

# Festival Unlock Picks

September-2021



## HUL

CMP: 2785  
Target: 3110  
Upside: 12%

## HERO MOTOCORP

CMP: 2,849  
Target: 3,400  
Upside: 19%

## SBI CARDS

CMP: 1,062  
Target: 1,210  
Upside: 14%

## Relaxo Footwear

CMP: 1162  
Target: 1290  
Upside: 11%

## ABFRL

CMP: 214  
Target: 250  
Upside: 17%

## Safari Industries

CMP: 824  
Target: 922  
Upside: 12%

Source: Company, Axis Securities. CMP as of 22<sup>nd</sup> September 2021

## HINDUSTAN UNILEVER – GEARING TO BE AN INTELLIGENT AND FUTURE FIT ORGANIZATION

Hindustan Unilever (HUVR) is the largest FMCG player in India. HUVR's product portfolio consists of a wide spectrum including Home Care, Personal Care, Foods & Refreshments, Nutrition and Water Purifiers. In terms of direct distribution, HUVR has one of the largest distribution networks with ~8million outlets in the FMCG sector serviced by over 3,500 distributors.

### Key Rationale

- Upbeat about medium term growth:** Management remains upbeat on the growth opportunities across segments. It aims to drive double digit EPS growth over the coming decade led by modest margin improvement. Further, with easing of lockdown restrictions and accelerating vaccination drive has led to improved mobility of people. This augurs well for the discretionary products across skin care and premium laundry segments. Management indicated that rural demand has displayed resilience supported by higher MSP, pick up in monsoon in the last fortnight and opening up of economy. Upcoming festive season spending is likely to be seen on higher margin premium products in its Beauty & Personal Care categories thus aiding profitability.
- Leveraging Data and Technology:** With digitization taking centre stage in the post pandemic world, HUVR is focusing on developing and building an inter-connected ecosystem by leveraging its data and technology capabilities thereby making it future-fit. HUVR is taking initiatives across the digital eco-system by focusing on consumer (insights, always on-trend products, agile innovation, faster product launch time etc), operational sustainability (nano-factories, reduce wastage etc) and on customer engagement. HUVR's eB2B app Shikhar has received encouraging response (on boarded 0.6million retailers which is 10%+ of total retailer orders). It continues to focus on digitization of the local Kirana stores which will continue to be a critical part of the FMCG distribution value chain in the coming decade.
- Key risks:** a) disruptions caused by third wave of COVID and reinstatement of lockdowns if any; b) RM price volatility
- Strengthen the core, premiumization and market development bedrock principles of growth:** These factors are the backbone for HUVR's superior growth performance versus peers over the medium term. It reiterated its consistent growth strategy of growing the core by launching superior products, relevant innovations/renovations (liquids in laundry, body wash across price points), de-averaging with right pack-price architecture (sachets/access packs), investing behind brands across media and improved distribution.
- Peaking out inflation; Margin sustenance:** HUVR remains hopeful of maintaining 24-25% margins in the near term. Even when about half of the business has been impacted owing to rise in price of crude oil, palm oil and tea (seeing moderate decline QoQ). HUVR has taken judicious and calibrated price increases of 5-14% across the 3 categories of laundry, tea and skin cleansing. Besides this, it would continue to drive on high quality cost savings thereby maintaining its profitability in the medium term.
- Valuation:** We like HUVR's superior agility and nimbleness despite it being larger than peers in capitalizing on the emerging growth trends and remaining ahead of competition. Management has set a target to achieve modest EBITDA Margin improvement while driving double digit EPS growth over FY21-30. Near term growth drivers like pick up in discretionary portfolio, tailwinds from GSK-CH integration and gains from investments in digitization, distribution are key growth enablers. We marginally revise our FY23E/24E and maintain BUY with a revised TP of Rs. 3,100 (earlier Rs. 2,670) as we raise our target PE to 56x FY24E EPS (earlier 50x FY24E EPS).

### Industry view



Equalweight

**CMP**  
2785

**Target Price**  
3110

**Upside**  
12%

### Key Financials (Consolidated)

| Y/E Mar | Net sales<br>(Rs Cr) | EBIDTA<br>(Rs Cr) | Net Profit<br>(Rs Cr) | EPS<br>(Rs) | PER<br>(x) | EV/EBIDTA<br>(x) | ROE<br>(%) | ROCE<br>(%) |
|---------|----------------------|-------------------|-----------------------|-------------|------------|------------------|------------|-------------|
| FY21    | 45,996               | 11,324            | 7,954                 | 33.9        | 80.0       | 57.4             | 17.2%      | 28.9%       |
| FY22E   | 52,173               | 12,935            | 9,505                 | 40.5        | 68.8       | 50.1             | 17.4%      | 18.6%       |
| FY23E   | 58,035               | 15,218            | 11,278                | 48.0        | 58.0       | 42.7             | 21.9%      | 21.3%       |
| FY24E   | 63,929               | 17,437            | 12,936                | 55.1        | 50.6       | 36.8             | 22.6%      | 23.9%       |

Source: Company, Axis Securities

| <b>Profit &amp; Loss</b> |               | <b>(Rs Cr)</b> |               |               |  |
|--------------------------|---------------|----------------|---------------|---------------|--|
| <b>Y/E Mar</b>           | <b>FY21</b>   | <b>FY22E</b>   | <b>FY23E</b>  | <b>FY24E</b>  |  |
| <b>Net sales</b>         | <b>45,996</b> | <b>52,173</b>  | <b>58,035</b> | <b>63,929</b> |  |
| Growth, %                | 18.6          | 13.4           | 11.2          | 10.2          |  |
| Other income             | 513           | 944            | 1,086         | 1,140         |  |
| Total income             | 4,651         | 5,312          | 5,912         | 6,507         |  |
| Raw material expenses    | -21,677       | -24,495        | -26,945       | -29,370       |  |
| Employee expenses        | -2,229        | -2,363         | -2,505        | -2,680        |  |
| Other Operating expenses | -32,281       | -36,553        | -39,873       | -43,287       |  |
| <b>EBITDA (Core)</b>     | <b>11,324</b> | <b>12,935</b>  | <b>15,218</b> | <b>17,437</b> |  |
| Growth, %                | 18.0          | 14.2           | 17.6          | 14.6          |  |
| Margin, %                | 24.6          | 24.8           | 26.2          | 27.3          |  |
| Depreciation             | -1,012        | -1,063         | -1,116        | -1,172        |  |
| <b>EBIT</b>              | <b>10,312</b> | <b>11,872</b>  | <b>14,102</b> | <b>16,266</b> |  |
| Growth, %                | 19.0          | 15.1           | 18.8          | 15.3          |  |
| Margin, %                | 22.4          | 22.8           | 24.3          | 25.4          |  |
| Interest paid            | -108          | -109           | -110          | -111          |  |
| <b>Pre-tax profit</b>    | <b>10,490</b> | <b>12,707</b>  | <b>15,077</b> | <b>17,294</b> |  |
| Tax provided             | -2,536        | -3,202         | -3,799        | -4,358        |  |
| <b>Profit after tax</b>  | <b>7,954</b>  | <b>9,505</b>   | <b>11,278</b> | <b>12,936</b> |  |
| <b>Net Profit</b>        | <b>7,954</b>  | <b>9,505</b>   | <b>11,278</b> | <b>12,936</b> |  |
| Growth, %                | 18.0          | 16.2           | 18.7          | 14.7          |  |

Source: Company, Axis Research

| <b>Balance Sheet</b>                  |               | <b>(Rs Cr)</b> |               |               |  |
|---------------------------------------|---------------|----------------|---------------|---------------|--|
| <b>Y/E Mar</b>                        | <b>FY21</b>   | <b>FY22E</b>   | <b>FY23E</b>  | <b>FY24E</b>  |  |
| Cash & bank                           | 4,321         | 5,647          | 3,927         | 11,978        |  |
| Debtors                               | 1,648         | 1,820          | 1,982         | 2,146         |  |
| Inventory                             | 3,383         | 3,433          | 3,488         | 3,548         |  |
| Loans & advances                      | 520           | 520            | 520           | 520           |  |
| Other current assets                  | 1,605         | 1,605          | 1,605         | 1,605         |  |
| <b>Total current assets</b>           | <b>11,477</b> | <b>13,025</b>  | <b>11,523</b> | <b>19,797</b> |  |
| Investments                           | 2,995         | 2,995          | 2,995         | 2,995         |  |
| Net fixed assets                      | 34,334        | 34,271         | 34,156        | 33,984        |  |
| Non-current assets                    | 19,310        | 19,310         | 19,310        | 19,310        |  |
| <b>Total assets</b>                   | <b>68,116</b> | <b>69,602</b>  | <b>67,984</b> | <b>76,086</b> |  |
| Current liabilities                   | 18,640        | 12,277         | 14,118        | 16,236        |  |
| Provisions                            | 2,042         | 2,136          | 2,350         | 2,585         |  |
| <b>Total current liabilities</b>      | <b>2,068</b>  | <b>1,441</b>   | <b>1,647</b>  | <b>1,882</b>  |  |
| <b>Total liabilities</b>              | <b>20,682</b> | <b>14,413</b>  | <b>16,468</b> | <b>18,821</b> |  |
| Paid-up capital                       | 235           | 235            | 235           | 235           |  |
| Reserves & surplus                    | 47,199        | 54,954         | 51,281        | 57,030        |  |
| Shareholders' equity                  | 47,434        | 55,189         | 51,516        | 57,265        |  |
| <b>Total equity &amp; liabilities</b> | <b>68,116</b> | <b>69,602</b>  | <b>67,984</b> | <b>76,086</b> |  |

