TOP PICKS

Dec 2020

AXIS SECURITIES

AXIS TOP PICKS: More Growth and More value

Axis top picks have delivered a whopping 46% return since introduction in the month of May (+11% in November) beating the benchmark. The month of November turned out to be one of the strongest months for Indian equities with an across the board rally. Mid and small caps registered very strong growth, but also the much underperforming banking sector also wiped out significant losses and was the second best performing sector after the metals sector. Rally was seen across the financial services sector including the PSU banks which have lagged significantly. In the last month edition of top picks, we had added 4 new stocks to our top picks with focus on BFSI, small and mid caps. As our allocation in the BFSI space has increased significantly, we will continue to maintain our allocation in the sector even after the solid rally. We book profit in Cholamandalam which has rallied by 33% in just one month and replace it with Federal bank.

With the strong rally seen in the month of November, the markets could take a breather in the month of December. Economic indicators have improved with GDP for Q2FY21 was better than expectations. However, the impact of pent up demand has also started to recede and sustenance of demand across the sectors could pose challenges. While there are challenges, the opportunities in the market are also significant. There is still value in BFSI, IT, Telecom, small and mid cap stocks. Our top picks orientation will continue towards adding beta and market dips should be viewed as a buying opportunity. Our key ideas are as follows:

Strong rally in the BFSI sector: The month of October saw a very strong rally across the top banks with Kotak Bank being the top performer among the frontline private banks. This traction continued in the month of November with the BFSI rally broad-basing. Small and mid cap NBFCs also performed during the month with the Nifty Financial services index registering 23% gain. The NSE private bank index was up by 24% while the NSE PSU bank index was also up by 24%. The key reason for the rally is that the market now believes that the orientation of the sector has changed from capital protection to growth while the challenges of NPA may not be as severe as they were believed to be at the beginning of Q2FY21. The management commentary across the board was largely upbeat.

Q2 FY21 results beat expectations; NIFTY target for December 2021 at 14,600: In NIFTY 50 companies, 34 companies beat earnings expectations in Q2 by a reasonable margin. While a significant portion of the beat has been on account of better margins which is attributable to cost management but recovery of revenues has also been better than expectations. With the significant beat as a backdrop, we have raised our earnings estimates for FY21/22 by 6%/8% and introduced FY23 earnings. We arrive at December 2021 target by valuing the NIFTY at 20x FY23E earnings of 730 translating to our target of 14,600.

Mid and small caps outperform and likely to gain more traction: In the month of November the NIFTY midcap 100 index and NIFTY small cap index delivered 16% and 13% returns respectively, outperforming the benchmark NIFTY which delivered a return of 11%. Mid and small cap indices have outperformed the large cap indices over longer time frames of 6 months and one year also by a significant margin. Also, small and mid caps present with both better value and growth proposition over the medium term. We continue to remain bullish on the mid and small cap theme and recommend more allocation in the space.

Growth combined with value is a win-win proposition: Even as the Indian equity markets have reached an interesting point the market offers multiple plays. Value plays like Metals, Banks, NBFCs and others have started delivering solid returns but also the small and midcap space marked by discretionary consumption, retail, autos and others have delivered returns. Thus, the market is rewarding handsomely across both the themes. Hence, combination of the two themes continues to deliver the most rewarding returns.

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, CCL Products, Biocon, Minda Industries, NOCIL, Endurance Technologies, Steel Strip Wheels and Dr Reddy's

Naveen Kulkarni | naveen.kulkarni@axissecurities.in |

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Axis Securities Top Picks

Company Name	Sector	Stock price	Target Price	Upside (%)	12 Month Fwd PE	12 Month Fwd P/BV	Dividend Yield	TR 1M%	TR 3M%	TR 6M%	TR YTD%
ICICI BANK LTD	Financials	473	504	6%	24.2	2.4	0.0	22.9	23.4	42.3	-10.4
MANAPPURAM FINANCE LTD	Financials	180	207	15%	9.5	2.1	1.3	12.3	13.9	32.7	-0.9
CAN FIN HOMES LTD	Financials	482	515	7%	17.0	2.5	0.4	7.8	29.1	69.9	26.1
FEDERAL BANK LTD	Financials	63	70	11%	10.3	0.8	N. A.	28.8	18.9	39.3	-26.1
NOCIL LTD	Materials	141	176	25%	28.5	1.9	1.8	1.9	9.7	61.1	43.0
VARUN BEVERAGES LTD	Consumer Staples	871	1005	15%	76.6	6.8	0.3	28.3	10.0	35.3	19.0
CCL PRODUCTS INDIA LTD	Consumer Staples	266	325	22%	19.2	3.4	0.8	10.5	6.6	28.8	36.2
ENDURANCE TECHNOLOGIES	Consumer Discretionary	1,157	1190	3%	38.6	4.7	0.0	5.9	5.6	47.5	4.3
STEEL STRIPS WHEELS LTD	Consumer Discretionary	496	590	19%	N. A.	N. A.	N. A.	5.7	7.9	41.8	-34.5
MINDA INDUSTRIES LTD	Consumer Discretionary	387	413	7%	105.8	5.1	0.1	21.2	17.9	33.1	10.8
DR. REDDY'S LABORATORIES	Health Care	4,829	6200	28%	29.3	4.5	0.5	-1.1	11.2	23.1	69.4
BIOCON LTD	Health Care	429	470	9%	53.1	6.8	N. A.	7.2	6.8	12.3	47.3
TECH MAHINDRA LTD	Information Technology	877	975	11%	18.4	3.3	1.1	9.6	24.8	68.4	21.7
BHARTI AIRTEL LTD	Communication Services	463	676	46%	266.1	4.2	0.4	10.4	-12.3	-14.0	5.5
HCL TECHNOLOGIES LTD	Information Technology	822	975	19%	18.2	3.7	1.2	-1.9	20.6	49.1	47.4

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

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 even more prolonged period but policy changes could help. Two wheelers and entry level passenger vehicles in urban markets see revival as 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. PV demand has also started improving with Maruti reporting decent numbers for October month. With this backdrop we overweight the sector.
Banking and Financial services	Equal weight	The BFSI sector has under-performed the broader market by a significant margin owing to issues of moratorium and the stress in the system. However, Q2FY21 operating and financial performance across the banking sector was better-than-expected. Capital raising plans for various banks like ICICI, Axis, Kotak and others have progressed smoothly. Clearly the banks are better placed to deal with the upcoming challenges and current valuations are attractive. Considering the long-term prospects backed by attractive valuations, We maintain Equal Weight stance.
Capital Goods	Underweight	Private capex was seeing significant challenges because the capacity utilization has been sluggish. With the marked slowdown because of COVID19, the demand scenario will witness a major slump. Thus, both government as well as private capex will be very sluggish. We recommend underweight stance on the sector.
Cement	Equal weight	The cement sector has had pricing power and it has managed to withstand tough times better. We change 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. The Q1FY21 quarterly numbers have shown solid cost management across companies.

Sector Outlook (Cont'd)

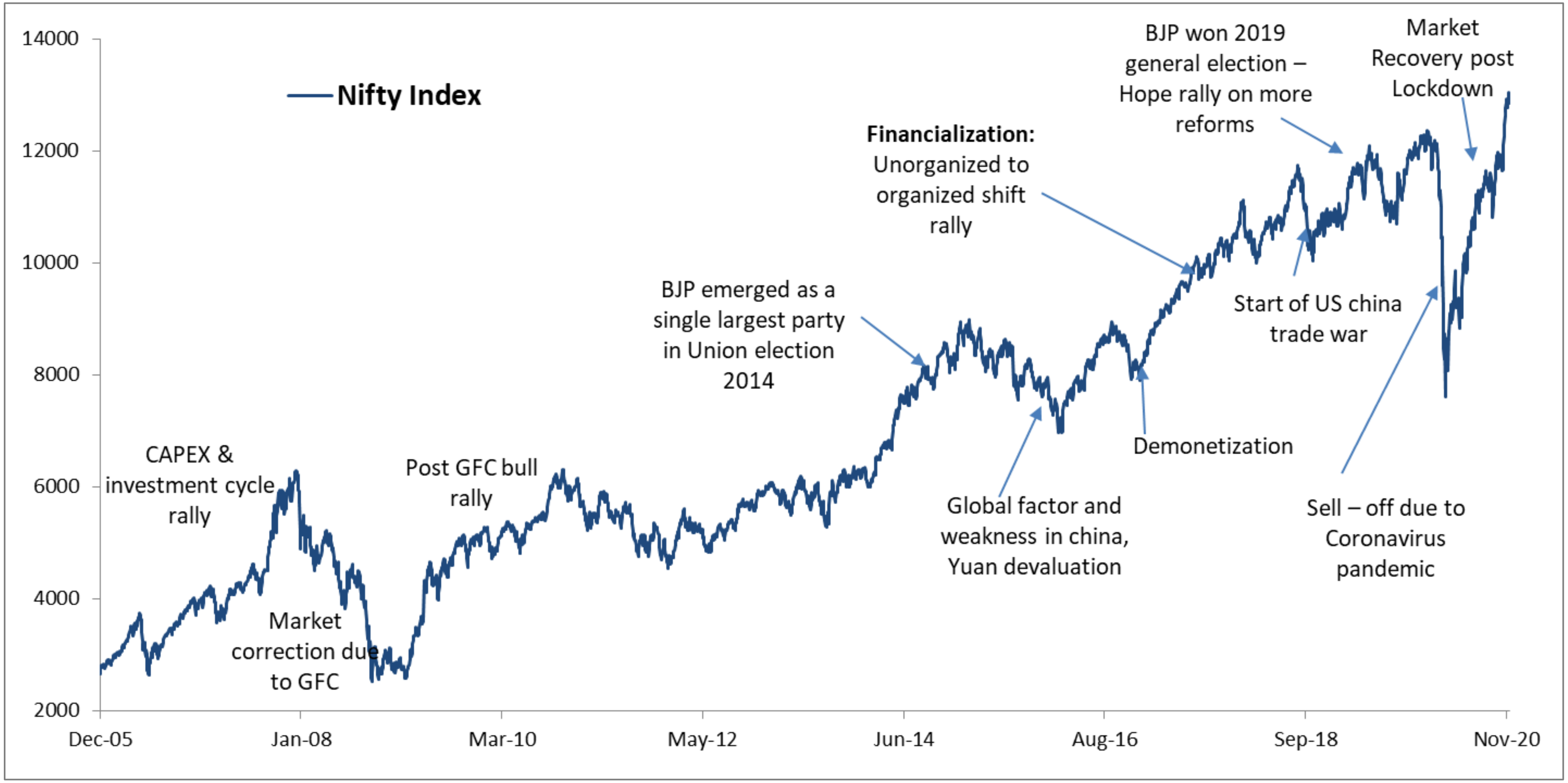
Sector	Current View	Outlook
Consumer staples	Overweight	The consumer staples sector has seen good demand recovery with HUL, Dabur, Marico, Britannia and Asian paints beating expectations for Q1FY21.The consumer sector is likely to witness consistent recovery in the forthcoming quarters. Valuations remain sky high and are a serious concern. Notwithstanding the valuation challenges, the consumer staples space has consistently delivered returns for shareholders. We believe the trend is sustainable for the next 12 months and recommend an overweight stance on the sector.
Consumer Discretionary	Equal weight	The consumer discretionary space is a mixed bag with large ticket consumer discretionary will take time to revive but the small ticket discretionary could revive faster. Segments like skin care, beverages, apparels and others could revive while large ticket discretionary like white goods could take longer. We recommend equal weight stance with positive outlook on small ticket discretionary segment.
Information Technology	Overweight	Q1FY21 earnings for the sector were a significant beat to expectations and the sector has seen earnings upgrades. 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 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 significant pricing uptrend as Chinese data has improved and weakening 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 a questionable. We recommend an underweight stance on the sector.

Sector Outlook (Cont'd)

Sector	Current View	Outlook
Pharmaceuticals	**Overweight**	The demand for Pharmaceutical products shot up significantly in the COVID environment and there have many structural changes like supply chain realignment. This led to an overall re-rating of the sector which had been under pressure for the last couple of years because of FDA issues and pricing environment in the US generics markets. While the challenges are significant for the sector but there is value in the sector and many stocks offer solid growth potential. We believe the re-rating is likely to sustain over the medium term and hence we recommend an Overweight stance on the sector.
Real Estate	**Underweight**	Real estate would be one of the most impacted sectors as both residential and commercial real estate will be impacted. Over the medium to long term, the impact on commercial real estate could be even more significant as companies bring sweeping changes to their business models or significantly reduce expansion plans. The residential space was sluggish and the current slowdown will further aggravate the challenges of the sector.
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 shift in 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 improved pricing environment. Price growth in the sector has sustained unlike the past instances and more likely to improve in the forthcoming quarters. 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

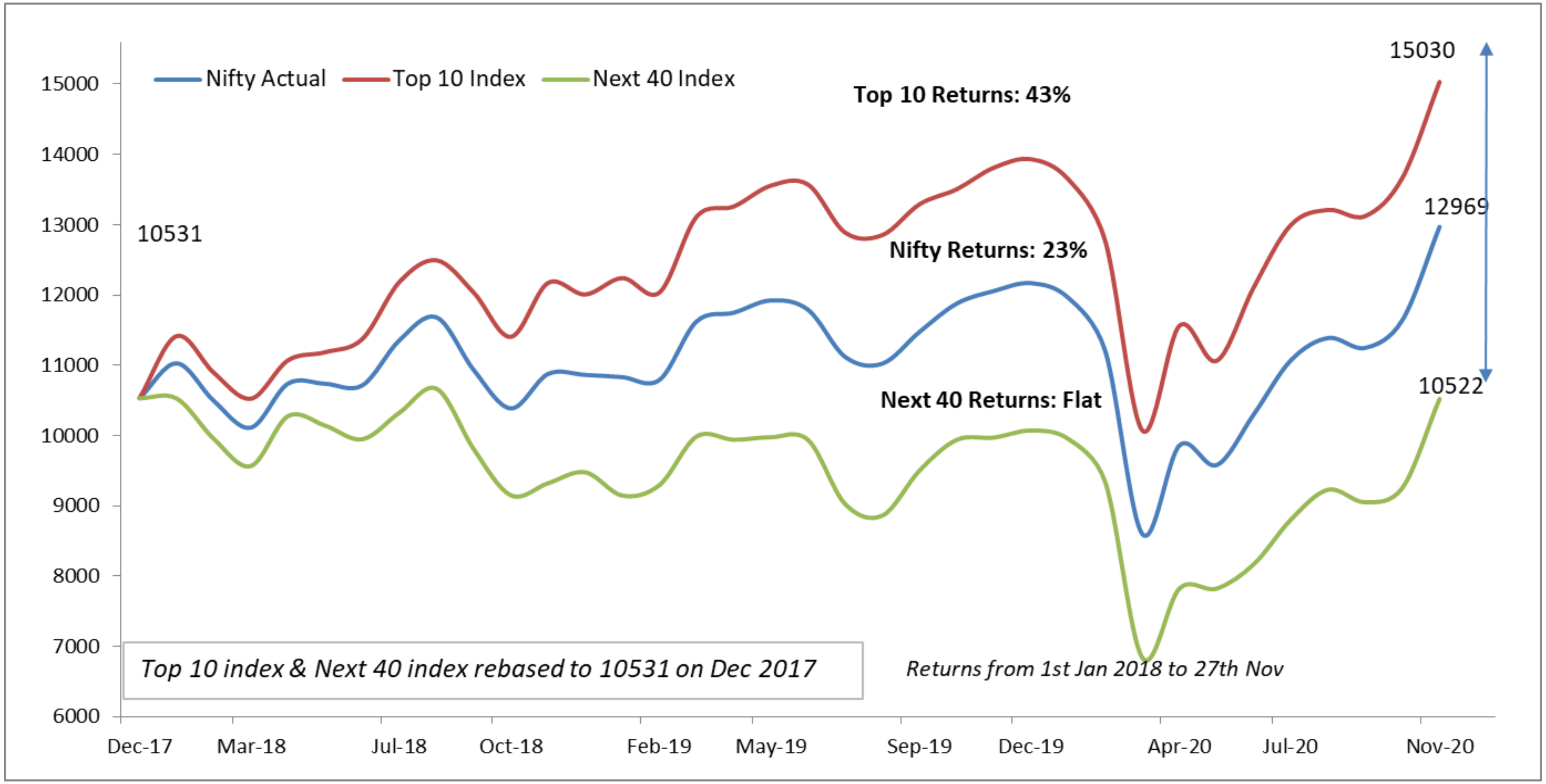
Indian Equity market has bounced back by 70% to 12969 from bottom after a major sell-off seen in the month of March. Currently, multiple events are simultaneously playing out well for the equities market, ranging from a sign of relief from uncertainty over the US election, consistent FII flows, a weaker dollar, better than expected Q2 Earnings, optimism on the vaccine development, all favoring equities.



Source: Bloomberg, Axis Securities

Huge Divergence in the returns of Nifty Constituents

Since Dec 2017, Nifty has delivered a return of 23%. Out of which, the top 10 stocks by free float market cap have delivered a Steller return of 43% while remaining 40 stocks remained flat. This divergence has widened in recent months, based on the top 10 stocks the adjusted Nifty value works out to 15030 while the remaining 40 would lead NIFTY to just 10522 (Dec 2017 level). **This indicates Nifty is better valued beyond top 10 names. Long term risk rewards are better in next 40 names vs. top 10.**

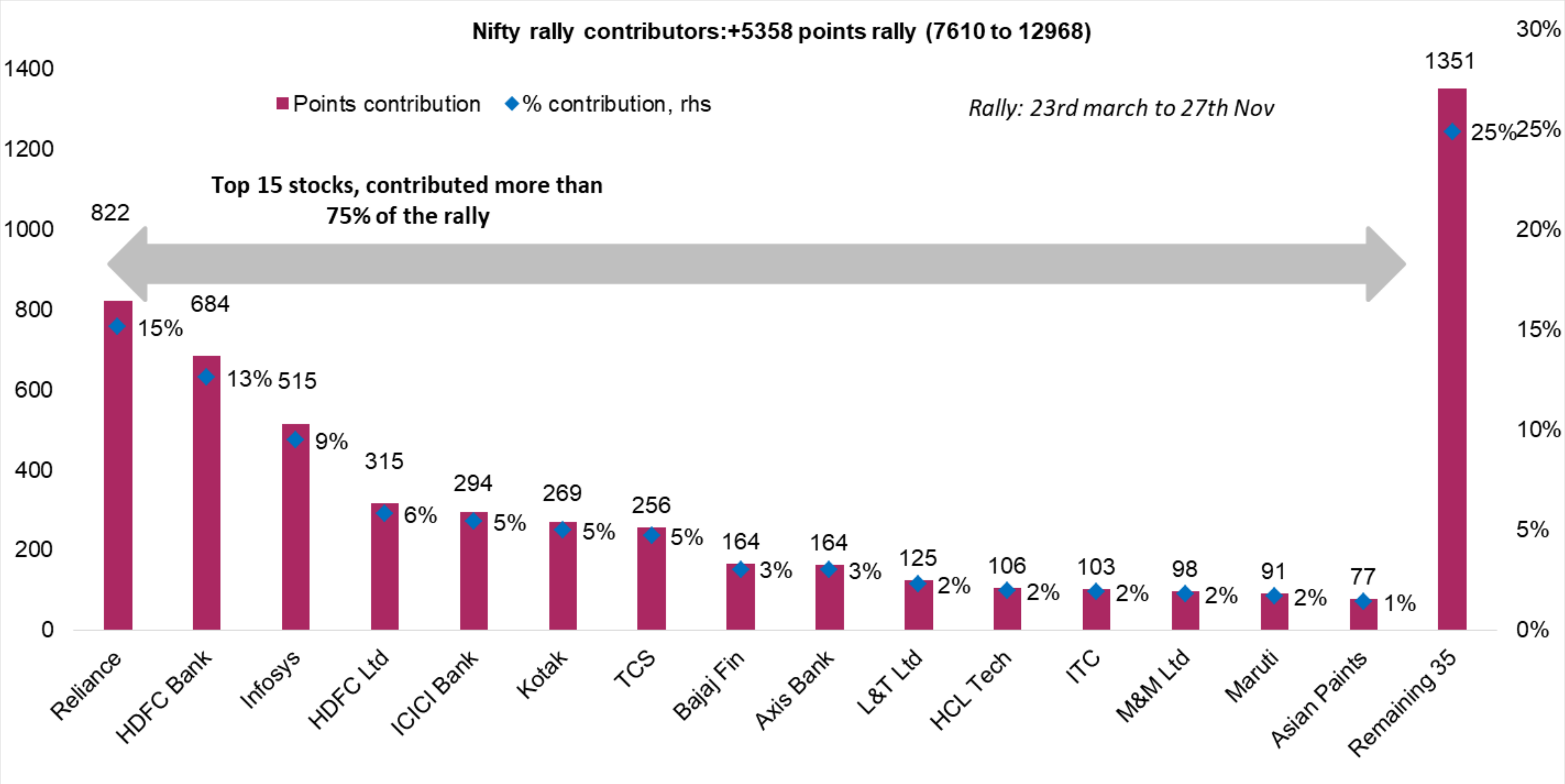


Source: Bloomberg, NSE, Axis Securities

Dominance of Reliance has reduced significantly

Nifty index rallied +5358 points (From 7610 to 12968) after making a bottom on 23rd Mar 2020. In this massive rally, top 15 stocks have contributed more than 75% to the rally while remaining 35 stocks have contributed only 25%. During the same time, 48% of the rally is driven by 5 Names: Reliance, HDFC bank, Infosys, ICICI, HDFC ltd

Reliance contribution to the rally has reduced significantly to 15% vs 28% which was the case two months back.



