staff costs	294	303	380	468
Other Expenditure	668	603	788	962
Total Expenditure	962	905	1,168	1,430
EBITDA	**409**	**410**	**580**	**732**
EBITDA Margin %	17.0	17.6	18.9	19.4
Depreciation	109	129	132	138
EBIT	**300**	**281**	**447**	**594**
EBIT Margin %	12.4	12.1	14.6	15.7
Interest	17	18	17	17
Other Income	9	8	10	12
PBT	292	270	441	589
Tax	65	68	111	149
APAT	**227**	**202**	**330**	**441**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Share Capital	25	25	25	25
Reserves & Surplus	1,248	1,420	1,686	2,063
Net Worth	1,273	1,445	1,711	2,087
Total Borrowings	-	-	-	-
Deferred Tax Liability	25	25	25	25
Long Term Provisions	11	15	20	25
Other Long-Term Liability	120	125	130	130
Capital Employed	**1,428**	**1,610**	**1,886**	**2,267**
Gross Block	948	1,010	1,073	1,139
Less: Depreciation	197	273	353	437
Net Block	751	737	720	703
Other Non-Current Assets	300	299	319	321
Investments	-	-	-	-
Sundry Debtors	172	236	269	331
Cash & Bank Bal	4	104	265	471
Loans & Advances	0	0	0	0
Inventory	448	517	568	699
Other Current Assets	166	150	250	350
Total Current Assets	**790**	**1,007**	**1,352**	**1,851**
CurrLiab&Prov	413	434	506	607
Net Current Assets	**377**	**574**	**847**	**1,244**
Total Assets	**1,428**	**1,610**	**1,886**	**2,267**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
PBT	292	270	441	589
Depreciation & Amortization	109	129	132	138
Net Finance Interest and other expenses	17	10	7	5
Chg in Deferred tax				
Chg in Working cap	(20)	(92)	(126)	(194)
Direct tax paid	(84)	(68)	(111)	(149)
Cash flow from operations	**315**	**249**	**342**	**390**
Chg in Gross Block	(116)	(98)	(100)	(104)
Chg in Investments				
Chg in WIP				
Cash flow from investing	**(116)**	**(98)**	**(100)**	**(104)**
Proceeds / (Repayment) of ST Borrowings (Net)	(68)	-	-	-
Repayment of LT Borrowings	(24)	-	-	-
Loans Repayment				
Finance Cost paid	(17)	(18)	(17)	(17)
Dividends paid	(64)	(30)	(64)	(64)
Other repayment	(28)	-	-	-
Cash flow from financing	**(201)**	**(48)**	**(81)**	**(81)**
Chg in cash	(2)	103	162	205
Cash at start	2	(0)	104	265
Cash at end	**(0)**	**103**	**265**	**471**

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21E	FY22E	FY23E
Growth (%)				
Net Sales	5.2	(3.5)	31.8	23.1
EBITDA	26.2	0.1	41.5	26.3
APAT	29.3	(10.8)	63.1	33.7
Per Share Data (Rs.)				
Adj. EPS	9.1	8.2	13.3	17.8
BVPS	51	58	69	84
Profitability (%)				
EBITDA Margin	17.0	17.6	18.9	19.4
Adj. PAT Margin	9.4	8.7	10.8	11.7
ROCE	21.6	17.9	24.3	26.7
ROE	17.8	14.0	19.3	21.1
Valuations (X)				
PER	69	107	65	49
P/BV	12	15	13	10
EV / EBITDA	38	53	37	29
EV / Net Sales	6.5	9.2	7.0	5.6
Turnover Days				
Asset Turnover	3.1	3.1	4.2	5.3
Inventory days	68	81	68	68
Debtors days	26	37	32	32
Creditors days	34	36	36	34
Working Capital Days	60	82	64	65

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 the top 10 AC brands in India which cumulatively command 75%+ Indian market share. Amber also manufactures AC/NON AC components in its endeavour to be a total solutions provider for the Indian RAC industry. Furthermore, Amber has expanded its offerings by the acquisition of Sidwal (mobility solutions) and recently foray into commercial AC's.

Industry view

Equal Weight

CMP
3,198

Target Price
3,614

Upside
13%

Key Rationale

- **Most backward integrated player in India and strategic plant locations:** With strategically located and most backward integrated plants Amber is a cost-efficient solutions provider to RAC brands/OEMs. AEL caters to the majority of clients requirements for ACs like 49% for outdoor units, 78% for indoor units & 60% for window ACs.
- **Strong traction in RAC demand& healthy order outlook:** Amber witnessed strong traction for RAC's and components during Q3FY21. Further, the government measures to ban ACs with refrigerants have led to increased traction for Amber and the company has added 6 new customers to cater to this need for gas filling solutions by its clients. the channel inventory has now normalized and with strong traction seen in RAC demand from OEMs ahead of the season we expect a strong recovery in RAC's in Q4FY21. Further expectations of the strong summer season would augur well for the company.
- **Planned Capex to augur well with PLI scheme on the cards:** the company has acquired land near Pune to set up a facility for manufacturing components while it's planned Capex for RAC plant in South India (Sri City remains on track. With the existing structure and planned Capex, Amber is well-positioned to quickly scale up its operations and capture the opportunity under any PLI scheme announced by the government.

Key Rationale

- **Outlook**: Amber caters to the top 9 out of the top 10 RAC brands in India and has expanded further into Mobility Solutions (Sidwal subsidiary). Moreover, its Commercial AC foray indicates the intent to cater to a broad spectrum of HVAC solutions. Strong traction in the under-penetrated RAC segment and growth opportunities led by government policies (PLI) and export opportunities augur well for Amber over the long term.
- **Valuation**: We expect Amber to register Revenue/Earnings CAGR of 15.4%/21.8% respectively over FY20-23E. The near term order outlook remains strong for RAC as well as mobility solutions. Healthy build-up for the upcoming season, government policy measures and support through the PLI scheme makes us believers in this structural long term story. Hence we raise our multiple to 41 x, which is at a premium to consensus and historical multiples. We value Amber at 41 x FY23 E EPS of Rs 88.2 arriving at a target price of Rs 3,614.
- **Key risks:** (i)Slower than expected recovery in RAC's; (ii) Delay in ramp-up of component manufacturing and its green-field Capex.