Source: Company, Axis Research

| Cash Flow                                  | (Rs Cr)        |               |                |               |
|--|----------------|---------------|----------------|---------------|
|  | Y/E Mar        | FY21          | FY22E          | FY23E         |
| Pre-tax profit                             | 10,490         | 12,707        | 15,077         | 17,294        |
| Depreciation                               | 1,012          | 1,063         | 1,116          | 1,172         |
| Chg in working capital                     | -9,419         | -6,585        | 1,624          | 1,895         |
| Total tax paid                             | -412           | -3,108        | -3,586         | -4,123        |
| <b>Cash flow from operating activities</b> | <b>1,671</b>   | <b>4,076</b>  | <b>14,231</b>  | <b>16,237</b> |
| Capital expenditure                        | -29,777        | -1,000        | -1,000         | -1,000        |
| Chg in investments                         | -1,477         | 0             | 0              | 0             |
| <b>Cash flow from investing activities</b> | <b>-31,254</b> | <b>-1,000</b> | <b>-1,000</b>  | <b>-1,000</b> |
| Free cash flow                             | -29,583        | 3,076         | 13,231         | 15,237        |
| Equity raised/(repaid)                     | 40,298         | 6,164         | -6,491         | 1,838         |
| Debt raised/(repaid)                       | 0              | 0             | 0              | 0             |
| Dividend (incl. tax)                       | -11,409        | -7,896        | -8,460         | -9,024        |
| <b>Cash flow from financing activities</b> | <b>28,889</b>  | <b>-1,732</b> | <b>-14,951</b> | <b>-7,186</b> |
| Net chg in cash                            | -694           | 1,344         | -1,720         | 8,051         |

Source: Company, Axis Research

| Ratio Analysis                 | (%)        |        |        |        |
|--------------------------------|------------|--------|--------|--------|
|                                | Key Ratios | FY21   | FY22E  | FY23E  |
| <b>Per Share data</b>          |            |        |        |        |
| EPS (INR)                      | 33.9       | 40.5   | 48.0   | 55.1   |
| Growth, %                      | 8.4        | 16.2   | 18.7   | 14.7   |
| Book NAV/share (INR)           | 201.9      | 234.9  | 219.3  | 243.7  |
| FDEPS (INR)                    | 34.8       | 40.5   | 48.0   | 55.1   |
| DPS (INR)                      | 37.5       | 28.0   | 30.0   | 32.0   |
| <b>Return Ratios</b>           |            |        |        |        |
| Return on equity (%)           | 17.2       | 17.2   | 21.9   | 22.6   |
| Return on capital employed (%) | 28.9       | 18.6   | 21.3   | 23.9   |
| <b>Turnover ratios</b>         |            |        |        |        |
| Asset turnover (x)             | 3.6        | 2.0    | 2.0    | 2.4    |
| Sales/Total assets (x)         | 1.0        | 0.8    | 0.8    | 0.9    |
| Sales/Net FA (x)               | 2.3        | 1.5    | 1.7    | 1.9    |
| Working capital/Sales (x)      | (0.3)      | (0.1)  | (0.2)  | (0.2)  |
| Receivable days                | 13.1       | 12.7   | 12.5   | 12.3   |
| Inventory days                 | 26.8       | 24.0   | 21.9   | 20.3   |
| Payable days                   | 90.8       | 82.0   | 82.7   | 83.0   |
| Working capital days           | (107.3)    | (49.2) | (55.8) | (62.8) |
| <b>Liquidity ratios</b>        |            |        |        |        |
| Current ratio (x)              | 0.6        | 0.9    | 0.7    | 1.1    |
| Quick ratio (x)                | 0.4        | 0.7    | 0.5    | 0.9    |
| Net debt/Equity (%)            | (9.1)      | (10.2) | (7.6)  | (20.9) |
| <b>Valuation</b>               |            |        |        |        |
| PER (x)                        | 80.0       | 68.8   | 58.0   | 50.6   |
| Price/Book (x)                 | 13.8       | 11.9   | 12.7   | 11.4   |
| EV/Net sales (x)               | 14.1       | 12.4   | 11.2   | 10.0   |
| EV/EBITDA (x)                  | 57.4       | 50.1   | 42.7   | 36.8   |
| EV/EBIT (x)                    | 63.0       | 54.6   | 46.1   | 39.5   |

Source: Company, Axis Research

## HERO MOTOCORPLTD– FESTIVE DEMAND TO DRIVE RECOVERY

Hero Motocorp Ltd (HMCL) is the market leader in the 2W industry with a market share of ~36% (as of Aug'21). Hero is present in both the motorcycles and the scooter segments, having market share of about ~50% and ~9%, respectively. Motorcycles contribute significantly to the company's total revenues with ~90% to its total volumes, while scooters contribute 10% to its total volumes. Hero is a domestically focused company deriving ~96% of volumes from the Indian market. Entry-level motorcycles (75 cc to 110 cc) form a significant part of ~70% of overall volumes. The company has six plants in India and two international plants: one in Villa Rica, Columbia and the other in Jessore, Bangladesh. Hero has a combined manufacturing capacity of 9.5 Mn units per annum.

### Industry view



### Equal Weight

**CMP**  
2,849

**Target Price**  
3,400

**Upside**  
19%

### Key Rationale

- **Key beneficiary of demand recovery:** Hero is well placed to benefit from the demand revival post Covid 2.0 in light of rural economic recovery, and enhanced need for personal mobility over shared mobility. Hero is best-placed to benefit from this expected revival in the rural economy (50% of the company's domestic volumes are derived from rural India) considering its apt product portfolio, strong brand recall, & robust distribution network.
- **Upcoming Festive season to bode well:** The 2W sales have seen a higher impact as compared to PV sales due to several factors such as sharp price increases in 2W, economic impact of the pandemic, high fuel prices, lower middle class being financially impacted and educational institutions being closed. The upcoming festive season is expected to be the key trigger for the sales recovery in the segment. With an apt product portfolio, strong brand recall, and a robust distribution network we expect Hero to achieve strong sales during the festive period.
- **Strong Focus on Electrification:** Hero plans to aggressively enter electric mobility through a three-pronged strategy comprising (a) Speedily expand distributor network to the larger cities through the acquisition of Ather Energy, (b) Launching electric scooter (E-Maestro) towards FY22 end, and (c) setting up of battery swappable charging stations across India through a recent alliance with Gogoro (Taiwan).
- **Diversification to add long-term stability:** Hero continues to diversify its

### Key Rationale

- revenue base by focusing more on exports, spares, services, premium motorcycles, scooters, and EVs. This resulted in healthy revenue growth in these segments even during the year hit by the pandemic and will add to long term stability of the company.
- **Price hikes & cost savings to support margins:** Hero has announced an upward revision in the ex-showroom prices of its motorcycles and scooters (upto Rs 3,000), with effect from 20<sup>th</sup> Sep'21. This will partially offset the impact of a continuous increase in commodity prices. The company continues to drive a cost savings program aggressively, in order to minimize the impact on its customers.
- **Valuation & Outlook:** We expect Hero to continue its dominance in the 2W industry driven by the benefits of premiumisation of its products, a strong foothold in the entry level motorcycle segments, and aggressive product offerings in the scooters segment. Its partnership with Ather Energy, Harley Davidson & Gogoro will help increase its presence in new technology and premium segment bikes. We expect a strong recovery in FY22 and FY23 driven by normalisation of the economy. **We maintain a BUY rating on the stock and arrive at a TP of Rs 3,400/share as we value the stock at 16x its FY24E EPS. TP implies an upside potential of 19% from CMP.**
- **Key Risks:** a) Gradual pick-up in demand, b) Commodity pressures, c) Higher discounting

### Key Financials (Standalone)

| Y/E March (Rs Cr) | Net Sales (Rs Cr) | EBIDTA (Rs Cr) | Net Profit (Rs Cr) | EPS (Rs) | PER (x) | EV/EBIDTA (x) | ROE (%) | ROCE (%) |
|-------------------|-------------------|----------------|--------------------|----------|---------|---------------|---------|----------|
| FY21A             | 30,801            | 4,024          | 2,934              | 146.9    | 19.8    | 14.4          | 18.8    | 18.4     |
| FY22E             | 31,765            | 4,094          | 2,954              | 147.9    | 19.3    | 13.8          | 17.7    | 17.4     |
| FY23E             | 37,285            | 5,122          | 3,727              | 186.5    | 15.3    | 11.0          | 20.6    | 20.2     |
| FY24E             | 41,454            | 5,856          | 4,246              | 212.5    | 13.4    | 9.6           | 21.0    | 20.7     |

