HDFC securities

HIGH EARNINGS GROWTH PORTFOLIO

January 01, 2020

Axis Bank	LTP 754.1
ICICI Bank	LTP 538.9
SBI Life Insurance	LTP 965.0
Ultratech Cement	LTP 4060.0
APL Apollo Tubes Ltd	LTP 1877.7

Company	LTP
Apollo Hospital Enterprise Ltd	1442.0
Gujarat Gas Ltd	237.6
IFB Industries Ltd	668.7
Sudarshan Chemicals Ltd	407.1
Trent Ltd	527.2

LTP as of Dec 31, 2019

Focused high earnings growth portfolio

We present herewith a list of 10 large, midcap and smallcap companies that can potentially double their earnings in three years (FY19 to FY22). These stocks have the right framework in place and have withstood the slowdown well. Their business offers enough scope for growth and market share gains.

They have displayed proven managerial ability to deliver credible consistent performance. These companies have management that have proven history of creating superior business models which are least impacted by adverse cycles or regulations. The franchise and/or competitive advantage enjoyed by them makes us comfortable about the consistency and predictability of earnings growth.

Current valuations of these companies partly reflect the above and the expectations of improved performance. Hence their stock returns from hereon may not necessarily mirror their earnings performance.

However these companies give comfort that unless the macros of India remain dented for some more quarters, they have the ability to bounce back vigorously from short term adverse situations and deliver superior consistent earnings growth.

We have given below the ideal entry bands in which lumpsum or staggered buying may be made. Investors can expect 15%-20% compounded returns in these stocks unless the entire buying is done at cycle highs.

Happy Investing !

Company	Industry	Eq Capital Sep 2019	CMP	Ideal entry Band	52 Week High	52 Week Low	Market Cap	Avg Net Sales of Last 4 Quarters	Latest Book value	Dividend (%)	FV	EPS TTM	EPS FY19	EPS H1FY20	OPM% (Q2FY20)	P/E on TTM EPS	P/BV	Div Yield	RONW
Axis Bank	Banks	563.8	754.1	656-805	826.6	603.6	212,592	15,189	297.5	50	2	16.6	19.6	4.8	50.1%	45.4	2.6	0.1%	7.2
ICICI Bank	Banks	1292.2	538.9	467-585	550.5	336.3	348,170	20,844	166.3	50	2	10.4	6.6	5.7	3.1%	52.0	3.3	0.2%	5.2
SBI Life Insurance	Life Insurance	1000.0	965.0	823-1040	1030.0	510.0	96,500	9,310	80.7	20	10	12.2	13.3	5.0	1.1%	78.9	12.2	0.2%	18.8
UltraTech Cem.	Cement	274.7	4060.0	3540-4300	4903.9	3340.0	111,508	10,317	1206.3	115	10	119.8	83.9	64.5	19.9%	33.9	3.4	0.3%	9.1
APL Apollo	Steel - Tubes / Pipes	24.3	1877.7	1670-1985	1698.0	1009.1	4,553	1,806	492.4	140	10	76.8	62.5	46.2	4.5%	24.5	3.6	0.8%	16.5
Apollo Hospitals	Hospitals / Medical	69.6	1442.0	1285-1544	1575.0	1083.0	20,061	2,602	266.8	120	5	20.3	17.0	10.3	14.6%	71.1	5.3	0.4%	8.0
Gujarat Gas	Gas Distribution	137.7	237.6	197-260	236.8	116.0	16,353	2,288	41.4	50	2	14.9	6.1	10.9	14.7%	16.0	5.5	0.4%	20.7
IFB Industries	Domestic Appliance	41.3	668.7	560-730	999.0	559.4	2,762	691	160.3	0	10	13.5	18.0	7.9	7.1%	49.5	4.2	0.0%	10.3
Sudarshan Chem.	Dyes And Pigments	13.9	407.1	354-440	440.0	291.1	2,819	382	91.4	300	2	17.2	19.5	12.7	16.0%	23.7	4.3	1.5%	16.2
Trent *	Specialty Retail	35.6	527.2	448-572	567.5	320.0	18,740	757	68.8	130	1	2.7	2.9	1.7	13.7%	194.9	7.9	0.2%	5.9

* - Standalone numbers, rest are consolidated numbers; Book value is standalone even where consolidated numbers are available, CMP is as of 31 December 2019

All figures provided are in Rscr (except FV, CMP,52 week high, 52 week low, BV, Ideal Entry band & EPS). OPM, Dividend, Dividend yield, promoter shareholding and RONW are in %. OPM has been calculated without other income (OI)

HDFC Scrip Code	AXIBANEQNR
BSE Code	532215
NSE Code	AXISBANK
Bloomberg	AXSB IN
CMP (as on 31 Dec, 19)	Rs.754.1
Equity Capital (Rs cr)	523.95
Face Value (Rs)	2
Equity Sh. Outstanding (cr)	262
Market Cap (Rs cr)	2,12,592.0
Book Value (Rs)	298
Avg. 52 Week Volumes	10465207
52 Week High	Rs.826.55
52 Week Low	Rs.604.65

Shareholding Pattern % (Sept 2019)	
Promoters	16.2
Institutions	69.3
Non Institutions	12.2
Custodians	2.3

Fundamental Research Analyst:
Nisha Sankhala
Nishaben.shankhala@hdfcsec.com

- Axis Bank is the third-largest private sector bank in India in terms of advances as well as deposits. The bank offers the entire spectrum of financial services to customer segments like large and mid-sized-corporates, MSMEs, and agriculture and retail businesses.
- We strongly feel that Asset Quality worsening has peaked out for corporate facing banks. This is evident also in the case of Axis bank as absolute NPAs have been reducing on QoQ basis since last 5 quarters. Higher corporate delinquencies are likely over by end of this fiscal year.
- Axis has consistently focused on de-risking its loan book by reducing corporate portfolio and focusing on high margin less risky retail segment. Now retail contributes 52% of the total loan book.
- New management has unveiled its Vision FY20-22, wherein they have highlighted key changes the bank will be making in the next few years to be able to deliver sustainable RoE of 18%.
- Worst being behind (in terms of asset quality) and strategic growth plans from new management gives confidence on Axis Bank's future. Key positives like high CASA ratio, wide distribution network, franchise value, Well-capitalised Balance Sheet (post recent fund raise) and the growing share of retail loans support our bullish view on the stock. We have estimated 15% CAGR in NII and 49% in Net Profit while loan book to see 17% CAGR over FY19-22E.