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	NetSales (Rscr)	EBIDTA (Rscr)	Net Profit (Rscr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY20	3,963	317	164	52.2	45.9	23.6	15.4	17.3
FY21E	3,005	231	72	22.3	126.3	39.7	6.2	9.2
FY22E	4,679	392	184	54.7	49.3	23.4	14.4	17.6
FY23E	6,086	544	297	88.2	30.8	16.6	19.5	23.1

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Net sales	**3,963**	**3,005**	**4,679**	**6,086**
Other operating inc.	8.2	30.4	18.8	23.9
Total income	3,971	3,036	4,697	6,109
Cost of goods sold	3,654	2,804	4,306	5,565
Contribution (%)	7.8%	6.7%	8.0%	8.6%
Operating Profit	317	231	392	545
Depreciation	85	94	108	112
Interest & Fin Chg.	42	40	38	36
E/o income / (Expense)	0	0	0	0
Pre-tax profit	27	97	246	397
Tax provision	164	25	62	100
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	163	72	184	297

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Total assets	**1,638**	**1,717**	**1,912**	**2,227**
Net Block	1,106	1,221	1,336	1,337
CWIP	6	20	23	10
Investments	45	45	45	45
Wkg. cap. (excl cash)	361	317	454	577
Cash / Bank balance	120	113	54	258
Misc. Assets	0	0.0	0.0	0.0
Capital employed	**1,638**	**1,717**	**1,912**	**2,227**
Equity capital	31	34	34	34
Reserves	1,097	1,164	1,343	1,633
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**	**173.3**	**297.8**	**406.8**
Cash profit	290.8	206.3	331.9	444.6
(-) Dividends	12.1	5.5	6.3	7.3
Retained earnings	278.7	200.9	325.7	437.4
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	(29.8)	(27.8)	(30.5)
Applications	**318.9**	**173.3**	**297.8**	**406.8**
Capital expenditure	369.2	224.1	225.0	100.0
Investments	(15.2)	0.0	0.0	0.0
Net current assets	(121.4)	(43.8)	131.5	103.6
Change in cash	86.3	(7.1)	(58.7)	203.3

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21E	FY22E	FY23E
Sales growth	**44.0**	**(24.2)**	**55.7**	**30.1**
OPM	8.0	7.6	8.4	8.9
Oper. profit growth	42.5	(27.1)	70.5	38.0
COGS / Net sales	92.2	93.3	92.0	91.4
Overheads/Net sales	0.0	0.0	0.0	0.0
Depreciation / G. block	5.8	5.6	5.7	5.6
Effective interest rate	15.1	12.4	11.9	10.7
Net wkg.cap / Net sales	0.09	0.11	0.08	0.08
Net sales / Gr block (x)	2.7	1.8	2.5	3.0
RoCE	17.3	9.2	17.6	23.1
Debt / equity (x)	0.28	0.27	0.24	0.21
Effective tax rate	13.9	25.7	25.2	25.1
RoE	15.4	6.2	14.4	19.5
Payout ratio (Div/NP)	7.4	7.5	3.4	2.5
EPS (Rs.)	52.2	21.5	55.1	88.2
EPS Growth	73.2	(58.9)	156.9	59.9
CEPS (Rs.)	78.9	49.5	87.1	121.3
DPS (Rs.)	3.2	1.5	1.9	1.9

Source: Company, Axis Research

ENDURANCE TECHNOLOGIES– VALUE-ADDED PRODUCTS TO DRIVE GROWTH

Endurance Technologies is a tier 1 Auto ancillary for 2W OEMs and a leading auto component manufacturing company based out of Aurangabad, Maharashtra. Starting with two aluminium casting machines in FY 1986, the company has grown to operate 16 plants in India and 9 plants in Europe. The product portfolio of Endurance Technologies includes aluminium die casting (including 2W alloy wheels), suspension, transmission and braking systems.

Industry view

Over weight

CMP
1420

Target Price
1714

Upside
21%

Key Rationale

- Endurance has been building its product portfolio by adding new technology-oriented products viz., CBS/ABS, paper-based clutches, continuous variable transmission (CVT) on the automatic clutch for scooters, inverted front fork and shock absorbers for 2W, fully finished machine castings for 2/3/4W. Being value-added products with higher profit margins, the overall margins of the company is expected to get a boost as the Auto industry revives.
- Europe contributes around 29% to the consolidated top line. The company has improved its product mix and re-aligned its business with OEMs, thus the VW group (which is on growth path) now accounts top slot followed by Fiat Chrysler for revenues. The company's increasing focus on EV/hybrid models in its European business would not only help it gain more orders but also help it de-risk its business model; the company has won orders worth Euro 110 mn over the last two years for EV/Hybrid models.
- **Key risks:** Delay in automobile demand recovery esp. 2W; High exposure to Bajaj Auto (~38% on consol. basis)

Key Rationale

- The share of premium bikes in the overall 2W portfolio has been rising which is evident from not only rising sales of the existing models but aggressive launch planned in future. Premium bikes are expected to grow in the lower teens over the next 3-5 years on the back of increasing urbanization, improved purchasing power & rising aspirational needs. Endurance Tech would be the big beneficiary of the rise in the share of premium bikes as it is one of the few auto ancillaries with tried and tested products thatgo into manufacturing premium bikes along with new products.
- **Valuation:** We expect Endurance Technologies to outperform the industry given its sticky relations with OEMs, broad product basket, market leadership with a market share of around 35% in suspensions, 25% in hydraulic braking system, 20% in disc braking system, and 16% in transmission. We estimate Endurance to post consolidated Revenue/EBIDTA/PATto grow at CAGR of 11%/14%/15% respectively over FY20-23. we continue to like the stock with a revised price target of Rs 1714/-.