Source: Company, Axis Securities

| Income Statement           |              | (Rs Cr)      |              |              |  |
|----------------------------|--------------|--------------|--------------|--------------|--|
| Y/E March                  | FY21         | FY22E        | FY23E        | FY24E        |  |
| Net revenues               | 30,801       | 31,765       | 37,285       | 41,454       |  |
| Operating expenses         | 26,777       | 27,671       | 32,163       | 35,598       |  |
| <b>EBIDTA</b>              | <b>4,024</b> | <b>4,094</b> | <b>5,122</b> | <b>5,856</b> |  |
| <b>EBIDTA margin (%)</b>   | <b>13.1</b>  | <b>12.9</b>  | <b>13.7</b>  | <b>14.1</b>  |  |
| Other income               | 545          | 606          | 654          | 654          |  |
| Interest                   | 22           | 24           | 26           | 29           |  |
| Depreciation               | 677          | 732          | 769          | 807          |  |
| Profit Before Tax          | 3,871        | 3,944        | 4,981        | 5,674        |  |
| Tax                        | 936          | 990          | 1,254        | 1,428        |  |
| <b>Reported Net Profit</b> | <b>2,964</b> | <b>2,954</b> | <b>3,727</b> | <b>4,246</b> |  |
| Net Margin (%)             | 9.6          | 9.3          | 10.0         | 10.2         |  |
| <b>Adjusted Net Profit</b> | <b>2,934</b> | <b>2,954</b> | <b>3,727</b> | <b>4,246</b> |  |

Source: Company, Axis Research

| Balance Sheet                       |               | (Rs Cr)       |               |               |  |
|-------------------------------------|---------------|---------------|---------------|---------------|--|
| Y/E March                           | FY21          | FY22E         | FY23E         | FY24E         |  |
| Equity capital                      | 40            | 40            | 40            | 40            |  |
| Reserves & surplus                  | 15,158        | 16,215        | 18,044        | 20,391        |  |
| Shareholders funds                  | 15,198        | 16,255        | 18,084        | 20,431        |  |
| Total Loans                         | 0             | 0             | 0             | 0             |  |
| Deferred tax liability              | 404           | 404           | 404           | 404           |  |
| <b>Total Liabilities and Equity</b> | <b>15,603</b> | <b>16,659</b> | <b>18,488</b> | <b>20,835</b> |  |
| Gross block                         | 10,601        | 11,437        | 12,387        | 13,387        |  |
| Depreciation                        | 4,612         | 5,344         | 6,113         | 6,920         |  |
| Net block                           | 5,988         | 6,093         | 6,274         | 6,467         |  |
| Capital WIP                         | 437           | 400           | 450           | 450           |  |
| Investments                         | 10,500        | 10,100        | 10,900        | 12,900        |  |
| Inventory                           | 1,470         | 1,365         | 1,410         | 1,560         |  |
| Debtors                             | 2,427         | 2,350         | 2,554         | 2,839         |  |
| Cash & Bank Bal                     | 257           | 319           | 483           | 493           |  |
| Loans & Advances                    | 1,083         | 1,164         | 1,544         | 1,663         |  |
| Current Assets                      | 5,236         | 5,197         | 5,990         | 6,555         |  |
| Sundry Creditors                    | 5,205         | 3,728         | 3,673         | 4,084         |  |
| Other Current Liability             | 1,354         | 1,404         | 1,454         | 1,454         |  |
| Current Liability & Provisions      | 6,559         | 5,131         | 5,127         | 5,537         |  |
| Net current assets                  | -1,322        | 66            | 864           | 1,018         |  |
| <b>Total Assets</b>                 | <b>15,603</b> | <b>16,659</b> | <b>18,488</b> | <b>20,835</b> |  |

Source: Company, Axis Research

## Cash Flow (Rs Cr)

| Y/E March                                 | FY21          | FY22E         | FY23E         | FY24E         |
|---|---------------|---------------|---------------|---------------|
| EBIT                                      | 3,347         | 3,362         | 4,353         | 5,049         |
| Other Income                              | 545           | 606           | 654           | 654           |
| Depreciation & Amortisation               | 677           | 732           | 769           | 807           |
| Interest paid(-)                          | -22           | -24           | -26           | -29           |
| Tax paid(-)                               | -936          | -990          | -1,254        | -1,428        |
| Extra Ord Income                          | 30            | 0             | 0             | 0             |
| <b>Operating Cash Flow</b>                | <b>3,641</b>  | <b>3,686</b>  | <b>4,496</b>  | <b>5,053</b>  |
| Change in Working Capital                 | 1,186         | -1,326        | -634          | -145          |
| <b>Cash flow from Operations</b>          | <b>4,827</b>  | <b>2,360</b>  | <b>3,862</b>  | <b>4,908</b>  |
| Capex                                     | -1,058        | -800          | -1,000        | -1,000        |
| Strategic Investment                      | 0             | 0             | 0             | 0             |
| Non Strategic Investment                  | -1,862        | 400           | -800          | -2,000        |
| <b>Cash flow from Investing</b>           | <b>-2,921</b> | <b>-400</b>   | <b>-1,800</b> | <b>-3,000</b> |
| Change in borrowing                       | 0             | 0             | 0             | 0             |
| Others                                    | 7             | 0             | -0            | 0             |
| Dividends paid(-)                         | -1,898        | -1,898        | -1,898        | -1,898        |
| <b>Cashflow from Financial Activities</b> | <b>-1,891</b> | <b>-1,898</b> | <b>-1,898</b> | <b>-1,898</b> |
| Change in Cash                            | 15            | 62            | 164           | 10            |
| Opening cash                              | 242           | 257           | 319           | 483           |
| Closing cash                              | 257           | 319           | 483           | 493           |

Source: Company, Axis Research

## Ratio Analysis (%)

| Y/E March                       | FY21 | FY22E | FY23E | FY24E |
|---------------------------------|------|-------|-------|-------|
| Revenue Growth                  | 6.8  | 3.1   | 17.4  | 11.2  |
| EBITDA Margin                   | 13.1 | 12.9  | 13.7  | 14.1  |
| Net Profit Margin               | 9.5  | 9.3   | 10.0  | 10.2  |
| ROCE (%)                        | 18.4 | 17.4  | 20.2  | 20.7  |
| ROE (%)                         | 18.8 | 17.7  | 20.6  | 21.0  |
| EPS( Rs)                        | 147  | 148   | 187   | 212   |
| P/E (x)                         | 19.8 | 19.3  | 15.3  | 13.4  |
| P/ BV (x)                       | 3.8  | 3.5   | 3.1   | 2.8   |
| EV/ EBITDA (x)                  | 14.4 | 13.8  | 11.0  | 9.6   |
| Fixed Assets Turnover Ratio (x) | 4.8  | 4.9   | 5.5   | 6.0   |
| Debt / Equity (x)               | 0.0  | 0.0   | 0.0   | 0.0   |
| EV/ Sales (x)                   | 1.9  | 1.8   | 1.5   | 1.4   |

Source: Company, Axis Research



## SBI CARDS & PAYMENT SERVICES LTD. – WELL-POSITIONED FOR GROWTH

SBI Cards (SBIC) is a pure-play credit-card issuer in India. It is the 2<sup>nd</sup> largest credit card issuer in India with a market share of 19.3/19.2% in terms of Cards-in-force (CIF)/Spends as on Jul'21. SBIC has a wide portfolio of own and co-branded credit cards catering to a broad target customer base ranging from 'New-to-credit card' to 'Super Premium' customers across product categories such as lifestyle, rewards, travel & fuel, shopping, banking partnership cards, and corporate credit cards.