Source: Bloomberg, Axis Securities

Top 500 stock performance

Market capitalization of top 500 stocks has recovered by 68% to 163.9 trillion vs 97.4 trillion on 23rd March. Maximum recovery has been seen in IT, Oil & Gas (led by Reliance), and in pharma sector. Significant mom market cap improvement seen for NBFC (+26%), Banks (+22%), Metals (22%), Industrials (17%), Auto (13%)

	No of companies	Sectoral market cap of Top 500 stocks in Trillion as of										Current Mcap vs 20th Feb
		20th Feb	23rd Mar	30-Apr	31-May	30-Jun	31-Jul	31-Aug	30th Sep	30-Oct	27-Nov	
Banks	35	23.7	13.8	17.1	15.4	17.8	17.5	19.2	17.5	19.4	23.6	-1%
IT	23	17.2	12.1	15.0	15.0	15.8	18.7	18.4	20.5	21.6	22.1	29%
Oil & gas	15	15.3	9.4	14.0	13.9	16.1	18.5	18.6	19.1	17.7	17.8	17%
NBFC	49	15.2	8.2	9.8	8.5	10.2	10.6	11.4	10.8	11.1	14.1	-8%
Staples	27	14.4	11.1	14.2	13.8	14.3	14.1	13.7	13.6	13.6	14.3	0%
Discretionary	49	11.0	7.3	8.8	8.5	8.9	8.8	9.7	9.9	10.0	10.8	-1%
Auto & Anc	36	9.0	5.5	6.9	7.2	7.8	8.3	9.0	9.1	9.0	10.2	12%
Pharma	35	7.2	5.6	7.8	7.9	8.2	9.0	9.1	9.6	9.2	9.7	35%
Industrials	47	6.1	3.8	4.5	4.5	5.0	4.9	5.3	5.1	5.1	6.0	-2%
Build Mate	33	6.0	3.8	4.4	4.6	4.9	5.1	5.1	5.2	5.6	6.2	4%
Metals & mi	20	5.2	3.1	3.9	3.9	4.1	4.4	4.9	4.6	4.5	5.5	5%
Tele & Media	18	4.6	3.1	4.0	4.4	4.7	4.6	4.6	4.0	4.1	4.5	-1%
Insurance	6	4.0	2.2	3.4	3.4	3.6	3.9	3.6	3.5	3.5	3.9	-3%
Utilities	12	3.9	2.7	3.2	3.2	3.6	3.5	3.9	4.1	4.3	5.2	35%
Others	45	3.6	2.1	2.7	2.7	2.9	3.1	3.4	3.5	3.6	4.1	14%
Agri & Chem	30	3.5	2.3	3.0	3.0	3.2	3.3	3.5	3.6	3.6	3.7	6%
Transport	12	1.2	0.7	0.8	0.8	0.9	0.9	1.0	1.0	1.0	1.2	-6%
Healthcare	8	0.8	0.6	0.7	0.7	0.7	0.8	0.9	1.0	1.0	1.1	37%
Total	**500**	151.9	97.4	124.3	121.6	132.6	140.1	145.2	145.7	148.0	163.9	

Source: Bloomberg, Axis Securities

Top 500 stock performance

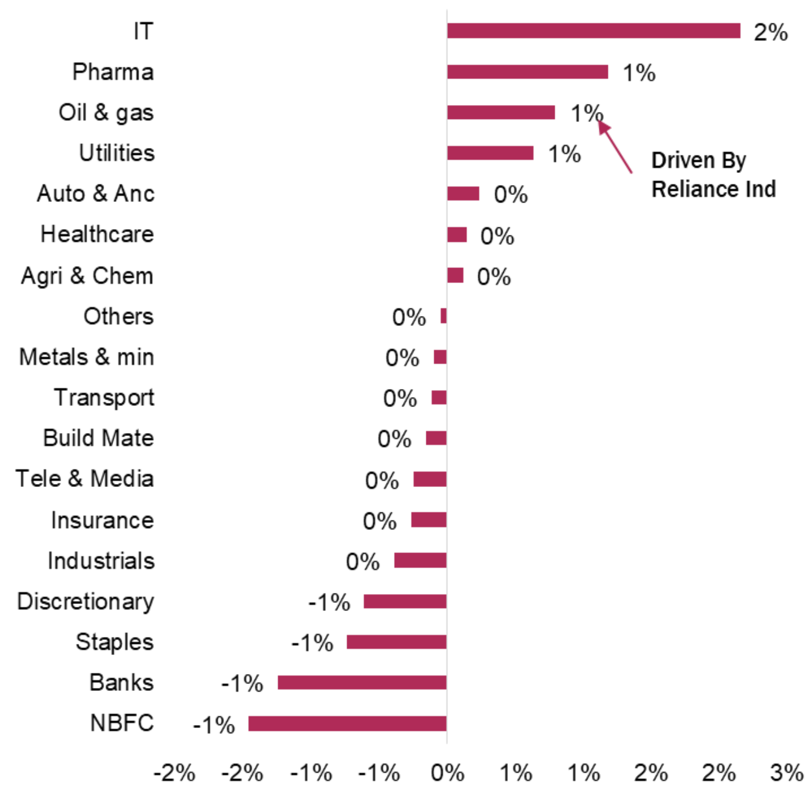
Since 20th Feb, biggest Weight change seen in IT (+2.2%), Pharma (+1.2%), Oil & Gas (+0.8%).

Weight of BFSI sector has significantly improved in the month of November, with the support of double digit rally in NBFC (+26%) & Banks (+22%)

	No of companies	Sector weight of top 500 stocks as of date			Chg in weight 24th Nov vs 20th Feb
		20th Feb	23rd Mar	27-Nov	
Banks	35	16%	14%	14%	-1.2%
IT	23	11%	12%	13%	2.2%
Oil & gas	15	10%	10%	11%	0.8%
NBFC	49	10%	8%	9%	-1.5%
Staples	27	9%	11%	9%	-0.7%
Discretionary	49	7%	7%	7%	-0.6%
Auto & Anc	36	6%	6%	6%	0.2%
Pharma	35	5%	6%	6%	1.2%
Industrials	47	4%	4%	4%	-0.4%
Build Mate	33	4%	4%	4%	-0.1%
Metals & min	20	3%	3%	3%	-0.1%
Tele & Media	18	3%	3%	3%	-0.2%
Insurance	6	3%	2%	2%	-0.3%
Utilities	12	3%	3%	3%	0.6%
Agri & Chem	45	2%	2%	3%	0.1%
Others	30	2%	2%	2%	0.0%
Transport	12	1%	1%	1%	-0.1%
Healthcare	8	1%	1%	1%	0.1%

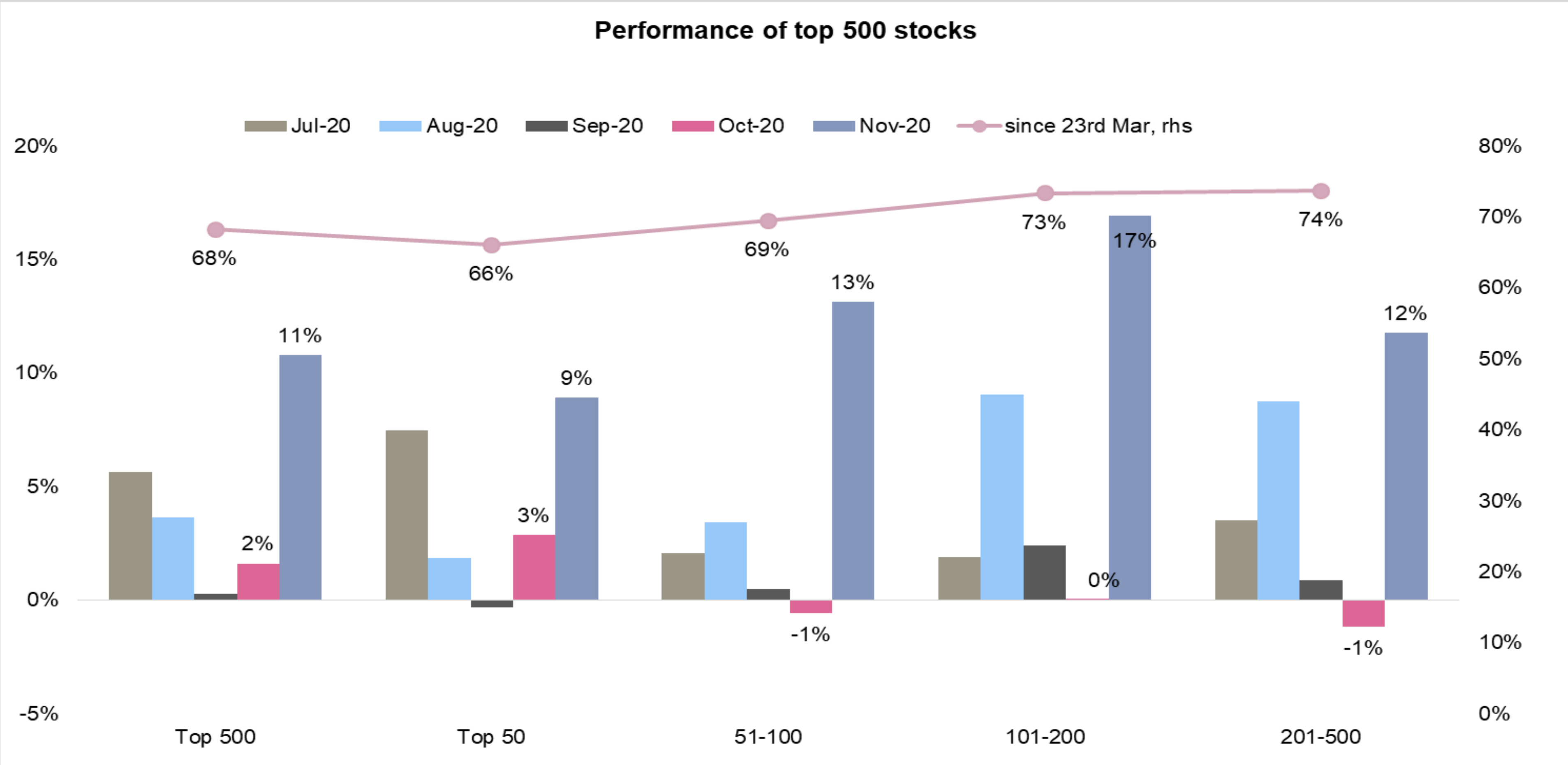
Source: Bloomberg, Axis Securities

Chg in Sector weights by Mcap of top 500 stocks (27th Nov vs 20th Feb)



Performance of top 500 stocks

Broader market performance seen in the month of November, 17% rally was seen for companies ranking from 101-200. 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.



Source: Bloomberg, Axis Securities

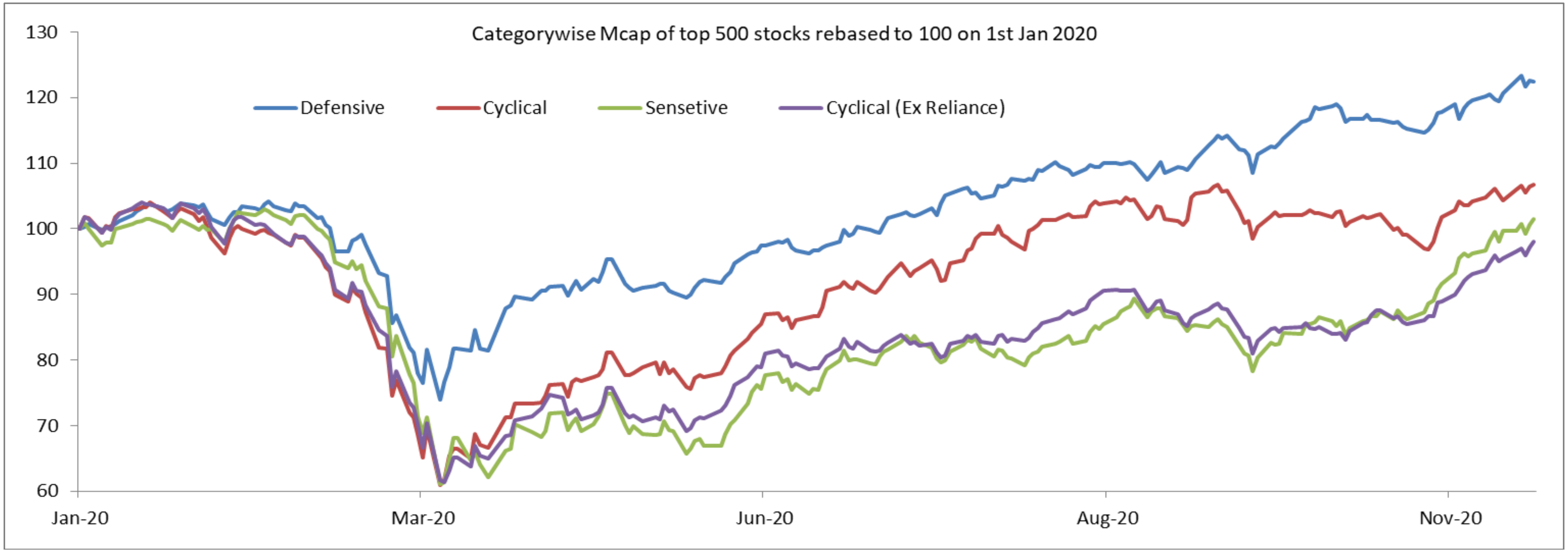
Sector rotation: Cyclical are gaining traction

In the last few months, the entire market narrative was positioned towards defensive plays with IT and pharma stocks were outperforming the market. In November, we saw recovery in BFSI, Auto, Metals, Cyclicals (Ex Reliance) which has also started outperforming in the month of November. BFSI sector was on backseat till October and outperformed the broader market with improved fundamentals in the month of November. Market cap of BFSI space is still 4-5% below pre-covid level. With improved outlook and with focus towards growth, risk rewards are in favour for this sector. We believe outperformance of BFSI will continue in upcoming quarters also.

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

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

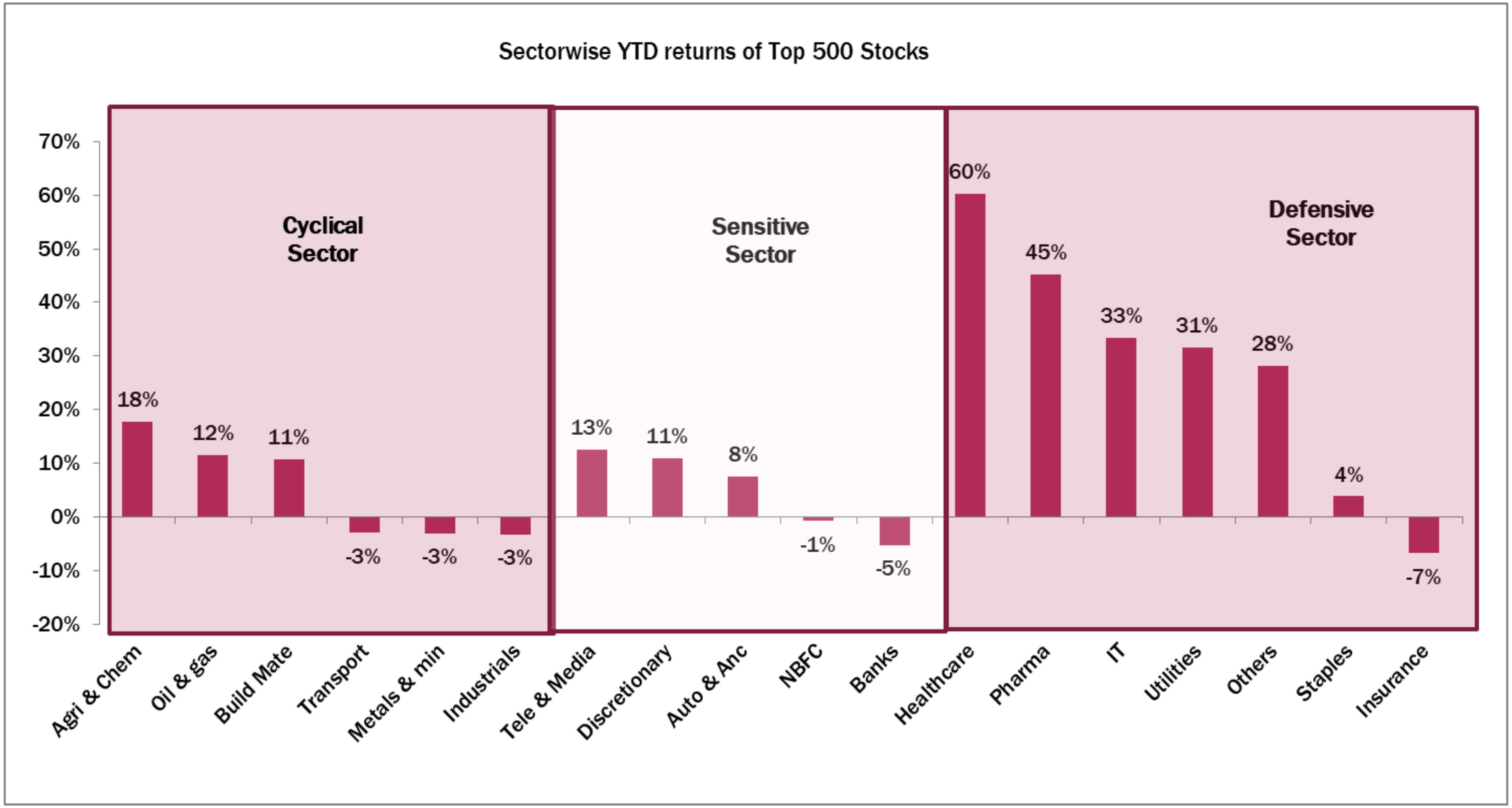
Sensitive: Banks, NBFC, Discretionary, Auto, Telecom



Source: Bloomberg, Axis Securities

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

On YTD basis defensives are the clear winners, Pharma gained 45%, IT up 33% on YTD basis while NBFC down by 5%, Bank down by 1%, Industrials and Metals are down by 3% on YTD basis.

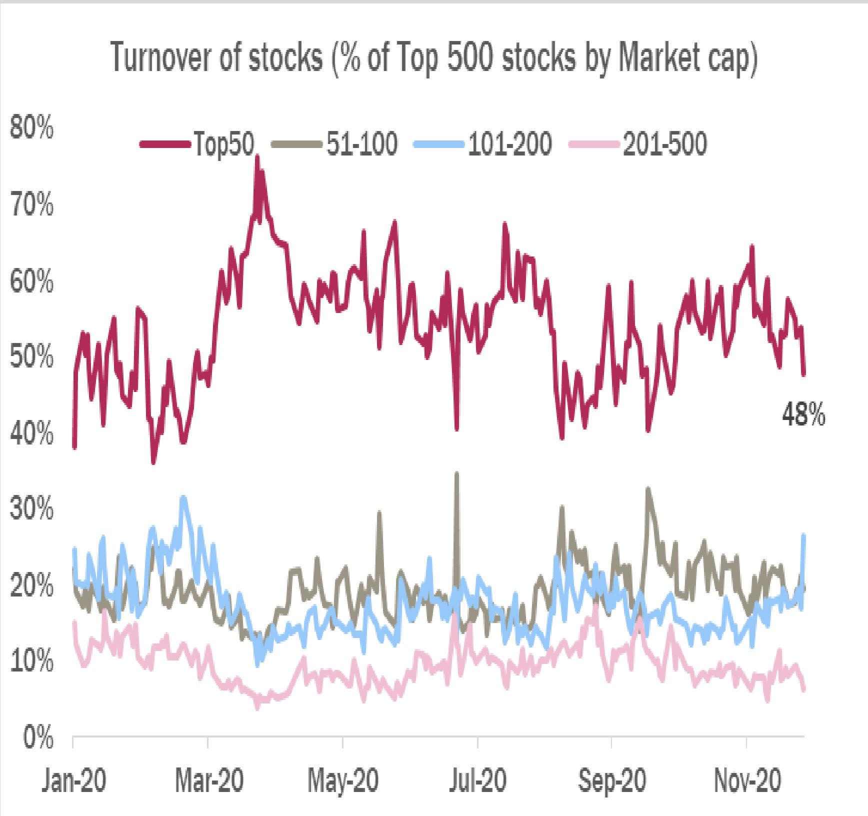


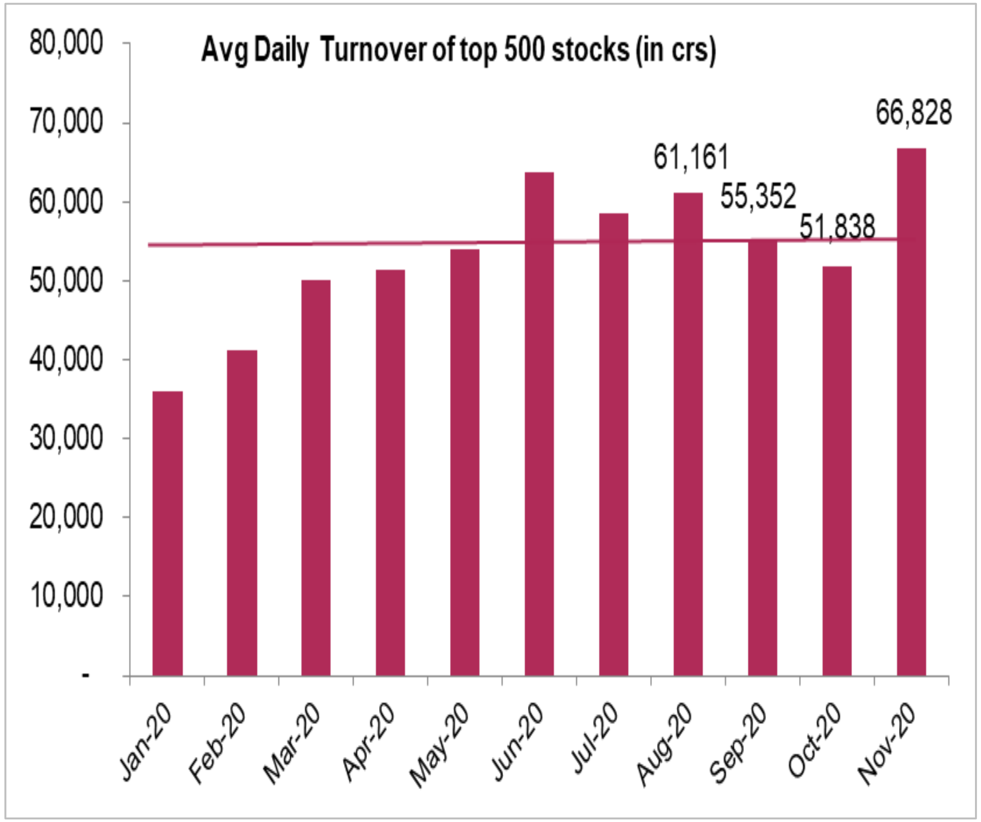
Source: Bloomberg, Axis Securities

Market turnover (% of top 500 Names)

Market turnover of top 50 stocks has been consistently more than 50% in November, stronger broader market participation seen on last trading day

Healthy Turnover: Strongest average daily turnover of ~ 67000 cr for the month of November, significantly higher than June/July 2020.

