Equity Investment Strategy

Equities | 1st Jul 2020

Axis Securities Equity Research

AXIS TOP PICKS: TIME FOR RISK CALIBRATION

Axis Top picks basket delivered a return of 9.4% (6% in June) since the launch in the month of May with 9 out of 10 picks registering positive gains. Our long-term themes of uptick in Digital, Telecom, Rural, Supply chain shifts and Consumer staples remain intact but we also see the positive impact of pent up demand helping Automobile and Cement sectors in the near term. We upgrade both the sectors to equal weight. We make changes to our top picks as we book profits in Escorts which has delivered a whopping 45% return since May and also cut losses in Aarti Industries because of the deal loss. We add ITC and CCL products in our top picks as we find value buying and small cap allocation increasing. Our key ideas are as follows:

Broad-based recovery across sectoral indices but some degree of fatigue setting in: While NIFTY Index was up 5% in June, the NIFTY PSU Bank Index was the top performing index for the month delivering 18% return during the month. The previous month top performers like NIFTY Autos, Commodities and Metal underperformed during the month on account of profit booking. The last week of June saw most sectors in red except for IT and FMCG. The market for the month of July will be focused on quarterly results commentary, impact of opening up of economy and challenges of the pandemic being still around.

IT, Consumer and Telecom to be back in focus with quarterly earnings season: Markets eventually follow earnings trajectory. IT, Consumer and Telecom are likely to post better earnings and demonstrate better earnings growth trajectory in the upcoming results. The economic risks continue to remain quite high with FY21 likely to see a 4% compression in GDP. Even as bulk of the compression was in Q1FY21, the impact of the compression will be seen in the forthcoming quarters as it will manifest in slower growth rate.

BFSI performance will be critical but valuations continue to remain attractive: BFSI is the largest sector in terms of NIFTY allocation. As we indicated in the last month top picks review that valuations in the sector are attractive and investors should slowly increase their allocation to the sector. The sector continued to deliver in the month of June with NIFTY bank delivering 7% return with many stocks delivering solid double digit returns. Even at current levels the valuations in the sector continue to remain reasonable but stock picking and focusing on quality will continue to remain the themes in the sector. We maintain top ideas in the sector unchanged but increasing allocation in calibrated manner will deliver reasonable returns. The quarterly earnings commentary will be closely followed as making sense of results on account of moratorium will pose challenges.

Value, Mid and Small caps seeing increased allocation: Value investing continued to outperform growth investing theme in the month of June. However, after significant period of underperformance mid caps and small caps picked up steam. While the broader economic challenges will continue to persist but quality mid and small cap names will see increased allocation as they will see consistent uptick in business in the forthcoming quarters. Pricing power will be a key factor in picking mid and small caps.

No more valuation comfort across the board; Stock picking holds the key: Except for the BFSI sector, there is limited valuation comfort across sectors. NIFTY on FY20E earnings is trading at 23x. The market has breached the mean valuations on the upside we find the market not cheap even after considering the earnings are at cyclical bottom. We estimate FY22E NIFTY earnings at 590 and assigning an 18x target multiple we arrive at December 2020 NIFTY target of 10,620. Thus with limited upside, we find stock picking and playing the right themes will be the key.

Based on the above themes we recommend the following stocks:

ICICI Bank, ITC, Manappuram Finance, Bharti Airtel, HCL Tech, Mind Tree, Varun Beverages, CCL Products, Biocon and Minda Industries.

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Axis Securities Top Picks

Ticker	Company Name	Sector	Stock price	Target Price	Upside (%)	12 Month Fwd PE	12 Month Fwd P/BV	Dividend Yield	TR 1M%	TR 3M%	TR YTD%
ICBK.NS	ICICI Bank Ltd	Financials	351	495	41%	16.61	1.77	0.29	3.36	0.96	-36.33
MNFL.NS	Manappuram Finance Ltd	Financials	151	173	14%	9.29	2.09	1.44	22.00	43.02	-13.25
VARB.NS	Varun Beverages Ltd	Consumer Staples	681	804	18%	41.77	5.56	0.37	7.99	20.30	-3.73
CCLP.NS	CCL Products India Ltd	Consumer Staples	235	267	14%	16.00	2.99	1.88	9.61	32.46	18.83
MNDA.NS	Minda Industries Ltd	Consumer Discretionary	274	318	16%	25.85	3.45	0.14	-1.23	21.57	-18.61
ITC.NS	ITC Ltd	Consumer Staples	195	230	18%	16.21	3.72	2.92	-0.05	20.86	-17.02
MINT.NS	MindTree Ltd	Information Technology	926	1088	18%	19.97	4.20	1.40	4.04	12.72	16.32
BION.NS	Biocon Ltd	Health Care	390	474	22%	38.96	6.15	0.13	12.14	43.23	35.43
BRTI.NS	Bharti Airtel Ltd	Communication Services	560	650	16%	80.21	3.59	NA	2.62	26.32	24.42
HCLT.NS	HCL Technologies Ltd	Information Technology	557	653	17%	13.39	2.49	0.90	0.63	28.57	-2.21

Source: Company, Axis Securities; Consensus Rating; 1-Strong; Buy,2-Buy,3-Hold, 4-Sell, 5-Strong Sell

Top Picks recommendation changes:

We drop Aarti Industries from our Top Picks as we have a HOLD rating on the stock. We believe receipt of an early termination notice for the 1st multiyear deal to supply high-value agro chemical intermediary to be used in a Herbicide was due to strategic change in the customer's business plan. Aarti will receive a compensation of USD 120-130mn over FY21/22E which more than offsets the loss in revenues caused by the early termination. However, we believe the near term is marked by uncertain growth trajectory especially in the Specialty Chemical business which contributes ~83% of total revenues given demand challenges from the non-essential segment (forms 40% of total revenues) in FY21 as per management. From a long term perspective however we remain positive given most global specialty chemical players are looking to source their chemical requirements from players with integrated business models and supply chains that are independent of China. We have a HOLD rating on the stock basis of its FY22E EPS with a TP of Rs. 968/share as we value the stock at 24x P/E basis its FY22E EPS.

We add ITC and CCL Products both consumer stocks to our Top Picks as we have BUY rating on both the stocks. For **ITC**, we believe, recovery in the 1) faster than expected recovery in core Cigarette business, 2) FMCG growth of 5% on comparable basis for FY20 is good in the current context with improvement in scale up and profitability, 3) strong balance sheet with healthy cash (Rs. 300bn FY20) could propel growth through inorganic initiatives, 4) possible market share gains in cigarette business as competitor plants continue to remain shut, 5) Dividend Payout at 80-85% going forward vs 56% in FY19 and 6) Undemanding valuations at 15x offer immense scope for stock performance in the near term that is marked by uncertainty.