### Key Rationale

- **Diversified Product portfolio:** SBIC has a diversified credit card portfolio tailored to meet the diverse needs of both individual and corporate clients, which ensure steady revenue streams. The company also has a strong foothold in the premium cards segment, supporting high-value spends as well as higher fee-income. Focus on augmenting the premium card portfolio along with a pent-up demand with the economic revival, we expect SBIC to deliver healthy spends growth of 28% CAGR over FY21-23E.
- **Unparalleled customer acquisition opportunities:** SBIC's cards sourcing is a perfect mix of leveraging its wide range of co-branded cards (aiding open market sourcing) and accessing the SBI's vast network of branches and customer base through SBI (banca) channels. With penetration levels in SBI's customer base being as low as ~2%, SBIC has ample growth headroom. Additionally, cost-effective sourcing and access to under-penetrated Tier II/III markets through banca channel will aid CIF growth, which is expected to remain robust at 20% CAGR over FY21-23E.
- **Asset Quality trends encouraging:** Despite the unsecured nature of the business, we believe SBIC is well-placed to maintain strong asset quality on account of the company's strong collection mechanism, higher share of salaried customers in the CIF (~85%), and higher share of the SBI (banca) channel contributing to new customer sourcing. While a higher restructured book and elevated slippages from COVID-19 affected stressed asset book impacted asset quality in FY21, SBIC witnessed an improvement in Q1FY22 aided by write-offs. Moving forward, improving macros are expected to keep the asset quality trend benign. However, incremental restructuring due to COVID 2.0 is likely to keep credit costs elevated in the near term.
- **Outlook:** COVID 2.0 disruptions impacted new customer sourcing and spends over Apr-May'21. However, with the gradual unlocking across geographies and business activity resumption from Jun'21 onwards, SBIC witnessed a strong jump in both new customer sourcing and spends. This trend is likely to sustain going ahead. The pick-up in the domestic travel, entertainment, and other discretionary spends along with the forthcoming festive season will support spends growth in the short term. On the operational front, with 3 categories (Transactors, Revolvers and EMI) contributing equally to the receivables mix, we expect SBIC to witness NIM expansion going ahead. Moreover, robust growth in spends and new customer sourcing will aid to the company's fee-income. We believe in the robustness and resilience of SBIC's business model, given its ability to generate strong ROA/ROE of 3.8/16.9% in FY21 despite tough operating conditions.
- **Valuation:** SBIC has regained its lost momentum in terms of spends and customer sourcing as COVID 2.0 headwinds weakened. The positive trend on the asset quality front and a notably lower quantum of restructuring 2.0 provides relief. We believe SBIC has strong moats which will support robust long-term growth and aiding market share gains. **We recommend a BUY on the stock and value SBIC at 44x FY23E EPS to arrive at a target price of Rs 1,210/share, implying an upside of 14% from CMP. We believe our target multiple reflects SBIC's superior ROE profile, strong growth visibility, likelihood of market share improvement, and strong business moats.**
- **Key risks:** a) Impact of COVID 3.0 on business momentum and asset quality

### Industry view



Equalweight

**CMP**

1,062

**Target Price**

1,210

**Upside**

14%

### Key Financials (Standalone)

| Y/E Mar (Rs Cr) | NII (Rs) | Fee Income (Rs) | PPOP (Rs) | PAT (Rs) | EPS (Rs) | P/E (x) | ROAA (%) | NNPA (%) |
|-----------------|----------|-----------------|-----------|----------|----------|---------|----------|----------|
| FY20            | 3,540    | 3,979           | 3,670     | 1,245    | 13.3     | 80.1    | 5.5%     | 0.7%     |
| FY21            | 3,903    | 3,908           | 4,024     | 985      | 10.5     | 101.5   | 3.8%     | 1.2%     |
| FY22E           | 4,312    | 4,662           | 4,637     | 1,638    | 17.4     | 61.0    | 5.6%     | 1.1%     |
| FY23E           | 5,305    | 5,858           | 5,923     | 2,590    | 27.5     | 38.6    | 7.3%     | 1.0%     |

Source: Company, Axis Securities

## Operational Data and Income Statement (Rs Cr)

| Y/E March                | FY20         | FY21         | FY22E         | FY23E         |
|--------------------------|--------------|--------------|---------------|---------------|
| Cards-in-Force (Cr)      | 1.05         | 1.18         | 1.39          | 1.71          |
| YoY Change %             | 28%          | 12%          | 18%           | 23%           |
| Spends (Rs. Cr)          | 1,30,915     | 1,22,416     | 1,55,194      | 2,01,715      |
| YoY Change %             | 27%          | -6%          | 27%           | 30%           |
| Net Interest Income      | 3,540        | 3,903        | 4,312         | 5,305         |
| Fee Income               | 3,979        | 3,908        | 4,662         | 5,858         |
| Other Income             | 932          | 859          | 1,153         | 1,459         |
| <b>Total Income</b>      | <b>8,451</b> | <b>8,670</b> | <b>10,127</b> | <b>12,622</b> |
| Total Operating Expenses | 4,781        | 4,646        | 5,490         | 6,699         |
| <b>PPOP</b>              | <b>3,670</b> | <b>4,024</b> | <b>4,637</b>  | <b>5,923</b>  |
| Provisions               | 1,940        | 2,700        | 2,448         | 2,462         |
| <b>PBT</b>               | <b>1,730</b> | <b>1,324</b> | <b>2,189</b>  | <b>3,461</b>  |
| Taxes                    | 485          | 339          | 551           | 871           |
| <b>PAT</b>               | <b>1,245</b> | <b>985</b>   | <b>1,638</b>  | <b>2,590</b>  |

Source: Company, Axis Research

## Balance Sheet (Rs Cr)

| Y/E March                      | FY20          | FY21          | FY22E         | FY23E         |
|--------------------------------|---------------|---------------|---------------|---------------|
| <b>SOURCES OF FUNDS</b>        |               |               |               |               |
| Share Capital                  | 939           | 941           | 941           | 941           |
| Reserves                       | 4,402         | 5,362         | 6,754         | 8,955         |
| <b>Shareholder's Funds</b>     | <b>5,341</b>  | <b>6,302</b>  | <b>7,695</b>  | <b>9,896</b>  |
| Borrowings                     | 17,365        | 18,068        | 21,079        | 25,909        |
| Other Liabilities & Provisions | 2,597         | 2,643         | 2,854         | 3,197         |
| <b>Total Liabilities</b>       | <b>25,303</b> | <b>27,013</b> | <b>31,628</b> | <b>39,002</b> |
| <b>APPLICATION OF FUNDS</b>    |               |               |               |               |
| Cash & Bank Balance            | 676           | 718           | 793           | 868           |
| Investments                    | 1             | 10            | 10            | 10            |
| Advances                       | 22,812        | 23,459        | 27,769        | 34,819        |
| Fixed & Other Assets           | 1,814         | 2,826         | 3,056         | 3,305         |
| <b>Total Assets</b>            | <b>25,303</b> | <b>27,013</b> | <b>31,628</b> | <b>39,002</b> |

Source: Company, Axis Research

## Valuation ratios (%)

| Y/E March           | FY20 | FY21  | FY22E | FY23E |
|---------------------|------|-------|-------|-------|
| EPS                 | 13.3 | 10.5  | 17.4  | 27.5  |
| Earnings growth (%) | 28%  | -21%  | 66%   | 58%   |
| Adj. BVPS           | 55.2 | 64.1  | 78.3  | 101.4 |
| ROAA (%)            | 5.5  | 3.8   | 5.6   | 7.3   |
| ROAE (%)            | 27.9 | 16.9  | 23.4  | 29.4  |
| P/E (x)             | 80.1 | 101.5 | 61.0  | 38.6  |
| Dividend Yield (%)  | 0.1  | 0.0   | 0.2   | 0.4   |

### PROFITABILITY

|                       |      |      |      |      |
|-----------------------|------|------|------|------|
| Yield on Advances (%) | 21.7 | 20.1 | 19.9 | 19.9 |
| Cost of Funds (%)     | 7.8  | 6.1  | 5.8  | 5.8  |
| Spread (%)            | 13.9 | 14.0 | 14.0 | 14.1 |
| NIM (%)               | 15.8 | 15.9 | 15.9 | 16.0 |

### OPERATING EFFICIENCY

|                           |      |      |      |      |
|---------------------------|------|------|------|------|
| Cost/Avg. Asset Ratio (%) | 21.0 | 17.8 | 18.7 | 19.0 |
| Cost-Income Ratio (%)     | 56.6 | 53.6 | 54.2 | 53.1 |

Source: Company, Axis Research

## Balance Sheet Structure Ratios (%)

| Y/E March                    | FY20 | FY21 | FY22E | FY23E |
|------------------------------|------|------|-------|-------|
| CIF Growth (%)               | 27.5 | 11.9 | 18.0  | 23.0  |
| Spends Growth (%)            | 26.8 | -6.5 | 26.8  | 30.0  |
| Receivables Growth (%)       | 30.3 | 4.0  | 16.9  | 24.0  |
| Total Capital Adequacy Ratio | 22.4 | 24.8 | 24.9  | 24.7  |
| Tier I CAR                   | 17.7 | 20.9 | 21.2  | 21.3  |

### ASSET QUALITY

|                          |     |       |       |       |
|--------------------------|-----|-------|-------|-------|
| Gross NPLs               | 484 | 1,254 | 1,254 | 1,293 |
| Net NPLs                 | 160 | 277   | 327   | 357   |
| Gross NPLs (%)           | 2.0 | 5.0   | 4.2   | 3.5   |
| Net NPLs (%)             | 0.7 | 1.2   | 1.1   | 1.0   |
| Coverage Ratio (%)       | 67  | 78    | 74    | 73    |
| Provision/Avg. Loans (%) | 9.5 | 11.7  | 9.6   | 7.9   |