Key Financials (Consol)

Y/E Mar (Rs Cr)	Sales (Rs Cr)	PAT (Rs Cr)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	D/E (x)
FY20	6918	566	40.2	14.2	23.0	19.6	23.7	11.3	0.2
FY21E	6428	510	36.2	(9.9)	39.7	15.6	18.7	19.0	0.1
FY22E	8344	657	46.7	28.9	30.8	17.9	23.0	13.7	0.1
FY23E	9422	861	61.2	31.0	23.5	20.4	27.1	10.9	0.0

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**6,918**	**6,428**	**8,344**	**9,422**
Other operating income	0	0	0	0
Total income	6,918	6,428	8,344	9,422
Cost of goods sold	4,413	4,113	5,327	5,954
Contribution (%)	*36.2%*	*36.0%*	*36.2%*	*36.8%*
Advt/Sales/Distrn O/H	1,374.4	1,273.9	1,606.4	1,770.2
Operating Profit	**1,131**	**1,041**	**1,410**	**1,699**
Other income	48	34	38	54
PBIDT	**1,178**	**1,075**	**1,448**	**1,752**
Depreciation	414	404	549	585
Interest & Fin Chg.	18	17	21	16
E/o income / (Expense)	0.0	0.0	0.0	0.0
Pre-tax profit	**747**	**655**	**879**	**1,151**
Tax provision	181	145	221	290
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	**566**	**510**	**657**	**861**
Reported PAT	**566**	**510**	**657**	**861**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	**3,620**	**3,877**	**4,219**	**4,674**
Gross block	4,058.0	4,558.0	4,958.0	5,308.0
Net Block	2,443.9	2,540.3	2,391.5	2,156.0
CWIP	126.0	75.0	120.0	80.0
Goodwill	162.4	162.4	162.4	162.4
Investments	322.8	322.8	322.8	322.8
Wkg. cap. (excl cash)	-56	52	82	153
Cash / Bank balance	620.9	723.6	1,141.2	1,799.5
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	**3,620**	**3,877**	**4,219**	**4,674**
Equity capital	140.7	140.7	140.7	140.7
Reserves	2,865	3,206	3,651	4,258
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	638	558	458	308
Def tax Liabilities	(24.2)	(27.3)	(29.7)	(31.8)

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	FY20	FY21E	FY22E	FY23E
Sources	879	661	892	1,040
Cash profit	997	930	1,227	1,462
(-) Dividends	187	170	212	254
Retained earnings	811	761	1,015	1,208
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	65.9	0.0	0.0	0.0
Borrowings	5	-80	-100	-150
Others	-2	-20	-23	-18
Applications	879	661	892	1,040
Capital expenditure	739.5	449.0	445.0	310.0
Investments	129.9	0.0	0.0	0.0
Net current assets	(77.0)	108.9	29.1	71.9
Change in cash	86.5	102.6	417.6	658.3

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21E	FY22E	FY23E
Sales growth	(7.9)	(7.1)	29.8	12.9
OPM	16.3	16.2	16.9	18.0
Oper. profit growth	0.2	(7.9)	35.4	20.4
COGS / Net sales	63.8	64.0	63.8	63.2
Overheads/Net sales	19.9	19.8	19.3	18.8
Depreciation / G. block	10.2	8.9	11.1	11.0
Effective interest rate	3.2	3.4	4.9	5.3
Net wkg.cap / Net sales	-0.00	-0.00	0.01	0.01
Net sales / Gr block (x)	1.7	1.4	1.7	1.8
RoCE	23.7	18.7	23.0	27.1
Debt / equity (x)	0.18	0.14	0.10	0.05
Effective tax rate	24.2	22.2	25.2	25.2
RoE	19.6	15.6	17.9	20.4
Payout ratio (Div/NP)	33.0	33.3	32.3	29.5
EPS (Rs.)	40.2	36.2	46.7	61.2
EPS Growth	14.2	(9.9)	28.9	31.0
CEPS (Rs.)	69.7	64.9	85.7	102.8
DPS (Rs.)	11.0	10.0	12.5	15.0

Source: Company, Axis Research

STEEL STRIP WHEELS - OPERATING LEVERAGE TO PLAY OUT AS CAP. UTILIZATION IMPROVES

Steel Strip Wheels Ltd. is a tier 1 Auto ancillary for 2W, PV and CV OEMs for designing, manufacturing and supplying automotive steel wheels since 1991. The company has4 plants viz., 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

Over weight

CMP
646

Target Price
877

Upside
36%

Key Rationale

- Automobile demand recovery would help SSWL optimally utilize its capacity; SSWL has built massive capacity across various auto segments viz., 2W, PV, CV, tractors, OTR and Al-alloy wheels, all of which are currently underutilized owing to the slowdown seen in the Auto sector post-IL&FS crisis in 2018. The company has a production capacity of 7.25 mn steel wheel rims for 2W & PVs, 1.75 mn for CV, OTR & tractors at Dapper, Chandigarh. It has 6 mn steel wheel manufacturing capacity for PVs and 1.5 mn for CVs at Chennai & 2.1 mn steel wheel capacity for CVs at Jamshedpur. The company has 1.5 mn Al-alloy wheels manufacturing facility at Mehsana, Gujarat which would be expanded to 2.4 mn by Q4FY21. Optimum capacity utilization would help SSWL improve profitability over the next two years.
- Export opportunities are opening up as the US and EU have levied huge Anti Dumping Duties (ADD) on imports from China, The estimated value of imports of steel wheels from China were around $1300 million (US: $400 mn, EU: $900 mn) before the imposition of import tariffs. SSWL is well-positioned to capitalize on exports opportunity from its Chennai plant (having both CV and PV steel making facility) located close to the port. At the current juncture, the company intends to take exports to upwards of Rs 300 cr by FY22.