CCL Products, is India's largest manufacturer and exporter of Instant Coffee with a +5% market share in the private label segment globally. The company has expertise in creating customised blends owing to its experience of over 25 years that has led to developing strong relationships with customers across 90 countries where it exports. We remain relatively confident on the earnings delivery in FY21 despite overall challenges to growth posed by COVID-19 pandemic due to 1) healthy order book and new client addition in a key coffee drinking market of North America, 2) Increasing share of higher margin Freeze Dried Coffee and Small Packs, 3) Management guidance of sustaining industry leading margins of 25% over FY21 and 4) Rising in-home consumption of coffee leading to growing volumes. Given comfort of earnings visibility (12% CAGR over FY20-22E) and valuations (15x P/E FY22E EPS) we have a BUY rating on the stock.

We drop Escorts Ltd from our Top Picks as all our target price (most recent of Rs 1035) has been achieved. We believe that the recent 50% plus run up in the stock leaves little upside room from a valuation perspective, particularly in a weak economic situation that we are in, presently. We believe the revenue and margin performance of Escorts would remain strong and favourable monsoon would also aid industry growth and we will closely monitor performance of the company going forward.

Sector Outlook

Sector	Current View	Outlook
Automobiles	Equal weight	The Indian automobile sector will continue to witness immense pressure on volumes in FY21 but demand is improving for two wheelers and tractors. CV cycle will continue to be under pressure for even more prolonged period. Two wheelers and entry level passenger vehicles in urban markets could also see revival as preference for personal mode of travel is seeing an upsurge. Rural demand is likely to be better than urban demand, and tractors are expected to perform better than most segments.
Banking and Financial services	Underweight	During the Axis bank Q4FY20 earnings conference call, the management indicated that 28% of all loans by value have been availed for RBI moratorium of 3 months. While other banks have indicated a lower percentage, it’s quite clear that there are major concerns in the financial services space. Bajaj Finance also provided scenarios for revival and considering the current extension of lockdown, business revival is unlikely before Q3/Q4FY21. The challenges for NBFCs, Microfinance and Small Finance banks will be very large and consolidation seems inevitable. A significant number would need to raise capital. Thus, large private banks which have solid capital adequacy are well placed in the current circumstances while allocation to other financial services should be limited. We guide for a portfolio allocation of 25% (NIFTY BFSI allocation is 37%) in BFSI space dominated by large private banks and Gold loan companies where collateral is solid.
Capital Goods	Underweight	Private capex was seeing significant challenges because the capacity utilization has been sluggish. With the marked slowdown because of COVID19, the demand scenario will witness a major slump. Thus, both government as well as private capex will be very sluggish. We recommend underweight stance on the sector.
Cement	Equal weight	The cement sector has had pricing power and it has managed to withstand tough times better. We change our outlook to equal-weight as we see better pricing scenario evolving. Demand scenario is also picking up in quite a few regions which have been a positive surprise. Overall, we find the cement sector has been able to cope better than expected. Hence, we upgrade our outlook.

Sector Outlook (Cont'd)

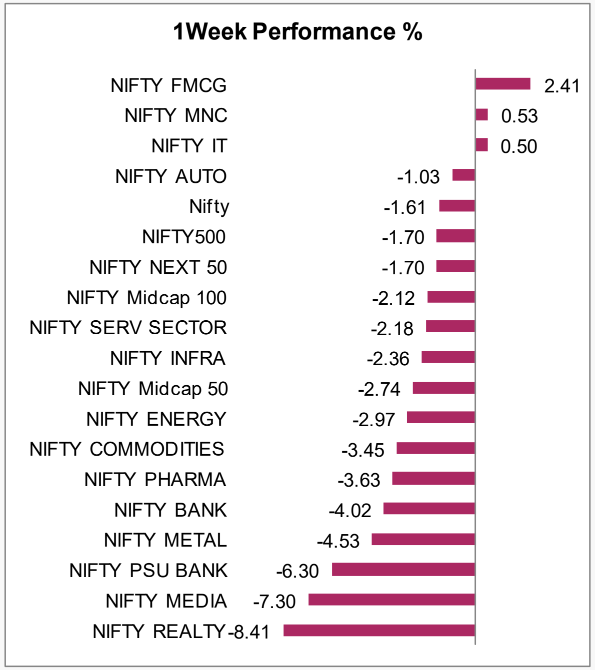
Sector	Current View	Outlook
Consumer staples	Overweight	The consumer staples sector will be one of the earliest to revive. Moreover, most companies in the space are debt free and have solid balance sheet. Hindustan Unilever in the recent earnings conference call indicated that their capacity utilization is closing in on 80%. HUL also indicated that have gained market share in 80% of their portfolio indicating the trend of strong becoming stronger. Also, low input costs and decline in competitive intensity translates to margins and earnings visibility in the medium term. Valuations remain sky high and are a serious concern. Notwithstanding the valuation challenges, the consumer staples space has consistently delivered returns for shareholders. We believe the trend is sustainable for the next 12 months and recommend an overweight stance on the sector.
Consumer Discretionary	Equal weight	The consumer discretionary space is a mixed bag with large ticket consumer discretionary will take time to revive but the small ticket discretionary could revive faster. Segments like skin care, beverages, apparels and others could revive while large ticket discretionary like white goods could take longer. We recommend equal weight stance with positive outlook on small ticket discretionary segment.
Information Technology	Overweight	The information technology space is marked by companies with strong balance sheet and play on the current trend of digitization. We believe this trend will gather traction. While there are challenges in the IT sector as global discretionary spending on IT will reduce significantly but the sector will still see some benefits of currency tailwinds. In the near term, visibility on revenues is a challenge but it is still better than many other sectors. TCS, the largest IT Company in India has indicated that situation could normalize as early as Q3FY21. The IT sector valuations are also reasonable at the current juncture. Thus, we recommend an overweight stance on the sector.
Metals and Mining	Underweight	The metals and mining sector will be impacted by global challenges and the impact on the Chinese economy. Pricing environment will remain subdued for a significant period and this will have an impact on the companies in the space. We recommend an underweight stance on the sector.
Oil and Gas	Underweight	The benchmark of US oil, West Texas Intermediate (WTI) fell to negative $37.6 in March 2020 fearing storage will run out in May. This is the first time in history that oil prices have traded in negative territory. Historically lower oil prices have provided limited support to GRMs which are likely to be under pressure. Thus, both upstream and downstream will be under pressure because of demand challenges. We are likely to witness a significant amount of volatility in the prices. We recommend an underweight stance on the sector.