Concerns:

- Deterioration of macro environment can result in higher slippages and slowdown in business growth.
- Sharp decline in quality of asset or shock from outside the currently defined stressed asset pool.

Financial Summary

(Rs Cr)	FY19	FY20E	FY21E	FY22E
NII	21,708.0	25,415.0	29,324.0	33,370.0
PPOP	19,005.0	23,655.0	26,805.0	29,843.0
PAT	4,677.0	5,762.0	12,654.0	15,556.0
EPS (Rs)	18.2	20.4	44.9	55.2
ROAA (%)	0.6	0.7	1.3	1.4
Adj. BVPS (Rs)	215.0	272.0	314.0	363.0
P/ABV (x)	3.5	2.8	2.4	2.1
P/E (x)	41.5	37.1	16.8	13.7

(Source: Company, HDFC sec)

HDFCSec Scrip Code	ICIBANEQNR
BSE Code	532174
NSE Code	ICICIBANK
Bloomberg	ICICIBC IN
CMP (as on 31 Dec, 19)	Rs.538.9
Equity Capital (Rs cr)	1293.8
Face Value (Rs)	2
Eq- Sh Outstanding cr	646.9
Market Cap (Rs cr)	348,170
Book Value (Rs)	168.1
Avg. 52 Week Volumes	21,435,000
52 Week High	Rs 550.50
52 Week Low	Rs 336.25

Shareholding Pattern % (Sept 2019)	
Promoters	0.0
Institutions	69.1
Non Institutions	30.9
Total	100.0

Fundamental Research Analyst:
Atul Karwa
atul.karwa@hdfcsec.com

ICICI Bank Ltd. (IBL) is the second largest private sector bank in India in terms of assets size and is designated as one of the Domestic Systemically Important Bank (D-SIB) in the country. The total balance sheet size of the bank on standalone basis stood at Rs 9,970bn as of Q2FY20. The ICICI Group has a unique franchise with a presence across customer segments, products and geographies, excellent technology capabilities and a diverse talent pool. The bank's strong market leadership is complemented by its robust franchise of 5,228 branches and 15,159 ATMs as on September 30, 2019.

Key highlights

- ICICI Bank Ltd. (IBL) is the second largest private sector bank in India and designated as one of the Domestic Systemically Important Bank (D-SIB) in the country. ICICI Bank has transformed itself from a corporate focussed bank to a retail bank in the last 5 years. Retail advances have grown at a CAGR of 21.7% over FY14-FY19 and the share of retail loans have increased from 39% to 60% of the loan book. Retail loans have higher yields and lower slippages which will go on to boost overall margins.
- IBL has faced several challenges in the last few years due to its exposure to corporate loans in stressed sectors like Power, Iron & Steel, Mining, etc. The resolution of many of these accounts under IBC and the shift of the bank towards retail portfolio, has led to a significant moderation in gross slippages.
- CASA ratio of IBL is amongst the best in the industry and second only to Kotak Mahindra Bank. Due to this strong CASA franchise, the bank has managed to keep its cost of deposits low, which helps the bank in the current tight liquidity environment.
- IBL is looking to improve its operating efficiency, through steady growth in loan book, better cost management and offering technology-enabled services. Sustainable growth in its fee income would support increasing profits.
- IBL is a financial conglomerate. Through its nine subsidiaries, the bank has presence in insurance (life & general), asset management, broking & investment banking, private equity and debt underwriting which enables higher valuation to be assigned to the stock.

Outlook and view

IBL's image has recovered after suffering from allegations about its previous CEO and sharp increase in NPAs until last year. The structural change in the bank's Balance sheet (increasing retailisation) and P&L fortification (better margins, lower LLPs due to better coverage) appear to be sustainable and are likely to persist over the medium term. Improvement in corporate sector NPA due to resolution of stressed loans could mean higher than expected recoveries for the bank and addition to its profitability. With lower incremental slippages, improving loan growth, superior liability franchise and revival in core operating profit, we believe IBL is well positioned to tap the strong growth opportunities available in the banking space.
Key concerns include Slowdown in economic growth and lack of credit demand, Deterioration in asset quality, Competition from peers and Slower growth in subsidiaries.

Financial Summary

(Rs cr)	FY19	FY20E	FY21E	FY22E
Net Interest Income	27014.8	31772.6	37042.5	43520.4
PPOP	23437.9	27653.6	32946.8	39580.8
PAT	3363.3	8507.9	16205.2	21813.8
EPS (Rs)	5.2	13.2	25.1	33.8
Core ROAE (%)	3.3	6.9	12.8	15.4
Core ROAA (%)	0.4	0.8	1.4	1.7
Adj. BVPS (Rs)	138 .0	155 .0	178 .0	207.0
P/E (x)#	83.4	32.5	16.8	12.3
P/ABV (x)#	3.0	2.7	2.30	2.0

(Source: Company, HDFC sec)

HDFC Scrip Code	SBILIFEQNR
BSE Code	540719
NSE Code	SBILIFE
Bloomberg	SBILIFE
CMP (as on 31 Dec, 19)	Rs 965.0
Equity Capital (Rs cr)	1000
Face Value (Rs)	10
Equity Sh. Outstanding (cr)	100
Market Cap (Rs cr)	96,500.0
Book Value (Rs)	80.7
Avg. 52 Week Volumes	2277529
52 Week High	Rs 1030
52 Week Low	Rs 510