Key Rationale

- The increasing contribution of high margin Al-alloy wheel rims in overall revenues to aid margin expansion. SSWL had reported around 7% of revenues from Al-alloy wheels in FY20 and expects to take it to 25% plus over a couple of years. The company has visibility of orders to supply Al-alloy wheels over the next 5 years; the company is also expanding Al-alloy wheel capacity to 2.4 mn wheels which would be ready by the end of FY21. Being a high margin product (margin differential of around 500-600 bps over Steel wheels), the bottomline is expected to grow at a faster pace as the share of the Al-alloy wheel rises in overall sales.
- Being in an oligopoly market, SSWL commands leadership with a market share of around 55% in steel wheel rims and around 20% in alloy wheels; we expect SSWL to outperform the industry given its sticky relations with OEMs across all the auto segment viz., 2/3W, PV, CV, and Tractors. We have pencilled in Revenue/EBIDTA/PAT CAGR of 20%/28%/96% over FY20-23E vis-à-vis 7%/9%/(1)% CAGR for FY13-20 on back of operating leverage playing out backed by better capacity utilization riding the domestic autorecovery and exports.
- Key risks: Delay in automobile demand recovery esp. PV and CV; Sharp appreciation of INR in wake of rising exports of the company

Key Financials (Consol)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs.)	PER (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	D/E (x)
FY20	1563	23	15.0	(71.5)	3.4	8.9	5.7	1.4
FY21E	1615	34	22.0	46.5	4.8	9.7	7.3	1.3
FY22E	2413	134	85.8	289.2	16.8	18.7	4.0	0.9
FY23E	2,691	181	116.06	35.3	19.1	22.8	2.7	0.5

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**1,563**	**1,615**	**2,413**	**2,691**
Other operating income	0	0	0	0
Total income	1,563	1,615	2,413	2,691
Cost of goods sold	1,311	1,335	1,966	2,184
Contribution (%)	*16.1%*	*17.4%*	*18.5%*	*18.8%*
Advt/Sales/Distrn O/H	80.9	87.8	133.1	146.6
Operating Profit	**171**	**193**	**314**	**361**
Other income	22	14	19	21
PBIDT	**193**	**206**	**333**	**382**
Depreciation	72	71	75	81
Interest & Fin Chg.	89	85	79	59
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**33**	**49**	**179**	**242**
Tax provision	9	15	45	61
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	**23**	**34**	**134**	**181**
Reported PAT	**23**	**34**	**134**	**181**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	**1,734**	**1,845**	**1,815**	**1,742**
Net Block	1,329.2	1,306.5	1,355.3	1,294.1
CWIP	52.8	85.5	10.0	10.0
Investments	0.2	0.2	0.2	0.2
Wkg. cap. (excl cash)	231	361	360	323
Cash / Bank balance	121.0	91.7	89.3	115.0
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	**1,734**	**1,845**	**1,815**	**1,742**
Equity capital	15.6	15.6	15.6	15.6
Reserves	666	682	839	1,014
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	927	994	814	564
Def tax Liabilities	125.7	153.5	146.6	148.0

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	FY20	FY21E	FY22E	FY23E
Sources	**169**	**179**	**37**	**8**
Cash profit	237	184	288	321
(-) Dividends	8	8	6	6
Retained earnings	229	177	282	315
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	-170	-250
Others	-72	-65	-75	-57
Applications	**169**	**179**	**37**	**8**
Capital expenditure	93.4	80.2	20.0	20.0
Investments	0.0	0.0	0.0	0.0
Net current assets	85.2	128.6	41.3	(37.8)
Change in cash	(9.6)	(29.3)	(23.9)	25.7

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21E	FY22E	FY23E
Sales growth	**(23.4)**	**3.3**	**49.4**	**11.5**
OPM	**11.0**	**11.9**	**13.0**	**13.4**
Oper. profit growth	(30.4)	12.6	62.9	14.8
COGS / Net sales	83.9	82.6	81.5	81.2
Overheads/Net sales	5.2	5.4	5.5	5.4
Depreciation / G. block	3.8	3.5	3.6	3.8
Effective interest rate	9.4	8.8	8.9	8.7
	1.5	2.1	5.5	6.7
Net wkg.cap / Net sales	0.18	0.20	0.13	0.12
Net sales / Gr block (x)	0.8	0.8	1.2	1.3
RoCE	**8.9**	**9.7**	**18.7**	**22.8**
Debt / equity (x)	1.40	1.34	0.94	0.53
Effective tax rate	28.3	30.4	25.2	25.2
RoE	**3.4**	**4.8**	**16.8**	**19.1**
Payout ratio (Div/NP)	32.1	16.4	4.2	3.1
EPS (Rs.)	**15.0**	**22.0**	**85.8**	**116.1**
EPS Growth	(71.5)	46.5	289.2	35.3
CEPS (Rs.)	61.2	67.9	134.0	168.1
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, strong chronic portfolio in India and biosimilars& geographical expansion in emerging and growth markets could drive topline.

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' speciality 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 biosimilarsEtanercept and NaMuscla& extension of products in CVS, OTC and Ophthalmology therapeutics could drive topline. Further, Lupin has 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, lockdownextension.

Industry view

Equal Weight

CMP
1031

Target Price
1135

Upside
10%

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 – STRONG 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 like North America, Europe, Middle East, Australia etc. The company provides specialized IT services to its clients across verticals like Communications, Healthcare, and BFSI etc.