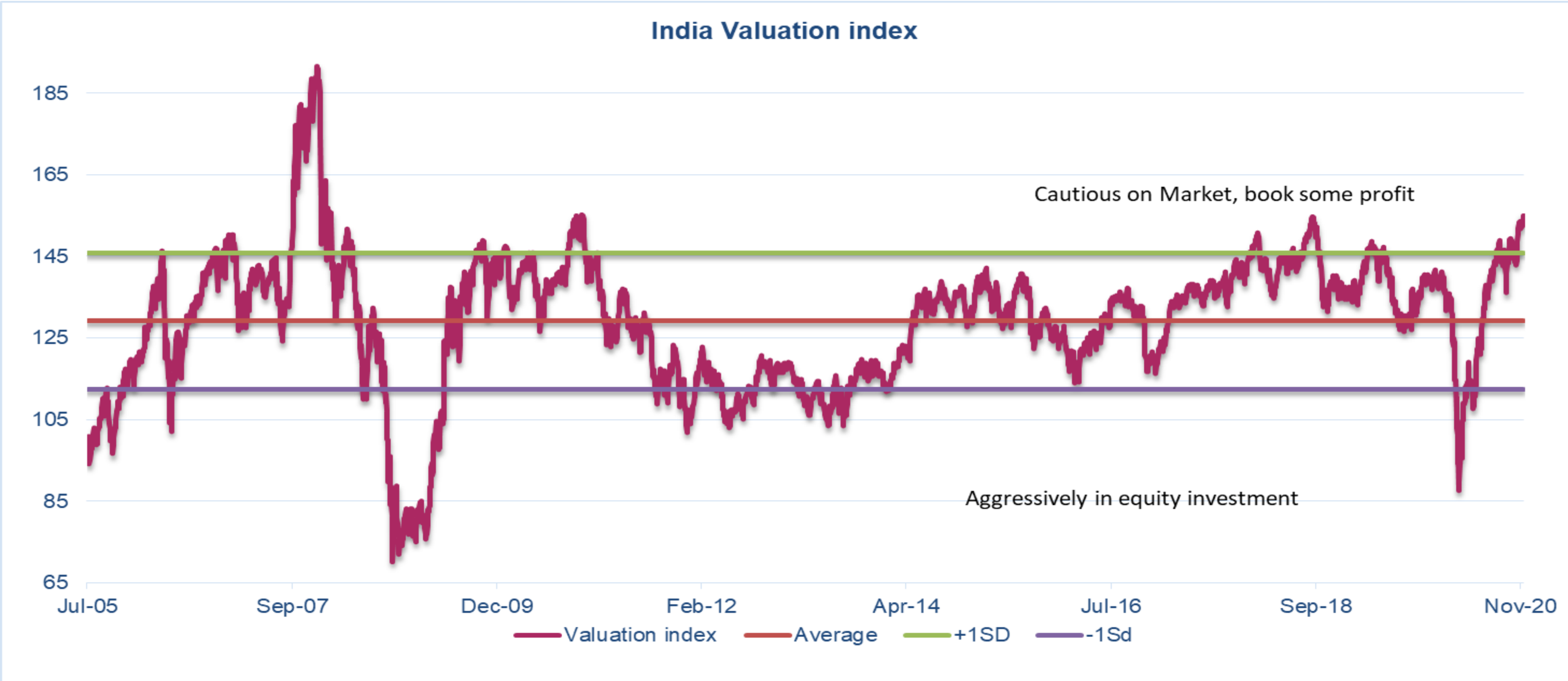




Source: Bloomberg, Axis Securities

India Valuation Index: Retracing back to cautious zone after a recent run-up

Our Market valuation index has retraced back to the cautions zone after the recent run-up (earlier seen in 2018). 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 a key at 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)

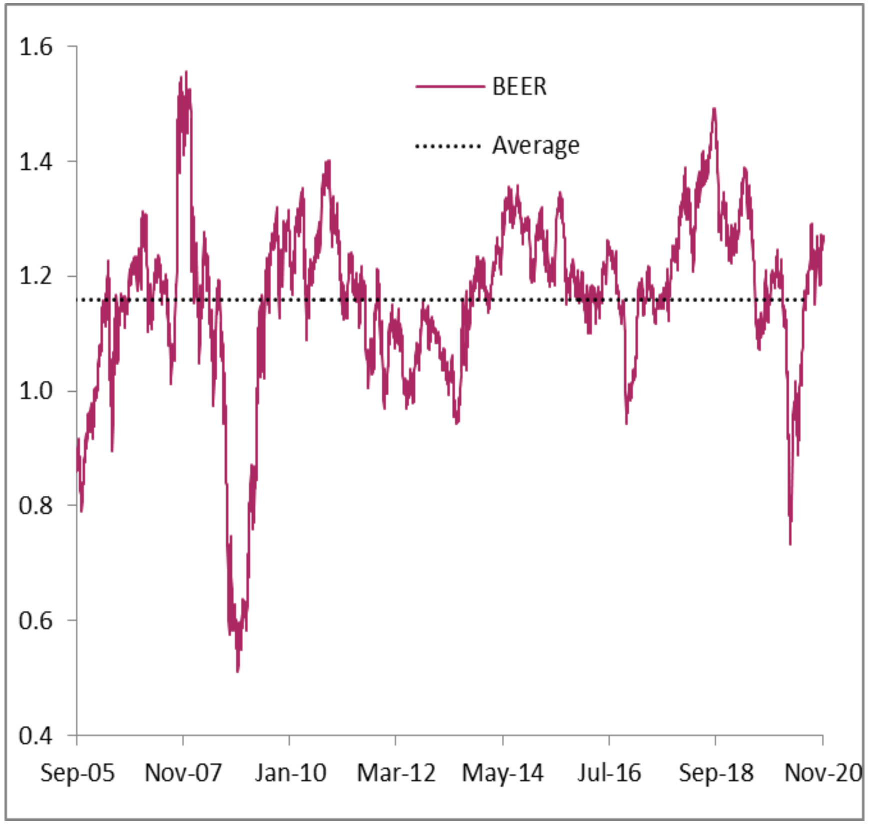


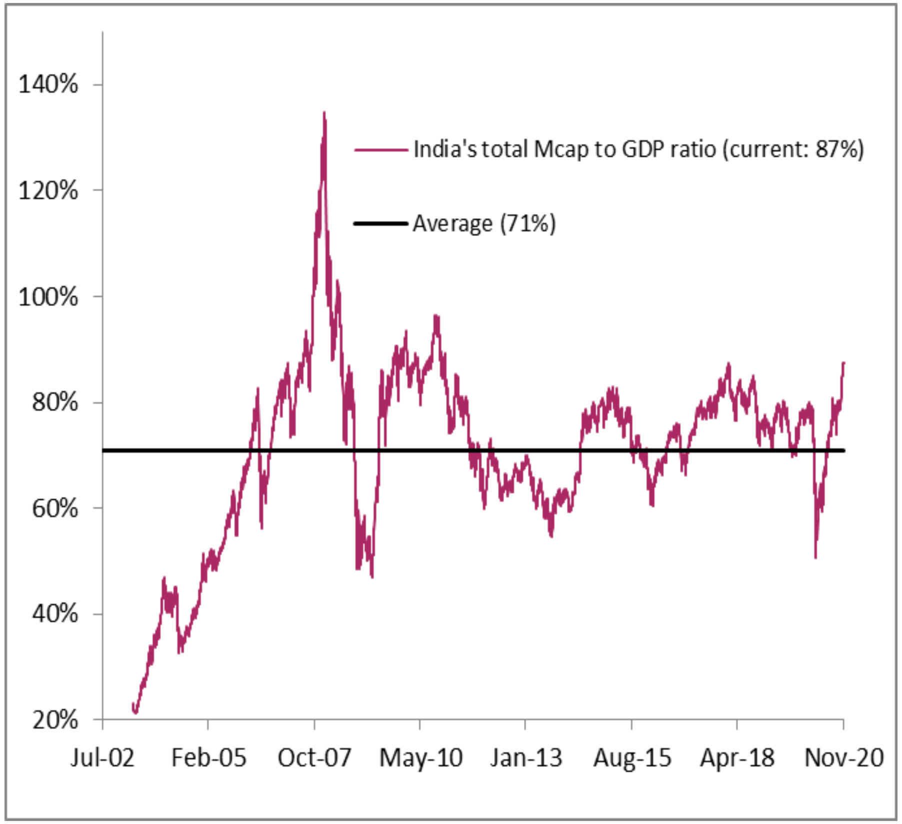
Source: Bloomberg, Axis Securities

Two fundamental ratios are trading slightly above its LTA

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

India's total market cap to GDP: is trading at 87%, 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 seen for FY10 earnings which took market cap to GDP to the range of 95-98%. **With this positive earnings momentum in current cycle, it is likely to see similar levels (95-98%) of market cap to GDP in upcoming quarters.**



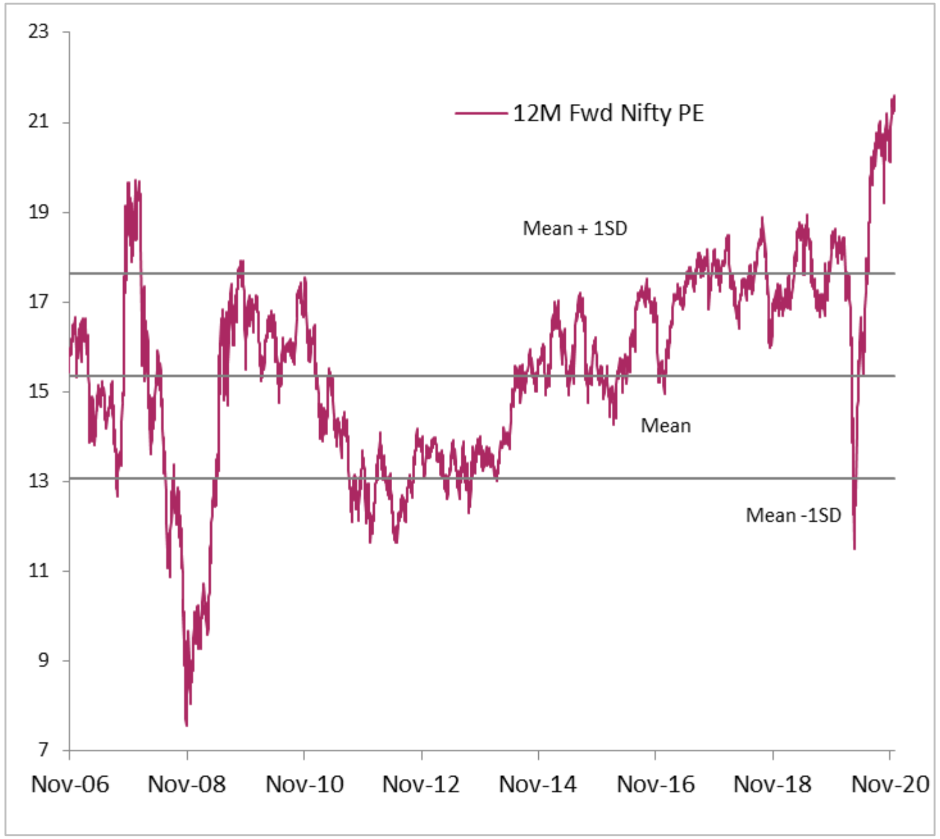


Source: Bloomberg, Axis Securities

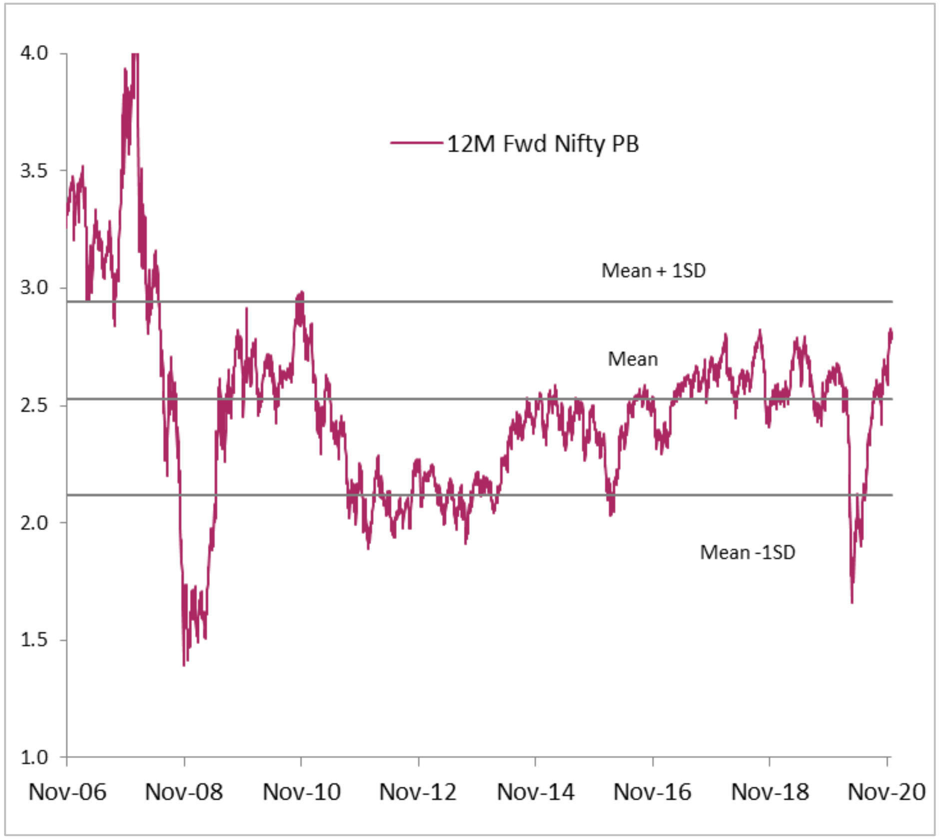
Market Valuations: optically expensive but fairly valued beyond the top 10 names

Nifty is currently trading at 21.3x on 12m fwd PE, 2.6 std above its long-term average while Nifty is trading at its long-term average on 12m Fwd PB. Divergence between returns of top 10 vs. remaining 40 constituents has brought Nifty into expensive zone. Beyond top 10 names, Nifty looks less expensive. **(Top 10 trading at 25.0x while remaining 40 trading at 17.7x on 12m fwd PE)**

Nifty 12m Fwd PE



Nifty 12m Fwd PB



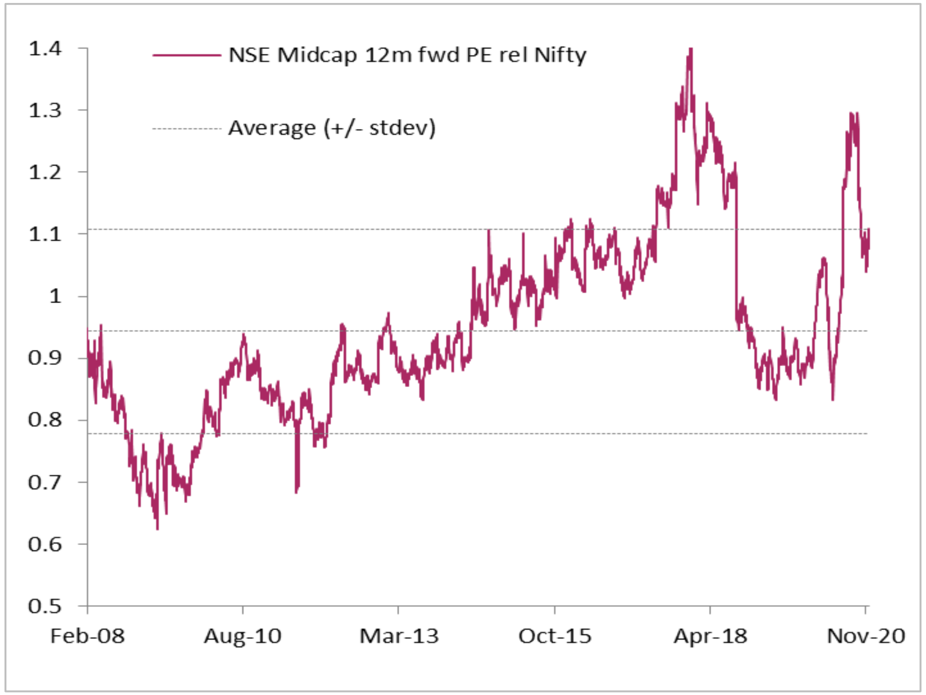
Source: Bloomberg, Axis Securities

Midcaps look attractive: Trading at 11% premium to large caps

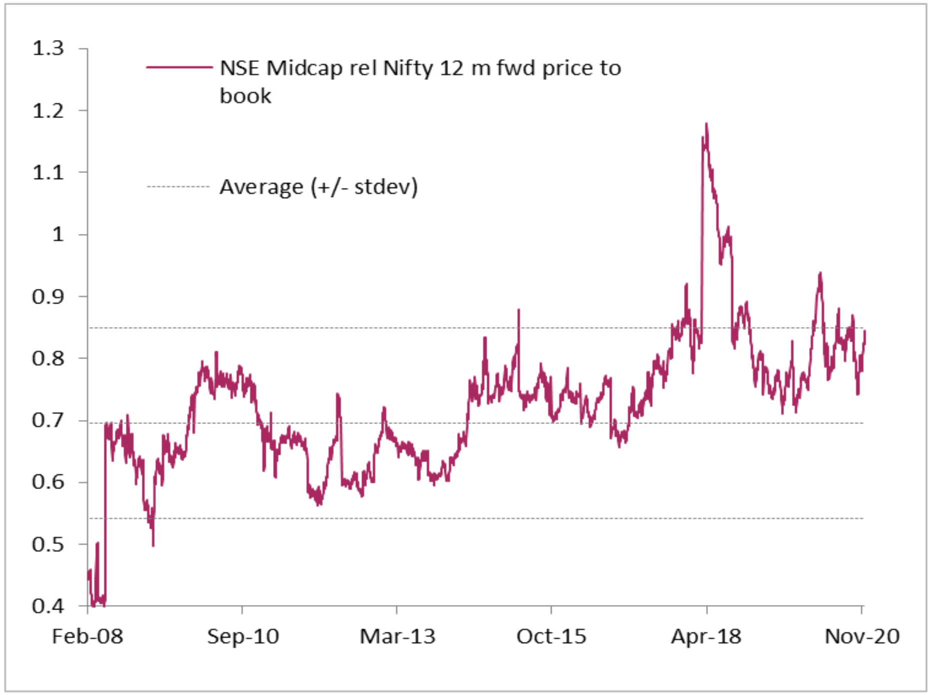
From a valuation perspective, the Midcaps look attractive vs. large caps. Historically, during the bull phase of 2017, midcaps were trading at 45% premium to large caps. The recent spate of IPOs and their success clearly indicates that the appetite for mid and small cap stocks. Our case for two year 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 multicap funds has clearly tilted the favour in case of mid and small cap stocks which will keep the space in vogue over the medium term.

In 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



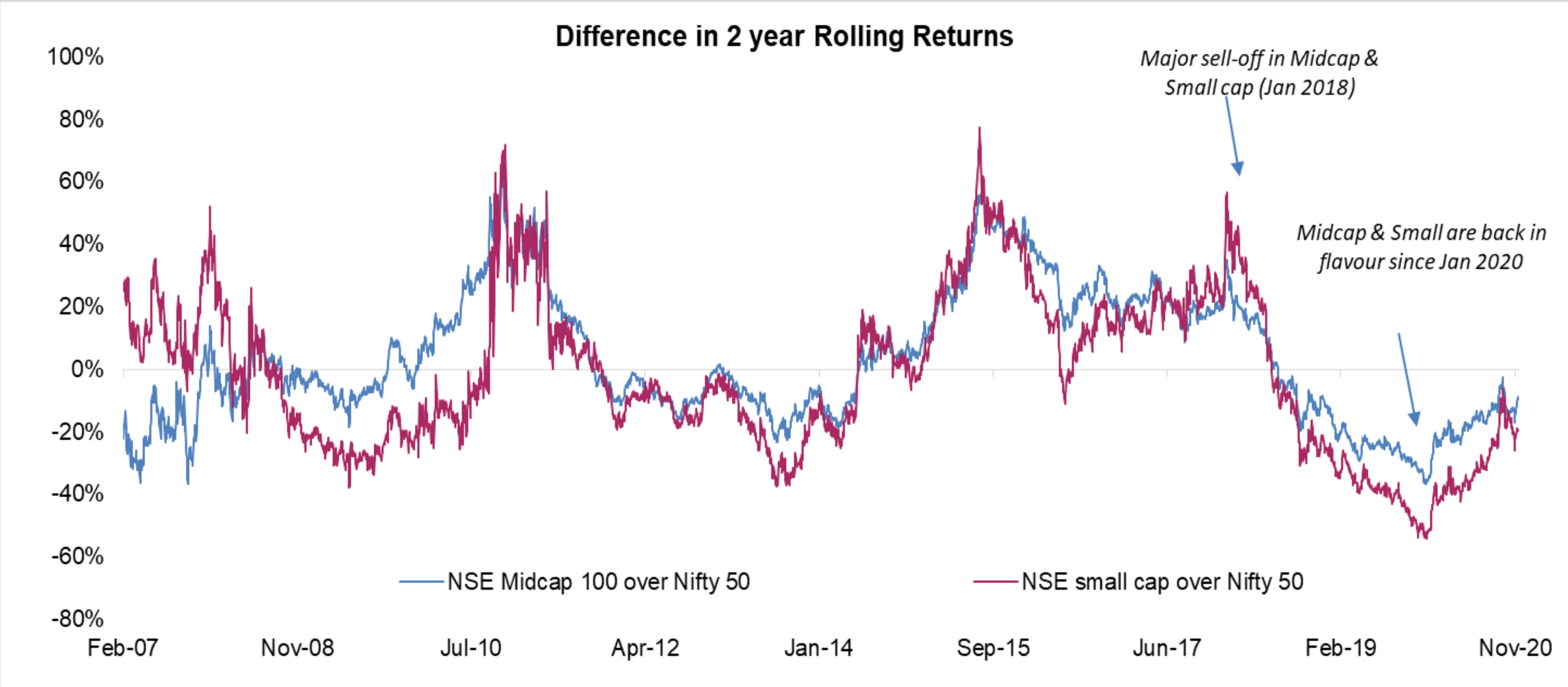
NSE Midcap rel Nifty 12m Fwd PB



Source: Bloomberg, Axis Securities

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

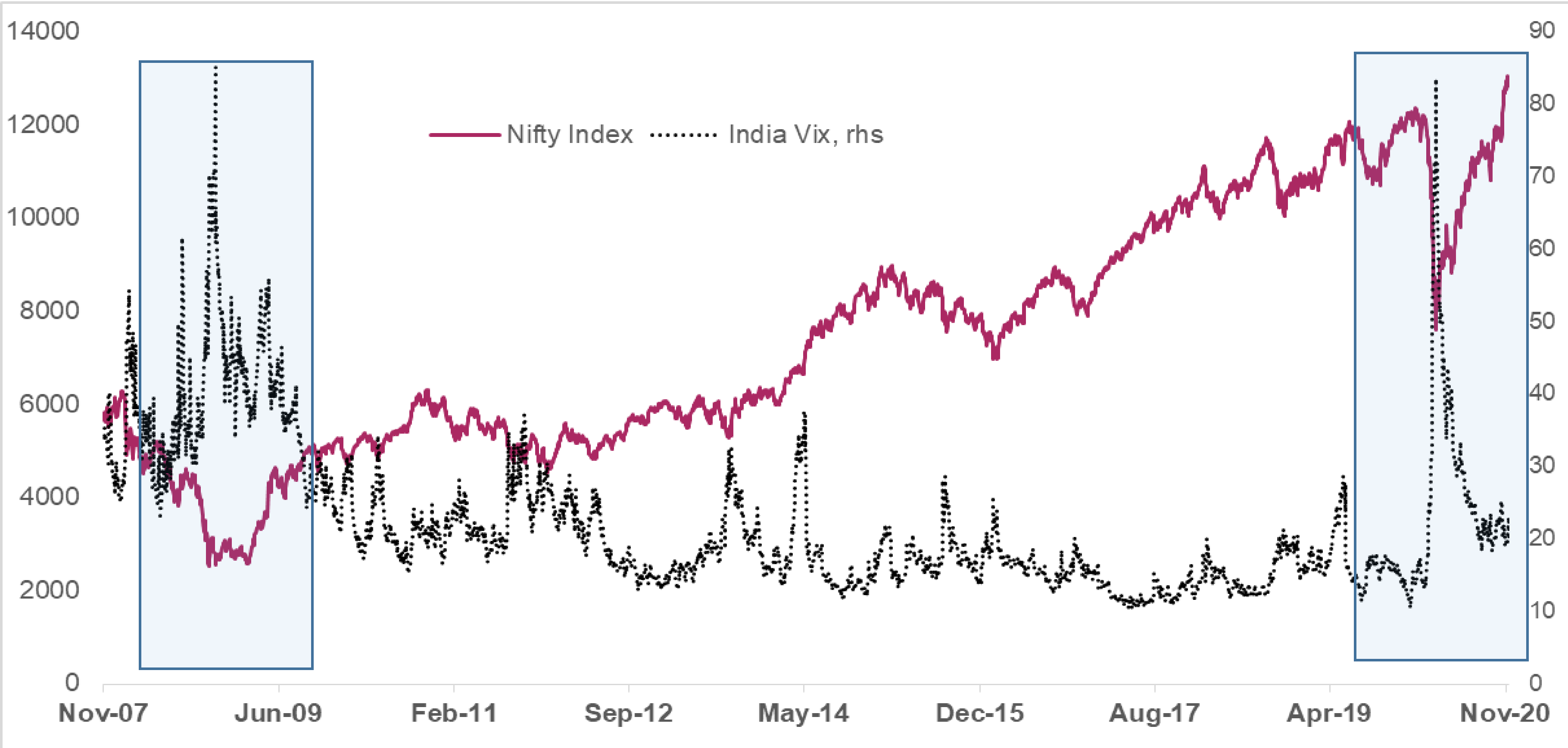
Since Jan 2020, we have seen mean reversion in the two years rolling returns of Midcaps and Small cap relative to Nifty 50. Broader market has started outperforming after the new SEBI guidelines on Multicap schemes. As on an expected lines broader market outperformance was seen for month of November as uncertainty over the US election eased, consistent FII flows, a weaker dollar, better than expected Q2 Earnings, optimism on the vaccine development, all favoring equities. **Currently 10 candidates are in Phase 3 trial of vaccine development, so theme on vaccination and complete opening up of the economy is going to play in 2021. We believe this will reduce uncertainty over the growth and volatility likely to decline which will lead to an outperformance of broader market.**



Source: Bloomberg, Axis Securities

India's Nifty Index vs VIX: Volatility has reduced after the outcome of US election