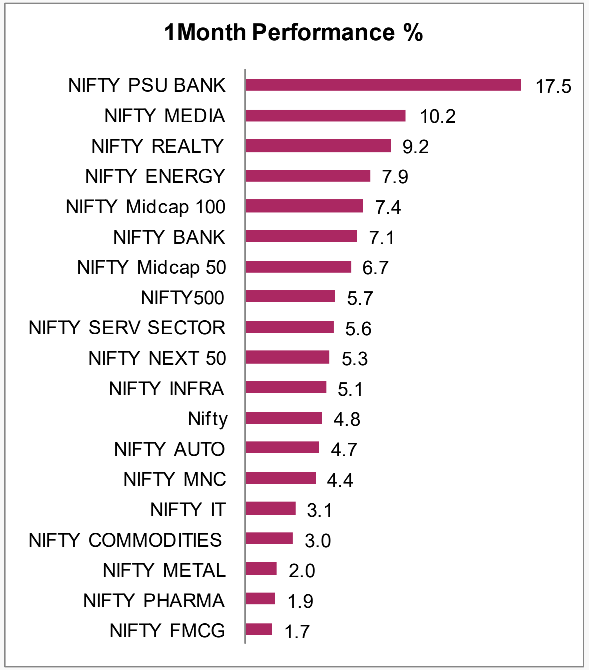
Sector Outlook (Cont'd)

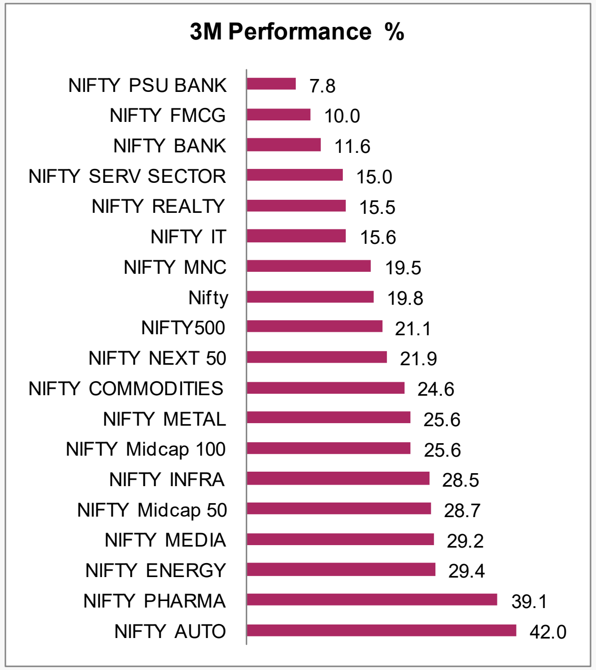
Sector	Current View	Outlook
Pharmaceuticals	**Overweight**	The demand for certain Pharmaceutical products shot up and companies in that space like IPCA saw significant price rise. This led to an overall re-rating of the sector which had been under pressure for the last couple of years because of FDA issues and pricing environment in the US generics markets. While the challenges are significant for the sector but there is value in the sector and many stocks offer solid growth potential. We believe the re-rating is likely to sustain over the medium term and hence we recommend an Overweight stance on the sector.
Real Estate	**Underweight**	Real estate would be one of the most impacted sectors as both residential and commercial real estate will be impacted. Over the medium to long term, the impact on commercial real estate could be even more significant as companies bring sweeping changes to their business models or significantly reduce expansion plans. The residential space was sluggish and the current slowdown will further aggravate the challenges of the sector.
Specialty Chemicals	**Overweight**	The specialty chemicals sector of India has been one of the sunrise sectors of India. India has been gaining global market share in the space because of India's capabilities in the space and supply chain realignment from China to India. We believe that Indian companies could gain ground further as companies would want to reduce dependence on China after the COVID19 pandemic and shift their supply chains. Apart from the long-term theme of shift in supply chain, the manufacturing of many specialty chemicals is part of essentials and the facilities have started opening up. The decline in raw materials prices could also help the margins and reduce working capital needs, however, input costs are a pass through for most companies and benefits could be limited. Overall the specialty chemicals industry is likely to continue to perform well in the medium term. We recommend an overweight stance on the sector.
Telecom	**Overweight**	Telecom has become the most critical sector during the current challenging times to keep the businesses up and running. Even before the COVID19 outbreak, the sector was seeing improved pricing environment. Price growth in the sector has sustained unlike the past instances and more likely to improve in the forthcoming quarters. The industry is highly consolidated with two strong and one weak player in the wireless space. We recommend an overweight stance for the sector.

Sector Indices indicated very broad-based recovery:

The month of June saw a very broad-based recovery across sector indices. The most beaten down sectors like NIFTY PSU Bank, Realty and Media were the top performing sectors. This is a catch-up rally for many sectors as valuations were quite compressed. While the performance was quite strong for the month the last week saw some degree of sell-off and traditional defensives FMCG and IT coming back in flavor after underperforming the broader market for the month.



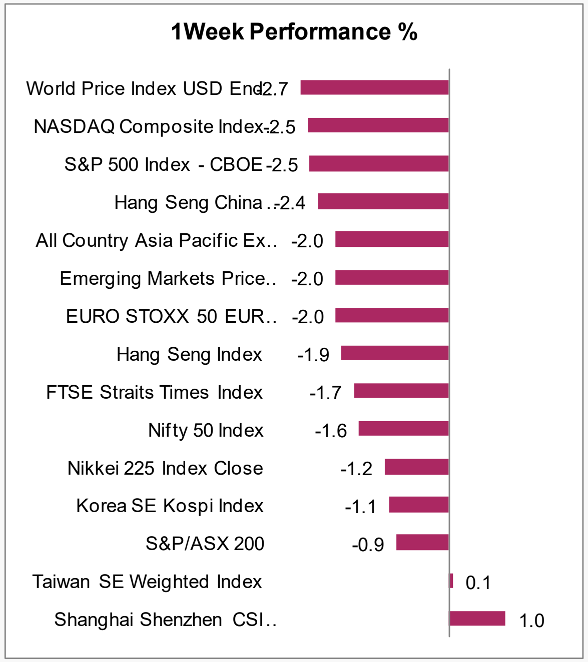


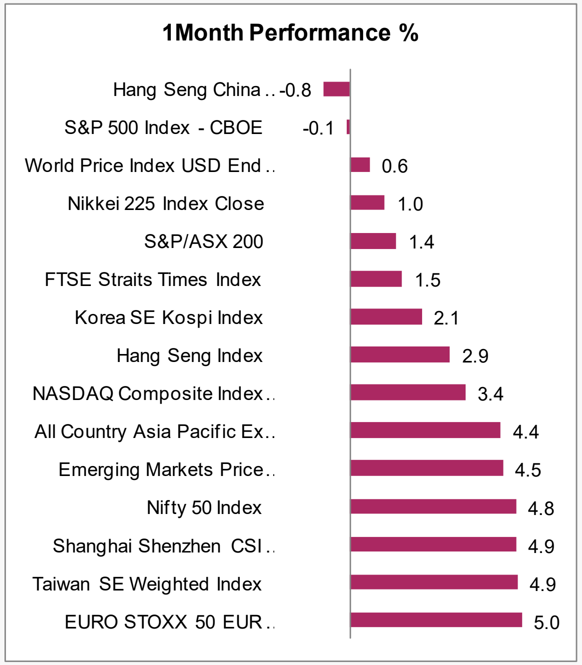


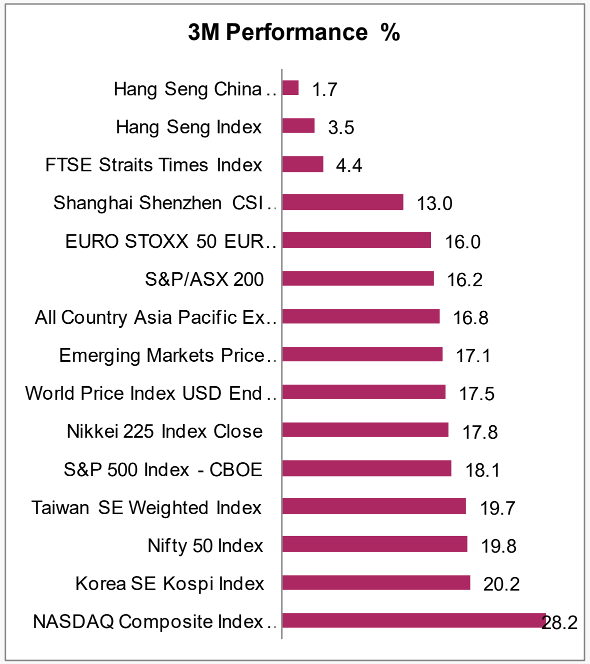
Source: Company, Axis Securities

Global Indices: India top performing country

Indian markets witnessed a major catch-up rally in the last week of May and that rally sustained for the month of June. Indian markets outperformed most of the key regional and global benchmarks by a reasonable margin.