Industry view

Overweight

CMP
951

Target Price
1,116

Upside
17%

Key Rationale

- **Strong Q3 FY21 performance aided by capabilities**: Q3 revenue showed a strong recovery of 2.9% QoQ cc was equally split between demand traction and easing of supply-side issues. Management expects demand momentum led by acceleration in Digital to aid further growth. Growth is expected to be in both: (i) Communications led by the transformation of IT, network, systems, processes over the next 2 years and (ii) Enterprise led by traction in Digital with near term momentum expected to be led by Manufacturing, Retail and Utilities.
- **Strong deal wins and pipeline reflect demand acceleration:** Net new deal wins recovered to $ 455mn in Q3 out of which $105mn are from Communication and $320mn from Enterprise. Management is expecting strong recovery from supply-side constraints and expects recovery because of the ramp-up in new deal wins. Moreover, the deal pipeline is trending at an all-time high led by (i) advanced stage discussions within the network and core transformation within Communications and (ii) Data and Digital within Enterprise. Reflects demand acceleration.
- Tech Mahindra posted robust broad-based growth. Its Telecommunication vertical grew by 3.2% QoQ, Enterprise vertical grew by 5.9% QoQ, Technologies Media & Entertainment vertical grew by 0.6% QoQ, BFSI vertical grew by 0.4% QoQ, and Retail Transportations & Entertainment grew by 8.4% QoQ.

Key Rationale

- **Initial traction in 5G; may pick up in FY22**: Management sees initial traction in 5G both on (i) Communications side where traction is visible in modernization IT, network, process and systems, and (ii) Enterprise side where it signed 3 Manufacturing 5G solutions in Europe and 1 in the US. While the timing of pickup is difficult to predict, management expects 5G growth to pick up in FY22 or at most in FY23. We expect initial traction and pipeline build-up to aid network and core modernization for 5G within Communications in FY22. We see 5G for Enterprise as a long term opportunity and expect it to pick up in FY23 and beyond.
- **Strong and sustainable margin growth:** Q3 operating margin expanded 170 bps to 15.3%. Margin expansion was aided mainly by (i) stabilization of demand and supply-side constraints (+160 bps), (ii) offshore, utilization and sub-contracting cost (+160 bps) and (iii) normalization of seasonality in mobility business and absence of visa costs (+70 bps).
- **Valuations** We believe Tech Mahindra has a resilient business structure from a long term perspective. We recommend **BUY** and assign 14x P/E multiple to its FY23E earnings of Rs. 81, which gives a **TP of Rs. 1,116 per share.**

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales(Rs)	EBIDTA (Rs)	Net Profit(Rs)	FDEPS (Rs)	Change (%)	PER (x)	RoE (%)	RoCE (%)
2020	36,354	5,832	4,130	48.0	8	34.0	20%	19%
2021E	37,548	6,563	4,230	59.2	23%	26.0	21%	19%
2022E	43,556	7,498	4,852	68.7	16%	12.3	22%	19%
2023E	49,218	10,495	5,531	81.0	18%	10.3	25%	21%

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	6,563	7,498	10,495
Growth, %	-8%	13%	14%	40%
Margin, %	16%	17%	17%	21%
Depreciation	1,379	1,438	1,273	1,584
EBIT	4,453	5,126	6,225	8,911
Growth, %	-14%	15%	21%	43%
Margin, %	12%	14%	14%	18%
Interest paid	185	133	104	95
Pre-tax profit	**5,358**	**6,225**	**7,501**	**10,377**
Tax provided	1,268	1,666	2,008	3,228
Profit after tax	4,089	4,559	5,494	7,149
Net Profit	**4,130**	**4,230**	**4,852**	**5,531**
Growth, %	**-4%**	**2%**	**15%**	**14%**
Net Profit (adjusted)	4,130	4,230	4,852	5,531

Source: Company, Axis Research

Balance Sheet (Rs Cr)

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

Source: Company, Axis Research

Cash Flow (Rs Cr)

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

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share data	48.0	59.2	68.7	81.0
EPS (INR)	-2%	23%	16%	18%
Growth, %	233.6	262.0	298.6	354.1
Book NAV/share (INR)	39	42	46	46
FDEPS (INR)	62.6	68.7	77.5	99.8
CEPS (INR)	36.5	43.8	42.8	42.8
CFPS (INR)	24	21	24	24
DPS (INR)				
Return ratios	12%	13%	14%	16%
Return on assets (%)	20%	21%	22%	25%
Return on equity (%)	19%	19%	19%	21%
Return on capital emp. (%)				
Turnover ratios	18.4	32.6	69.8	65.0
Asset turnover (x)	18.4	32.6	69.8	65.0
Sales/Total assets (x)	102.4	102.4	102.4	102.4
Receivables Days	25.5	5.1	5.0	2.4
Cash conversion cycle				
Liquidity ratios	2.2	2.4	2.7	3.2
Current ratio (x)	1.4	1.6	1.9	2.3
Quick Ratio	0	0	0	0
Net debt/Equity (%)	2	2	1	1
Leverage Ratio				
Valuation	34.0	26.0	20.0	18.0
PER (x)	3.3	2.9	2.6	2.2
Price/Book (x)	3.1	2.9	2.8	2.8
EV/Net sales (x)	7.3	7.3	6.4	6.4
EV/EBITDA (x)	4.4	2.9	4.4	4.4
Dividend Yeild	48.0	59.2	68.7	81.0