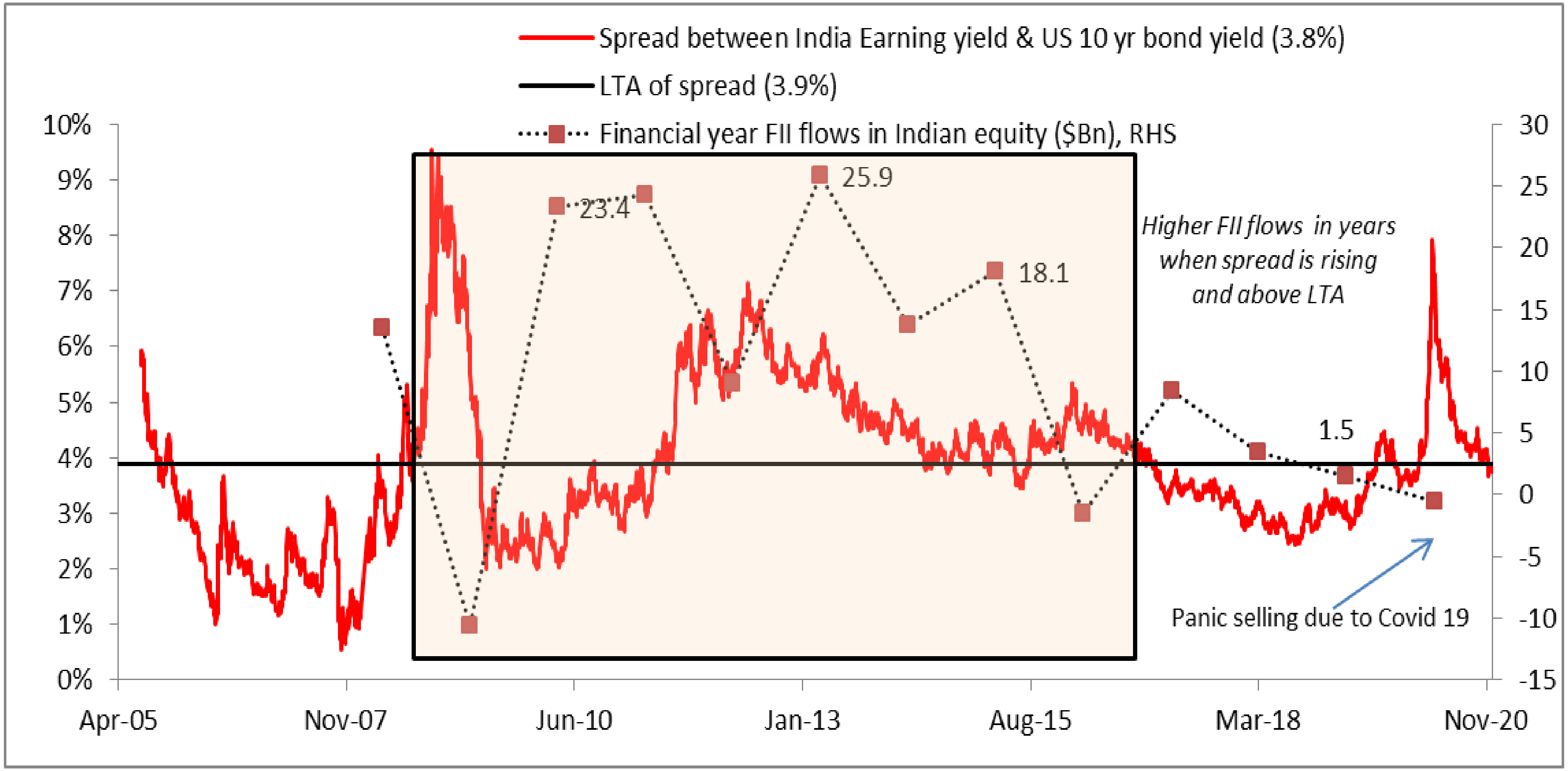
Volatility significantly reduced after the outcome of US election. Currently VIX is trading at 20 level vs historical average of 22. Business normalization in Q2 is ahead of street expectation; we have seen more upgrades than downgrades during the quarter. Overall visibility of growth has improved significantly during the quarter which also helped in the overall reduction of the volatility. Growth outlook has improved with Q2 GDP print, now the market will look for the sustainability of the demand especially after the festive season and watchful will be the direction of high frequency indicators. During Mar 2020, VIX was trading in panic zone of 80 levels, which was earlier seen during 2009 crisis.



Source: Bloomberg, Axis Securities

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

Historically, India sees positive FII flows whenever the spread between India earning yield and US 10-year bond yield is on rising trend or above long-term average. Rising and above average spread gives valuation comfort to the investors which was seen during FY10-15 where we had witnessed strong FII flows in Indian market.

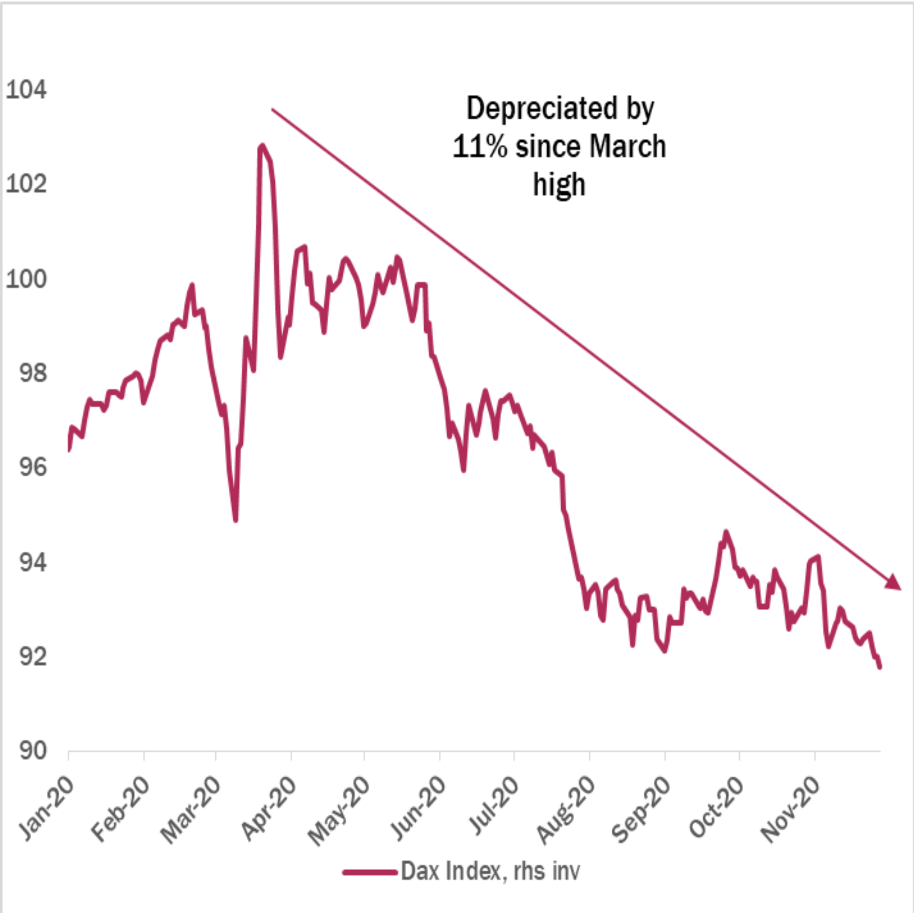


Source: Bloomberg, Axis Securities Note: Data till 31st July 2020

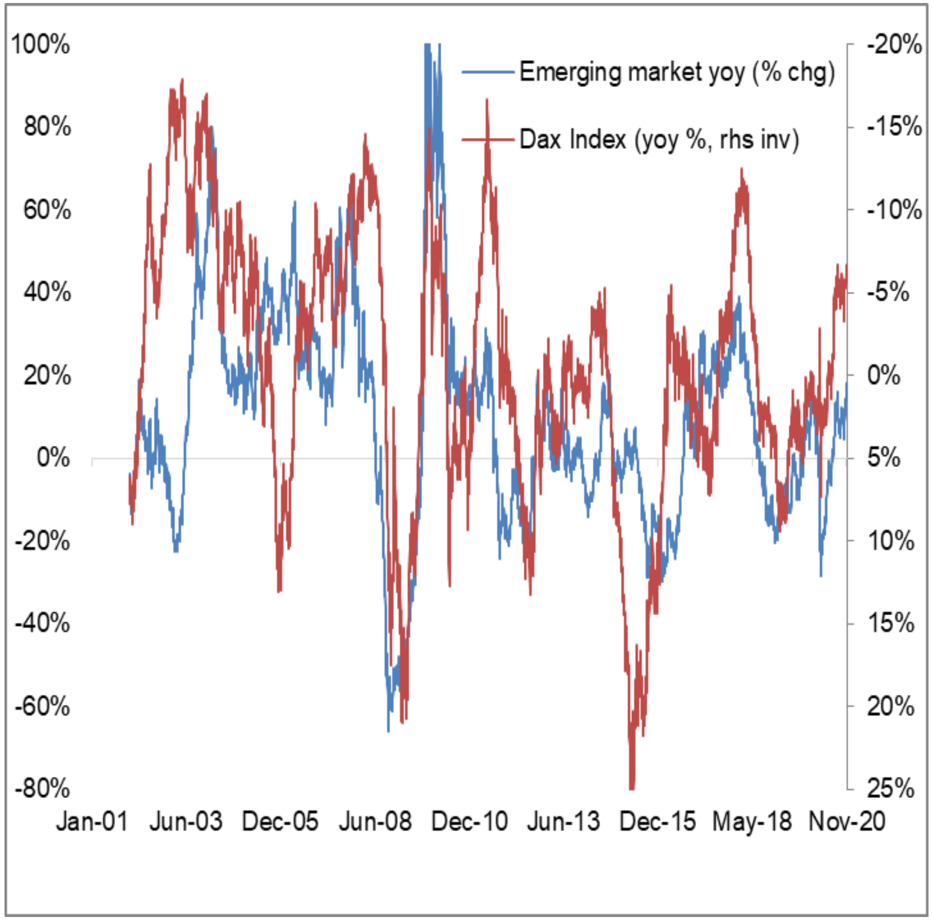
Weaker dollar is good for emerging market

Dollar index has an inverse relationship with the emerging market. **DAX index has depreciated by almost 11% since March high which is positive for emerging market specially India.**

Dollar Index



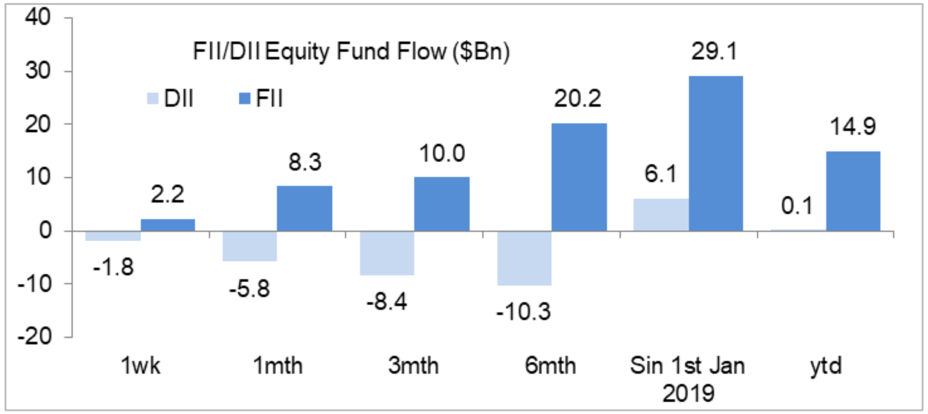
Emerging market vs Dollar index

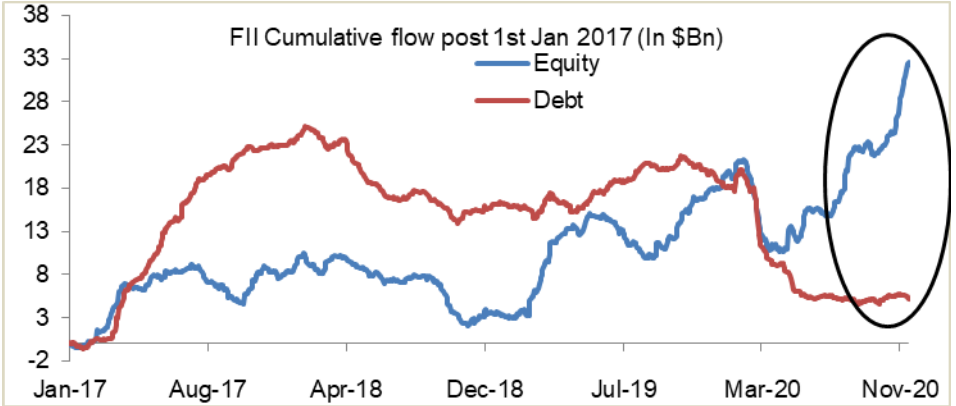


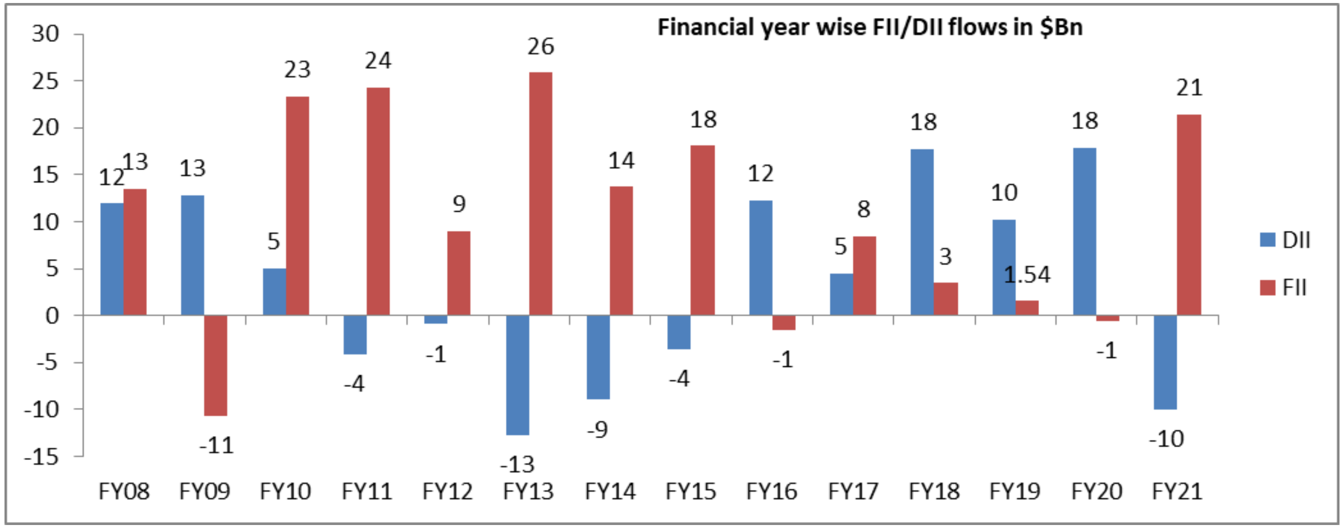
Source: Bloomberg, Axis Securities

Strongest FII flows in November

FIIs are net buyers in last 3 months; FIIs have added USD 10 bn while DIIs have pulled out USD 8.4 bn from Indian equity market in last 3month. FIIs Cumulative flow in equity market is at USD 32.5 bn since Jan 2017. **In first 10 months of FY21, FIIs have added USD 21 bn in Indian market, similar to the trend earlier seen during FY10-13.**







Source: Bloomberg, Axis Securities

Strongest FII flows in November vs Peers

Based on the assumption of more predictable policy making under the Presidency of Biden which will lead to a realignment of global portfolios, with more investments shifting to riskier assets and the emerging markets are the biggest beneficiary resulting in huge FII flows in Emerging markets including India. The trend is building for a weaker dollar in 2021 on account of higher fiscal spending and lowers interest rates. Based on this trend the emerging markets are likely to see consistent FII flows 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 in the month of 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
Mar-20	-8.39	-0.37	-1.29	-5.04	-0.30	-10.54	-0.01	-12.08	-2.45	-0.34
Apr-20	-0.03	-0.56	-0.61	-0.90	-0.32	-3.96	0.00	0.82	-1.44	-0.26
May-20	1.72	0.55	-0.69	-1.29	-0.17	-3.30	-0.04	-5.05	-0.98	-0.02
Jun-20	2.47	-0.32	-0.70	0.09	-0.19	-0.70	-0.05	3.27	-0.74	0.64
Jul-20	1.15	-0.26	-0.60	-1.60	-0.12	0.73	-0.02	0.27	-0.32	-0.02
Aug-20	6.10	-0.58	-0.36	-0.06	-0.26	-2.30	-0.04	-2.18	-0.89	-0.14
Sep-20	-0.77	-1.05	-0.48	-0.46	-0.31	-0.99	-0.04	-1.43	-0.74	0.07
Oct-20	2.51	-0.25	-0.16	0.52	-0.16	-0.43	-0.03	-0.61	-0.70	-0.32
Nov-20	8.32	0.47	-0.08	4.80	-0.06	6.79	-0.01	5.99	1.14	-0.12
YTD	14.9	-2.7	-5.5	-13.3	-2.2	-17.9	-0.3	-16.4	-8.3	-0.5

Source: Bloomberg, Axis Securities

Q2FY21 Earnings: Business normalization in Q2 is ahead of street expectation

1). IT sector continues to beat the expectations seen a margin recovery driven by pyramid rationalization and travel cost, better than expected guidance has changed the outlook for the sector resulting earning upgrade. 2) Better realization in the cement sector has impressed the street on PAT & EBITDA expectation, 3) Discretionary spending gradually returning after muted numbers in last quarter. 4) Staples posted fairly good numbers. 5) Liabilities side of balance sheet has improved for banks/NBFCs with ample liquidity, reduced cost to funds. Focus now has shifted to growth and redeployment of excess liquidity. It remains watchful for the asset quality trends in upcoming quarters. 6) Better realization and favorable product mix, lower cost has impressed the street with above expectation EBITDA and Volume for Metal sector 7) OMCs earning improvement is led by inventory gains and healthy marketing margins.

Two positive trends playing out in Q2:

1) Visible expansion in the margin across the board led by better control over cost by the management 2) Stronger than expected sales and volume numbers reflects stronger economic recovery

Nifty Q2FY21		Earnings			EBITDA			Revenue	
Results Out	Beat	In Line	Miss	Beat	In Line	Miss	Beat	In Line	Miss
50	34	4	12	32	9	9	18	24	8

Q2FY21 Performance so far:

Beat results: IT, FMCG, Cements, Banks

FY21 EPS: 22/50 Nifty companies have seen FY21 EPS upgrade of more than 5% post Q2 results

Upgrade: Shree Cement (30%), Ultratech (24%), JSW Steel (68%), ICICI bank (14%), Kotak (13%), Tech Mahindra (10%), M&M (9%), HDFC bank (8%), Infosys (6%)

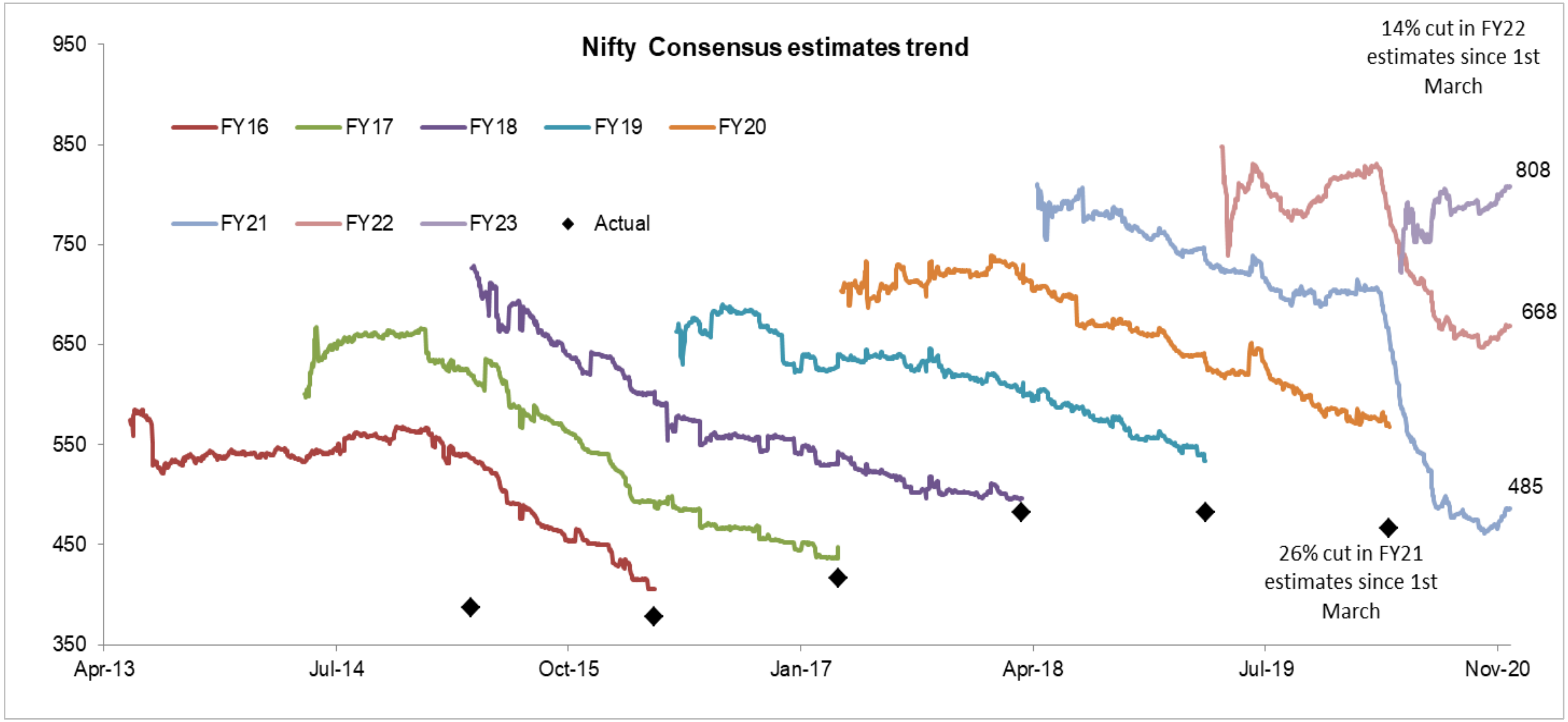
FY21 EBITDA

Upgrade: Ultratech (15%), JSW Steel (16%), Shree Cements (11%), Tech Mahindra (11%), M&M (11%), Infosys (8%)

Consensus Nifty EPS trend

Stronger than expected economic recovery and above expected volume and sales numbers has led the EPS upgrade across the sectors. FY21 consensus EPS has been upgraded by 5% in Q2 to 485. Before Q2, uncertainty due to COVID-19 was visible in Nifty downgrades. Since 1st March, FY21/22 Nifty EPS was downgraded by 26%/14% till September, but Q2 earnings saw broad based recovery with consensus FY21/22 upgrade of 5%/4%.

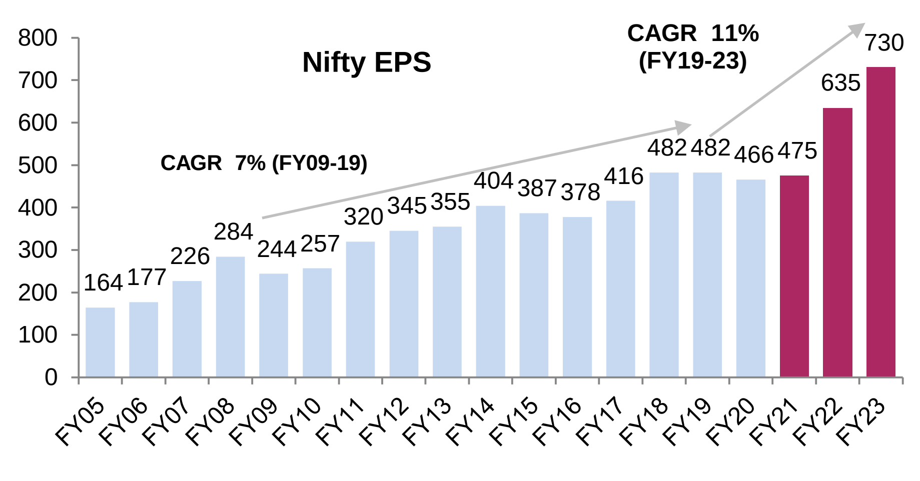
Earning Upgrades are the new trend in Nifty earnings vs the historical trend of Earnings downgrades, positive for the market.