### ROAA TREE

|                     |      |      |      |      |
|---------------------|------|------|------|------|
| Net Interest Income | 15.6 | 14.9 | 14.7 | 15.0 |
| Non-Interest Income | 21.6 | 18.2 | 19.8 | 20.7 |
| Operating Cost      | 21.0 | 17.8 | 18.7 | 19.0 |
| Provisions          | 8.5  | 10.3 | 8.3  | 7.0  |
| Tax                 | 2.1  | 1.3  | 1.9  | 2.5  |
| ROAA                | 5.5  | 3.8  | 5.6  | 7.3  |
| Leverage (x)        | 5.1  | 4.5  | 4.2  | 4.0  |
| ROAE                | 27.9 | 16.9 | 23.4 | 29.4 |

Source: Company, Axis Research

## RELAXO FOOTWEAR – IMPROVING MOBILITY TO AID RECOVERY

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

### Industry view



### Equalweight

**CMP**  
1,162

**Target Price**  
1290

**Upside**  
11%

### Key Rationale

- **Stable medium term outlook:** FY2022 which started on a strong note was impacted by the second wave of COVID and resultant lockdowns. However, with covid cases remaining under control and acceleration in the pace of vaccination would lead to increased movement of people thus benefitting Relaxo. We expect that the recovery seen from end July 2021 is expected to continue into the festive season as well and thus positive for topline growth of the company. Further, opening up of schools/colleges in most states, corporates functioning at full capacity in a staggered manner and overall improvement in intercity mobility would help a faster recovery in the near term in our view.
- **Large share gains opportunities:** We expect Relaxo to report market share gains from unorganised players, higher presence in e-commerce channels, and higher demand for value-for-money products. Lower per capita consumption in India, Relaxo's lower penetration in South India and sustained product additions remain long-term growth drivers. Raw-material prices have moved up, but a better revenue mix and cost-saving initiatives would help margins to remain at 20-21% levels over FY21-24E in our view.
- **Key risks:** a) slowdown in discretionary demand; b) 3<sup>rd</sup> wave of COVID and reinstatement of lockdowns; c) aggressive competitive activity; 4) RM price increase
- **Price increases to mitigate RM pressure:** Relaxo has undertaken price increases of 7-8% during Q1FY22 to mitigate the pressure from rise in RM prices. Further, with demand for close ended footwear (~80% of sales in pre-COVID period) inching up on the back of improved mobility and opening up of economy the profitability could improve going ahead in addition to cost rationalization initiatives. We expect the company to report EBITDA Margin of 20-21% over FY22-24E.
- **Valuation:** With a strong portfolio of footwear products and expansion in distribution reach (especially in southern markets), Relaxo is well poised to achieve revenue and earnings CAGR of 19% and 22%, respectively, over FY21-FY24E. Further, strong operating cash flows, healthy asset turns (3x), sustained improvement in EBITDA Margins and efficient working capital are key positives from a longer term perspective. Strong earnings visibility and strengthening of balance sheet will keep valuations at a premium. We upgrade the stock to BUY with a revised TP of Rs. 1,290/share.

### Key Financials (Consolidated)

| Y/E Mar | Net sales<br>(Rs Cr) | EBIDTA<br>(Rs Cr) | Net Profit<br>(Rs Cr) | EPS<br>(Rs) | PER<br>(x) | EV/EBIDTA<br>(x) | ROE<br>(%) | ROCE<br>(%) |
|---------|----------------------|-------------------|-----------------------|-------------|------------|------------------|------------|-------------|
| FY21    | 2,359                | 495               | 291                   | 11.7        | 97.8       | 57.5             | 20.5       | 25.5        |
| FY22E   | 2,812                | 554               | 319                   | 12.9        | 91.0       | 52.4             | 18.8       | 23.4        |
| FY23E   | 3,368                | 680               | 405                   | 16.3        | 71.7       | 42.6             | 20.3       | 25.1        |
| FY24E   | 4,081                | 845               | 525                   | 21.2        | 55.3       | 34.2             | 21.9       | 27.3        |

Source: Company, Axis Securities

| Profit & Loss                  |              | (Rs Cr)      |              |              |  |
|--------------------------------|--------------|--------------|--------------|--------------|--|
| Y/E Mar                        | FY21         | FY22E        | FY23E        | FY24E        |  |
| <b>Total Net Sales</b>         | <b>2,359</b> | <b>2,812</b> | <b>3,368</b> | <b>4,081</b> |  |
| % Change                       | (2.1)        | 19.2         | 19.8         | 21.2         |  |
| Total Raw material Consumption | 1,003        | 1,251        | 1,472        | 1,767        |  |
| Staff costs                    | 301          | 360          | 431          | 510          |  |
| Other Expenditure              | 559          | 647          | 785          | 959          |  |
| Total Expenditure              | 860          | 1,007        | 1,216        | 1,469        |  |
| <b>EBITDA</b>                  | <b>495</b>   | <b>554</b>   | <b>680</b>   | <b>845</b>   |  |
| % Change                       | 21.1         | 11.8         | 22.8         | 24.2         |  |
| <b>EBITDA Margin %</b>         | <b>21.0</b>  | <b>19.7</b>  | <b>20.2</b>  | <b>20.7</b>  |  |
| Depreciation                   | 110          | 133          | 138          | 144          |  |
| EBIT                           | 385          | 421          | 542          | 701          |  |
| % Change                       | 28.5         | 9.2          | 28.8         | 29.2         |  |
| <b>EBIT Margin %</b>           | <b>16.3</b>  | <b>15.0</b>  | <b>16.1</b>  | <b>17.2</b>  |  |
| Interest                       | 17           | 17           | 20           | 19           |  |
| Other Income                   | 23           | 22           | 19           | 20           |  |
| PBT                            | 391          | 426          | 541          | 702          |  |
| Tax                            | 100          | 107          | 136          | 177          |  |
| <i>Tax Rate %</i>              | <i>27.0</i>  | <i>25.2</i>  | <i>25.2</i>  | <i>25.2</i>  |  |
| <b>APAT</b>                    | <b>291</b>   | <b>319</b>   | <b>405</b>   | <b>525</b>   |  |
| % Change                       | 28.5         | 9.4          | 27.0         | 29.6         |  |

Source: Company, Axis Research

| Balance Sheet               |              | (Rs Cr)      |              |              |  |
|-----------------------------|--------------|--------------|--------------|--------------|--|
| Y/E Mar                     | FY21         | FY22E        | FY23E        | FY24E        |  |
| Share Capital               | 25           | 25           | 25           | 25           |  |
| Reserves & Surplus          | 1,548        | 1,803        | 2,143        | 2,604        |  |
| <b>Net Worth</b>            | <b>1,573</b> | <b>1,827</b> | <b>2,168</b> | <b>2,629</b> |  |
| Total Borrowings            | -            | -            | -            | -            |  |
| Deferred Tax Liability      | 23           | 25           | 25           | 25           |  |
| Long Term Provisions        | 16           | 20           | 25           | 25           |  |
| Other Long Term Liability   | 115          | 130          | 130          | 130          |  |
| <b>Capital Employed</b>     | <b>1,727</b> | <b>2,002</b> | <b>2,348</b> | <b>2,809</b> |  |
| Gross Block                 | 1,010        | 1,093        | 1,159        | 1,231        |  |
| Less: Depreciation          | 289          | 354          | 438          | 524          |  |
| Net Block                   | 721          | 739          | 722          | 706          |  |
| Other Non Current Assets    | 375          | 391          | 393          | 395          |  |
| Investments                 | 338          | 300          | 450          | 700          |  |
| Sundry Debtors              | 181          | 247          | 295          | 358          |  |
| Cash & Bank Bal             | 8            | 48           | 96           | 178          |  |
| Loans & Advances            | 0            | 0            | 0            | 0            |  |
| Inventory                   | 422          | 521          | 624          | 756          |  |
| Other Current Assets        | 130          | 250          | 350          | 350          |  |
| <b>Total Current Assets</b> | <b>742</b>   | <b>1,066</b> | <b>1,366</b> | <b>1,642</b> |  |
| CurrLiab&Prov               | 449          | 493          | 582          | 635          |  |
| Net Current Assets          | <b>293</b>   | <b>572</b>   | <b>783</b>   | <b>1,007</b> |  |
| <b>Total Assets</b>         | <b>1,727</b> | <b>2,002</b> | <b>2,348</b> | <b>2,809</b> |  |