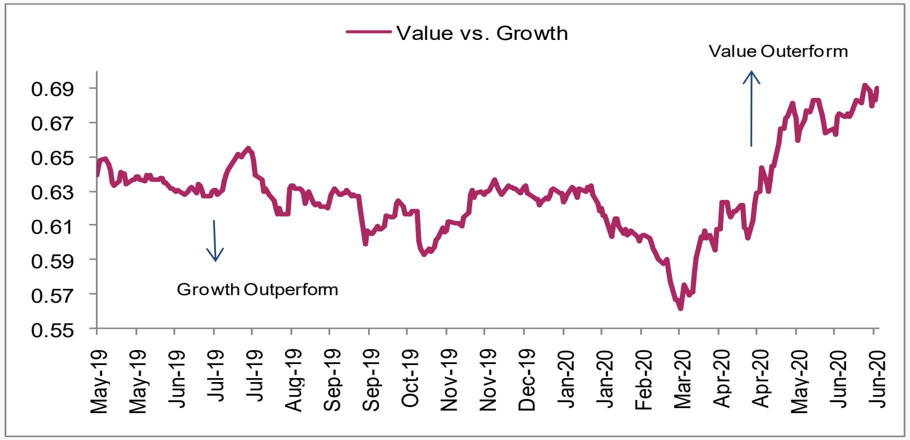


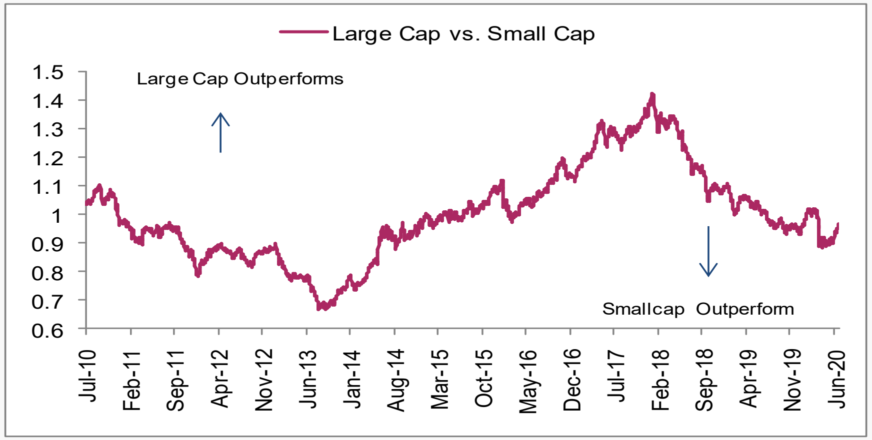


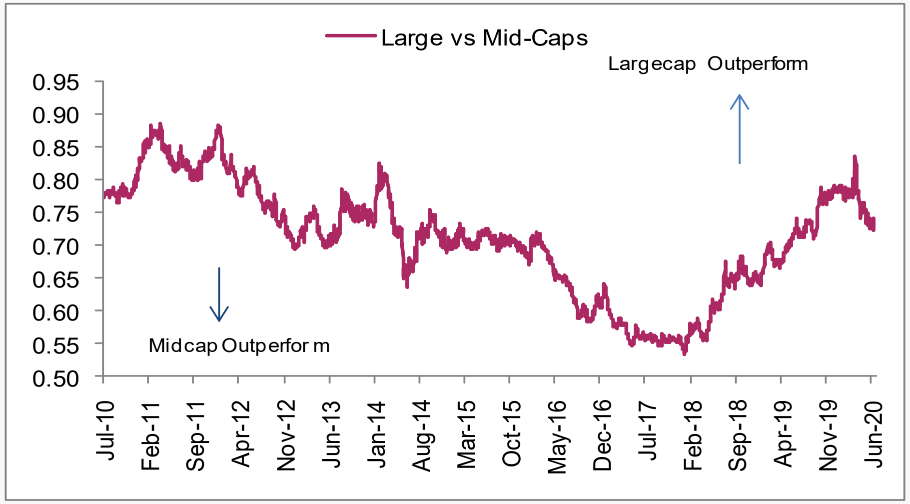
Source: Company, Axis Securities

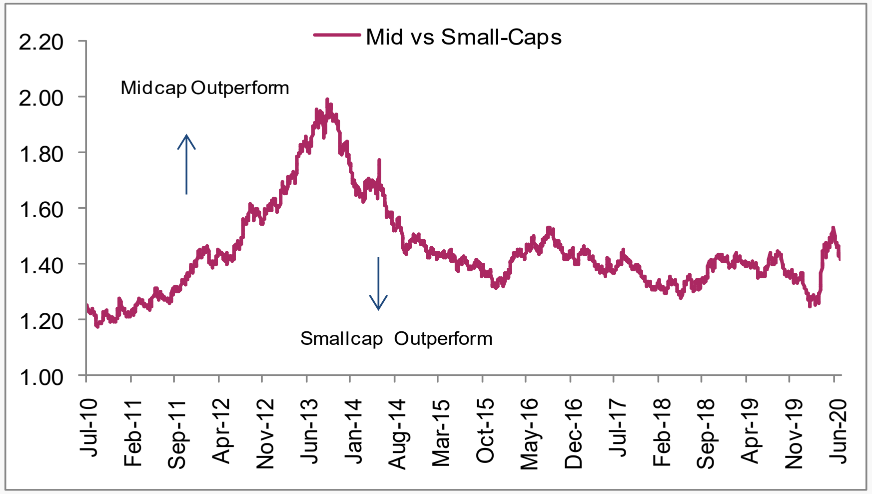
Style Indices performance: Value continues to outperform growth, Mid and Small caps pick up steam

The month of June saw significant outperformance of Value index over Growth. Value outperformed growth in the month of May and that traction continued into June. Mid and small caps also gained traction in the month outperforming the large caps. Reasonable valuations across and sector rotation were the key factors for the rally.