Shareholding Pattern % (Sept 2019)	
Promoters	62.8
Institutions	30.7
Non Institutions	6.5
Total	100.0

Fundamental Research Analyst:
Nisha Sankhala
Nishaben.shankhala@hdfcsec.com

- SBI Life is the second largest private sector life insurance company in the country and has a 6.3% market share in the life insurance industry. It has a diversified product mix across individual and group insurance products along with a multichannel distribution network comprising of bank assurance, individual agents, insurance brokers, direct sales, etc.
- India has highly underpenetrated insurance market compared to the other parts of the world with a life insurance penetration of less than 3%. This presents immense opportunities to expand the life insurance business given the favorable demographics, rising prosperity, rising household income and the increasing awareness of the need for financial protection.
- SBI Life is uniquely positioned to tap the vast potential in India's life insurance sector by harnessing the SBI Group's large distribution footprint (> 24000 branches).
- Management has indicated that its endeavors will be towards improving margins by 1) increasing share of protection and other high margin business, 2) increasing proportion of single premium policy sales and 3) launch and sale of immediate annuity products.
- SBI Life has a strong balance sheet with an excellent capital positioning. SBI Life's superlative customer service has created one of the best-in-class persistency ratio. In FY19, the Company reported robust and above industry average numbers.
- We expect SBI Life to deliver strong CAGR growth of 23% in VNB, 24% in NBP and that with improved margin will lead to 18% CAGR in its embedded value over FY19-22E. It is trading at 2.5x P/EV for FY22E which is attractive looking at its growth prospects.

Concerns

- Highly competitive business.
- Change in IRDA norms remain a sector level risk.
- Lower than estimated business growth and new business margin

Financial Summary

(Rs Cr)	FY19	FY20E	FY21E	FY22E
NBP	13790.0	17730.0	21640.0	26350.0
APE	9690.0	11560.0	13610.0	15910.0
VNB	1920.0	2400.0	2970.0	3600.0
VNB margin (%)	19.8	20.8	21.8	22.6
EV	237.3	281.4	329.3	386.8
Growth (%)	17.7	18.6	17	17.5
P/EV (x)	4.1	3.5	2.96	2.5

(Source: Company, HDFC sec)

HDFC Scrip Code	ULTCEMEQNR
BSE Code	532538
NSE Code	ULTRACEMCO
Bloomberg	UTCEM
CMP (as on 31 Dec, 19)	Rs 4060
Equity Capital (Rscr)	288.6
Face Value (Rs)	10
Eq Sh Outstanding (cr)	28.86
Market Cap (Rscr)	1,11,508.0
Book Value (Rs)	1219
Avg. 52 Wk Volumes	518111
52 Week High	Rs 4903.9
52 Week Low	Rs 3340

Shareholding Pattern % (Sept 2019)	
Promoters	61.68
Institutions	27.31
Non Institutions	11.01
Total	100.0

Fundamental Research Analyst:
Jimit Zaveri
Jimit.zaveri@hdfcsec.com

India is the second largest cement market in the world. With 24% market share in India, Ultratech Cement is the largest manufacturer of grey cement, Ready Mix Concrete (RMC) and white cement in India.

Key Highlights:

- Ultratech has a consolidated capacity of 117.35 Million Tonnes Per Annum (MTPA) of grey cement post recent consolidation. Company has 23 integrated plants, 1 clinkerisation plant, 25 grinding units and 7 bulk terminals and > 100 RMC plants. It has a white cement plant with a capacity of 0.56 MTPA and 2 Wall Care putty plants with a combined capacity of 0.8 MTPA. Ultratech markets white cement under the brand name of Birla White. Company is also India's largest exporter of cement reaching out to meet the demand in countries around the Indian Ocean and the Middle East.
- Company also started working on improving realisation of recently acquired Century Textile's assets. The acquisition of Century cement business has got concluded and company has issued 1 share for every 8 shares held in Century Textiles, which has resulted in 5% increase in UltraTech's share capital. Century plants are operating at lower capacity utilization; so a turnaround of these plants will help improve profitability for Ultratech.
- Strong Free Cash Flow and planned divestment of its non-core assets in China & UAE will help to the company to deleverage balance sheet.
- For FY19, revenues increased 22% while EBITDA was up 10% due to higher RM and Power expenses. PAT for the year came in 11% higher to Rs 2456cr. Capacity utilization for the grey cement stood at 76%, +500 bps yoy. As on Mar-19, gross D/E stood at 0.65x, while net D/E at 0.5x. We estimate that D/E will get reduced to 0.2x by FY22.

Outlook & Valuations

As the utilization levels rise for the company, and the costs stabilize, the pricing power will come back. We expect 13% revenue, ~19% EBITDA and ~31% EPS CAGR led by its cost leadership, pricing, improving realisation and strong volumes over FY19-22E. The Stock trades at ~12.4x FY22E EV/EBITDA and ~USD 169 EV/MT. We believe, Ultratech with pan India presence and strong sustainable financials, would continue to trade at premium over mid-sized cement companies.

Concerns:

- High Volatility in fuel cost
- Subdued demand can affect utilization as well as pricing power

Financial Summary

(Rs cr)	FY19	FY20E	FY21E	FY22E
Revenues	37379.0	43272.0	50910.0	54089.0
Operating Profit	6788.0	9443.0	11032.0	11436.0
OPM (%)	18.2	21.8	21.7	21.1
PAT	2431.0	3621.0	4714.0	5492.0
EPS	84.1	125.3	163.1	190.3
PE	48.2	32.3	24.8	21.3
EV/EBITDA	20.8	15.0	12.8	12.4
Debt / Equity	0.6	0.5	0.3	0.2

(Source: Company, HDFC sec)

APL Apollo Tubes Ltd

HDFC securities

HDFC Scrip Code	APLAPOEQNR
BSE Code	533758
NSE Code	APLAPOLLO
Bloomberg	APAT.IN
CMP (as on 31 Dec, 19)	Rs.1877.7
Equity Capital (Rs cr)	24.3
Face Value (Rs)	10
Eq Sh. Outstanding (cr)	2.43
Market Cap (Rscr)	4,553.0
Book Value (Rs)	528
Avg. 52 Week Volumes	29123
52 Week High	Rs.1892.9
52 Week Low	Rs.1003.3