Source: Company, Axis Research

| Cash Flow                                     | (Rs Cr)      |              |              |              |
|---|--------------|--------------|--------------|--------------|
|   | Y/E Mar      | FY21         | FY22E        | FY23E        |
| PBT   | 391          | 426          | 541          | 702          |
| Depreciation & Amortization                   | 110          | 133          | 138          | 144          |
| Net Finance Interest and other expenses       | 15           | (6)          | 1            | (1)          |
| Chg in Working cap                            | 86           | (239)        | (158)        | (142)        |
| Direct tax paid                               | (89)         | (107)        | (136)        | (177)        |
| <b>Cash flow from operations</b>              | <b>513</b>   | <b>208</b>   | <b>386</b>   | <b>526</b>   |
| Chg in Gross Block                            | (453)        | (107)        | (254)        | (361)        |
| Chg in Investments                            | -            | -            | -            | -            |
| Chg in WIP                                    | -            | -            | -            | -            |
| <b>Cash flow from investing</b>               | <b>(453)</b> | <b>(107)</b> | <b>(254)</b> | <b>(361)</b> |
| Proceeds / (Repayment) of ST Borrowings (Net) | (1)<br>9)    | 2<br>1       | -            | -            |
| Repayment of LT Borrowings                    | -            | -            | -            | -            |
| Loans Repayment                               |              |              |              |              |
| Finance Cost paid                             | (17)         | (17)         | (20)         | (19)         |
| Dividends paid                                | -            | (64)         | (64)         | (64)         |
| Other repayment                               | (20)         | -            | -            | -            |
| <b>Cash flow from financing</b>               | <b>(56)</b>  | <b>(60)</b>  | <b>(84)</b>  | <b>(83)</b>  |
| <b>Chg in cash</b>                            | <b>3</b>     | <b>42</b>    | <b>48</b>    | <b>82</b>    |
| Cash at start                                 | 3            | 6            | 48           | 96           |
| Cash at end                                   | 6            | 48           | 96           | 178          |

Source: Company, Axis Research

| Ratio Analysis              | (%)        |      |       |       |
|-----------------------------|------------|------|-------|-------|
|                             | Key Ratios | FY21 | FY22E | FY23E |
| <b>Growth (%)</b>           |            |      |       |       |
| Net Sales                   | (2.1)      | 19.2 | 19.8  | 21.2  |
| EBITDA                      | 21.1       | 11.8 | 22.8  | 24.2  |
| APAT                        | 28.5       | 9.4  | 27.0  | 29.6  |
| <b>Per Share Data (Rs.)</b> |            |      |       |       |
| Adj. EPS                    | 11.7       | 12.9 | 16.3  | 21.2  |
| BVPS                        | 63         | 74   | 87    | 106   |
| <b>Profitability (%)</b>    |            |      |       |       |
| EBITDA Margin               | 21.0       | 19.7 | 20.2  | 20.7  |
| Adj. PAT Margin             | 12.4       | 11.3 | 12.0  | 12.9  |
| ROCE                        | 23.6       | 22.1 | 23.9  | 25.7  |
| ROE                         | 18.5       | 17.5 | 18.7  | 20.0  |
| <b>Valuations (X)</b>       |            |      |       |       |
| PER                         | 98         | 91   | 72    | 55    |
| P/BV                        | 18         | 16   | 13    | 11    |
| EV / EBITDA                 | 58         | 52   | 43    | 34    |
| EV / Net Sales              | 12.1       | 10.3 | 8.6   | 7.1   |
| <b>Turnover Days</b>        |            |      |       |       |
| Asset Turnover              | 3.2        | 3.9  | 4.6   | 5.7   |
| Inventory days              | 65         | 68   | 68    | 68    |
| Debtors days                | 28         | 32   | 32    | 32    |
| Creditors days              | 44         | 38   | 36    | 35    |
| Working Capital Days        | 50         | 62   | 64    | 64    |
| <b>Gearing Ratio</b>        |            |      |       |       |
| Net Debt to Equity          | (0)        | 0    | (0)   | (0)   |

Source: Company, Axis Research

## ADITYA BIRLA FASHION AND RETAIL– PRIME TO PLAY FESTIVE SEASON

ABFRL combines Madura's portfolio of leading power brands (Allen Solly, Van Heusen, Louis Philippe and Peter England) with Pantaloons' forte of largest value fashion retailer. The company has a robust distribution network with 2874 brand stores along with 342 Pantaloons stores. ABFRL forayed into the Ethnic Wear segment through strategic partnerships with designers like Shantanu& Nikhil, TarunTahiliani and Sabyasachi besides Jaypore.

### Key Rationale

- Positive festive season pick-up:** Retail sales in August 2021 reached to 88% of the pre-COVID levels of August 2019 as per industry sources with a strong uptick seen in North and South India. We note there is strong pent up demand that would drive growth for offline sales as consumers have remained in isolation and shut downs for over two years now and there is an aching need for celebrations. With speeding up of the vaccination drive and increased mobility of people, festive season sales are expected to be either better or near pre-pandemic levels provided there is no disruption from an adverse 3<sup>rd</sup> COVID wave. Management too remains upbeat on reporting a steady recovery seen in Q2FY22 owing to increased travel/outing and weddings as restrictions ease out on QoQ/YoY basis.
- Balance sheet deleveraging:** Owing to aggressive store expansions, renovation of Pantaloons, high value acquisitions in Ethnic wear and pandemic related stress on inventory build up, higher fixed costs etc led to increase in the overall debt levels during FY21 and in Q1FY22. However, with a total fund raise of Rs. 2,500Cr through preferential issue of Rs. 1,500Cr to Flipkart for 7.8% stake and a Right Issue of nearly Rs. 1,000Cr would aid ABFRL in balance sheet deleveraging going forward. Management is confident of maintaining Debt/EBITDA level in the range of 1-2x going forward. Moreover, working capital is expected to become leaner with adoption of a 12 season model.
- Key risks:** a) disruptions caused third wave of COVID if any; b) increased value consciousness, c) aggressive competitive intensity.
- Store Expansion and Omni-channel strategy to drive growth:** ABFRL has aggressive store expansion plan for FY22 with 60+ Pantaloons stores and ~400+ franchise stores for lifestyle brand Madura. Plans are afoot to open ~200+ stores under Peter England Red Stores and Allen Solly Prime Stores to penetrate further in small towns. To further strengthen its omni-channel strategy ABFRL plans to make 2000+ stores omni enabled from current 1,300 stores. The company also plans to launch a new Pantaloons website in Q3FY22 and a multi-brand app in Q4FY22. Upcoming wedding season bodes well for the company's strategic focus on a more profitable Ethnic market and should support growth over the long term. Ethnic market is ~30% of apparel market with women's ethnic wear being the single largest segment in the Indian apparel market.
- Valuation:** Over the years, ABFRL has built a strong brand with high growth potential catering to various categories in the fashion segments. We expect lifestyle brands (Louis Philippe, Van Heusen, Peter England and Allen Solly) to lead in the men's formal and casual wear in the mid premium and premium space and yield a healthy return over the medium term. Pantaloon is also well set in the value range apparel market after years of investments and business restructuring. Innerwear and other fashion ventures including ahtleisure and ethnic wear are likely to provide ABFRL with incremental growth opportunity. In light of the immense growth potential we continue with our BUY rating and an SOTP based TP of Rs. 250/share.

### Industry view



### Equalweight

**CMP**  
214

**Target Price**  
250

**Upside**  
17%

### Key Financials (Consolidated)

| Y/E Mar | Net sales<br>(Rs Cr) | EBIDTA<br>(Rs Cr) | Net Profit<br>(Rs Cr) | EPS<br>(Rs) | PER<br>(x) | EV/EBIDTA<br>(x) | ROE<br>(%) | ROCE<br>(%) |
|---------|----------------------|-------------------|-----------------------|-------------|------------|------------------|------------|-------------|
| FY21    | 5,249                | 555               | -736                  | -23         | NM         | NM               | -27%       | -6%         |
| FY22E   | 7,817                | 1,352             | 18                    | 0           | 1,166      | 16               | 1%         | 6%          |
| FY23E   | 9,523                | 1,705             | 282                   | 3           | 73         | 12               | 9%         | 11%         |
| FY24E   | 11,210               | 2,029             | 512                   | 6           | 40         | 10               | 14%        | 15%         |

Source: Company, Axis Securities

| <b>Profit &amp; Loss</b>       |        | <b>(Rs Cr)</b> |         |        |  |
|--------------------------------|--------|----------------|---------|--------|--|
| Y/E March                      | FY21   | FY22E          | FY23E   | FY24E  |  |
| <b>Total Net Sales</b>         | 5,249  | 7,817          | 9,523   | 11,210 |  |
| % Change                       | (40.3) | 48.9           | 21.8    | 17.7   |  |
| Total Raw material Consumption | 2,563  | 3,760          | 4,571   | 5,359  |  |
| Staff costs                    | 865    | 977            | 1,143   | 1,345  |  |
| Other Expenditure              | 1,266  | 1,728          | 2,104   | 2,477  |  |
| Total Expenditure              | 2,131  | 2,705          | 3,247   | 3,823  |  |
| <b>EBITDA</b>                  | 555    | 1,352          | 1,705   | 2,029  |  |
| % Change                       | (54.2) | 143.7          | 26.0    | 19.0   |  |
| <b>EBITDA Margin %</b>         | 10.6   | 17.3           | 17.9    | 18.1   |  |
| Depreciation                   | 963    | 1097           | 1083    | 1090   |  |
| EBIT                           | -408   | 256            | 622     | 939    |  |
| % Change                       | NA     | NA             | 143.3   | 51.1   |  |
| <b>EBIT Margin %</b>           | -7.8   | 3.3            | 6.5     | 8.4    |  |
| Interest                       | 503    | 322            | 340     | 350    |  |
| Other Income                   | 73     | 90             | 95      | 95     |  |
| PBT                            | -837   | 24             | 377     | 684    |  |
| Tax                            | (102)  | 6              | 95      | 172    |  |
| <i>Tax Rate %</i>              | 25.2   | 25.2           | 25.2    | 25.2   |  |
| <b>APAT</b>                    | (736)  | 18             | 282     | 512    |  |
| % Change                       | NA     | NA             | 1,502.5 | 81.6   |  |