Source: Company, Axis Securities

BSE200 Top Gainers & Losers

	Top Gainers	Last Price	% 1W Chg	Top Losers	Last Price	% 1W Chg
1	IDBI Bank Ltd	43.80	27.14	Adani Green Energy Ltd	358.70	-22.60
2	Edelweiss Financial Services Ltd	62.65	24.93	Ashok Leyland Ltd	46.95	-16.46
3	Kansai Nerolac Paints Ltd	445.65	10.75	Indiabulls Housing Finance Ltd	207.15	-13.80
4	Jindal Steel And Power Ltd	161.60	10.57	Bharat Forge Ltd	318.95	-13.53
5	ABB India Ltd	943.60	10.36	Bajaj Holdings and Investment Ltd	2548.30	-12.70
6	Gujarat Gas Ltd	318.20	9.57	DLF Ltd	148.05	-12.19
7	Max Financial Services Ltd	541.55	9.19	Canara Bank Ltd	100.60	-11.72
8	Piramal Enterprises Ltd	1363.00	7.54	Union Bank of India Ltd	31.85	-11.40
9	Adani Transmission Ltd	259.70	6.54	Federal Bank Ltd	51.00	-9.65
10	Bharat Electronics Ltd	88.65	6.42	IDFC First Bank Ltd	25.70	-9.51

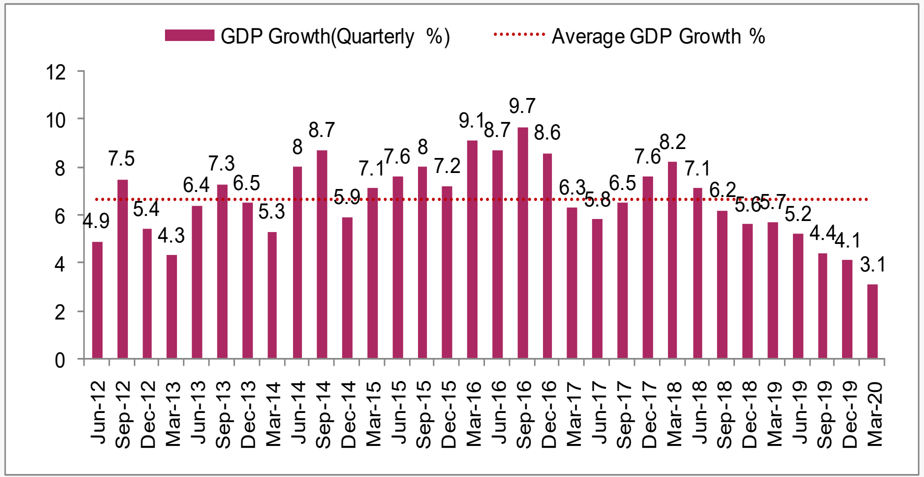
	Top Gainers	Last Price	% 1M Chg	Top Losers	Last Price	% 1m Chg
1	IDBI Bank Ltd	43.80	79.88	Exide Industries Ltd	148.15	-14.46
2	Indiabulls Housing Finance Ltd	207.15	62.09	City Union Bank Ltd	121.40	-14.20
3	Vodafone Idea Ltd	10.62	61.89	Relaxo Footwears Ltd	633.00	-11.04
4	Future Retail Ltd	128.95	44.89	Coal India Ltd	132.50	-10.77
5	Adani Transmission Ltd	259.70	43.96	Adani Power Ltd	36.00	-8.98
6	Bank of India Ltd	48.90	41.53	Divi's Laboratories Ltd	2278.85	-8.15
7	Jubilant Life Sciences Ltd	655.55	41.18	Zee Entertainment Enterprises Ltd	171.10	-7.96
8	Bandhan Bank Ltd	319.25	40.95	Pidilite Industries Ltd	1372.20	-6.89
9	Adani Green Energy Ltd	358.70	37.86	AIA Engineering Ltd	1607.05	-6.75
10	Aditya Birla Capital Ltd	63.30	35.26	Abbott India Ltd	15726.45	-6.46

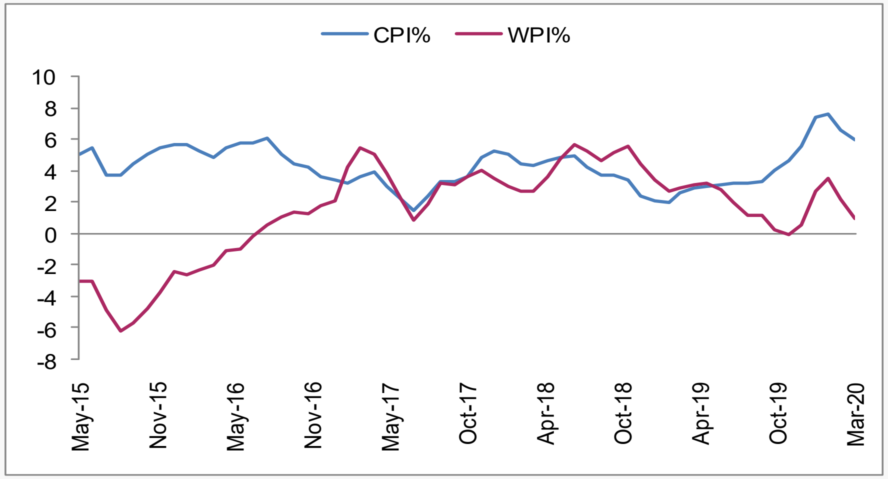
	Top Gainers	Last Price	% 3M Chg	Top Losers	Last Price	% 3m Chg
1	Vodafone Idea Ltd	10.62	241.48	Aditya Birla Fashion and Retail Ltd	125.35	-16.95
2	Jubilant Life Sciences Ltd	655.55	163.43	Rajesh Exports Ltd	465.75	-14.09
3	Adani Green Energy Ltd	358.70	133.45	State Bank of India	178.40	-9.42
4	IDBI Bank Ltd	43.80	126.94	Bank of Baroda Ltd	48.60	-9.24
5	Glenmark Pharmaceuticals Ltd	450.20	118.49	Gillette India Ltd	4979.10	-8.95
6	Indiabulls Housing Finance Ltd	207.15	114.55	Power Finance Corporation Ltd	84.15	-8.68
7	Jindal Steel And Power Ltd	161.60	96.59	Interglobe Aviation Ltd	988.80	-7.44
8	Aurobindo Pharma Ltd	771.50	86.78	City Union Bank Ltd	121.40	-6.36
9	Mahindra and Mahindra Ltd	510.70	79.19	Coal India Ltd	132.50	-5.36
10	Muthoot Finance Ltd	1086.70	77.68	Hindustan Unilever Ltd	2180.75	-5.11