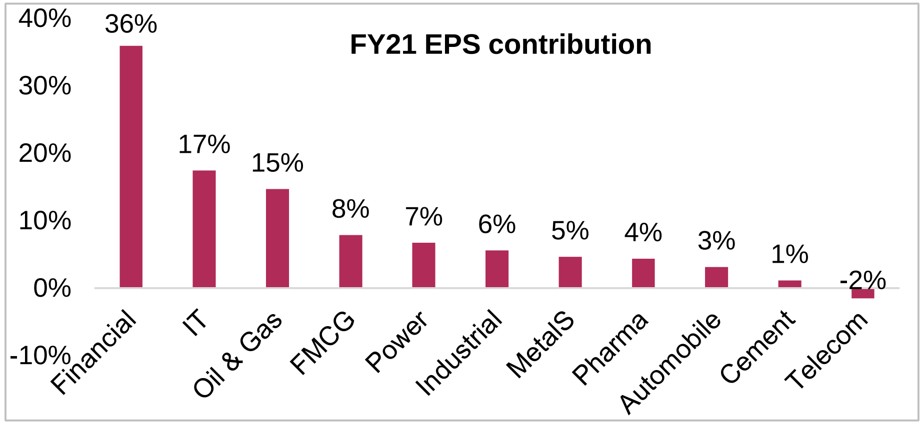


Source: Bloomberg, Axis Securities

Nifty EPS: Upgraded the FY21/22 EPS by 6%/8%, see Nifty at 14,600 in December 2021

Earnings scenario has improved with the Q2FY21 quarterly results with the majority of earnings beating expectations, 34/50 Nifty companies have beaten the street estimates at EPS level. Based on this we have upgraded our FY21/22 EPS by 6%/8%. We value Nifty at 20x at FY23 earnings translating to our December 2021 target for Nifty at 14,600.





FY21 Nifty EPS Change			
	Before Q2	After Q2	% chg
Financial	159.2	170.5	7%
IT	79.3	82.9	5%
Oil & Gas	66.9	69.8	4%
FMCG	38.0	37.4	-2%
Power	32.1	31.9	-1%
Industrial	20.6	26.5	28%
Pharma	19.4	20.8	7%
MetalS	15.5	22.1	43%
Automobile	12.8	15.0	17%
Cement	4.5	5.5	21%
Telecom	-4.5	-7.3	NA
Total	**449**	**475**	**6%**

Source: Axis Securities

India starts outperforming: Broader market rally

BFSI playing a catch-up rally

Market consolidated in the month of October and bounced back to the 13000 mark in the month of November on account of signs of relief from uncertainty over the US election, consistent FII flows, a weaker dollar, better than expected Q2 Earnings, optimism on the vaccine development, all favoring equities. Further, sequential recovery seen in high frequency indicators like PMI, Automobiles sales, GST collection, E way bill, Energy demand also favored equity.

National Index

National Index						
Index Performance (%)	**1wk**	**1m**	**3m**	**6m**	**YTD**	**1 Year**
Nifty 50	0.9%	11.4%	11.3%	35.4%	6.5%	7.6%
Nifty Next 50	1.3%	10.9%	8.3%	26.1%	7.2%	6.3%
Nifty 500	1.5%	11.9%	11.2%	37.0%	8.4%	9.2%
Nifty Midcap 100	4.0%	15.5%	13.5%	48.5%	15.0%	14.5%
Nifty SmallCap 250	5.0%	12.6%	10.7%	58.4%	14.5%	16.0%
Sector Index (%)	1wk	1m	3m	6m	YTD	1 Year
NIFTY AUTO	2.4%	14.6%	9.6%	43.0%	8.3%	10.0%
NIFTY BANK	1.3%	23.9%	20.7%	53.4%	-7.8%	-7.3%
NIFTY COMMODITIES	2.0%	11.5%	10.4%	32.2%	4.9%	5.1%
Nifty Financial Services	0.6%	22.8%	22.0%	50.0%	-1.9%	0.6%
NIFTY ENERGY	1.8%	8.5%	1.8%	24.4%	1.7%	0.1%
NIFTY FMCG	0.8%	7.8%	1.5%	8.3%	4.9%	2.4%
NIFTY IT	1.7%	4.1%	20.1%	55.3%	38.4%	45.1%
NIFTY INFRA	0.6%	9.4%	5.2%	20.4%	4.9%	3.1%
NIFTY MEDIA	2.6%	5.9%	-10.0%	27.6%	-16.2%	-18.1%
NIFTY METAL	5.4%	24.8%	16.1%	55.6%	4.6%	11.4%
NIFTY PHARMA	2.7%	5.3%	1.9%	21.2%	47.1%	44.6%
NIFTY PSU BANK	6.1%	23.6%	-2.7%	37.9%	-38.3%	-41.6%
Nifty Private Banks	1.6%	24.3%	22.0%	55.7%	-7.0%	-6.6%
NIFTY REALTY	3.9%	14.5%	12.1%	45.0%	-12.3%	-7.4%
NIFTY SERV SECTOR	0.6%	16.0%	18.6%	44.8%	4.0%	6.6%

International Index

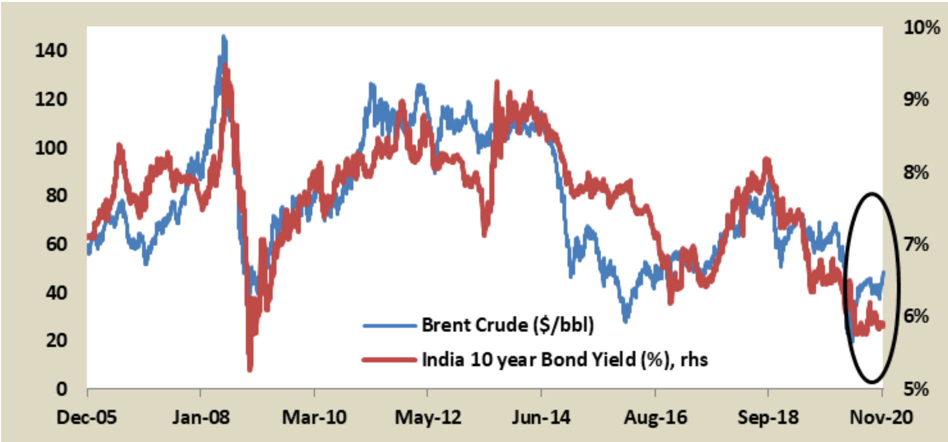
International Index						
Index Performance (%)	**1wk**	**1m**	**3m**	**6m**	**YTD**	**1 Year**
Shanghai Comp	0.9%	5.7%	0.1%	19.5%	11.7%	18.7%
Bovespa	4.3%	17.7%	8.3%	26.5%	-4.4%	2.2%
Russia	3.1%	22.1%	2.9%	6.8%	-15.9%	-9.5%
south africa	2.1%	11.7%	2.5%	13.9%	4.3%	8.0%
Korea	3.1%	16.2%	11.9%	29.8%	19.8%	26.1%
Mexico	-0.9%	13.0%	11.7%	20.2%	-1.0%	0.9%
Indonesia	3.8%	12.8%	8.2%	21.7%	-8.2%	-3.8%
Argentina	7.6%	22.4%	19.5%	46.5%	33.0%	60.7%
Japan	4.4%	16.0%	16.4%	21.8%	12.6%	14.4%
Hongkong	1.7%	11.6%	5.8%	17.1%	-4.6%	2.1%
Philipines	-5.3%	7.4%	15.4%	16.3%	-13.1%	-12.2%
Taiwan	1.1%	10.5%	8.9%	26.7%	15.6%	20.7%
Singapore	1.5%	17.8%	12.5%	13.7%	-11.4%	-10.6%
Thailand	3.5%	20.3%	8.7%	7.1%	-9.0%	-9.6%
Veitnam	2.0%	9.2%	14.9%	16.9%	5.1%	4.1%
Dow	2.2%	12.9%	4.4%	17.8%	4.8%	6.6%
Nasdaq	3.0%	11.9%	4.4%	28.6%	36.0%	40.9%
FTSE 100 INDEX	0.3%	14.2%	6.8%	4.8%	-15.6%	-13.3%
DAX INDEX	1.5%	15.4%	2.3%	15.1%	0.7%	0.8%
CAC 40 INDEX	1.9%	21.9%	11.9%	19.2%	-6.4%	-5.2%
S&P 500 Index	2.3%	11.3%	3.7%	19.5%	12.6%	15.8%

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

Market Indicators

Brent crude is trading around $48/bbl vs $ 45/bbl, three months back. In precious metals, Gold rallied 18% on YTD and lost 9% in last three months. INR was stronger on account of weaker dollar and stable outlook vs the other EM countries.

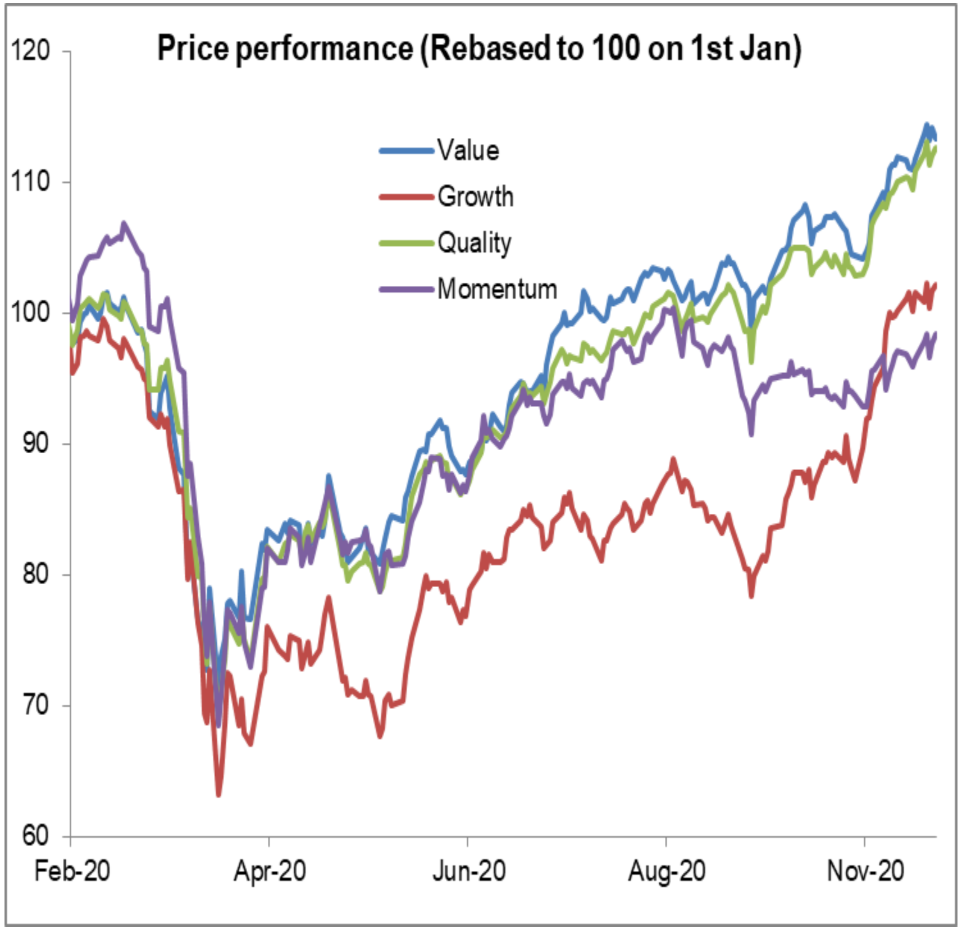
Market Indicator	27-11-2020	1wk ago	1m ago	3m ago	6m ago	1st Jan
Brent Crude ($/bbl)	48.2	45.0	37.5	45.1	35.3	66.0
Bond Yield (GOi 10Yr)	5.9	5.9	5.9	6.1	5.8	6.5
USD/INR	74.0	74.1	74.1	73.4	75.6	71.2
India Vix	19.8	19.6	24.8	18.3	30.2	11.6
Commodity Index	**1wk**	**1m**	**3m**	**6m**	**YTD**	**1 Year**
Gold ($/OZ)	-4.4%	-4.8%	-9.0%	3.3%	17.8%	22.1%
Steel ($/ton)	3.7%	9.7%	13.0%	32.9%	16.5%	24.2%
Aluminium ($/ton)	-0.5%	8.5%	12.1%	30.4%	9.7%	10.6%
Copper ($/ton)	3.1%	11.6%	11.8%	39.9%	21.8%	28.1%
Zinc ($/ton)	-1.0%	9.3%	9.1%	40.0%	20.4%	19.4%



Source: Bloomberg, Axis Securities

Recovery in growth theme is stronger than expected

Growth as an investment style is the best performer in last one month, outperformed all the other investment styles. On YTD Value outperformed all the investment styles with returns of 13% while growth has delivered only 2.2% and it is likely to catch-up going forward.

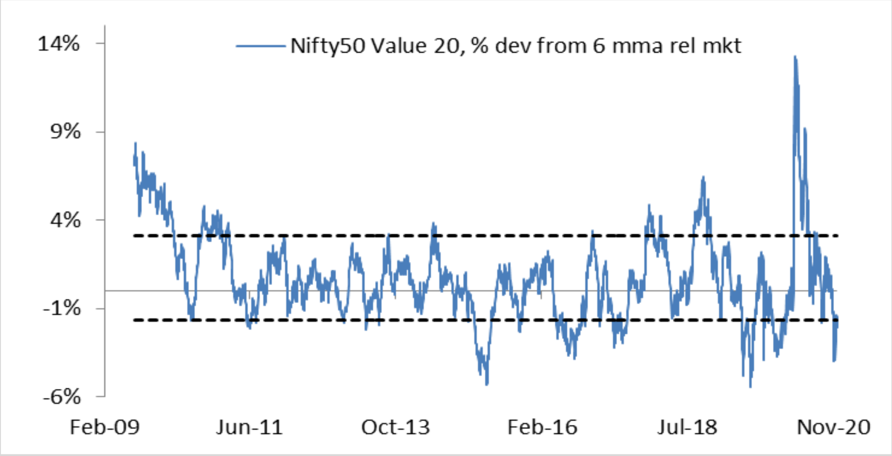


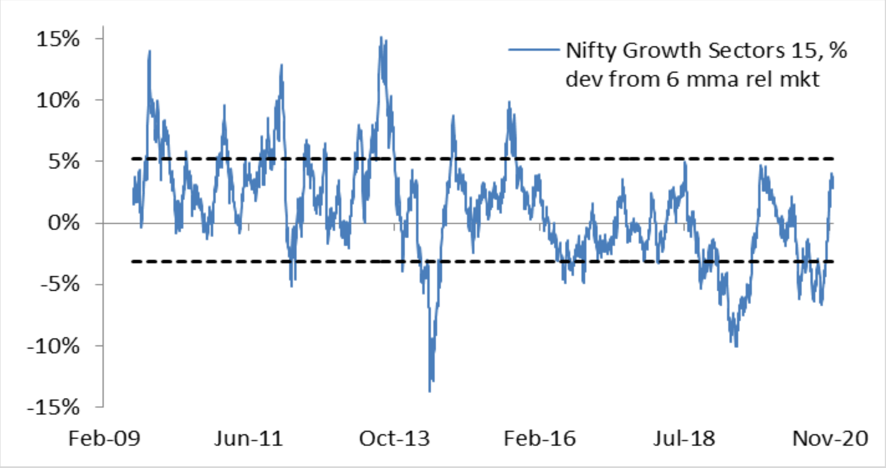
Performance (%)				
YTD perf	Value	Growth	Quality	Momentum
Till 23 Mar	-28.5%	-36.8%	-30.9%	-31.4%
Since 23 Mar	60.1%	61.7%	63.9%	43.4%
YTD	13.4%	2.2%	12.7%	-1.6%
1m	8.5%	17.1%	9.6%	4.9%
3m	12.2%	18.2%	14.2%	1.7%
6m	29.3%	35.8%	31.0%	16.8%

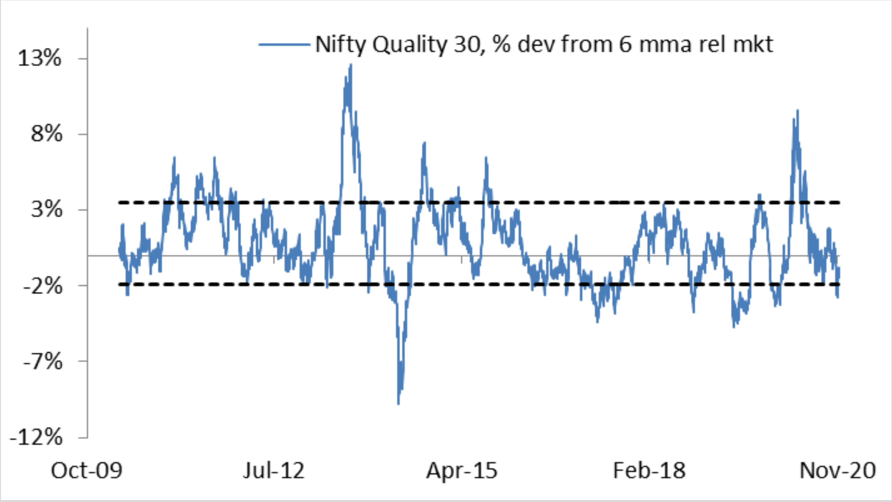
Source: Bloomberg, Axis Securities

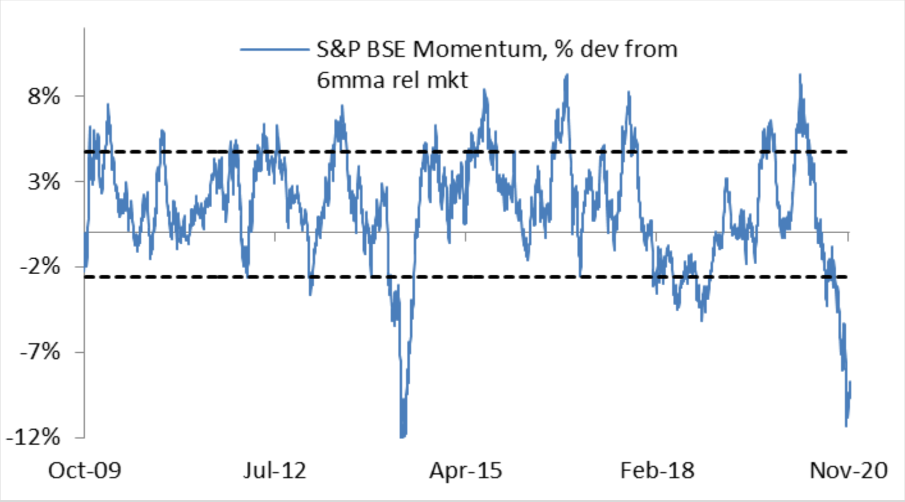
Style Monitor: Growth recovers strongly

Recovery in growth is stronger than expected, will continue to do well. Momentum had lost ground ahead of US election in October which has started outperforming in the month of November, will play a catch-up rally.







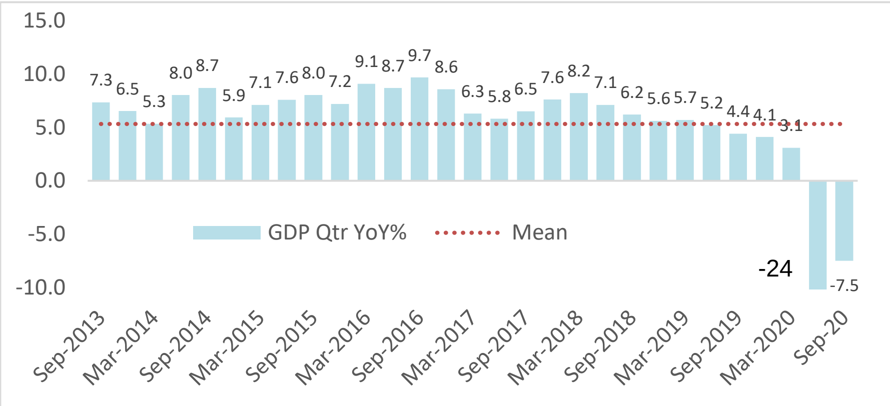


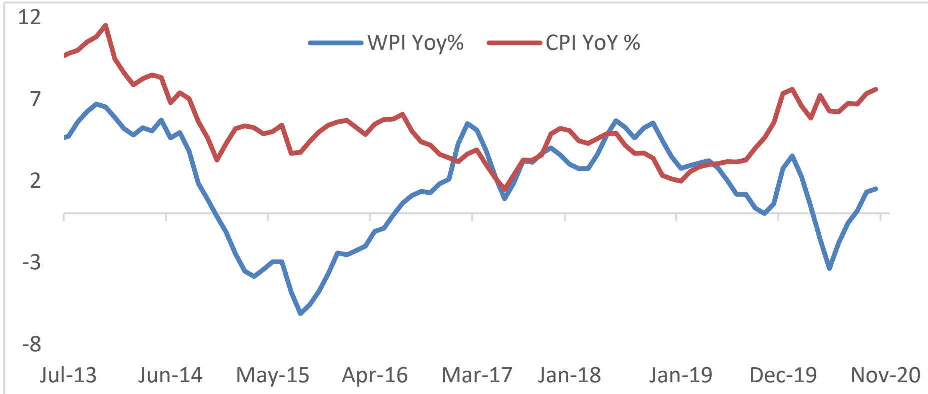
Source: Bloomberg, Axis Securities

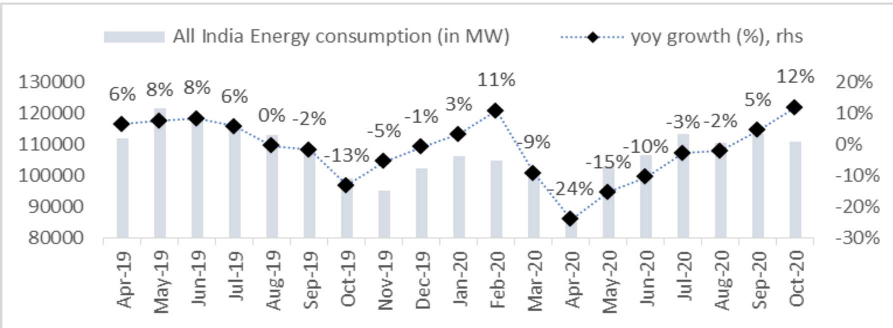
Macro Indicators – Sequential recovery, sustainability remains to be seen

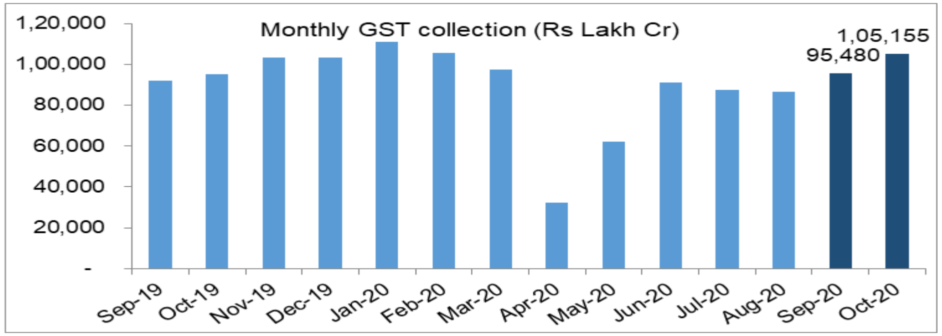
India's July-September GDP confirms the faster normalization of the activities in Q2 with stronger than expected pickup. Economic contraction continued in September quarter but less severe than June quarter, fall of 7.5% is better than expectation of the street. High frequency indicators like PMI, GST collection, E-way bill, and electricity consumption were already trending higher, suggesting the upward trend of economic growth showing strong recovery in economic activities.

September GDP print beats the market expectation with recovery in manufacturing drives improvement in Q2 with decent improvement seen in Services. Agriculture sector continues to stand out during the quarter on better kharif output. Growth outlook has improved with Q2 GDP print, now the market will look for the sustainability of the demand especially after the festive season and watchful will be the direction of high frequency indicators.