Shareholding Pattern (Sep-2019)	
Promoters	38.4
Institutions	35.9
Non Institutions	25.7
Total	100.0

Fundamental Research Analyst:
Manthan Jhaveri
manthan.jhaveri@hdfcsec.com

- APL Apollo Tubes is the largest producer of Electric Resistance Welded (ERW) Steel Pipes and Sections in India with a capacity to produce 2.5 Million Tonnes per annum.
- The ERW steel tubes market is pegged at Rs. 30,000 crore and is estimated to grow at ~10-12% CAGR in the coming years. With the development of technology, steel pipes have found application as hollow structures in other industries like building materials, automobile and daily utility items. Substitution of wood with ERW pipes in products like door and window frames, tables, benches, railings etc. is another factor which is driving demand.
- APL Apollo has doubled its manufacturing capacities over the last two years through the series of organic and inorganic expansions. Company recently raised its product prices on back of good demand from infrastructure and refining sectors. Government also intends to invest large resources in improving infrastructure like roads, ports and airports and that could boost demand for company's products.
- APL Apollo has diversified product portfolio which includes Hollow Sections, Pre-Galvanized Tubes, Galvanized Tubes and MS Black Pipes. Company has pan India dealer distributor network of roughly 790 distributors, 27 warehouses and 50,000 retailers ensuring proximity to its end customers and localizing supply thereby fast tracking its growth. Currently, APL Apollo has the largest and most entrenched distribution network in the structural steel sector India.
- Recent acquisition of Apollo Tricoat which is the first company to introduce ‘Galvant Technology’ will enable the company to expand its portfolio in the high margin segment.
- On a continuous basis, company endeavors new technologies for the betterment of the business and its processes. It was the first company to offer pre-galvanized and color coated pipes and then in 2016 company was pioneer to bring Direct Forming Technology (DFT) which allows it to offer customized products at lower cost with shorter lead times as unlike previous technology, where round pipes were formed first and then converted to square or rectangular, DFT enables direct formation of hollow pipes of various sizes and shapes. DFT enhances the efficiency and reduces material cost by 2-10%. Further, DFT can process smaller orders in 30-40 minutes compared to traditional methods which would take 6-8 hours.
- Over the next three years, we estimate Revenues/EBITDA/PAT to grow at CAGR of ~16.5%/24%/40% on the back of strong volume growth, cost efficient measures by the company through adoptions of new technology and reduction of effective tax rate.

Concerns:

- Volatility in steel prices as it is a key raw material.
- Economic Slowdown could affect infrastructure spending.
- Competitive intensity to restrict pricing power.

Financial Summary (Consolidated)

(Rs Cr)	FY19	FY20E	FY21E	FY22E
Sales	7152.0	8368.0	10042.0	11297.0
EBITDA	393.0	522.0	678.0	756.0
Net Profit	148.0	250.0	366.0	412.0
EPS (Rs)	62.2	103.0	150.8	169.4
P/E	29.6	17.9	12.2	10.9
D/E	0.7	0.5	0.3	0.3
EV/EBITDA	13.0	9.8	7.3	6.5

(Source: Company, HDFC sec)

HDFCSec Scrip Code	APOHOSEQNR
BSE Code	50869
NSE Code	APOLLOHOSP
Bloomberg	APHS IN
CMP (as on 31 Dec, 19)	Rs. 1442.0
Equity Capital (Rs cr)	69.6
Face Value (Rs)	5.0
Eq- Sh Outstanding (cr)	13.91
Market Cap (Rs cr)	20,061.0
Book Value (Rs)	266.8
Avg. 52 Week Volumes	789188
52 Week High	Rs. 1,575.0
52 Week Low	Rs. 1,083.0

Shareholding Pattern % (Sept 2019)	
Promoters	30.8
Institutions	61.6
Non Institutions	7.6
Total	100.0

Fundamental Research Analyst:
Abdul Karim
abdul.karim@hdfcsec.com

Apollo Hospital Enterprise Ltd (AHEL) is Asia's one of the leading integrated healthcare service providers. It has presence in Hospital, Pharmaceutical, Primary Care & Diagnostic Clinics; Telemedicine units, Health Insurance Services, Global Projects Consultancy, Colleges of Nursing and Hospital Management and a Research Foundation, epidemiological studies, stem cell & genetic research. As on 31st March 2019, AHEL had nineteen direct subsidiaries, ten step down subsidiaries, four joint ventures and four associate companies.

Key highlights

- AHEL is currently the market leader in the Indian private healthcare segment. It operates the largest chain of hospitals in India with 70 hospitals (45 owned, with capacity of 8,816 beds; 4 managed with 889 beds; 11 day-care/short-surgery centers with 274 beds; and 10 cradles with 283 beds) as on Sept 30, 2019. Besides its hospital-based pharmacies, AHEL runs pharmacy operations through a retail pharmacy chain of 3,607 stores. Its market leadership is driven by strong brand equity and superior quality of service due to strong relationships with highly qualified consultants.
- It has presence in Chennai and Hyderabad clusters, and has expanded to regions such as Mumbai, Ahmedabad and tier-2 and 3 towns. AHEL is constantly looking and evaluating include location, demographics, revenue potential, and the cost of setting up new facilities for new opportunities in existing and new markets. With the objective of making high quality healthcare services and advanced medical technology available in semi-urban and rural areas, company could add capacity of around 100 to 200 beds, which will be located in Tier II and Tier III cities in India.
- AHEL has consistently explored and pioneered new frontiers in patient care. The launch of the Proton Centre in Chennai, is a milestone—evidence of market leadership in cancer treatment and patient care. Company has made capex of Rs 350cr towards completion of Chennai based proton center and setting up oncology segments in Vizag and Bhubaneshwar in FY20, AHEL expects to incur moderate annual expenditure of Rs 300cr towards regular capex over the next 2-3 years. Peak capex years are behind.
- AHEL's recent announcements of transfer of front-end retail pharmacy business to a separate entity and sale of investment in Apollo Munich Health Insurance Limited (Apollo Munich) by the group is expected to reduce debt levels and thereby supports management's stance on deleveraging the balance-sheet in the near future and reducing pledged shares by promoters.
- On account of increased pricing, better occupancy and improved case mix, AHEL witnessed improvement in its hospital segment's profitability (increased from 17% in FY18 to 18% in FY19). The pharmacy segment's profitability improved to 5.2% in FY19 from 4.5% in FY18 aided by store addition, increase in revenue per store, increased share of private label sales and cost rationalization.
- Regulatory risk, project execution risk, higher competitions, discontinuation of leases and high debt are key concerns.