Source: Company, Axis Research

BHARTI AIRTEL– AHEAD OF MARKET OPERATING PERFORMANCE

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

Industry view

Overweight

CMP
534

Target Price
676

Upside
27%

Key Rationale

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

Key Rationale

- Regulatory challenges are well known and Bharti Airtel is well-capitalized to deal with the payouts as it has raised enough capital (Rs 450bn equity in FY20) and has access to debt as there are no major business solvency risks associated with it.
- We maintain our ARPU assumptions and forecast a 13%/17% CAGR for Revenue/EBIDTA over the period FY20-23E. Profit growth will be even more significant considering FY20E was a loss for the company. Our forecast is based on significant ARPU improvement from the current Rs 162/subs/month (Q2FY20) to Rs 208/subs/month by end of Q4FY23. While the ARPU improvement seems significant but our FY23 ARPU forecast is similar to Q4FY15. Thus, our estimates are conservative considering the concentrated industry structure and far greater level of value provided to the customer.
- Jio has raised Rs 1. 4 trillion bn at an EV of Rs 5.1 trillion through a mix of strategic and PE deals. Jio's valuation is significantly higher than Bharti Airtel's current valuation (Rs 4.1 trillion) which has more lines of services, significantly higher revenues and geographies of operation.
- **Valuation:** We value the company based on SOTP valuation at Rs 673. The value could increase by a further Rs 40/share if Vodafone-Idea shuts down. Our SOTP valuation implies an EV/EBIDTA of 9.5x on FY22E EBIDTA.

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)	Debt/Equity (%)
2020	87,539	36,436	(38,332)	(70.2)	nmf	10.8	4.0	(48.0)	99.2
2021E	98,664	47,235	(231)	(0.4)	nmf	8.5	4.0	(0.3)	108.6
2022E	1,10,527	55,754	10,441	19.1	30.3	7.1	3.5	11.6	87.3
2023E	1,21,067	62,331	16,684	30.6	18.9	6.2	3.0	15.6	66.4

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**87,539**	**98,664**	**1,10,527**	**1,21,067**
Growth, %	8	13	12	10
Total income	**87,539**	**98,664**	**1,10,527**	**1,21,067**
Raw material expenses	-10,921	-7,812	-7,132	-7,689
Employee expenses	-3,807	-4,619	-4,943	-5,335
Other Operating expenses	-49,630	-50,186	-53,566	-57,433
EBITDA (Core)	**36,436**	**47,235**	**55,754**	**62,331**
Growth, %	41.1	29.6	18.0	11.8
Margin, %	41.6	47.9	50.4	51.5
Depreciation	-27,690	-27,872	-26,235	-24,816
EBIT	**8,747**	**19,363**	**29,519**	**37,515**
Growth, %	95.6	121.4	52.4	27.1
Margin, %	10.0	19.6	26.7	31.0
Interest paid	-13,205	-12,833	-11,844	-9,862
Other Non-Operating Income	288	1,461	1,381	1,376
Non-recurring Items	-40,362	-42	0	0
Pre-tax profit	**-43,879**	**8,469**	**19,437**	**29,316**
Tax provided	7,238	-6,701	-6,803	-10,261
Profit after tax	**-36,641**	**1,768**	**12,634**	**19,055**
Others (Minorities, Associates)	-1,691	-2,041	-2,192	-2,372
Net Profit	**-38,332**	**-273**	**10,441**	**16,684**
Growth, %	1,545.2	(99.4)	(4,627.2)	59.8
Net Profit (adjusted)	**(38,332)**	**(231)**	**10,441**	**16,684**
Unadj. shares (bn)	545.7	545.7	545.7	545.7
Wtdavg shares (bn)	545.7	545.7	545.7	545.7

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Cash & bank	28,082	14,560	16,456	18,685
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	61,143	59,997	59,857	59,698
Total current assets	89,225	74,557	76,313	78,383
Investments	0	0	0	0
Gross fixed assets	2,39,050	2,34,732	2,33,412	2,32,201
Less: Depreciation	0	0	0	0
Add: Capital WIP	0	0	0	0
Net fixed assets	2,39,050	2,34,732	2,33,412	2,32,201
Non-current assets	35,396	37,568	38,131	38,703
Total assets	**3,64,770**	**3,59,702**	**3,66,591**	**3,81,014**
Current liabilities	1,44,889	1,42,860	1,41,285	1,40,154
Provisions	0	0	0	0
Total current liabilities	1,44,889	1,42,860	1,41,285	1,40,154
Non-current liabilities	1,17,277	1,12,470	1,08,300	1,04,798
Total liabilities	2,62,166	2,55,330	2,49,585	2,44,952
Paid-up capital	2,729	2,729	2,729	2,729
Reserves & surplus	77,151	76,879	87,320	1,04,004
Shareholders' equity	1,02,604	1,04,372	1,17,006	1,36,061
Total equity & liabilities	**3,64,770**	**3,59,702**	**3,66,591**	**3,81,014**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	-43,879	8,469	19,437	29,316
Depreciation	27,690	27,872	26,235	24,816
Chg in working capital	-51,255	166	1,097	1,377
Total tax paid	6,960	-6,517	-6,580	-9,989
Other operating activities	0	0	0	0
Cash flow from operating activities	**-64,581**	**30,104**	**40,203**	**45,536**
Capital expenditure	-26,033	-23,554	-24,915	-23,605
Chg in investments	0	0	0	0
Chg in marketable securities	-40,966	1,146	140	159
Other investing activities	28,523	-2,603	-6,560	-12,647
Cash flow from investing activities	**3,142**	**-25,638**	**-31,095**	**-35,965**
Free cash flow	-61,438	4,466	9,107	9,571
Equity raised/(repaid)	46,790	0	0	0
Debt raised/(repaid)	20,089	-6,297	-5,927	-5,579
Dividend (incl. tax)	0	0	0	0
Other financing activities	0	0	0	0
Cash flow from financing activities	**74,385**	**-6,297**	**-5,927**	**-5,579**
Net chg in cash	12,947	-1,830	3,180	3,991
Opening cash balance	14,923	28,082	14,560	16,456
Closing cash balance	28,082	14,560	16,456	18,685