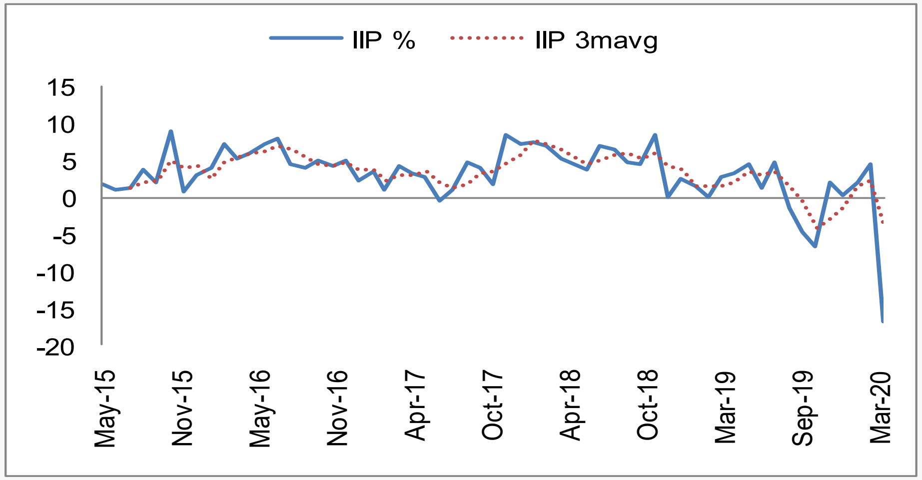
Source: Company, Axis Securities

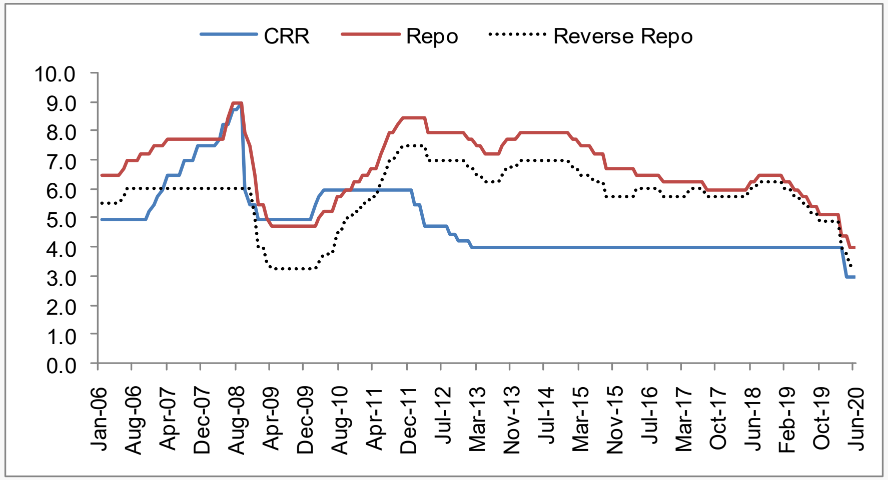
Macro Indicators – India:

Q4FY20 GDP at 3.1% was not particularly bad but it has limited implications on the market. RBI cut REPO and Reverse REPO by 40bps. The short term impact is likely to be limited but will help in improving system liquidity.





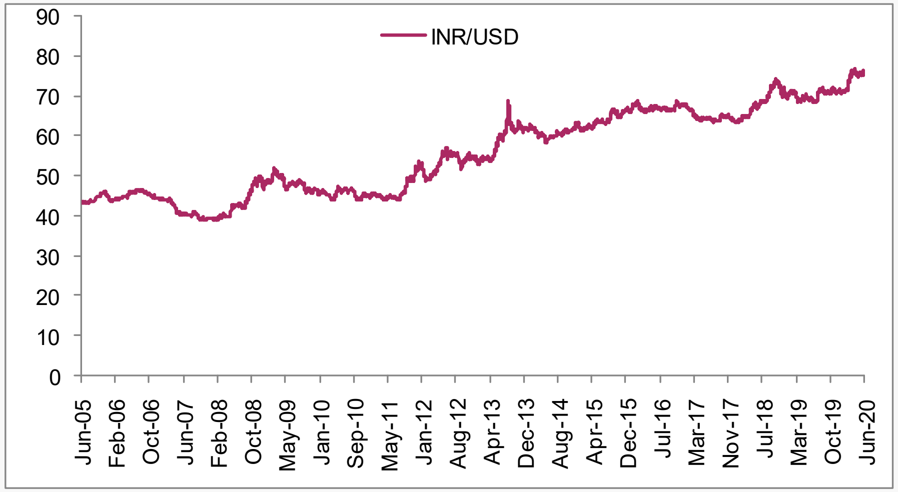


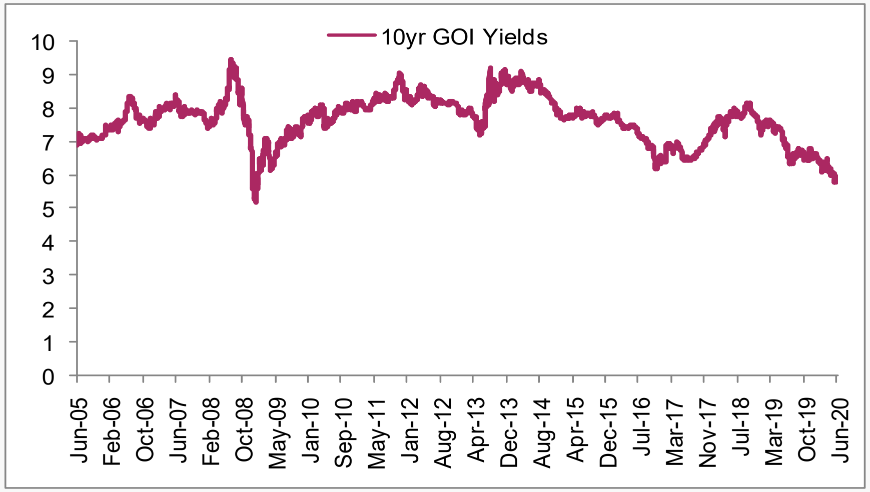


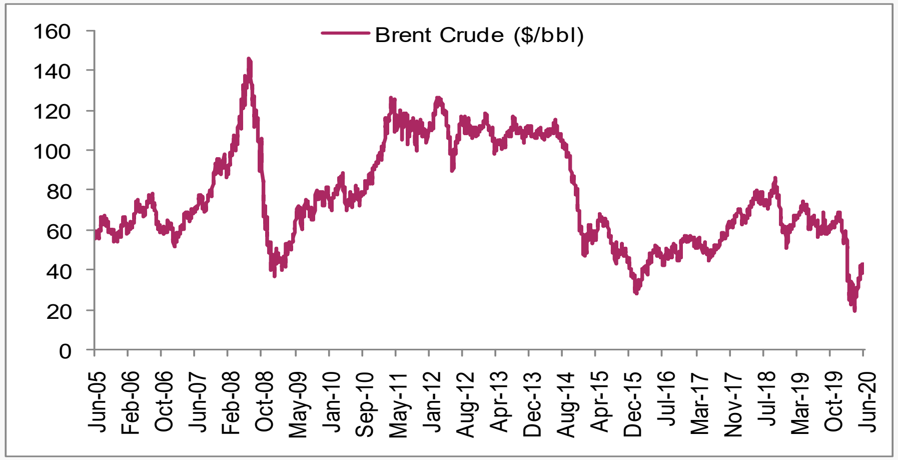
Source: Company, Axis Securities

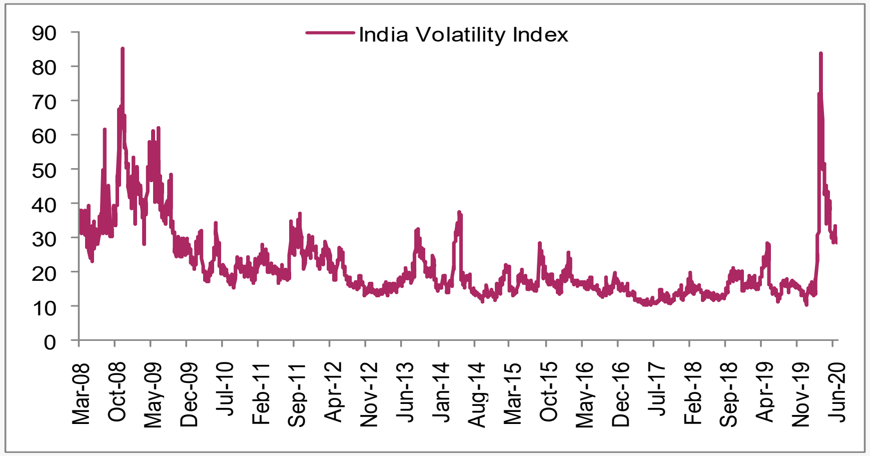
Macro Indicators – India:

Currency has been relatively stable considering the significant FII outflows. 10 year yield declined on line with expectations. Volatility has declined considerably which is a key positive for the markets.







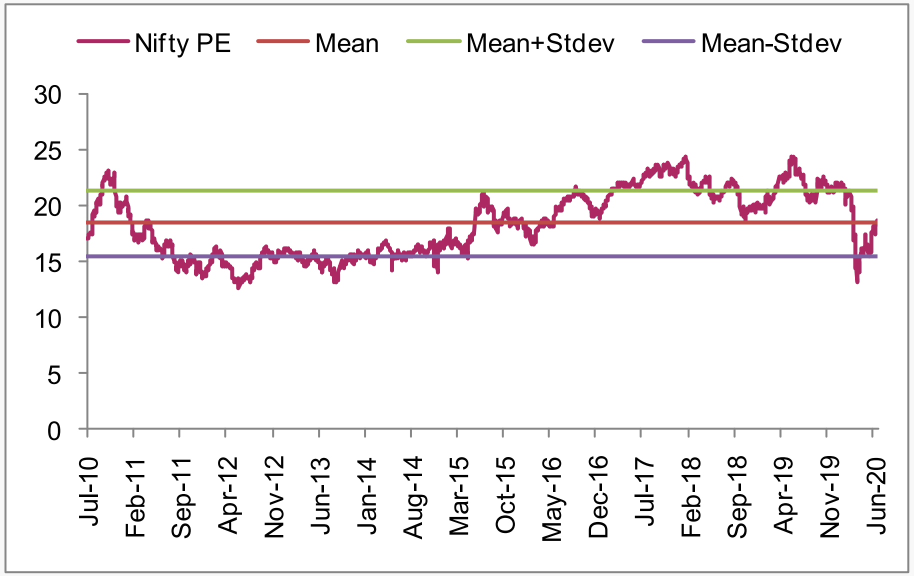


Source: Company, Axis Securities

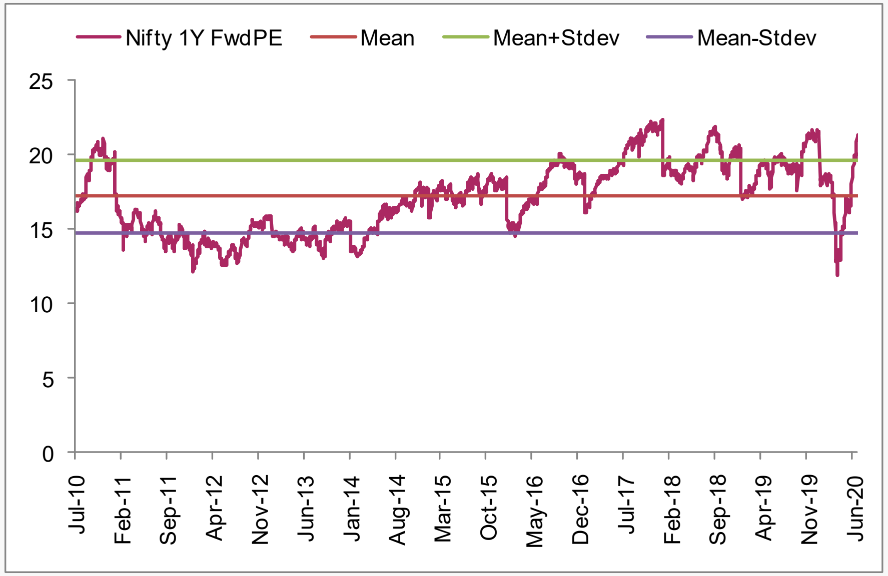
Nifty Valuations: Valuations provide little comfort

Interestingly, NIFTY valuations have retraced back above the mean levels. This provides limited comfort as forward earnings continue to remain challenging.