Outlook and view:

AHEL specializes in adopting latest technologies and cutting-edge medical procedures. AHEL continues to maintain its healthy revenue growth while increasing its capacity and maintaining steady operating profitability. AHEL's liquidity profile is expected to improve in near to medium term on account of healthy operating profitability, reduced capex intensity and increased fund flow from identified asset monetization plans. AHEL is on the path of rapid profit growth over the next 2-3 years due to the initiatives listed above.

Financial Summary

(Rs, cr)	FY19	FY20E	FY21E	FY22E
Net Revenues	9617.4	11036.0	12564.5	14216.7
EBITDA	1063.7	1434.7	1715.1	2061.4
APAT	200.2	416.4	565.4	853.0
Adjusted EPS (Rs)	14.4	29.9	40.6	61.3
P/E (x)	98.6	47.4	34.9	23.1
RoE (%)	6.0%	11.4%	13.8%	17.8%

(Source: Company, HDFC sec)

HDFCSec Scrip Code	GUJGASEQNR
BSE Code	539336
NSE Code	GUJGAS LTD
Bloomberg	GUJGA IN
CMP (as on 31 Dec, 19)	Rs. 237.6
Equity Capital (Rs cr)	137.7
Face Value (Rs)	2.0
Eq- Sh Outstanding (cr)	68.8
Market Cap (Rs cr)	16,353.0
Book Value (Rs)	41.0
Avg. 52 Week Volumes	653814
52 Week High	Rs. 239.0
52 Week Low	Rs. 116.0

Shareholding Pattern % (Sept 2019)	
Promoters	60.9
Institutions	17.8
Non Institutions	21.3
Total	100.0

Fundamental Research Analyst:
Abdul Karim
abdul.karim@hdfcsec.com

Gujarat Gas Limited (GGL) is India's largest city gas distribution company, with presence across 23 regions in the State of Gujarat, Union Territory of Dadra and Nagar Haveli and Thane Geographical Area (GA) (barring already authorized area including Maharashtra's Palghar locale). The company has around 23,200 km of gas pipeline network. It distributes around 9-9.5 million metric standard cubic meters of gas every day to about 13,55,000 households, around 2 lakh CNG vehicles (serving every day) and to more than 3,540 industrial customers.

Key highlights

- GGL was awarded 11 geographical areas (GAs) between FY15-FY17, one GA in the ninth city gas distribution round and six GAs in the 10th distribution round during FY19. These new areas could potentially add over 1-1.5mmscmd over the next three-to-five years and improve its segment mix. Additionally, GGL's recent allocation of six new GAs spread across Haryana, Punjab, Madhya Pradesh and Rajasthan will augment its presence in the north and west of India.
- Over FY20 and FY21, GGL can report 40%+/16% YoY volume growth, due to sustained offtake from the Morbi cluster (NGT coal gassifiers shutdown order impact), organic growth in sales to other industrial units, benefiting from network expansion and higher sales to existing players; and steady growth in CNG/domestic PNG sales.
- GGL is planning to set up 200 CNG stations across India in next two years, even as the government pushes the idea of electric vehicles. In FY19, GGL added 69 CNG stations, the highest ever to its count of more than 344 CNG stations. Because of this move, volume growth in CNG segment is expected to drive double-digit over FY20-22E. This creates more stability in volume trends and also a stronger margin profile for the company.
- The Government of India (GoI) wants to make India a gas-based economy by boosting domestic production and relying on cheap imported LNG. India has set a target to raise the share of gas in its primary energy mix to 15% by 2022 from 7% in 2018. GGL has been continuously growing and expanding its horizon by venturing into new geographic areas and is committed to reach every possible Natural Gas user across its licensed expanse of around 1,69,500 square kilometres through its ever growing pipeline network spread across 41 districts and six states and one union territory.
- GGL plans to invest Rs 700cr per annum for the next 8 years to expand its network in the newly acquired GAs (17 cities), funded purely through internal accruals.
- Sharp rise in LNG prices, emerging competition, currency fluctuations, limited CNG demand in Gujarat and regulatory changes are key concerns.

Outlook and view

GGL's focus remains on striking a balance between right volumes and margins at appropriate time intervals. GGL is expected to report its highest volume growth going forward, aided by higher demand from ceramic tile makers in Morbi, Gujarat. Higher contribution from CNG, lower reliance on industries for PNG and lower volatility in its margin/volume trajectory going forward could improve its valuations. Its valuations are at a discount to Indraprastha Gas even when its RoE is better. Inclusion of gas under GST could be the next key trigger.