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. It's subsidiaries ICICI Venture Funds, ICICI Pru AMC, ICICI Securities, ICICI Prudential and ICICI Lombard are amongst the leading companies in their respective segments.

Industry view

Equal Weight

CMP
473

Target Price
504

Upside
6%

Key Rationale

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

Key Rationale

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

Key Financials (Standalone)

Y/E Mar (Rs Cr)	NII (Rs)	PPOP (Rs)	PAT (Rs)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY19	27,015	23,438	3,363	5.2	127.3	2.9	0.4	2.3
FY20	33,267	28,101	7,931	12.3	144.7	2.5	0.8	1.5
FY21E	38,165	35,374	14,544	21.1	173.6	2.0	1.3	1.8
FY22E	44,840	39,380	18,153	26.3	195.2	1.7	1.4	1.7

Source: Company, Axis Securities

Income Statement (Rs Cr)

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

Source: Company, Axis Research

Balance Sheet (Rs Cr)

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

Source: Company, Axis Research

Valuation ratios

(%)

Y/E March	FY19	FY20	FY21E	FY22E
EPS	5.2	12.3	21.1	26.3
Earnings growth (%)	-51%	135%	72%	25%
Adj. BVPS	127.3	144.7	173.6	195.2
ROAA (%)	0.36	0.77	1.26	1.42
ROAE (%)	3.2	7.1	11.1	11.9
Core P/ABV (x)	2.9	2.5	2.0	1.7
Dividend Yield (%)	0.3	0.0	0.5	0.7
PROFITABILITY				
Yield on Advances (%)	8.7	9.3	8.7	9.2
Yield on Investment (%)	6.2	6.4	6.2	6.2
Cost of Funds (%)	4.7	4.7	4.3	4.4
Cost of Deposits (%)	4.4	4.6	4.2	4.3
NIM (%)	4.1	4.6	4.4	4.7
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	2.3	2.4	2.1	2.2
Cost-Income Ratio (%)	43.6	43.5	37.8	38.7

Source: Company, Axis Research

Balance Sheet Structure Ratios

(%)

Y/E March	FY19	FY20	FY21E	FY22E
Loan Growth (%)	14.5	10.0	8.9	12.4
Deposit Growth (%)	16.4	18.1	12.5	12.1
C/D Ratio (%)	89.8	83.7	81.0	81.3
Equity/Assets (%)	11.2	10.6	12.0	12.0
Equity/Advances (%)	18.5	18.1	20.6	20.4
CASA (%)	16.9	16.1	17.6	17.5
Total Capital Adequacy Ratio	15.1	14.7	16.4	16.4
Tier I CAR	14.5	10.0	8.9	12.4
ASSET QUALITY				
Gross NPLs	45,676	40,829	48,166	51,148
Net NPLs	13,450	9,923	12,298	13,512
Gross NPLs (%)	7.8	6.3	6.9	6.5
Net NPLs (%)	2.3	1.5	1.8	1.7
Coverage Ratio (%)	70.6	75.7	74.5	73.6
Provision/Avg. Loans (%)	3.1	1.5	2.2	1.9
ROAA TREE				
Net Interest Income	2.9%	3.2%	3.3%	3.5%
Non Interest Income	1.6%	1.6%	1.6%	1.5%
Operating Cost	2.0%	2.1%	1.9%	1.9%
Provisions	2.1%	1.4%	1.4%	1.2%
Provisions for NPAs	0.0%	0.6%	0.4%	0.5%
Tax	0.36%	0.77%	1.26%	1.42%
ROAA	8.6	9.2	8.8	8.3
Leverage (x)	8.63	9.17	9.41	9.38
ROAE	3.15%	7.05%	11.14%	12.30%

Source: Company, Axis Research

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

Equal Weight

CMP
180

Target Price
207

Upside
15%

Key Rationale

- For MGFL, Gold loan is ~70% of AUM mix which is expected to move to ~80% by FY21 end. On expected lines, the non-gold book underperformed due to asset impairment and tepid loan growth amidst the Covid-19 pandemic. We expect high proportion of Gold AUM to support the overall asset quality performance as NPAs in this segment are negligible.
- Online gold loan now make up ~60% of the total gold book, which is a positive as collections/repayments would be insulated from the complete branch-shutdown to a large extent. OGL platform is expected to increase to ~70% by FY21.
- Opex to AUM improved to ~5% in Q2FY21 from ~7.2% in FY20.Managment expects further improvement on the opex/AUM front. From a liquidity perspective, the balance sheet position is comfortable. Cost of borrowings has come down to 9.3%.
- **Key risks:** Near term asset quality risk in MFI portfolio, Business slowdown in non-gold portfolio due to Covid-19

Key Rationale

- **High ROE business:** MGFL can sustain its performance in critical business environment due to its well matched ALM profile, strong liquidity, and cost controls. Low LTVs of 57%, provide comfortable margin of safety against gold price correction For Oct '20, Collection efficiency in MFI has improved to ~90%, though still lagging VF (106%) and HL (92%). Outstanding Covid provision on MFI stands at Rs 196cr (~4% of MFI book).
- **Valuation:** We believe that credit costs will remain high on asset quality concerns for the non gold business. We expect cost optimization to aid profitability. Balance sheet liquidity remains comfortable with no funding challenges. While cautious on the non gold business, we believe gold business will support overall performance in uncertain macro conditions. 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 target price of Rs 207 (2x FY22E ABV)

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	NII (Rs)	PPOP (Rs)	PAT (Rs)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
2019	2,693	1,474	930	11.0	52.2	3.3	5.0	0.7
2020	3,385	2,245	1,480	17.6	66.9	2.6	6.0	0.4
2021E	3,892	2,527	1,572	18.7	82.5	2.1	5.0	0.6
2022E	4,391	2,880	1,918	22.7	103.6	1.7	5.7	0.5

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Interest Earned	4,012	5,217	6,182	7,048
Interest Expended	1,319	1,832	2,290	2,657
Net Interest Income	2,693	3,385	3,892	4,391
Other Income	167	334	207	290
Total Income	2,860	3,719	4,099	4,681
Total Operating Exp	1,386	1,474	1,573	1,802
Employee Expense	720	830	897	1,058
Other Operating Expense	666	644	676	744
PPOP	1,474	2,245	2,527	2,880
Provisions & Contingencies	46	238	430	323
PBT	1,427	2,007	2,096	2,557
Provision for Tax	498	527	524	639
PAT	930	1,480	1,572	1,918

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Sources of Funds				
Share Capital	169	169	169	169
Reserves	4,356	5,577	6,979	8,747
Shareholder's Funds	4,525	5,746	7,148	8,916
Borrowings	15,297	21,817	24,435	27,367
Other Liabilities & Provisions	586	1,330	1,263	1,200
Total Liabilities	20,454	28,951	32,846	37,483
Application of Funds				
Cash & Bank Balance	1,164	3,646	4,058	4,476
Investments	174	90	90	90
Advances	17,812	23,189	26,204	30,134
Fixed Assets	367	387	445	512
Other Assets	937	1,639	2,050	2,271
Total Assets	20,454	28,951	32,846	37,483

Source: Company, Axis Research

Valuation ratios (%)

Y/E March	FY19	FY20E	FY21E	FY22E
EPS	11.0	17.6	18.7	22.7
Earnings growth (%)	37.5	59.6	6.2	22.0
BVPS	53.7	68.0	84.8	105.8
Adj. BVPS	52.2	66.9	82.5	103.6
ROAA (%)	5.00	6.00	5.00	5.70
ROAE (%)	22.3	28.8	24.0	24.8
P/E (x)	15.8	9.9	9.3	7.6
P/ABV (x)	3.3	2.6	2.1	1.7
PROFITABILITY				
Yield on Advances (%)	24.3	25.4	24.7	24.6
Cost of Funds (%)	9.5	9.9	9.8	9.9
NIM (%)	16.3	16.5	15.5	15.4
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	48.5	39.6	38.4	38.5
Cost-Income Ratio (%)	8.4	7.2	6.3	6.2

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E March	FY19	FY20E	FY21E	FY22E
Loan Growth (%)	16.8	30.2	13.0	15.0
Total Capital Adequacy Ratio	23.7	23.4	24.6	26.6
Tier I CAR	23.3	22.9	23.1	25.5
ASSET QUALITY				
Gross NPLs (%)	1.2	0.9	2.6	1.3
Net NPLs (%)	0.7	0.4	0.6	0.5
Coverage Ratio (%)	40.8	50.5	75.4	60.5
Credit Cost (%)	0.3	0.8	1.9	0.8

Source: Company, Axis Research

CAN FIN HOMES – STEADY PLAYER

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

Industry view

Overweight

CMP
482

Target Price
515

Upside
7%

Key Rationale

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

Key Rationale

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

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 (%)
2019	530	471	297	22.3	127.7	3.6	1.7	0.5
2020	675	579	376	28.3	153.1	3.0	1.9	0.5
2021E	784	675	441	33.1	184.8	2.5	2.0	0.8
2022E	862	738	517	38.8	223.7	2.1	2.2	0.6

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

Profit & Loss (Rs Cr)

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

Source: Company, Axis Research

Balance Sheet (Rs Cr)

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

Source: Company, Axis Research

KEY RATIOS (Rs Cr)

Y/E MAR	FY19	FY20	FY21E	FY22E
VALUATION RATIOS				
EPS	22.3	28.3	33.1	38.8
Earnings Growth (%)	79.9	26.8	17.2	17.2
BVPS	134	161.7	194.8	231.7
Adj. BVPS	127.7	153.1	184.8	223.7
ROAA (%)	1.7	1.9	2	2.2
ROAE (%)	18.2	19.1	18.5	19.2
P/E (x)	21.6	17.0	14.5	12.4
P/ABV (x)	3.6	3.0	2.5	2.1
PROFITABILITY				
Yield on Advances	10	10.4	10.1	10.2
Cost of Borrowings	7.6	7.6	7.3	7.5
NIM (%)	3.1	3.5	3.8	3.5
Cost-Income Ratio	16.3	15.7	14.7	15.4

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

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

Source: Company, Axis Research

FEDERAL BANK – OPERATIONAL IMPROVEMENT ON TRACK

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

Industry view

Overweight

CMP
63

Target Price
70

Upside
11%

Key Rationale

- Improving liability franchise: As FB entrenches its presence pan – India, it is amongst the few mid-tier banks which has improved its deposit base. In Q2FY21, deposits growth was strong at 12% YoY, led by CASA up ~20/6% YoY/QoQ. Good traction was seen in both SA/CA up 19/25% YoY and 5/6% QoQ. CASA ratio stands at ~34% within which retail deposits constitute ~90% of the overall deposits. 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 which is ~30% of which ~50% is mortgage. SME share has come down to <20%. While loan growth in Q2FY21 was tepid at 6% YoY, it was led by Retail up 16% w/w PL/Gold loans grew 46/54% YoY. Corporate book de-grew -1.5% YoY due to repayments, but bank has added 25 NTB in Q2. Gold loan is a key segment where bank intends to grow.
- Asset quality manageable: Restructuring pool is expected to be ~2.5%-3.0% of the loans for which provisioning has been done. Total Covid provisions is ~ Rs 5.9bn (~50bps of loans) over the last 3 quarters. With collection efficiency at ~95% and demand back at 75%-80% of the pre-COVID levels, bank targets a 8-10% growth in FY21.

Key Rationale

- Outlook: We believe that key positives are increasing retail focus, strong fee income, adequate capitalisation (Tier-1 at 13.3%), and prudent provisioning. FB has been consistently improving across parameters – efficiency, deposits, fee income etc. It has professionalized its senior management in recent years and done well on corporate and retail loans (especially gold).
- Valuation: Given strong underwriting standards, changing loan mix and strong retail deposit franchise, we expect valuation to improve from current levels. FB has been taking a 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. While Q3FY21 could witness hiccups in asset quality, we expect higher provisioning should hold fort. We have built in further provisioning for FY21. We recommend Buy with target price of Rs 70 (0.8x FY22E 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	0.9	0.9	1.3
2021E	5,207	3,573	1,198	6.0	73.9	0.8	0.6	1.3
2022E	5,936	3,772	1,619	8.1	81.2	0.7	0.8	1.2
2023E	6,826	4,329	2,178	10.9	87.3	0.6	1.0	1.1

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E MAR	FY20	FY21E	FY22E	FY23E
Net Interest Income	4,649	5,207	5,936	6,826
Other Income	1,931	1,738	1,478	1,551
Total Income	6,580	6,945	7,413	8,377
Total Operating Exp	3,376	3,373	3,641	4,049
PPOP	3,205	3,573	3,772	4,329
Provisions & Contingencies	1,172	1,954	1,584	1,385
PBT	2,033	1,618	2,188	2,943
Provision for Tax	490	421	569	765
PAT	1,543	1,198	1,619	2,178

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	15,715	17,184	19,192
Shareholder's Funds	14,916	16,114	17,583	19,591
Total Deposits	1,52,290	1,69,194	1,90,682	2,16,424
Borrowings	10,372	10,687	12,756	14,478
Other Liabilities & Provisions	3,458	3,631	3,885	3,885
Total Liabilities	1,81,037	1,99,626	2,24,906	2,54,378
APPLICATION OF FUNDS				
Cash & Bank Balance	12,575	15,359	23,011	26,801
Investments	35,893	39,482	41,430	44,430
Advances	1,22,268	1,29,849	1,44,781	1,64,327
Fixed Assets & Other Assets	10,301	14,937	15,684	18,820
Total Assets	1,81,037	1,99,626	2,24,906	2,54,378

Source: Company, Axis Research

Key Ratios (Rs Cr)

Y/E MAR	FY20	FY21E	FY22E	FY23E
VALUATION RATIOS				
EPS	7.8	6.0	8.1	10.9
Earnings Growth (%)	23.8	-22.9	35.2	34.5
BVPS	1.0	0.0	1.0	1.0
Adj. BVPS	72.8	80.9	87.2	97.3
RoAA (%)	64.9	73.9	81.2	87.3
ROAE (%)	0.9	0.6	0.8	1.0
P/E (x)	10.8	7.8	9.6	12.1
P/ABV (x)	8.1	10.5	7.8	5.8
P/PPOP (x)	0.9	0.8	0.7	0.6
Dividend Yield (%)	1.6	0.0	1.6	1.6
PROFITABILITY				
NIM (%)	2.9	3.1	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	6.2	11.5	13.5
Deposit Growth (%)	12.8	11.1	12.7	13.5
C/D Ratio (%)	80.3	76.7	75.9	75.9
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	1.1
Coverage Ratio (%)	53.2	63.2	65.3	64.7
Net Interest Income	2.8	2.7	2.6	2.7
Non Interest Income	0.9	1.1	1.0	1.0
Operating Cost	1.9	2.0	1.9	1.9
Provisions	0.6	0.7	0.8	0.8
Tax	0.4	0.3	0.2	0.2
ROAA	0.8	0.9	0.7	0.7
Leverage (x)	11.7	12.2	12.5	12.8
ROAE	9.8	11.1	8.3	9.2

Source: Company, Axis Research

NOCIL – Steadily Improving Outlook

NOCIL Ltd, part of Arvind Mafatlal Group of Industries, is the largest Rubber Chemicals (RC) manufacturer in India. It is a leader in domestic rubber chemicals market with ~40% share and ~5% global market share. It manufactures accelerators, antioxidants, pre-vulcanizing inhibitors and post vulcanising stabilizers. While accelerators and antioxidants each account for ~45% of revenues, other specialized products collectively account for ~10% of revenue.

Industry view

Overweight

CMP
141

Target Price
176

Upside
25%

Key Rationale

- **One-stop-shop for tyre majors:** NOCIL is amongst the most diversified rubber chemicals company in the world with about 22 products. This offers its customers to partner with a dependable player offering a one-stop-shop especially in troubled times like COVID.
- **Encouraging long term prospects:** With rising preference and growing enquiries by tyre manufacturers to look for non-Chinese dependable suppliers, NOCIL is sweetly positioned as it could unlock significant growth opportunities for the company over the medium to long term. A testimony to this is an upgrade in NOCIL's status of being a global manufacturer from a regional one.
- **Anti Dumping Duty (ADD) levy to aid margin:** DGTR approved levy of ADD on imports one one of the anti-oxidant manufactured by NOCIL. Anti-oxidants contribute to ~45% of Revenue. Owing to the levy, we expect NOCILs EBITDA Margin by at least 100bps. We thus expect NOCILs earnings to improve going forward.

Key Rationale

- **Outlook**: We note there has been a significant improvement in the overall business from H2FY21 (aided by unlock driven improving demand in replacement tyres and OEMs) with a sharp rebound in volumes to be reported in FY22 on the back of new capacity commercialization, economic growth bouncing back to normalcy and a low base. Further, a positive outcome on ADD levy and a structural opportunity to play as a dependable non-Chinese player augurs well for NOCILs long term prospects.
- **Valuation**: We expect NOCIL to register Revenue/Earnings CAGR of 22%/23% respectively over FY20-23E. This growth will be driven by 1) utilization ramp up at Dahej; 2) relatively high entry barriers and long customer approval cycles, 3) debt free status maintained even in challenging times and 4) ADD levy supporting margins over medium term. At CMP, stock trades at an attractive 9.6x FY23E EPS leaving enough room for an upside.
- **Key risks:** slower than expected demand recovery, concerns over lockdown following second wave of COVID.

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	Net Sales	EBIDTA	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
FY20	846	178	131	7.9	17.9	13.1	2.0	8.8%
FY21E	848	162	98	5.9	23.8	14.4	1.8	7.7%
FY22E	1,114	255	166	10.0	14.1	9.0	1.7	11.9%
FY23E	1,520	357	243	14.7	9.6	6.4	1.5	15.3%

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Total Net Sales	**846**	**848**	**1,114**	**1,520**
Total Raw material Consumption	388	407	513	696
Staff costs	77	72	84	114
Other Expenditure	203	207	263	353
Total Expenditure	668	686	859	1,163
EBITDA	**178**	**162**	**255**	**357**
EBITDA Margin %	**21.1%**	**19.1%**	**22.9%**	**23.5%**
Depreciation	33.7	40.6	46.1	49.6
EBIT	144	121	209	308
EBIT Margin %	17.1%	14.3%	18.8%	20.2%
Interest	1	1	1	1
Other Income	9	10	13	18
PBT	152	131	222	325
Tax	22	33	56	82
APAT	**131**	**98**	**166**	**243**

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	1,099	1,232	1,427
Net Worth	1,185	1,265	1,398	1,593
Total Loan funds	7	7	7	7
Deferred Tax Liability	93	93	93	93
Long Term Provisions	17	13	16	22
Capital Employed	**1,302**	**1,377**	**1,514**	**1,715**
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	39	51	69
Sundry Debtors	203	218	281	375
Cash & Bank Bal	9	2	41	46
Inventory	136	162	201	273
Other Current Assets	41	42	56	76
Total Current Assets	**426**	**460**	**614**	**806**
Current Liabilities & Provisions	141	149	186	249
Net Current Assets	285	311	428	557
Total Assets	**1,302**	**1,377**	**1,514**	**1,715**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
PBT	152	131	222	325
Depreciation & Amortization	35	41	46	50
Chg in Working cap	52	-37	-85	-135
Direct tax paid	-51	-33	-56	-82
Cash flow from operations	**181**	**102**	**127**	**158**
Chg in Gross Block	-418	-90	-54	-103
Chg in Investments	0	0	0	0
Proceeds on redemption of Fin. Assets	307	0	0	0
Cash flow from investing	**-106**	**-90**	**-54**	**-103**
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	-20	-33	-49
Cash flow from financing	**-101**	**-20**	**-34**	**-49**
Chg in cash	**-27**	**-8**	**39**	**6**
Cash at start	37	9	2	41
Cash at end	11	2	41	46

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21E	FY22E	FY23E
Growth (%)				
Net Sales	-18.9%	0.2%	31.4%	36.4%
EBITDA	-39.1%	-9.1%	57.6%	40.0%
APAT	-29.3%	-25.1%	69.5%	46.6%
Per Share Data (Rs.)				
Adj. EPS	7.9	5.9	10.0	14.7
BVPS	71.6	76.4	84.4	96.2
DPS	2.5	1.2	2.0	2.9
Profitability (%)				
EBITDA Margin	21.1%	19.1%	22.9%	23.5%
Adj. PAT Margin	12.3%	11.5%	14.9%	16.0%
ROCE	11.1%	8.8%	13.8%	17.9%
ROE	8.8%	7.7%	11.9%	15.3%
ROIC	11.5%	9.1%	14.7%	19.2%
Valuations (X)				
PER	17.9	23.8	14.1	9.6
P/BV	2.0	1.8	1.7	1.5
EV / EBITDA	13.1	14.4	9.0	6.4
EV / Net Sales	2.8	2.8	2.1	1.5
Turnover Days				
Asset Turnover	0.9	0.8	0.9	1.1
Inventory days	144.5	133.7	129.1	124.1
Debtors days	93.9	90.7	81.8	78.7
Creditors days	88.4	84.2	78.9	76.4
Working Capital Days	150.0	140.2	131.9	126.5
Gearing Ratio				
Total Debt:Equity (x)	0.0	0.0	0.0	0.0

Source: Company, Axis Research

Varun Beverages – Gearing Up For Growth

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

Industry view

Overweight

CMP
871

Target Price
1,005

Upside
15%

Key Rationale

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

Key Rationale

- **Outlook**: With business growth restoring aided by unlock as witnessed in Q3CY20, we do expect this momentum to continue. Trend of in-home consumption has seen an increase and is likely to continue as consumers get habituated to consuming soft drinks at home. Further, OOH also resuming normalcy, there could be growth seen here too. Rural regions are likely to grow ahead of urban counterparts on the back of healthy outlook for Rabi crop. Share gain opportunities from smaller players is expected to boost its market share especially in acquired territories of South and West where company will look to add dealers ahead of the season in CY21.
- **Valuation**. We expect VBL to register Revenues/Earnings CAGR of 11%/31% resp. over CY19-22E. This growth will be driven by 1) consolidation in newly acquired territories, 2) distribution led market share gains, 3) margin tailwinds from cost efficiencies. Given the healthy outlook for the upcoming season and tie-ups with leading and fast growing QSR players in India could propel VBLs growth into a new orbit. We value VBL at a premium of 16x its CY22 EV/EBITDA to arrive at our upgraded TP.