Source: Company, Axis Research

| <b>Balance Sheet</b>        |        | <b>(Rs Cr)</b> |       |       |  |
|-----------------------------|--------|----------------|-------|-------|--|
| Y/E March                   | FY21   | FY22E          | FY23E | FY24E |  |
| Share Capital               | 915    | 938            | 938   | 938   |  |
| Reserves & Surplus          | 1,761  | 2,029          | 2,310 | 2,822 |  |
| <b>Net Worth</b>            | 2,676  | 2,966          | 3,248 | 3,760 |  |
| Total Borrowings            | 818    | 910            | 760   | 510   |  |
| Deferred Tax Liability      | 11     | 7              | 7     | 7     |  |
| Long Term Provisions        | 96     | 120            | 130   | 130   |  |
| Other Long Term Liability   | 2,349  | 2,210          | 2,500 | 2,500 |  |
| <b>Capital Employed</b>     | 5,951  | 6,213          | 6,645 | 6,907 |  |
| Gross Block                 | 5,724  | 7,061          | 8,148 | 5,752 |  |
| Less: Depreciation          | 2,270  | 3,194          | 4,102 | 1,773 |  |
| Net Block                   | 3,454  | 3,867          | 4,046 | 3,978 |  |
| Other Non Current Assets    | 2,816  | 3,037          | 3,107 | 3,107 |  |
| Investments                 | 344.31 | -              | -     | -     |  |
| Sundry Debtors              | 730    | 750            | 913   | 1,075 |  |
| Cash & Bank Bal             | 261    | 309            | 253   | 319   |  |
| Loans & Advances            | 7      | 15             | 40    | 40    |  |
| Inventory                   | 1,847  | 2,443          | 2,886 | 3,397 |  |
| Other Current Assets        | 713    | 250            | 750   | 750   |  |
| <b>Total Current Assets</b> | 3,558  | 3,767          | 4,841 | 5,581 |  |
| CurrLiab&Prov               | 4,221  | 4,457          | 5,349 | 5,759 |  |
| Net Current Assets          | -663   | -691           | -508  | -178  |  |
| <b>Total Assets</b>         | 5,951  | 6,213          | 6,645 | 6,907 |  |

Source: Company, Axis Research



| <b>Cash Flow</b>                              | <b>(Rs Cr)</b> |                |                |              |
|---|----------------|----------------|----------------|--------------|
| <b>Y/E March</b>                              | <b>FY21</b>    | <b>FY22E</b>   | <b>FY23E</b>   | <b>FY24E</b> |
| PBT   | (837)          | 24             | 377            | 684          |
| Depreciation & Amortization                   | 963            | 1097           | 1083           | 1090         |
| Net Finance Interest and other expenses       | 129            | 232            | 245            | 255          |
| Chg in Deferred tax                           |                |                |                |              |
| Chg in Working cap                            | 853            | 82             | (239)          | (263)        |
| Direct tax paid                               | 3              | 6              | 95             | 172          |
| <b>Cash flow from operations</b>              | <b>1,104</b>   | <b>1,428</b>   | <b>1,370</b>   | <b>1,593</b> |
|   | 0              | 0              | 0              | 0            |
| Chg in Gross Block                            | -161           | -1,510         | -1,262         | -1,022       |
| Chg in Investments                            | (398)          | 434            | 95             | 95           |
| Chg in WIP                                    | (296)          | (222)          | (70)           | -            |
| <b>Cash flow from investing</b>               | <b>(855)</b>   | <b>(1,297)</b> | <b>(1,237)</b> | <b>(927)</b> |
|   | 0              | 0              | 0              | 0            |
| Proceeds / (Repayment) of ST Borrowings (Net) | -1,655         | -33            | 150            | -250         |
| Repayment of LT Borrowings                    | 2,239          | 250            | -              | -            |
| Loans Repayment                               | -              | -              | -              | 1.00         |
| Finance Cost paid                             | (476)          | (322)          | (340)          | (350)        |
| Dividends paid                                | -              | -              | -              | 1            |
| Other repayment                               | (377)          | 14             | -              | -            |
| <b>Cash flow from financing</b>               | <b>(269)</b>   | <b>(91)</b>    | <b>(190)</b>   | <b>(599)</b> |
| <b>Chg in cash</b>                            | <b>(20)</b>    | <b>39</b>      | <b>(57)</b>    | <b>67</b>    |
| Cash at start                                 | 267            | 247            | 287            | 230          |
| Cash at end                                   | 247            | 287            | 230            | 297          |

Source: Company, Axis Research

| <b>Ratio Analysis</b>       | <b>(%)</b>  |              |              |              |
|-----------------------------|-------------|--------------|--------------|--------------|
| <b>Y/E March</b>            | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> | <b>FY24E</b> |
| <b>Growth (%)</b>           |             |              |              |              |
| Net Sales                   | (40.3)      | 48.9         | 21.8         | 17.7         |
| EBITDA                      | (54.2)      | 143.7        | 26.0         | 19.0         |
| APAT                        | NA          | NA           | 1,502.5      | 81.6         |
| <b>Per Share Data (Rs.)</b> |             |              |              |              |
| Adj. EPS                    | (22.9)      | 0.2          | 3.1          | 5.6          |
| BVPS                        | 63          | 35           | 35           | 41           |
| <b>Profitability (%)</b>    |             |              |              |              |
| EBITDA Margin               | 10.6        | 17.3         | 17.9         | 18.1         |
| Adj. PAT Margin             | (14.0)      | 0.2          | 3.0          | 4.6          |
| ROCE                        | -5.6        | 5.6          | 10.8         | 15.0         |
| ROE                         | (27.5)      | 0.6          | 8.7          | 13.6         |
| <b>Valuations (X)</b>       |             |              |              |              |
| PER                         | (9.8)       | 1,165.7      | 72.7         | 40.0         |
| P/BV                        | 3.5         | 6.4          | 6.4          | 5.5          |
| EV / EBITDA                 | (36.4)      | 15.6         | 12.3         | 10.2         |
| EV / Net Sales              | 3.3         | 2.7          | 2.2          | 1.8          |
| <b>Turnover Days</b>        |             |              |              |              |
| Asset Turnover              | 1.6         | 2.1          | 2.4          | 2.8          |
| Inventory days              | 128         | 114          | 111          | 111          |
| Debtors days                | 51          | 35           | 35           | 35           |
| Creditors days              | 151         | 111          | 111          | 111          |
| Working Capital Days        | 28          | 39           | 35           | 35           |
| <b>Gearing Ratio</b>        |             |              |              |              |
| <b>Debt: Equity (x)</b>     |             |              |              |              |
| Net Debt to Equity          | 0.21        | 0.20         | 0.16         | 0.05         |

Source: Company, Axis Research

## SAFARI INDUSTRIES – SET TO PACK AND ROLL AS NORMALCY KICKS IN

Safari Industries (India) Limited is engaged in manufacturing and trading of luggage and luggage accessories. The Company's product range includes polycarbonate (PC) zippered luggage. It also offers products under various categories, such as laptop bags and backpacks. Its backpacks categories include Everyday Casual Backpack, Laptop Backpacks, Rucksack, Concept Backpacks, Overnighter.

### Key Rationale

- **Improving Travel Industry Prospects:** The aviation industry recently increased the seating capacity of domestic flights to 85% as the travel demand has picked up in the wake of increasing vaccination coverage in the country and reducing COVID-19 cases. On the back of the upcoming festive season, wedding pick up and holiday season, the travel activities are seeing an improvement and likely to hit pre-COVID levels by CY21 end. Further, opening up of international travel in a measured manner too would augur well for Safari in the luggage industry.
- **Healthy Q1FY22 performance:** The revenues for Q1FY22 stood at Rs 120 Cr, up 497% on a YoY basis although QoQ it was impacted due to second wave. Revenues recovered to ~60% of pre-COVID levels, down from ~92% in Q4FY21 as the country was hit by the second COVID-19 wave. While Q1FY22 performance was adversely impacted due to reimposed lockdowns by state governments, acceleration in vaccination and gradual lockdown relaxations are expected to lead to a rising preference for short-haul leisure trips.
- **Market share gains to continue:** Safari has been a beneficiary of a notable downtrading in the luggage industry as consumers' preferences shift to value products where Safari is well-placed vis-a-vis premium brands. Share gains have also come from unorganized players that are struggling due to small-scale operations, liquidity crunch given disruptions in the supply chain, and inability to pass on RM price increases. Shift from unorganised to organized players will bode well for Safari to capitalize on opportunities in the value space as well as in the mid-premium segment.
- **FY22 Outlook:** The management indicated to register growth higher than pre-Covid levels in the Aug-Nov'21 period on account of an increase in the domestic leisure travel, marriage season, corporate gifting, and gradual re-opening of schools and colleges. Further, with gradual opening up of offices business travel too would crawl back from FY23 onwards but would be lower than leisure travel.
- **Outlook & Valuation:** Although the company's near-term earnings outlook remains clouded as travel and people movement continue to be restricted albeit better than previous periods, we think short-haul trips and marriage-led demand could support growth in H2FY22. Moreover, the long-term outlook for the sector looks promising given multiple growth drivers such as 1) accelerated shift in consumer preferences from unorganized labels to brands, 2) rising leisure travel, 3) increased focus on strengthening the Safari brand, and 4) de-risking of sourcing from China to alternate sources such as Bangladesh and India. We maintain our BUY rating and upgrade our FY24E estimates and TP given the strong growth outlook in the domestic leisure travel and gradual opening up of the international travel while continue valuing the stock at 45x P/E on its FY24E EPS (premium to its peer) as we expect Safari to report strong growth over FY21-24E. Our revised TP is Rs 922/share (earlier Rs 900/share).
- **Key Risk:** 1) sudden spike in COVID cases and ensuing restrictions on travel; 2) spike in RM costs; 3) rising competitive activity