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share data				
EPS (INR)	(70.2)	(0.4)	19.1	30.6
Growth, %	1,105.1	(99.4)	(4,627.2)	59.8
Book NAV/share (INR)	146.4	145.9	165.0	195.6
FDEPS (INR)	(70.2)	(0.4)	19.1	30.6
CEPS (INR)	(19.5)	50.7	67.2	76.0
CFPS (INR)		51.8	68.6	79.4
DPS (INR)	-	-	-	-
Return ratios				
Return on assets (%)	(9.0)	2.6	5.6	7.1
Return on equity (%)	(48.0)	(0.3)	11.6	15.6
Return on capital employed (%)	(14.3)	4.3	8.8	10.6
Turnover ratios				
Asset turnover (x)	0.6	0.7	0.8	0.9
Sales/Total assets (x)	0.3	0.3	0.3	0.3
Sales/Net FA (x)	0.4	0.4	0.5	0.5
Working capital/Sales (x)	(1.0)	(0.8)	(0.7)	(0.7)
Fixed capital/Sales (x)	2.6	2.3	2.0	1.8
Working capital days	(349.2)	(306.5)	(268.9)	(242.6)
Liquidity ratios				
Current ratio (x)	0.6	0.5	0.5	0.6
Quick ratio (x)	0.6	0.5	0.5	0.6
Interest cover (x)	0.7	1.5	2.5	3.8
Total debt/Equity (%)	134.4	126.9	105.6	83.9
Net debt/Equity (%)	99.2	108.6	87.3	66.4
Valuation				
PER (x)	(8.2)	(1,370.1)	30.3	18.9
Price/Book (x)	4.0	4.0	3.5	3.0
EV/Net sales (x)	4.5	4.1	3.6	3.2
EV/EBITDA (x)	10.8	8.5	7.1	6.2
EV/EBIT (x)	45.2	20.8	13.4	10.3

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 reimaginetheir 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
932

Target Price
1,088

Upside
17%

Key Rationale

- **A robust business structure in global uncertainties:** HCL Technologies may see faster recovery after COVID 19 outbreak also the management has upgraded revenue guidance as it expects strong client-side demand recovery across verticals like Healthcare, Financial Services, and Telecom & Media. The deal pipeline also remained strong across services and geographies. Management now expects revenue growth to exceed 2%-3%% QoQ in CC terms in FY21 compared to earlier expectation of 1.5-2.5% FY21 and margin of 21-21.5% (guidance of 20-21% for FY21) for FY21.HCL Tech won 13 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 $91 mn.

- **Huge opportunityin gigital transformation business even amidst the global pandemic:** IT service provider's engagement with its partner network has expanded beyond certifications into 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 Q3 FY21. We believe that the COVID 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 Q3FY21 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 long term with more advance 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 **BUY** and assign 16 x P/E multiple to its FY23E earnings of Rs. 59.8, which gives a TP of Rs.**1,136** per share

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	17.9	7.7	3.4	24
2021E	78,050	17,590	11,845	46.1	18.1	9.5	3.1	18
2022E	85,509	20,424	14,088	52.1	15.7	8.1	3.2	19
2023E	94,009	24,549	17,073	58.8	14	7	2.7	23

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**70,678**	**78,050**	**87,393**	**98,323**
Growth, %	17%	10%	12%	13%
Other income	193	814	1,153	1,328
Total income	7,087	7,886	8,855	9,965
Employee expenses	44,018	50,313	54,823	58,179
Other Operating expenses	9,966	10,146	10,487	11,799
EBITDA	**16,694**	**17,590**	**22,082**	**28,345**
Growth, %	20%	5%	26%	28%
Margin, %	24%	23%	25%	29%
Depreciation	2,841	2,413	2,611	2,931
EBIT	1,385	1,599	2,062	2,674
Growth, %	17%	15%	29%	30%
Margin, %	2%	2%	2%	3%
Interest paid	-15	262	148	134
Pre-tax profit	14,061	15,730	20,477	26,608
Tax provided	**2,938**	**3,854**	**5,119**	**6,652**
Profit after tax	11,123	11,876	15,358	19,956
Net Profit	**11,062**	**11,845**	**15,327**	**19,925**
Growth, %	**9%**	**7%**	**29%**	**30%**
Net Profit (adjusted)	11,062	11,845	15,327	19,925

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Cash & bank	8,385	11,166	14,638	25,723
Debtors	14,134	15,994	18,386	20,685
Other current assets	5,188	5,188	5,188	5,188
Total current assets	**38,333**	**44,027**	**51,169**	**65,300**
Goodwill & Intangible Assets	0	0	0	0
Net fixed assets	5,713	1,967	1,541	1,068
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	1,982	1,963	2,103
Provisions	8,000	7,500	7,500	7,500
Total current liabilities	**20,889**	**19,202**	**19,346**	**20,498**
Other liabilities	2,548	2,548	2,548	2,548
Paid-up capital	543	543	543	543
Reserves & surplus	51,143	60,448	73,235	90,620
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	15,731	20,478	26,609
Depreciation	2,841	2,413	2,611	2,931
Chg in working capital	338	-4,600	-3,525	-1,895
Total tax paid	294	385	512	665
Cash flow from operating activities	14,345	14,322	20,342	28,422
Capital expenditure	0	1,951	2,185	2,458
Cash flow from investing activities	-11,374	-7,639	-7,872	-8,146
Free cash flow	297	473	1,028	1,782
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	3,472	11,085

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	443.3	536.2	662.6
FDEPS (INR)	39	42	46	46
CEPS (INR)	100.5	103.0	129.8	165.5
CFPS (INR)	36.5	43.8	42.8	47.936
DPS (INR)	23	25	27	30.24
Return ratios				
Return on assets (%)	24%	21%	23%	24%
Return on equity (%)	24%	18%	19%	21%
Return on capital employed (%)	14%	14%	15%	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	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)	7.7	9.5	8.1	7.0
Dividend Yeild	1	1.5	1.9	2.2

Source: Company, Axis Research

JK LAKSHMI CEMENT LTD– STRONG DEMAND REVIVAL TO SUPPORT GROWTH

A member of the prestigious JK Organization a group known worldwide for its business legacy of more than a century, JK Lakshmi Cement has set new benchmarks in the cement industry in India. The company has a cement capacity of 13.3 mntpa and a clinker capacity of 7 mntpa. A strong network of about 7000+ cement dealers spread across North, West, Central and East India has helped the Company to serve itscustomers far and wide.