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	6,435	1,306	383	13.3	65.6	21.0	6.8	10.9
CY21E	8,799	1,865	840	29.1	29.9	14.3	5.7	20.7
CY22E	9,613	2,096	1,061	36.7	23.7	12.2	4.7	21.7

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

Profit & Loss (Rs Cr)

Y/E DEC	CY19	CY20E	CY21E	CY22E
Total Net Sales	**7,130**	**6,435**	**8,799**	**9,613**
Total Raw material Consumption	3,219	2,786	3,827	4,124
Staff costs	811	811	1,038	1134
Other Expenditure	1,652	1,532	2,068	2,259
Total Expenditure	5,682	5,129	6,933	7,518
EBITDA	**1,448**	**1,306**	**1,865**	**2,096**
Depreciation	489	546	574	603
EBIT	959	760	1,291	1,493
Interest	310	277	216	146
Other Income	43	45	44	67
PBT	696	532	1,123	1,418
Tax	224	149	283	357
APAT	**472**	**383**	**840**	**1,061**

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	3,373	4,096	5,029
Net Worth	3,359	3,693	4,415	5,349
Total Loan funds	2,823	2,523	2,123	1623
Deferred Tax Liability	283	283	283	283
Long Term Provisions	170	147	203	218
Capital Employed	**6,635**	**6,646**	**7,023**	**7,473**
Net Block	5,893	5,837	5,742	5,619
Investments	45	41	56	61
Sundry Debtors	173	176	241	263
Cash & Bank Bal	171	234	545	1273
Inventory	882	534	965	847
Other Current Assets	440	397	543	593
Total Current Assets	**1,672**	**1,348**	**2,301**	**2,983**
Current Liabilities & Provisions	1,753	1,452	1,983	2,134
Net Current Assets	(81)	(103)	318	849
Total Assets	**6,635**	**6,646**	**7,023**	**7,473**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	CY19	CY20E	CY21E	CY22E
PBT	696	532	1,123	1418
Depreciation & Amortization	489	546	574	603
Provision for Taxes	295	277	216	146
Chg in Deferred tax	35	-	-	-
Chg in Working cap	(85)	66	(70)	207
Direct tax paid	(120)	(149)	(283)	-357
Cash flow from operations	**1,310**	**1,273**	**1,561**	**2017**
Chg in Gross Block	(754)	(583)	(515)	-516
Chg in Investments	(1,625)	-	-	-
Chg in WIP	68	-	-	-
Cash flow from investing	**(2,311)**	**(583)**	**(515)**	**-516**
Proceeds / (Repayment) of Short Term Borrowings (Net)	560	-	-	-
Repayment of Long Term Borrowings	46	-	-	-
Loans Repayment	-	(300)	(400)	-500
Finance Cost paid	(301)	(277)	(216)	-146
Dividends paid	(69)	(50)	(118)	-127
Dividend Distribution Tax paid	(9)	-	-	-
Cash flow from financing	**1,110**	**(627)**	**(734)**	**(773)**
Chg in cash	**100**	**63**	**312**	**727**
Cash at start	42	171	234	545
Cash at end	142	234	545	1273

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY19	CY20E	CY21E	CY22E
Growth (%)				
Net Sales	39.7%	-9.7%	36.7%	9.3%
EBITDA	43.8%	-9.8%	42.8%	12.4%
APAT	57.5%	-18.8%	119.2%	26.3%
Per Share Data (Rs.)				
Adj. EPS	16.8	13.3	29.1	36.7
BVPS	116.4	127.9	152.9	185.3
Profitability (%)				
EBITDA Margin	20.3%	20.3%	21.2%	21.8%
Adj. PAT Margin	6.6%	6.0%	9.5%	11.0%
ROCE	17.0%	11.5%	18.9%	20.6%
ROE	17.6%	10.9%	20.7%	21.7%
Valuations (X)				
PER	42.1	65.6	29.9	23.7
P/BV	6.1	6.8	5.7	4.7
EV / EBITDA	15.9	21.0	14.3	12.2
EV / Net Sales	3.2	4.3	3.0	2.7
Turnover Days				
Asset Turnover	1.0	0.8	1.0	1.0
Inventory days	82.8	92.7	71.5	80.2
Debtors days	7.7	9.9	8.7	9.6
Creditors days	45.0	53.8	38.9	43.4
Working Capital Days	45.4	48.8	41.3	46.4
Gearing Ratio				
Debt: Equity (x)	0.8	0.7	0.5	0.3
Net Debt to Equity	0.8	0.6	0.4	0.1

Source: Company, Axis Research

CCL PRODUCTS – HEALTHY DEMAND OUTLOOK AMID UNCERTAINTY

CCL Products (CCLP) is the largest private label manufacturer & exporter of Instant coffee in India with a total manufacturing capacity of 35k tonnes at its plants in India & Vietnam. CCLP's 25 years' experience in the industry and expertise in customized coffee blends has led it to become one of the largest private labels manufactures in the world with +5% market share. It has over 250 proprietary blends in its portfolio with clients spread across 90 countries.

Industry view

Overweight

CMP
266

Target Price
325

Upside
22%

Key Rationale

- CCLP's EBITDA Margins at 25% in FY20 were the highest over the last 5 years led by improved product mix (rising share of freeze-dried coffee (FDC)). We expect margin expansion to sustain driven by 1) ramp up in FDC unit utilization (~50% in FY20), 2) rise in share of small packs.
- CCLP's capex plans includes 1) 3,500 tonnes capacity addition in Vietnam by Q4FY21E, 2) set up of agglomeration & small size packing unit by Q1FY22E that augurs well for its long-term growth outlook driven by higher volumes and improved realizations.
- With in-home consumption of instant coffee rising across the globe due to lockdown caused by the pandemic, CCLP is tracking a healthy order book especially from USA and EU (~45% of revenue). This is backed by client addition in US and surge in demand from supermarkets in EU.
- CCLP's branded coffee business in India has shown healthy traction with 40% YoY growth in revenue during FY20.Management targets to achieve Rs 100 crs revenues in FY21E from the branded business driven by increase in direct reach coverage.

Key Rationale

- Outlook: We believe CCLP is well placed to deliver steady earnings over medium term given 1) expertise in customized blends & cost efficient business model, 2) long standing client relationships (~50% revenue contribution from brand owners) 3) largest exporter of instant coffee in India 4) presence in Vietnam- world's largest Robusta growing country 5) capacity additions in value added products (FDC & small packs) and 6) steadily improving branded retail business.
- Valuation: We expect CCLP to post Sales/EBITDA/PAT CAGR of 13%/14%/20% over FY20-FY22E driven by 1) superior product mix (ramp up of FDC unit/ higher share of small packs), 2) on track capacity expansion plans 3) increase in In home consumption of Instant Coffee. Our estimates are also supported by healthy management outlook (guided positive volume growth in FY21E) despite economic uncertainty.
- Key risks: a) Lack of clarity on MEIS benefits and the replacement of the same by an alternative scheme post Dec'20 by the Govt. pose a risk to our estimates. b) Surge in COVID-19 cases in CCLP's key markets impacting dispatches; c) abrupt weather changes impacting green coffee yield; d) uncertainty on lockdown relaxation guidelines in India.

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 (%)
FY19	1,081	245	155	11.6	24.5	16.6	4.5	19.6
FY20	1,139	286	166	12.5	14.4	9.6	2.6	18.8
FY21E	1,235	309	188	14.1	18.7	12.0	3.3	18.8
FY22E	1,464	375	240	18.0	14.6	9.8	2.8	20.7

Source: Company, Axis Securities

Income Statement (Consolidated) (Rs Cr)

Income statement	FY19	FY20	FY21E	FY22E
Total Net Sales	1,081	1,139	1,235	1,464
% Change	-4.9%	5.3%	8.4%	18.5%
Total Raw material Consumption	597	559	610	716
Staff costs	59	70	77	91
Other Expenditure	180	224	240	283
Total Expenditure	836	853	926	1,089
EBITDA	245	286	309	375
% Change	2.9%	16.5%	8.0%	21.4%
EBITDA Margin %	22.7%	25.1%	25.0%	25.6%
Depreciation	31.7	47.1	57.4	61.1
EBIT	214	239	251	314
% Change	4.5%	11.8%	5.3%	24.8%
EBIT Margin %	19.8%	21.0%	20.4%	21.4%
Interest	8	18	14	12
Other Income	3	4	4	6
(as % of PBT)	2%	2%	2%	2%
PBT	209	225	241	308
Tax	54	59	53	68
Tax Rate %	25.8%	26.4%	22.0%	22.0%
APAT	155	166	188	240
% Change	4.8%	7.2%	13.2%	27.7%

Source: Company, Axis Research

Balance Sheet (Consolidated) (Rs Cr)

Balance Sheet	FY19	FY20	FY21E	FY22E
Share Capital	**27**	**27**	**27**	**27**
Reserves & Surplus	812	902	1,043	1,223
Net Worth	839	928	1,069	1,249
Total Loan funds	376	392	316	240
Deferred Tax Liability	43	46	46	46
Long Term Provisions	0	0	0	0
Other Long Term Liability	0	9	6	7
Capital Employed	**1,258**	**1,376**	**1,438**	**1,543**
Gross Block	483	883	983	1,073
Less: Depreciation	100	159	217	278
Net Block	383	724	766	795
Investments	5	7	5	6
Sundry Debtors	235	268	271	321
Cash & Bank Bal	97	39	113	72
Loans & Advances	0	0	0	0
Inventory	202	260	234	284
Other Current Assets	37	69	75	88
Total Current Assets	**571**	**636**	**693**	**766**
Curr Liab &Prov	164	134	158	156
Net Current Assets	407	503	534	610
Total Assets	**1,258**	**1,376**	**1,438**	**1,543**

Source: Company, Axis Research

Cash Flow (Consolidated) (Rs Cr)

Cash Flow	FY19	FY20	FY21E	FY22E
PBT	209	225	241	308
Depreciation & Amortization	32	47	57	61
Provision for Taxes	0	0	14	12
Chg in Deferred tax	15	19	0	0
Chg in Working cap	-36	-147	42	-116
Diret tax paid	-57	-53	-53	-68
Cash flow from operations	**162**	**91**	**302**	**197**
Chg in Gross Block	-241	-64	-90	-90
Chg in Investments	0	0	0	0
Chg in WIP	9	-12	0	0
Cash flow from investing	**-233**	**-76**	**-90**	**-90**
Proceeds / (Repayment) of Short Term Borrowings (Net)	57	93	0	0
Repayment of Long Term Borrowings	49	-41	0	0
Loans	0	0	-76	-76
Finance Cost paid	0	0	-14	-12
Dividends paid	-33	-90	-47	-60
Dividend Distribution Tax paid	-7	0	0	0
Cash flow from financing	**66**	**-37**	**-137**	**-148**
Chg in cash	**53**	**-35**	**75**	**-41**

Source: Company, Axis Research

Ratios Analysis (Consolidated) (%)

Key Ratios	FY19	FY20	FY21E	FY22E
Growth (%)				
Net Sales	-4.9%	5.3%	8.4%	18.5%
EBITDA	2.9%	16.5%	8.0%	21.4%
APAT	4.8%	7.2%	13.2%	27.7%
Per Share Data (Rs.)				
Adj. EPS	11.6	12.5	14.1	18.0
BVPS	63.1	69.8	80.4	93.9
Profitability (%)				
EBITDA Margin	22.7%	25.1%	25.0%	25.6%
Adj. PAT Margin	14.3%	14.6%	15.2%	16.4%
ROCE	17.0%	17.4%	17.5%	20.3%
ROE	19.6%	18.8%	18.8%	20.7%
ROIC	18.5%	18.0%	19.0%	21.4%
Valuations (X)				
PER	24.5	14.4	18.7	14.6
P/BV	4.5	2.6	3.3	2.8
EV / EBITDA	16.6	9.6	12.0	9.8
EV / Net Sales	3.8	2.4	3.0	2.5
Turnover Days				
Asset Turnover	0.8	0.8	0.8	0.9
Inventory days	117.6	150.8	147.9	132.2
Debtors days	70.4	80.6	79.6	73.7
Creditors days	20.6	26.7	21.9	24.9
Working Capital Days	167.5	204.8	205.6	181.1
Gearing Ratio				
Total Debt to Equity	0.3	0.4	0.2	0.1

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
1157

Target Price
1190

Upside
3%

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 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 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 VW group (which is on growth path) now accounts top slot followed by Fiat Chrysler for revenues. 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; company has won orders worth Euro 110 mn over 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

- Endurance has completed capex of around Rs 1,000 cr over last three years for new product development, backward integration and new plant in Vallam, TN. The new plant is expected to commence operations in H2FY21 and cater to the requirements of Hyundai, Kia and Royal Enfield. ABS production would start in Q4FY21, the backward integration for Al-casting would also help the company control costs and shore up its margins as it would help reduce the import content.
- **Valuation:** We expect Endurance Technologies to outperform the industry given its sticky relations with OEMs, broad product basket, market leadership with market share of around 35% in suspensions, 25% in hydraulic braking system, 20% in disc braking system and 16% in transmission. New products along with tailwinds for 2W sector to support Endurance Technologies. We estimate Endurance to post consolidated Revenue/EBIDTA/PAT to grow at CAGR of 10%/14%/14% respectively over FY20-23; we recommend a BUY with price target of Rs 1190/-

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	6495	394	28.0	(30.3)	41.2	12.3	15.3	17.2	0.1
FY22E	8262	627	44.6	59.0	25.9	17.7	22.8	11.3	0.1
FY23E	9282	838	59.6	33.7	19.4	20.6	27.4	8.8	0.1

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**6,918**	**6,495**	**8,262**	**9,282**
Other operating income	0	0	0	0
Total income	6,918	6,495	8,262	9,282
Cost of goods sold	4,413	4,210	5,298	5,866
Contribution (%)	*36.2%*	*35.2%*	*35.9%*	*36.8%*
Advt/Sales/Distrn O/H	1,374.4	1,358.7	1,591.0	1,744.0
Operating Profit	**1,131**	**927**	**1,373**	**1,673**
Other income	48	38	34	49
PBIDT	**1,178**	**965**	**1,408**	**1,721**
Depreciation	414	424	549	585
Interest & Fin Chg.	18	20	21	16
E/o income / (Expense)	0.0	0.0	0.0	0.0
Pre-tax profit	**747**	**520**	**838**	**1,120**
Tax provision	181	126	211	282
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	**566**	**394**	**627**	**838**
Reported PAT	**566**	**394**	**627**	**838**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	**3,620**	**3,761**	**4,074**	**4,505**
Gross block	4,058.0	4,558.0	4,958.0	5,308.0
Net Block	2,443.9	2,519.4	2,370.6	2,135.1
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	42	81	153
Cash / Bank balance	620.9	639.7	1,017.2	1,651.7
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	**3,620**	**3,761**	**4,074**	**4,505**
Equity capital	140.7	140.7	140.7	140.7
Reserves	2,865	3,090	3,505	4,088
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**	**566**	**861**	**1,017**
Cash profit	997	839	1,196	1,439
(-) Dividends	187	170	212	254
Retained earnings	811	669	984	1,185
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	-23	-23	-18
Applications	**879**	**566**	**861**	**1,017**
Capital expenditure	739.5	449.0	445.0	310.0
Investments	129.9	0.0	0.0	0.0
Net current assets	(77.0)	98.2	38.8	72.4
Change in cash	86.5	18.7	377.5	634.5

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21E	FY22E	FY23E
Sales growth	**(7.9)**	**(6.1)**	**27.2**	**12.3**
OPM	**16.3**	**14.3**	**16.6**	**18.0**
Oper. profit growth	0.2	(18.0)	48.2	21.8
COGS / Net sales	63.8	64.8	64.1	63.2
Overheads/Net sales	19.9	20.9	19.3	18.8
Depreciation / G. block	10.2	9.3	11.1	11.0
Effective interest rate	3.2	4.0	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	1.7
RoCE	**23.7**	**15.3**	**22.8**	**27.4**
Debt / equity (x)	0.18	0.14	0.10	0.05
Effective tax rate	24.2	24.2	25.2	25.2
RoE	**19.6**	**12.3**	**17.7**	**20.6**
Payout ratio (Div/NP)	33.0	43.0	33.8	30.4
EPS (Rs.)	**40.2**	**28.0**	**44.6**	**59.6**
EPS Growth	14.2	(30.3)	59.0	33.7
CEPS (Rs.)	69.7	58.2	83.6	101.2
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 has 4 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 technology tie-up with Sumitomo Metals, Japan, and Kalink, Korea who along with Tata Steel are also strategic investors.

Industry view

Over weight

CMP
496

Target Price
590

Upside
19%

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 Auto sector post IL&FS crisis in 2018. The company has 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 US, 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

- 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 couple of years. Company has visibility of orders to supply Al-alloy wheels over next 5 years; company is also expanding Al-alloy wheel capacity to 2.4 mn wheels which would be ready by end FY21. Being a high margin product (margin differential of around 500-600 bps over Steel wheels), the bottom line is expected to grow at faster pace as the share of Al-alloy wheel rises in overall sales.
- Being in an oligopoly market, SSWL commands leadership with 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 penciled in Revenue/EBIDTA/PAT CAGR of 19%/27%/ 91% 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 auto recovery 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	23.5	3.4	8.9	5.7	1.4
FY21E	1420	3	1.8	280.0	0.4	7.6	7.0	1.4
FY22E	2258	107	68.7	7.2	14.3	16.7	3.6	1.0
FY23E	2,628	166	106.33	4.7	18.8	22.3	2.3	0.6

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**1,563**	**1,420**	**2,258**	**2,628**
Other operating income	0	0	0	0
Total income	1,563	1,420	2,258	2,628
Cost of goods sold	1,311	1,176	1,840	2,128
Contribution (%)	*16.1%*	*17.1%*	*18.5%*	*19.0%*
Advt/Sales/Distrn O/H	80.9	76.7	124.4	145.8
Operating Profit	**171**	**167**	**294**	**355**
Other income	22	10	8	10
PBIDT	**193**	**177**	**302**	**364**
Depreciation	72	72	79	84
Interest & Fin Chg.	89	90	79	59
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**33**	**15**	**143**	**222**
Tax provision	9	12	36	56
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	**23**	**3**	**107**	**166**
Reported PAT	**23**	**3**	**107**	**166**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	**1,845**	**1,821**	**1,757**	**1,669**
Net Block	1,306.5	1,369.7	1,350.5	1,286.6
CWIP	85.5	50.0	10.0	10.0
Investments	0.2	0.2	0.2	0.2
Wkg. cap. (excl cash)	361	286	346	319
Cash / Bank balance	91.7	115.0	50.7	52.4
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	**1,845**	**1,821**	**1,757**	**1,669**
Equity capital	15.6	15.6	15.6	15.6
Reserves	682	679	781	941
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	994	984	814	564
Def tax Liabilities	153.5	142.4	146.6	148.0

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	FY20	FY21E	FY22E	FY23E
Sources	**179**	**48**	**15**	**-5**
Cash profit	184	165	266	309
(-) Dividends	8	6	6	6
Retained earnings	177	159	260	303
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	1.3	0.0	0.0	0.0
Borrowings	67	-10	-170	-250
Others	-65	-101	-75	-57
Applications	**179**	**48**	**15**	**-5**
Capital expenditure	80.2	100.0	20.0	20.0
Investments	0.0	0.0	0.0	0.0
Net current assets	128.6	(75.0)	59.2	(26.2)
Change in cash	(29.3)	23.3	(64.3)	1.7

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21E	FY22E	FY23E
Sales growth	**(23.4)**	**(9.2)**	**59.0**	**16.4**
OPM	**11.0**	**11.7**	**13.0**	**13.5**
Oper. profit growth	(30.4)	(2.6)	76.0	20.8
COGS / Net sales	83.9	82.9	81.5	81.0
Overheads/Net sales	5.2	5.4	5.5	5.5
Depreciation / G. block	3.8	3.6	3.8	4.0
Effective interest rate	9.4	9.2	8.9	8.7
	1.5%	0.2%	4.7%	6.3%
Net wkg.cap / Net sales	0.18	0.21	0.13	0.12
Net sales / Gr block (x)	0.8	0.7	1.1	1.2
RoCE	**8.9**	**7.6**	**16.7**	**22.3**
Debt / equity (x)	1.40	1.40	1.00	0.57
Effective tax rate	28.3	81.1	25.2	25.2
RoE	**3.4**	**0.4**	**14.3**	**18.8**
Payout ratio (Div/NP)	32.1	204.2	5.3	3.4
EPS (Rs.)	**15.0**	**1.8**	**68.7**	**106.3**
EPS Growth	(71.5)	(88.2)	3,780.5	54.7
CEPS (Rs.)	61.2	48.1	119.5	160.2
DPS (Rs.)	4.0	3.0	3.0	3.0

Source: Company, Axis Research

Minda Industries – Best play for industry revival

Minda Industries (MNDA) is the largest supplier of switches, lighting, acoustics light metal technologies (alloy wheels, die casting) and others (Sensors, controllers etc.). It is a top 2 player in lighting and safety air-bags in the automotive Industry. MNDA has 62 manufacturing plants and 8 R&D centres across the globe. Group is headquartered in Manesar, Haryana, India.

Industry view

Over weight

CMP
387

Target Price
413

Upside
7%

Key Rationale

- The recovery in the Automobile Industry has been faster than expected. Auto manufacturers are positive on the near to medium term demand and are gearing up for a robust festival season. They have been ramping up their production levels and increasing their shifts ahead of the festive season so as to ensure there is sufficient inventory and buffer stock ahead of the festive season. We expect the auto demand to bounce back to pre-Covid levels by H2FY21.
- Minda Industries has been growing at higher rate than the industry on account of increase in kit value per vehicle in both 2W/4W segment through introduction of new products both on mechanical and technology side. Increasing contributions from high margin, new product lines like sensors & controllers, air bags, telematics and alloy wheels will fare well and ride on the premiumization trend that both the 2W and PV segment has been witnessing for the past few years.
- Strategic inorganic acquisition to enhance offering. Recent acquisition at an attractive 12X FY19 P/E of Harita Seating is a strategic fit for MNDA as it enhances its product offering while at the same time helping it to make inroads into Harita's clientele. While Delvis acquisition gives a much needed expertise in LED head light technology to make inroads in new PV models of leading OEMs

Key Rationale

- **Long-term industry outperformance to continue.** We are bullish on MNDA's ability to comprehensively beat industry performance by 1) leveraging the broader vehicular trends of industry like EV, premiumization, automation 2) strategic inorganic acquisition to enhance product offering and gain market share 3) maintaining balance sheet discipline and maintain optimal leverage, 4) investing In R&D to bring technological change 5) tap on its deep rooted relationship with OEM's to increase kit value. Given its success in developing import substitution products, it would be able to capture the business opportunities offered by the 'Atma-nirbhar Bharat' move in auto sector. New product lines to aid margin and growth.
- **Valuation**. We expect the company to post revenues/PAT growth at 11%/31% CAGR over FY20-23E. The return ratios are expected to inch up as NPM improves (peak NPM 6.9% in FY18) along with improving asset turn (peak asset turn: 6.9% in FY18). We retain BUY, valuing the company at 32x FY23 to arrive at target price of Rs 413. We have not yet factored in the Harita Seating merger due to lack of clarity.
- **Key risks:** Resurfacing of Covid-19 cases and extended lockdown remain key risk to our assumptions

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	Net Profit (Rs Cr)	FDEPS (Rs)	P/E (x)	EV/EBIDTA (x)	ROE (%)	RoCE (%)	D/E (x)
2020	5,465	154	5.6	42.3	10.2	9.6	12.0	0.6
2021E	4,762	85	3.1	123.6	20.2	4.7	7.0	0.4
2022E	6,962	289	10.6	36.4	12.2	14.0	15.0	0.3
2023E	7,369	345	12.7	30.4	10.4	14.8	16.5	0.2

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**5,465**	**5,065**	**6,867**	**7,350**
Other operating income	39	0	0	0
Net Revenue	5,504	5,065	6,867	7,350
Cost of goods sold	4,631	4,355	5,771	6,148
Contribution (%)	*15.3%*	*14.0%*	*16.0%*	*16.4%*
Other operating costs	214.5	199.9	280.7	288.8
EBITDA	**658**	**510**	**815**	**914**
Other income	0	25	30	35
PBIDT	**658**	**535**	**845**	**949**
Depreciation	302	307	337	356
Interest & Fin Chg.	90	78	81	84
E/o income / (Expense)	-14	0	0	0
Pre-tax profit	**252**	**150**	**426**	**509**
Tax provision	78	60	126	150
(-) Minority Interests	33	6	20	24
Associates	13	-2	7	9
Adjusted PAT	**165**	**82**	**288**	**344**
Other Comprehensive Income	-2	3	1	1
Reported PAT	**154**	**85**	**289**	**345**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	**3,418**	**3,499**	**3,611**	**3,794**
Net Block	2,196.0	2,134.4	1,972.1	1,790.9
CWIP	357.0	105.0	75.0	75.0
Investments	395.8	395.8	395.8	395.8
Wkg. cap. (excl cash)	107	21	101	121
Cash / Bank balance	362.7	843.1	1,066.5	1,411.4
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	**3,418**	**3,499**	**3,611**	**3,794**
Equity capital	52.4	54.4	54.4	54.4
Reserves	1,763	2,035	2,276	2,574
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	282.8	288.7	308.8	332.8
Borrowings	1,306	1,106	956	816
Def tax Liabilities	13.5	14.7	15.5	16.4

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Sources	**622**	**387**	**449**	**540**
Cash profit	567	476	719	799
(-) Dividends	32	60	60	60
Retained earnings	535	416	660	739
Issue of equity	0.0	1.9	0.0	0.0
Change in Oth. Reserves	15.9	246.7	20.1	24.0
Borrowings	60	-200	-150	-140
Others	11	-77	-81	-83
Applications	**622**	**387**	**449**	**540**
Capital expenditure	840.9	(7.0)	145.0	175.0
Investments	9.3	0.0	0.0	0.0
Net current assets	(458.5)	(86.0)	80.6	19.8
Change in cash	230.4	480.3	223.4	344.9

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Sales growth	**(7.5)**	**(7.3)**	**35.6**	**7.0**
OPM	**12.0**	**10.1**	**11.9**	**12.4**
Oper. profit growth	(12.5)	(22.5)	59.8	12.0
COGS / Net sales	84.7	86.0	84.0	83.6
Overheads/Net sales	3.9	3.9	4.1	3.9
Depreciation / G. block	10.7	10.0	10.4	10.4
Effective interest rate	9.2	8.6	11.0	14.1
Net wkg.cap / Net sales	0.04	-0.01	-0.00	0.00
Net sales / Gr block (x)	1.9	1.7	2.1	2.2
RoCE	**12.0**	**7.0**	**15.0**	**16.5**
Debt / equity (x)	0.62	0.43	0.31	0.21
Effective tax rate	30.7	39.8	29.5	29.5
RoE	**9.6**	**4.7**	**14.0**	**14.8**
Payout ratio (Div/NP)	21.0	70.4	20.7	17.4
EPS (Rs.)	**5.6**	**3.1**	**10.6**	**12.7**
EPS Growth	(46.1)	(44.7)	239.9	19.4
CEPS (Rs.)	16.8	14.4	23.0	25.8
DPS (Rs.)	1.0	2.2	2.2	2.2

Source: Company, Axis Research

DR. REDDY'S LABORATORIES – ACCELERATING THE TRANSFORMATION

DR REDDY (DRRD) is an integrated global pharmaceutical enterprise that operates through three core business segment Global Generic (GG), Pharmaceutical Services and Active Ingredients (PSAI) and Proprietary Products (PP).