### Industry view



Equalweight

**CMP**  
824

**Target Price**  
922

**Upside**  
12%

### Key Financials (Consolidated)

| Y/E Mar (Rs Cr) | Net Sales | EBIDTA | Net Profit | EPS (Rs) | PER (x) | EV/EBIDTA (x) | ROE (%) | ROCE (%) |
|-----------------|-----------|--------|------------|----------|---------|---------------|---------|----------|
| FY21            | 328       | (6)    | (21)       | (7.2)    | NM      | NM            | (7.5%)  | (8.6%)   |
| FY22E           | 525       | 33     | 10         | 4.3      | 193.1x  | 55.7x         | 3.3%    | 3.6%     |
| FY23E           | 735       | 58     | 27         | 12.1     | 68.9x   | 30.9x         | 8.6%    | 9.0%     |
| FY24E           | 896       | 86     | 46         | 20.5     | 40.7x   | 20.5x         | 12.8%   | 13.5%    |

Source: Company, Axis Securities

## Profit & Loss

## (Rs Cr) Balance Sheet

## (Rs Cr)

| Y/E Mar, Rs. Cr                | FY21       | FY22E       | FY23E       | FY24E       |
|--------------------------------|------------|-------------|-------------|-------------|
| <b>Total Net Sales</b>         | <b>328</b> | <b>525</b>  | <b>735</b>  | <b>896</b>  |
| % Change                       | -52%       | 60%         | 40%         | 22%         |
| Total Raw material Consumption | 191        | 303         | 420         | 506         |
| Staff costs                    | 60         | 67          | 92          | 106         |
| Other Expenditure              | 83         | 121         | 165         | 199         |
| Total Expenditure              | 334        | 492         | 677         | 810         |
| <b>EBITDA</b>                  | <b>(6)</b> | <b>33</b>   | <b>58</b>   | <b>86</b>   |
| <b>EBITDA Margin %</b>         | <b>--</b>  | <b>6.3%</b> | <b>7.9%</b> | <b>9.6%</b> |
| Depreciation                   | 20         | 19          | 21          | 25          |
| EBIT                           | -26        | 14          | 37          | 61          |
| % Change                       | --         | -           | 163.4%      | 64.8%       |
| EBIT Margin %                  | --         | 2.7%        | 5.0%        | 6.8%        |
| Interest                       | 6          | 5           | 5           | 4           |
| Other Income                   | 3          | 4           | 4           | 4           |
| PBT                            | -29        | 13          | 36          | 61          |
| Tax                            | -8         | 3           | 9           | 15          |
| Tax Rate %                     | 27.5%      | 25.2%       | 25.2%       | 25.2%       |
| <b>APAT</b>                    | <b>-21</b> | <b>10</b>   | <b>27</b>   | <b>46</b>   |

Source: Company, Axis Research

| Y/E Mar, Rs. Cr                 | FY21       | FY22E      | FY23E      | FY24E      |
|---------------------------------|------------|------------|------------|------------|
| Share Capital                   | 4.5        | 4.5        | 4.5        | 4.5        |
| Reserves & Surplus              | 275        | 284        | 310        | 355        |
| Net Worth                       | 279        | 288        | 315        | 360        |
| Total Loan funds                | 5          | 80         | 75         | 70         |
| <b>Total Liabilities</b>        | <b>307</b> | <b>392</b> | <b>413</b> | <b>453</b> |
| Net Block                       | 37         | 58         | 47         | 42         |
| Sundry Debtors                  | 90         | 104        | 145        | 172        |
| Cash & Bank Bal                 | 5          | 47         | 9          | 6          |
| Inventory                       | 114        | 129        | 177        | 211        |
| Other Current Assets            | 10         | 11         | 15         | 19         |
| Total Current Assets            | 280        | 352        | 408        | 469        |
| Current Liabilities & Provision | 90         | 73         | 99         | 117        |
| Net Current Assets              | 190        | 279        | 309        | 352        |
| <b>Total Assets</b>             | <b>307</b> | <b>392</b> | <b>413</b> | <b>453</b> |

Source: Company, Axis Research

| Cash Flow   | (Rs Cr)         |            |            |            |
|---|-----------------|------------|------------|------------|
|   | Y/E Mar, Rs. Cr | FY21       | FY22E      | FY23E      |
| <b>PBT</b>  | <b>-29</b>      | <b>13</b>  | <b>36</b>  | <b>61</b>  |
| Depreciation & Amortization                           | 20              | 19         | 21         | 25         |
| Provision for Taxes                                   | 6               | 5          | 5          | 4          |
| Chg in Deferred tax                                   | 8               | 0          | 0          | 0          |
| Chg in Working cap                                    | -3              | 3          | 4          | 2          |
| Direct tax paid                                       | 1               | -3         | -9         | -15        |
| <b>Cash flow from operations</b>                      | <b>3</b>        | <b>36</b>  | <b>56</b>  | <b>78</b>  |
| Chg in Gross Block                                    | -8              | -40        | -10        | -20        |
| Chg in Investments                                    | -93             | 31         | -1         | -1         |
| Chg in WIP  | 1               | -6         | -1         | -1         |
| <b>Cash flow from investing</b>                       | <b>-100</b>     | <b>-15</b> | <b>-12</b> | <b>-22</b> |
| Proceeds / (Repayment) of Short Term Borrowings (Net) | -1              | 75         | -5         | -5         |
| Finance Cost paid                                     | -6              | -5         | -4         | -4         |
| <b>Cash flow from financing</b>                       | <b>-10</b>      | <b>70</b>  | <b>-10</b> | <b>-10</b> |
| <b>Chg in cash</b>                                    | <b>1</b>        | <b>42</b>  | <b>-37</b> | <b>-3</b>  |
| <b>Cash at start</b>                                  | <b>1</b>        | <b>2</b>   | <b>44</b>  | <b>6</b>   |
| <b>Cash at end</b>                                    | <b>2</b>        | <b>44</b>  | <b>6</b>   | <b>3</b>   |

Source: Company, Axis Research

| Ratio Analysis              | FY21    |        |        |       |
|-----------------------------|---------|--------|--------|-------|
|                             | Y/E Mar | FY21   | FY22E  | FY23E |
| <b>Growth (%)</b>           |         |        |        |       |
| Net Sales                   | --      | 60.0%  | 40.0%  | 22.0% |
| EBITDA                      | --      | --     | 75.6%  | 48.3% |
| APAT                        | --      | --     | 180.3% | 69.4% |
| <b>Per Share Data (Rs.)</b> |         |        |        |       |
| Adj. EPS                    | --      | 4.3    | 12.1   | 20.5  |
| BVPS                        | 124.6   | 128.8  | 140.6  | 160.6 |
| DPS                         | -0.2    | 0.1    | 0.3    | 0.5   |
| <b>Profitability (%)</b>    |         |        |        |       |
| EBITDA Margin               | --      | 6.3%   | 7.9%   | 9.6%  |
| Adj. PAT Margin             | --      | 1.8%   | 3.7%   | 5.1%  |
| ROCE                        | --      | 3.6%   | 9.0%   | 13.5% |
| ROE                         | --      | 3.3%   | 8.6%   | 12.8% |
| ROIC                        | --      | 4.1%   | 9.2%   | 13.7% |
| <b>Valuations (X)</b>       |         |        |        |       |
| PER                         | --      | 193.1x | 68.9x  | 40.7x |
| P/BV                        | 6.7x    | 6.5x   | 5.9x   | 5.2x  |
| EV / EBITDA                 | --      | 55.7x  | 30.9x  | 20.5x |
| EV / Net Sales              | 5.4x    | 3.5x   | 2.4x   | 2.0x  |
| <b>Gearing Ratio</b>        |         |        |        |       |
| Debt to Equity              | 0.0x    | 0.3x   | 0.2x   | 0.2x  |

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