Financial Summary

(Rs cr)	FY19	FY20E	FY21E	FY22E
Net Revenues	7754.4	9931.1	10605.1	11576.1
EBITDA	984.6	1554.1	1574.0	1748.0
APAT	418.5	821.9	850.3	949.2
Adjusted EPS (Rs)	6.1	11.9	12.4	13.8
P/E (x)	37.8	19.2	18.6	16.6
EV / EBITDA (x)	17.8	11.3	11.0	8.6
RoE (%)	18.9%	28.3%	23.6%	21.6%

(Source: Company, HDFC sec)

HDFCSec Scrip Code	IFBINDEQNR
BSE Code	505726
NSE Code	IFBIND
Bloomberg	IFBI IN
CMP (as on 31 Dec, 19)	Rs. 668.7
Equity Capital (Rs cr)	40.5
Face Value (Rs)	10.0
Eq- Sh Outstanding (cr)	4.05
Market Cap (Rs cr)	2,762.0
Book Value (Rs)	152.6
Avg. 52 Week Volumes	20200
52 Week High	Rs. 999.0
52 Week Low	Rs. 559.4

Shareholding Pattern % (Sept 2019)	
Promoters	75.0
Institutions	10.6
Non Institutions	14.4
Total	100.0

Fundamental Research Analyst:
Abdul Karim
abdul.karim@hdfcsec.com

IFB Industries is engaged in manufacturing diversified product portfolio with an established brand presence of front load washing machines, top load washing machines, dryers, ACs, microwave ovens, dishwashers, modular kitchen, and chimneys (totalling 82% of FY19 sales). It also manufactures fine blanking components for two wheelers, four wheelers, heavy vehicles and electrical OEMs.

Key highlights

- Over the years, IFB has built a market share of about 45% in fine blanking components and around 27% market share in automatic washing machines in India. It has a dominant position in front load washing machines with market share of about 45% and 15% share in top load washing machines. IFB's market share in automatic washing machines increased to 27% in FY19 from 21% in FY15.
- IFB has healthy consumer and segment diversity in the fine blanking division. In consumer durables, it has adequate product diversity, led by segmental contribution of around 51.1% from front load washing machine, 16.6% from top load washing machines, 12.3% from microwave ovens, 3.5% for ACs and remaining 12.8% from other product categories, as on 30th Sept, 2019.
- IFB is setting up its AC manufacturing plant at Goa (capex Rs.150 cr), which is likely to be operational by the end of Jan 2020. IFB aims to position its products at par with higher end brands like LG, Hitachi and Daikin. IFB also aims to provide OEM services for other players at the new AC facility. The new facility will lead to full capacity utilization in next three years with IFB's own sales plus OEM sales.
- The acquisition of industry laundry equipment manufacturer Ramson in Oct 2018 could add to the product suite, topline and margins of the company.
- IFB Points (retail stores) contribute 65% of Kitchen Appliances sales, as on 30th Sept, 2019. The stores in Goa, Bangalore and Kolkata are now fully operational and are building significant enquiry pipelines. IFB continues to increase its presence in all markets with their products displayed in ~750 stores across the country. As on 31st March, 2019, the number of IFB Points stands at 508 (of which 75-90 added in FY19, most in tier 2 & 3 towns), which it intends to take to 600 by end of FY20. It aims to improve profitability of IFB Points in FY20 as about 30% franchises are loss-making and another 30-35% stores are making low profits. IFB Points contribute ~15% of sales; IFBI targets to take this proportion to 18-20% in 2 years.
- Given the uncertainty of demand due to changes in consumer preferences, technological obsolescence and competition, the company will have to continuously undertake large capex to sustain its market position and grow scale. However strong operating profitability and a stable working capital cycle are likely to aid the company in maintaining free cash. Adding inhouse manufacturing capability, adding IFB points (including staff therein), improving product mix will help IFB to improve sales, margins and return ratios.
- High competition, subdued demand in Auto industries, consumer spend slowdown, no dividend payment over the last two decades, and large dependence on southern region (contributes 50% of Sales) are key concerns.

Outlook and view

IFB's investment in technology development and product innovation makes it different from its peers. A substantial improvement in product diversification leading to improved revenue generation and localisation plans for input resources, favourable product mix and control over operating expenditure are likely to result in margins expansion. Expansion in EPS and valuation rerating (based on industry valuation norms) could lead to improved stock price performance.

Financial Summary

(Rs cr)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	2220.5	2659.2	2951.1	3441.3	4029.5
EBITDA	158.7	126.9	171.2	236.2	292.1
APAT	81.0	59.6	81.6	132.2	173.3
Adjusted EPS (Rs)	20.0	14.7	20.1	32.6	42.8
P/E (x)	33.5	45.5	33.2	20.5	15.6
EV / EBITDA (x)	16.8	20.8	15.3	10.9	8.5
RoE (%)	14.8%	9.6%	11.7%	15.9%	17.2%

(Source: Company, HDFC sec)

Sudarshan Chemical Industries Ltd

HDFC Scrip Code	SUDCHEEQNR
BSE Code	506655
NSE Code	SUDARSCHEM
Bloomberg	SCHI
CMP (as on 31 Dec, 19)	Rs 407.1
Equity Capital (Rs cr)	13.85
Face Value (Rs)	2
Equity Sh. Outstanding (cr)	6.92
Market Cap (Rs cr)	2,819.0
Book Value (Rs)	82
Avg. 52 Week Volumes	78767
52 Week High	Rs 424
52 Week Low	Rs 290

Shareholding Pattern % (Sept 2019))	
Promoters	52.9
Institutions	9.9
Non Institutions	37.2
Total	100.0

Fundamental Research Analyst:
Kushal Rughani
kushal.rughani@hdfcsec.com

Sudarshan Chemical (SCL) is the 4th largest pigment manufacturer globally and the largest in India, and now aspiring to become the 3rd largest in the next 3 years. SCL has continuously gained market share over the past few years. SCL is well-placed to continue rapid growth in the context of the expected exit from pigments business by its two largest global competitors (BASF and Clariant). The company's low-cost manufacturing advantage, technical capabilities, wide products portfolio and environmental compliance are some of the key positives for the company.