Industry view

Overweight

CMP
389

Target Price
450

Upside
16%

Key Rationale

- **Diversified market presence to drive revenue and profitability:** JKLC has a diversified presence in its key market of North and West India along with a sizeable presence in Eastern India. Regional diversification allows the company to sell its products at various locations reducing market concentration. We expect the Company to register Revenue/Ebitda/APAT CAGR of 6%/8%/21% from FY20-FY23E driven by volume CAGR of 4% and consistent realisation improvement of 1% each over FY20-23E.
- **Operating efficiency & Higher realization to bring margin expansion:** JKLC's integrated operations and better utilization of existing capacity will help the company to consolidate its position and capture further opportunities in its key market (North, West and East). The company is one of the lowest-cost producers of cement in India and various cost optimization exercise initiated at its operating facilities will add to margin improvement going forward.
- **Strong brand image aided by experienced promoter:** JKLC promoters have extensive experience in the cement industry expanding over several decades. Furthermore,the company has strong brands and through extensive branding, sponsorship and promotional activities, it has created a niche for its product in its key markets. Apart from the cement the company also sells RMC, AAC Blocks, POP to offer value-added products. The company aims to increase the sell of value-added products to Rs.500 crores going forward.

Key Rationale

- **Outlook:** With the revival in cement demand in its key market of North and West and increasing sell of value added products, we believe the Company is well positioned to grow its revenue and profitability going forward. Further the recent budget announcement pertaining to infra development also augurs well for the Company.
- **Valuation:** Stock is currently trading at 5.5x FY22E and 4.4x FY23E EV/EBITDA. We recommend to BUY with a target price of Rs.400/ share valuing the Company at 6.5x of its FY22E EV/EBITDA
- **Key risks:** Lower than expected volume growth and rise in input prices.

Key Financials (Standalone)

Y/E Dec (Rs Cr)	NetSales (Rscr)	EBIDTA (Rscr)	Net Profit (Rscr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY20	4044	672	235	17	11.3	4.8	13	17
FY21E	4270	738	314	27	11.9	6.3	16	18
FY22E	4437	757	342	29	10.9	5.6	17	18
FY23E	4759	848	415	35	9.0	4.4	18	20

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Net sales	3,963	3,005	4,679	6,086
Other operating inc.	8.2	30.4	18.8	23.9
Total income	3,971	3,036	4,697	6,109
Cost of goods sold	3,654	2,804	4,306	5,565
Contribution (%)	7.8%	6.7%	8.0%	8.6%
Operating Profit	317	231	392	545
Depreciation	85	94	108	112
Interest & Fin Chg.	42	40	38	36
E/o income / (Expense)	0	0	0	0
Pre-tax profit	27	97	246	397
Tax provision	164	25	62	100
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	163	72	184	297

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Total assets	**1,638**	**1,717**	**1,912**	**2,227**
Net Block	1,106	1,221	1,336	1,337
CWIP	6	20	23	10
Investments	45	45	45	45
Wkg. cap. (excl cash)	361	317	454	577
Cash / Bank balance	120	113	54	258
Misc. Assets	0	0.0	0.0	0.0
Capital employed	**1,638**	**1,717**	**1,912**	**2,227**
Equity capital	31	34	34	34
Reserves	1,097	1,164	1,343	1,633
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**	**173.3**	**297.8**	**406.8**
Cash profit	290.8	206.3	331.9	444.6
(-) Dividends	12.1	5.5	6.3	7.3
Retained earnings	278.7	200.9	325.7	437.4
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	(29.8)	(27.8)	(30.5)
Applications	**318.9**	**173.3**	**297.8**	**406.8**
Capital expenditure	369.2	224.1	225.0	100.0
Investments	(15.2)	0.0	0.0	0.0
Net current assets	(121.4)	(43.8)	131.5	103.6
Change in cash	86.3	(7.1)	(58.7)	203.3

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21E	FY22E	FY23E
Sales growth	**44.0**	**(24.2)**	**55.7**	**30.1**
OPM	8.0	7.6	8.4	8.9
Oper. profit growth	42.5	(27.1)	70.5	38.0
COGS / Net sales	92.2	93.3	92.0	91.4
Overheads/Net sales	0.0	0.0	0.0	0.0
Depreciation / G. block	5.8	5.6	5.7	5.6
Effective interest rate	15.1	12.4	11.9	10.7
Net wkg.cap / Net sales	0.09	0.11	0.08	0.08
Net sales / Gr block (x)	2.7	1.8	2.5	3.0
RoCE	17.3	9.2	17.6	23.1
Debt / equity (x)	0.28	0.27	0.24	0.21
Effective tax rate	13.9	25.7	25.2	25.1
RoE	15.4	6.2	14.4	19.5
Payout ratio (Div/NP)	7.4	7.5	3.4	2.5
EPS (Rs.)	52.2	21.5	55.1	88.2
EPS Growth	73.2	(58.9)	156.9	59.9
CEPS (Rs.)	78.9	49.5	87.1	121.3
DPS (Rs.)	3.2	1.5	1.9	1.9

Source: Company, Axis Research

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