Industry view

Over weight

CMP
4,829

Target Price
6,200

Upside
28%

Key Rationale

- DR REDDY (DRRD) has launched value added generic products in last 2 years across the globe under the leadership of new management, Mr. Erez Israli that resulted into strong revenue growth of 14% and 320 bps improvements in EBITDA marginin FY20. DRRD's renewed strategy that was adopted by new management to focus on SBUs like US, India, Russia, China and API has resulted into strong revenue growth of 14% and 320 bps improvements in EBITDA marginin FY20. The strategy focusses on 1) launch of high value new products by leveraging the portfolio of 100 pending ANDAs 2) strengthen existing brands and focus on new brands in selected therapeutic areas 3) launch of existing global portfolio in new geographies 4) size capability, cost structure in India and access to intermediate to gain global leadership.
- gRevlimid: DRRD has settled the launch of gRevlimid with Celgene in the US market. gRevlimid has a market size of USD $7.5 bn, having only four player in this space Celegene, Mylan, DRRD and NATCO. DRRD could launch limited volume of gRevlimid from March 2022 and unlimited volume from 2026 onwards. We expect high single digit market share of $250 mn – USD $300 revenue per year during the period FY23E-FY25E.

Key Rationale

- US Business: In DRRD, there is change in leadership Mr. Erez Israeli joined as CEO of the company in April 2018. Mr. Erez Israeli spent 23 years in TEVA Pharmaceuticals where he held several leadership positions. Further, Mr. Marc Kikuchi (from AmerisourceBergen) joined as head of North America Generic (NAG) business, Mr. Sandeep Khandelwal (from Abbott India) joined as India Business Head and Mr. Dmitry Sovetkin (Sandoz) joined as the Russia Business Head. We expect consolidated revenue CAGR 10.2% and 130 bps EBITDA improvement in margins based onthe strategy implemented by new team whichalready has started to deliver results.
- DRRD has leveraged its 100 ANDAs portfolio and launched high value products with limited competition in last 2 years. Further, commentary from top 6 Generic pharma players in NAG reveals pricing stability in generic pharma business. In the next 2 years, DRRD has healthy pipeline to launch drugs like gRemodulin, gDexilant, gNuvaring, gCopaxone and gKuvan and potentially gVascepa that could be a gSuboxone kind opportunity. We expect revenue CAGR of 8.7% in constant currency for North America Generic business over FY20-FY23E.
- Key risks: Increase in API prices, Further, Price erosion in US market, extension of lockdown

Key Financials (Consol)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs.)	PER (x)	EV/EBIDTA (x)	P/BV (x)	RoE (%)
FY20P	15,448	4,795	3,512	117.5	41.2	26.2	5.7	13.9
FY21E	17,517	4,147	2,026	162.6	29.8	19.8	5.2	17.3
FY22E	19,124	4,628	2,745	165.2	29.3	17.3	4.5	15.3
FY23E	21,154	5,183	3,100	186.5	25.9	15.0	3.9	15.0

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY20P	FY21E	FY22E	FY23E
Net sales	**17,517**	**19,124**	**21,154**	**23,943**
Other operating income	0	0	0	0
Net Revenue	17,517	19,124	21,154	23,943
Cost of goods sold	5,554	6,024	6,642	7,470
Contribution (%)	*31.71%*	*31.50%*	*31.40%*	*31.20%*
Other operating costs	7,816	8,472	9,329	10,367
EBITDA	**4,147**	**4,628**	**5,183**	**6,105**
Other income	621	358	378	398
PBIDT	**4,768**	**4,986**	**5,560**	**6,503**
Depreciation	1,163	1,267	1,372	1,477
Interest & Fin Chg.	98	107	109	112
E/o income / (Expense)	-1,677	0	0	0
Pre-tax profit	**1,830**	**3,612**	**4,079**	**4,914**
Tax provision	-140	867	979	1,224
(-) Minority Interests	0	0	0	0
Associates	56	0	0	0
Adjusted PAT	**2,026**	**2,745**	**3,100**	**3,691**
Other Comprehensive Income	0	0	0	0
Reported PAT	**2,026**	**2,745**	**3,100**	**3,691**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20P	FY21E	FY22E	FY23E
Total assets	**23,225**	**25,609**	**28,689**	**32,746**
Net Block	4,778	4,511	4,139	3,663
CWIP	436	436	436	436
Investments	2,402	2,402	2,402	2,402
Wkg. cap. (excl cash)	5,180	6,062	6,692	7,295
Cash / Bank balance	205	1,947	4,437	7,650
Misc. Assets	0	0	0	0
Capital employed	**23,225**	**25,609**	**28,689**	**32,746**
Equity capital	83	83	83	83
Reserves	15,516	17,869	20,578	23,877
Pref. Share Capital	0	0	0	0
Minority Interests	0	0	0	0
Borrowings	1,784	1,783	1,823	1,863
Def tax Liabilities	2	2	2	2

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	FY20P	FY21E	FY22E	FY23E
Sources				
Cash profit	4,646	3,189	4,012	4,472
(-) Dividends	-392	-392	-392	-392
Retained earnings	0	0	0	0
Issue of equity	0	0	0	0
Change in Oth. Reserves	0	0	0	0
Borrowings	-1,629	-0	40	40
Others	-1,570	-0	-0	0
Applications	**627**	**495**	**645**	**645**
Capital expenditure	553	-1,000	-1,000	-1,000
Investments	-67	-0	0	0
Net current assets	0	0	0	0
Change in cash	-471	1,947	4,437	7,650

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20P	FY21E	FY22E	FY23E
Sales growth	**13.4**	**9.2**	**10.6**	**13.2**
OPM	**23.7**	**24.2**	**24.5**	**25.5**
Oper. profit growth	30.0	11.6	12.0	17.8
COGS / Net sales	31.7	31.5	31.4	31.2
Overheads/Net sales	44.6	44.3	44.1	43.3
Depreciation / G. block	10.5	10.5	10.5	10.5
Effective interest rate	(7.4)	24.0	24.0	24.9
Net wkg.cap / Net sales	0.3	0.3	0.3	0.3
Net sales / Gr block (x)	1.6	1.6	1.6	1.7
RoCE	**19.0**	**21.3**	**23.5**	**27.6**
Debt / equity (x)	0.1	0.1	0.1	0.1
Effective tax rate	(7.4)	24.0	24.0	24.9
RoE	**17.3**	**15.3**	**15.0**	**15.4**
Payout ratio (Div/NP)	471.2	471.2	471.2	471.2
EPS (Rs.)	**162.6**	**165.2**	**186.5**	**222.1**
EPS Growth	38.6	1.6	12.9	19.1
CEPS (Rs.)	232.6	241.4	269.1	310.9
DPS (Rs.)	23.6	23.6	23.6	23.6

Source: Company, Axis Research

BIOCON – BIOSIMILARS TO DRIVE GROWTH

Biocon has created a niche in the business of custom research in pharmaceuticals space; it operates in four broad business verticals, viz., small molecules & generic formulations, research services, biologics and branded formulations, each contributing 32%, 32%, 24% and 12% of revenues respectively. Biocon's subsidiary Biocon Biologics has entered into partnership with Mylan (who has exclusive marketing rights for developed markets viz., EU, US, Japan etc) for developing 11 products, and with Sandoz for few undisclosed assets on cost share and 50:50 profit share arrangement; overall, the company has been working on around 28 assets to be developed and monetized in near future.

Industry view

Overweight

CMP
429

Target Price
470

Upside
9%

Key Rationale

- Biocon Biologics and Mylan launched Semglee™ (insulin glargine injection) in the U.S. to expand access for diabetic Patients; Semglee would be available in vial and pen presentations at a 65% discounted list price, the lowest available for a long-acting insulin glargine on the market.
- Company is also on track with development of Insulin Aspart for global markets. Currently in global phase 3 trials, expects BLA submission in US (USD 1.5 bn market) in mid CY20 and under review with EMA for Europe market (USD 666 mn), developments are as per plan. Further Mylan plans to launch Bevacizumab in Europe in later part of the year; BLA for Bevacizumab has already been filed in US (USD 3 bn) and MAA submission in EU (USD 1.9 bn); both the filings are under review; target for launch in US market is Dec'20.
- **Key risks:** aggressive competition to protect market share, tepid response for key molecules planned for launch

Key Rationale

- Driven by market share gains and new launches in these high margin biosimilars, the Biologics segment is expected to post robust revenue growth (approx. in mid-twenties) over next 2/3 years; Biocon management has set an ambitious target to cross $1 bn revenues for Biologics over next couple of years (from around $300 plus mn in FY20). Biocon is targeting to have 8 different biosimilars to be sold by FY22 thereby addressing market size of USD 33bn, further the company is planning to deliver atleast 3 additional molecules between FY23 and FY25.
- Biocon is expected to invest aggressively thereby ploughing back substantial capital over next couple of years to build its product portfolio, conduct trials and support it with adequate manufacturing capacities which would limit free cash flow generation.
- Valuation. We expect annual revenue growth at 25% CAGR over FY20-22E, PAT at 47% CAGR over the same period; EBIDTA margins to expand from ~27% in FY20 to 29% by FY22E driven by increased contribution from high margin Biologics segment. We value the Biocon at 35x FY22 earnings to arrive at target of Rs 474.

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	6,367	1,603	871	7.3	59.5	32.9	7.0	11.8
2021E	8,153	1,957	1,007	8.4	51.5	27.1	6.3	12.2
2022E	10,106	2,648	1,458	12.2	35.5	19.8	5.4	15.3
2023E	12,384	3,307	1,878	15.6	27.6	15.6	4.6	16.6

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**6,367**	**8,153**	**10,106**	**12,384**
Other operating income	0	0	0	0
Total income	6,367	8,153	10,106	12,384
COGS				
Employee Exp.	2,052	2,568	3,133	3,814
Other Expenses	*32.2%*	*31.5%*	*31.0%*	*30.8%*
EBIDTA	2,712	3,628	4,325	5,263
Other income				
PBIDT	**1,603**	**1,957**	**2,648**	**3,307**
Depreciation	161	85	120	145
Interest & Fin Chg.				
Pre-tax profit	**1,765**	**2,042**	**2,768**	**3,452**
Tax provision	552	688	820	952
PAT	65	66	66	66
(-) Minority Interests	68	0	0	0
Associates	**1,215**	**1,287**	**1,882**	**2,433**
Adjusted PAT	315	318	461	593
Extraordinary adj.	0	0	0	0
Reported PAT	-29	38	38	38

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	**14,444**	**16,632**	**19,461**	**22,960**
Net Block	8,181	9,493	10,673	11,721
CWIP	1,577	1,577	1,577	1,577
Investments	952	952	952	952
Wkg. cap. (excl cash)	1,335	1,698	2,104	2,579
Cash / Bank balance	999	795	1,243	2,292
Misc. Assets	0	0	0	1
Capital employed	**14,444**	**16,632**	**19,462**	**22,960**
Equity capital	600.0	600.0	600.0	600.0
Reserves	6,783	7,646	8,960	10,693
Pref. Share Capital	0	0	0	0
Minority Interests	0	0	0	0
Borrowings	0	0	0	0
Def tax Liabilities	368	368	368	368

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
PBT	1,186	1,325	1,919	2,471
Add: depreciation	552	688	820	952
Add: Interest	65	66	66	66
Cash flow from operations	1,803	2,079	2,805	3,489
Change in working capital	-927	-246	-313	-363
Taxes	315	318	461	593
Miscellaneous expenses	0	0	0	0
Net cash from operations	2,415	2,007	2,658	3,259
Capital expenditure	-2,320	-2,000	-2,000	-2,000
Change in Investments	17	0	0	0
Net cash from investing	-2,303	-2,000	-2,000	-2,000
Increase/Decrease in debt	103	0	0	0
Dividends	-70	-144	-144	-144
Proceedings from equity	300	0	0	0
Interest	-65	-66	-66	-66
Others	-438	0	0	0
Net cash from financing	-170	-211	-211	-211
Net Inc./(Dec.) in Cash	-58	-203	448	1,049
Opening cash balance	1,057	999	795	1,243
Closing cash balance	999	795	1,243	2,292

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Sales growth	**15.5**	**28.0**	**24.0**	**22.5**
OPM	**25.2**	**24.0**	**26.2**	**26.7**
Oper. profit growth	15.1	22.0	35.3	24.9
COGS / Net sales	32.2	31.5	31.0	30.8
Overheads/Net sales	42.6	44.5	42.8	42.5
Depreciation / G. block	6.6	6.6	6.6	6.6
Effective interest rate	26.6	24.0	24.0	24.0
Net wkg.cap / Net sales	0.2	0.2	0.2	0.2
Net sales / Gr block (x)	0.8	0.8	0.8	0.9
RoCE	**11.4**	**11.9**	**14.2**	**15.7**
Debt / equity (x)	0.3	0.2	0.2	0.2
Effective tax rate	26.6	24.0	24.0	24.0
RoE	**11.8**	**12.2**	**15.3**	**16.6**
Payout ratio (Div/NP)	8.0	14.3	9.9	7.7
EPS (Rs.)	**7.3**	**8.4**	**12.2**	**15.6**
EPS Growth	(13.1)	15.6	44.8	28.8
CEPS (Rs.)	36.4	30.6	22.8	18.3
DPS (Rs.)	0.6	1.2	1.2	1.2

Source: Company, Axis Research

TECH MAHINDRA – STRONG BROAD BASED GROWTH

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

Key Rationale

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

Key Rationale

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

Industry view

Overweight

CMP
877

Target Price
975

Upside
11%

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	13.2	20%	19%
2021E	37,548	6,563	4,230	50.0	4%	14.2	21%	19%
2022E	42,354	7,498	4,852	55.0	10%	12.3	22%	19%
2023E	47,860	10,495	5,531	62.7	14%	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**	**42,354**	**47,860**
Growth, %	5%	3%	13%	13%
Other income	1,090	1,232	1,380	1,561
Total income	3,744	3,878	4,373	4,942
Employee expenses	18,718	20,767	22,858	23,099
Other Operating expenses	6,561	7,611	8,307	9,194
EBITDA (Core)	5,832	6,563	7,498	10,495
Growth, %	-8%	13%	14%	40%
Margin, %	16%	17%	18%	22%
Depreciation	1,379	1,438	1,273	1,584
EBIT	4,453	5,126	6,225	8,911
Growth, %	-14%	15%	21%	43%
Margin, %	12%	14%	15%	19%
Interest paid	185	133	104	95
Pre-tax profit	**5,358**	**6,225**	**7,501**	**10,377**
Tax provided	1,268	1,666	2,008	3,228
Profit after tax	4,089	4,559	5,494	7,149
Net Profit	**4,130**	**4,230**	**4,852**	**5,531**
Growth, %	**-4%**	**2%**	**15%**	**14%**
Net Profit (adjusted)	4,130	4,230	4,852	5,531

Source: Company, Axis Research

Balance Sheet (Rs Cr)

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

Source: Company, Axis Research

Cash Flow (Rs Cr)

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

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share data				
EPS (INR)	48.0	50.0	55.0	62.7
Growth, %	-2%	4%	10%	14%
Book NAV/share (INR)	233.6	262.0	298.6	354.1
FDEPS (INR)	39	42	46	46
CEPS (INR)	62.6	68.7	77.5	99.8
CFPS (INR)	36.5	43.8	42.8	42.8
DPS (INR)	24	21	24	24
Return ratios				
Return on assets (%)	12%	13%	14%	16%
Return on equity (%)	20%	21%	22%	25%
Return on capital emp. (%)	19%	19%	19%	21%
Turnover ratios				
Asset turnover (x)	18.4	32.6	69.8	65.0
Sales/Total assets (x)	18.4	32.6	69.8	65.0
Receivables Days	102.4	102.4	102.4	102.4
Cash conversion cycle	25.5	5.1	5.0	2.4
Liquidity ratios				
Current ratio (x)	2.2	2.4	2.7	3.2
Quick Ratio	1.4	1.6	1.9	2.3
Net debt/Equity (%)	0	0	0	0
Leverage Ratio	2	2	1	1
Valuation				
PER (x)	13.2	14.2	12.3	11.3
Price/Book (x)	3.3	2.9	2.6	2.2
EV/Net sales (x)	3.1	2.9	2.8	2.8
EV/EBITDA (x)	7.3	7.3	6.4	6.4
Dividend Yeild	4.4	2.9	4.4	4.4

Source: Company, Axis Research

BHARTI AIRTEL – AHEAD OF MARKET OPERATING PERFORMANCE

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

Industry view

Overweight

CMP
463

Target Price
676

Upside
46%

Key Rationale

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

Key Rationale

- Regulatory challenges are well known and Bharti Airtel is well capitalized to deal with the payouts as it has raised enough capital (Rs 450bn equity in FY20) and has access to debt as there are no major business solvency risks associated with it.
- We maintain our ARPU assumptions and forecast 13%/17% CAGR for Revenue/EBIDTA over the period FY20-23E. Profit growth will be even more significant considering FY20E was a loss for the company. Our forecast is based on significant ARPU improvement from current Rs 162/subs/month (Q2FY20) to Rs 208/subs/month by end of Q4FY23. While the ARPU improvement seems significant but our FY23 ARPU forecast is similar to Q4FY15. Thus, our estimates are conservative considering the concentrated industry structure and far greater level of value provided to the customer.
- Jio has raised Rs 1. 4 trillion bn at an EV of Rs 5.1 trillion through a mix of strategic and PE deals. Jio's valuation is significantly higher than Bharti Airtel's current valuation (Rs 4.1 trillion) which has more lines of services, significantly higher revenues and geographies of operation.
- **Valuation:** We value the company based on SOTP valuation at Rs 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	36,581	(38,187)	(74.4)	nmf	8.6	2.9	(47.8)	144.6
2021E	49,009	49,009	47,858	93.2	4.8	6.7	1.8	37.5	97.5
2022E	61,540	61,540	54,644	106.4	4.2	5.2	1.3	30.0	64.3
2023E	70,654	70,654	65,763	128.1	3.5	4.4	0.9	26.5	44.5

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

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

Source: Company, Axis Research

Balance Sheet (Rs Cr)

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

Source: Company, Axis Research

Cash Flow (Rs Cr)

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

Source: Company, Axis Research

Ratio Analysis (%)

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

Source: Company, Axis Research

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 reimaging their businesses for the digital age. HCL technologies products, services and engineering are built on strong innovation making more sustainable business model even in uncertainties.

Industry view

Overweight

CMP
822

Target Price
975

Upside
19%

Key Rationale

- **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. Deal pipeline also remained strong across services and geographies. Management now expects revenue growth to exceed 3.5% QoQ in CC terms compared to earlier expectation of 1.5-2.5% CQGR over Q2-Q4FY21 and margin of 20-21% (guidance of 19.5-20% for FY21) for FY21. HCL Tech announced that it is going to acquire DWS group headquartered in Australia. With the acquisition of DWS HCL tech will able to expand its footprints in Australia and New Zealand
- **Digital transformation business is intact for HCL tech even in global lockdown:** 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

- 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 15 digital transformational deals in Q2 FY21. We believe that COVID outbreak will create huge opportunities across geographies 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 Q2FY21 numbers on both margin and revenue front. Strong revenue growth in Mode 2 business (15% YoY) helps HCL Tech to achieve higher growth momentum on longer term with more advance technologies. Better business matrix will help to generate higher operating business even if there is pricing pressure across verticals. We believe better business matrix and large long term contracts makes 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 16.6x P/E multiple to its FY23E earnings of Rs. 58.8, which gives a TP of Rs. **975** 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**	**85,509**	**94,009**
Growth, %	17%	10%	10%	10%
Other income	193	814	1,153	1,302
Total income	7,087	7,886	8,666	9,531
Employee expenses	44,018	50,313	54,823	58,179
Other Operating expenses	9,966	10,146	10,261	11,281
EBITDA	**16,694**	**17,590**	**20,424**	**24,549**
Growth, %	20%	5%	16%	20%
Margin, %	24%	23%	24%	26%
Depreciation	2,841	2,413	2,605	2,911
EBIT	1,385	1,599	1,897	2,294
Growth, %	17%	15%	19%	21%
Margin, %	2%	2%	2%	2%
Interest paid	-15	262	148	134
Pre-tax profit	14,061	15,730	18,825	22,806
Tax provided	**2,938**	**3,854**	**4,706**	**5,701**
Profit after tax	11,123	11,876	14,119	17,104
Net Profit	**11,062**	**11,845**	**14,088**	**17,073**
Growth, %	**9%**	**7%**	**19%**	**21%**
Net Profit (adjusted)	11,062	11,845	14,088	17,073

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Cash & bank	8,385	11,166	13,769	22,512
Debtors	14,134	15,994	17,990	19,778
Other current assets	5,188	5,188	5,188	5,188
Total current assets	**38,333**	**44,027**	**49,775**	**60,887**
Goodwill & Intangible Assets	0	0	0	0
Net fixed assets	5,713	1,967	1,500	939
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**	**110,420**	**110,420**
	0	0	0	0
Creditors	1,917	1,982	1,956	2,088
Provisions	8,000	7,500	7,500	7,500
Total current liabilities	**20,889**	**19,202**	**19,150**	**20,047**
Other liabilities	2,548	2,548	2,548	2,548
Paid-up capital	543	543	543	543
Reserves & surplus	51,143	60,448	71,996	86,529
Total equity & liabilities	**83,216**	**92,562**	**110,420**	**110,420**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	14,062	15,731	18,826	22,807
Depreciation	2,841	2,413	2,605	2,911
Chg in working capital	338	-4,600	-3,196	-1,472
Total tax paid	294	385	471	570
Cash flow from operating activities	**14,345**	**14,322**	**19,013**	**25,023**
Capital expenditure	0	1,951	2,138	2,350
Cash flow from investing activities	**-11,374**	**-7,639**	**-7,825**	**-8,038**
Free cash flow	297	473	905	1,463
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	2,603	8,743

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share data				
EPS (INR)	40.76	46.06	52.05	58.82
Growth, %	10%	13%	13%	13%
Book NAV/share (INR)	375.7	443.3	527.2	632.9
FDEPS (INR)	39	42	46	46
CEPS (INR)	100.5	103.0	120.7	144.6
CFPS (INR)	36.5	43.8	42.8	47.936
DPS (INR)	23	25	27	30.24
Return ratios				
Return on assets (%)	24%	21%	21%	21%
Return on equity (%)	24%	18%	19%	21%
Return on capital employed (%)	14%	14%	14%	15%
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

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

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