Key Highlights:

- With over 60 years of operating track record, SCL has built strong relationships with customers and suppliers. The company dominates in the Indian pigment industry with a market share of around 35%. China has been major player in Global chemical business. Since last couple of years Chinese Chemical Industry has been facing many challenges because of stricter environmental norms.
- Currently, company has more than 400 products and management has guided that it will keep on adding 25-35 products annually to its portfolio backed by its internal R&D and client requirements. SCL's strategy of diversified product range enables its brands to cater to the complete range of end application. Company has been growing specialty pigment portfolio, which gives better margin compared to non-specialty products. Key consumer industries are coating industry, Inks, Plastic Industry and Cosmetics. Over the last ten years, company has done around Rs 800cr of capex largely funded from internal accruals with no equity dilution. China's woes are blessings for Indian Chemical companies and Sudarshan has a plan in place to grab the opportunity with large capex, new products and backward integration.
- Now, looking at growth opportunities, company has guided for Rs. 200cr capex plan for this year and another Rs. 200cr capex for the next year (FY21). Capex will be largely sourced for internal resources. The money will be used to for launching new products, debottlenecking certain capacities, backward integration and some infrastructure related investments.

Outlook & Valuations

Over FY19-22E, we expect revenue to see 13% CAGR while net profit may see strong 28% CAGR on the back of 310bps margin expansion and lower corporate tax rate. Despite the capex, the debt to equity ratio is expected to remain around 0.5x.

Concerns:

- Higher Volatility in Raw material Prices and procurement issues at times
- Currency Fluctuations

Financial Summary

Rs Cr	FY19	FY20E	FY21E	FY22E
Revenues	1477.0	1645.0	1863.0	2138.0
EBITDA	211.0	253.0	308.0	373.0
OPM	14.3	15.4	16.5	17.4
PAT	87.0	125.0	149.0	183.0
EPS	12.5	18.0	21.4	26.3
RoE	17.0	20.0	18.0	20.0
EV/EBITDA	16.0	12.8	11.0	9.2
Debt/Equity	0.6	0.7	0.6	0.5
P/E	32.9	22.9	19.2	15.6

(Source: Company, HDFC sec)

Trent Ltd

HDFCSec Scrip Code	TRELTDEQNR
BSE Code	500251
NSE Code	TRENT
Bloomberg	TRENT IN
CMP (as on 31 Dec, 19)	Rs. 527.2
Equity Capital (Rs cr)	33.2
Face Value (Rs)	1.0
Eq- Sh Outstanding (cr)	33.2
Market Cap (Rs cr)	18,740.0
Book Value (Rs)	51.1
Avg. 52 Week Volumes	196387
52 Week High	Rs. 567.5
52 Week Low	Rs. 320.0

Shareholding Pattern % (Sept 2019)	
Promoters	37.0
Institutions	36.9
Non Institutions	26.1
Total	100.0

Fundamental Research Analyst:
Abdul Karim
abdul.karim@hdfcsec.com

Trent is a Tata group company established in 1998. Trent operates retail stores across four formats; Westside, Zudio, Star and Landmark. Trent operates in various segments through different chains; lifestyle segment through the chain 'Westside', hypermarket through 'Star Bazaar', and 'Landmark', a books and music chain. As on March 31, 2019, Trent operates 150 Westside stores, 40 Zudio stores, 44 Star and 5 Landmark stores. Furthermore, Trent has two joint ventures with Inditex group of Spain with a shareholding of 49 percent (Inditex Trent Retail India Pvt Ltd) in Zara (Revenue - Rs 1438cr in FY19, 22 stores) and 49 percent in Massimo Dutti (Revenue - Rs 63.6cr-3 stores) stores in India.

Key Highlights:

- Trent Ltd is a part of the Tata Group which holds around 37% (which includes about 32.5% stake of Tata Sons Ltd) as on Sept 30, 2019. Trent has been enjoying immense support from its promoters. It is headed by Mr Noel N Tata (Chairman) & Mr Philip Auld (Managing Director). The management is assisted by a team of experienced professionals across various functions.
- Trent Ltd is planning to accelerate the expansion of Westside departmental stores by rolling out 30 new outlets this fiscal – the highest ever in a single year. The company, which runs a food and grocery retailing business in a joint-venture with Tesco, will also move away from launching large format hypermarkets and focus on smaller stores that are easier to achieve break even mark. Trent has scaled up store expansion of Westside stores over the past and now targeted to add 30-35 stores every year, which could drive growth without impacting return ratios given strong store economics.
- Trent Ltd expects to continue the pace of growth for Westside for next 5 years whereby it expects to grow more than 60% the number of stores by then from 150 at present. Last fiscal, it set up 18 new stores. Around half of the stores is likely to set up on the franchisee route while the balance will be company-owned. It looks to reach store count of 250 stores over the next 5 years.
- Trent's recent Rs. 950cr capital raise is expected to put Westside and Zudio on an expansion overdrive. To further the expansion cause, a Board committee has been appointed to consider raising upto an additional Rs. 600cr.
- Trent acquired Zudio from its JV partner Trent Hypermarket Private Limited in FY18 (w.e.f Oct 1, 2017) at Rs 88cr. Trent plans to aggressively expand Zudio stores at the rate of 30 stores per annum during the next 3-4 years. Trent is tapping the low income suburbs in urban centers as against expanding in Tier 2, 3 and Tier 4 towns like value fashion mass retailers. Zudio offers its products at highly competitive prices at an average selling price of Rs 300-400.
- High rental cost, competition, change in the trend of fashion and habit, margins coming under pressure are key concerns.

Outlook and view

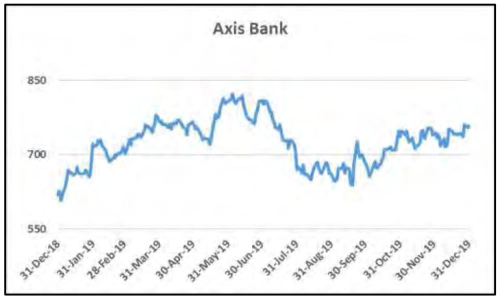
Accelerated store addition in the Westside format, rightsizing of Star Bazaar stores coupled with consistent growth in Zara are further expected to accelerate Trent's financial performance. Focus on profitable growth has been the hallmark so far of Trent. We expect steady SSSG (Same Stores Sales Growth) in Westside to continue despite increase in store expansion. Given strong store economics, scalability and execution, we have a positive view on the stock.

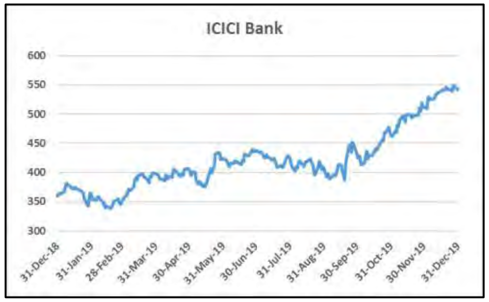
Financial Summary

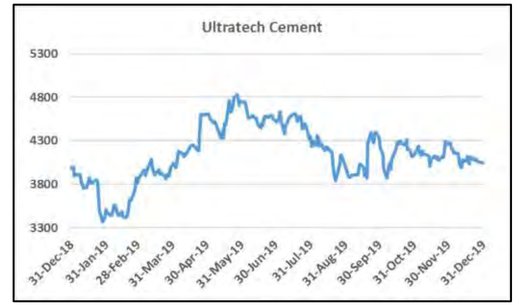
(Rs cr)	FY19	FY20E	FY21E	FY22E
Net Revenues	2630.2	3333.3	4211.8	5210.7
EBITDA	216.1	285.0	364.3	453.3
APAT	94.8	161.3	218.6	260.5
Adjusted EPS (Rs)	2.9	4.9	6.6	7.8
P/E (x)	190.6	112.1	82.7	69.4
EV / EBITDA (x)	85.3	64.3	49.8	41.0
RoE (%)	5.6%	8.9%	11.1%	12.0%

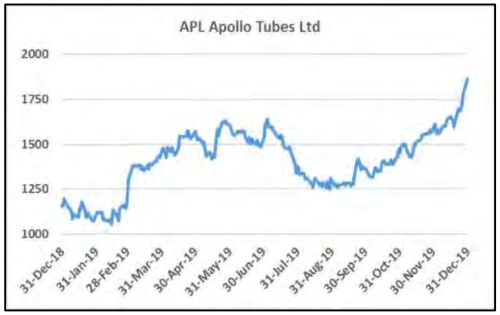
(Source: Company, HDFC sec)

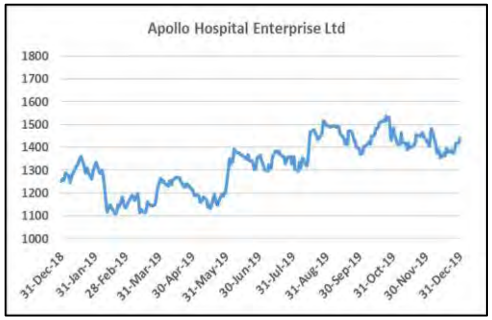
Price Charts

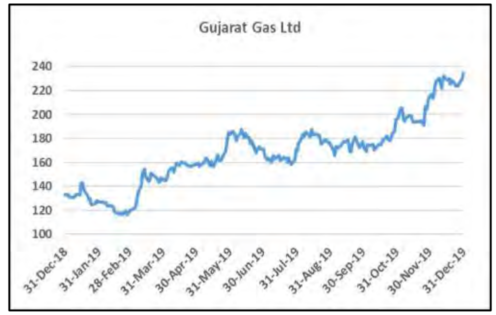


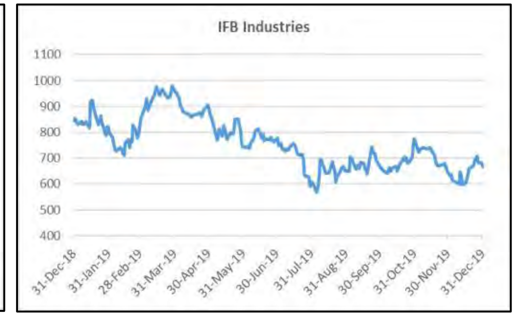


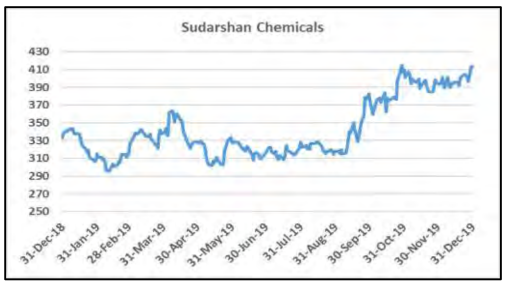


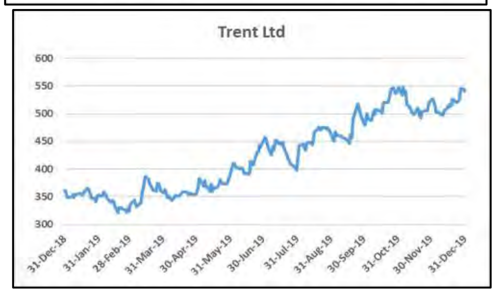












Disclosure

Company	Analyst	Team	Holding
Axis Bank Ltd	Nisha Sankhala, MBA	PCG	NO
ICICI Bank Ltd	Atul Karwa, MMS	Retail	NO
UltraTech Cement Ltd	Jimit Zaveri,MBA	PCG	NO
SBI Life Insurance Ltd	Nisha Sankhala, MBA	PCG	NO
APL Apollo Tubes Ltd	Manthan Jhaveri, CA	PCG	NO
Apollo Hospitals Enterprise Ltd	Abdul Karim, MBA	Retail	NO
Gujarat Gas Ltd	Abdul Karim, MBA	Retail	NO
IFB Industries Ltd	Abdul Karim, MBA	Retail	NO
Sudarshan Chem.	Kushal Rughani,MBA	PCG	NO
Trent	Abdul Karim, MBA	Retail	NO

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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