12M Fwd PE Band



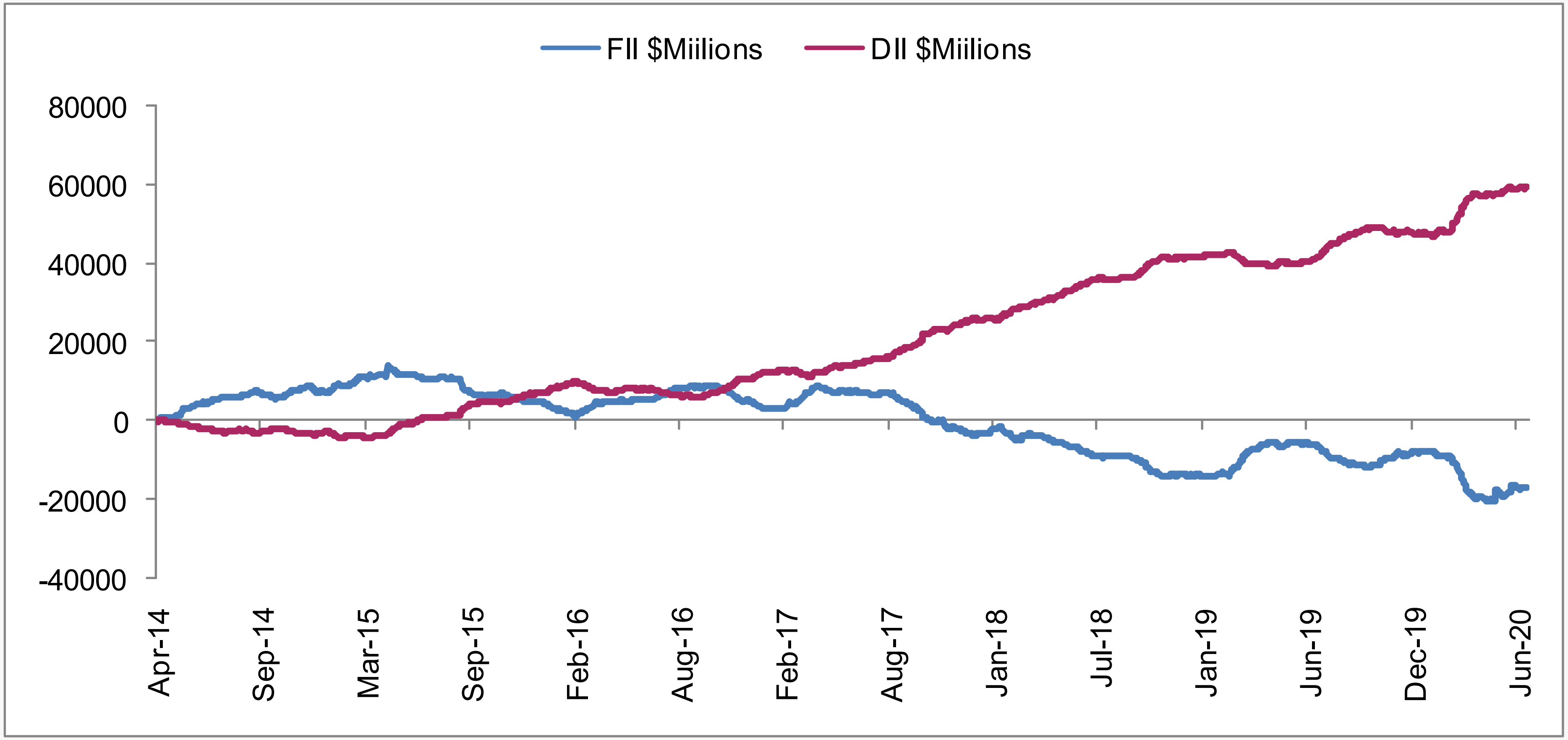
1Y Fwd PE Chart



Source: Company, Axis Securities

FII and DIIs both buyers in May:

Both FIIs and DIIs were buyers in the month of May. However, on longer time frames, FIIs have been major sellers with support primarily coming from DIIs and retail market.



Source: Company, Axis Securities

ICICI BANK (ICBK.NS) – WELL POSITIONED FOR GROWTH

ICICI Bank (ICICIBC) is amongst the largest private sector bank in India with business operations spread across Retail, Corporate, and Insurance etc. It is supported by a strong liability franchise and retail corporate mix of ~63/25%. It's subsidiaries ICICI Venture Funds, ICICI Pru AMC, ICICI Securities, ICICI Prudential and ICICI Lombard are amongst the leading companies in their respective segments.

Industry view

Underweight

CMP
351

Target Price
495

Upside
41%

Key Rationale

- ICICIBC's incremental additions to GNPAs, especially in corporate have come down in last couple of quarters. Its pool of stressed loans has come off sharply to 3.3% vs. ~14% in FY16. Also, retail are broadly in line with best-in-class players, reflecting cyclical rather than underwriting issues in FY20. The bank has hiked NPA coverage to ~76% in Q4 and hence ageing related provisions are likely to reduce. This should aid a sharp drop in credit cost to and hence a surge in earnings.
- ICICIBC has a robust funding franchise and its cost of funds at ~5% is amongst the lowest in its peer set, implying low risk of adverse portfolio selection. Scale-up of unsecured portfolio and a higher share of domestic loans should support strong NIM
- **Key risks:** Significant deterioration in retail asset quality, Delay in resolution of stressed assets

Key Rationale

- **At Inflection point:** We maintain our positive view on ICICI Bank and believe that the recent price correction offers another attractive entry point into the stock. We believe ICICIBC offers the best risk-reward among our bank coverage given a healthy, sustainable earnings outlook. Asset quality is likely to strengthen following large NPA recognition in the past and limited exposure to recent stressed loan cases. A strong liability profile, better asset mix, and healthy CAR could make ICICIBC well positioned to come through this challenging period with relatively lower degree of stress
- **Valuation:** We expect higher provisioning over FY21/22E cushioned by stable NIM, low cost of funds and healthy capital adequacy. We believe valuations are undemanding for the stock given strong liability franchise and leveraging opportunities across group products. We remain positive on the stock and maintain BUY with SOTP of Rs 495 (1.8x Core ABV FY22E and Subsidiaries value at 149/-)

Key Financials (Standalone)

Y/E Mar (Rs Cr)	NII (Rs)	PPOP (Rs)	PAT (Rs)	EPS (Rs)	ABV (Rs)	NNPA (%)	P/ABV (x)	RoAA (%)
FY19	27,015	23,438	3,363	5.2	138.2	2.1	2.0	0.4
FY20P	33,267	28,101	7,931	12.3	155.0	1.6	2.2	0.8
FY21E	38,649	31,552	13,528	20.9	171.0	1.4	2.0	1.2
FY22E	41,029	33,985	16,319	25.2	192.2	1.2	1.6	1.3

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY19	FY20P	FY21E	FY22E
Interest Earned	63,401	74,798	80,342	85,817
Interest Expended	36,386	41,531	41,693	44,788
Net Interest Income	27,015	33,267	38,649	41,029
Other Income	14,512	16,449	14,472	15,859
Total Income	41,527	49,716	53,120	56,888
Total Operating Exp	18,089	21,614	21,568	22,902
Employee Expense	6,808	8,271	8,349	8,711
PPOP	23,438	28,101	31,552	33,985
Provisions & Contingencies	19,661	14,053	13,515	12,227
PBT	3,777	14,048	18,037	21,758
Provision for Tax	413	6,117	4,509	5,440
PAT	**3,363**	**7,931**	**13,528**	**16,319**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY19	FY20P	FY21E	FY22E
SOURCES OF FUNDS				
Share Capital	1,289	1,295	1,295	1,295
Reserves	107,074	115,206	124,981	137,748
Shareholder's Funds	108,363	116,501	126,276	139,043
Savings	227,671	245,591	257,871	273,343
Current	96,269	102,227	104,272	108,442
Term Deposit	328,979	423,151	486,624	559,617
Total Deposits	652,920	770,969	848,766	941,402
Borrowings	165,325	162,900	156,384	157,948
Other Liabilities & Provisions	37,851	47,995	55,194	63,473
Total Liabilities	964,459	1,098,365	1,186,620	1,301,867
APPLICATION OF FUNDS				
Cash & Bank Balance	80,296	119,156	122,269	125,328
Investments	207,733	249,531	274,924	309,079
Advances	586,647	645,290	689,745	762,546
Fixed Assets	7,931	8,410	8,621	8,836
Other Assets	81,852	75,978	91,063	96,077
Total Assets	964,459	1,098,365	1,186,620	1,301,867

Source: Company, Axis Research

Valuation ratios (%)

Y/E March	FY19	FY20P	FY21E	FY22E
EPS	5.2	12.3	20.9	25.2
Earnings growth (%)	(50.4)	135.8	70.6	20.6
BVPS	168.1	180.0	195.1	214.8
Adj. BVPS	138.2	155.0	171.0	192.2
ROAA (%)	0.36	0.77	1.18	1.31
ROAE (%)	3.2	7.1	11.1	12.3
P/E (x)	53.3	27.7	16.2	12.2
P/ABV (x)	2.01	2.19	1.98	1.61
P/PPOP (x)	1.8	1.5	1.4	1.3
Dividend Yield (%)	0.3	-	0.3	0.3
PROFITABILITY				
Yield on Advances (%)	8.7	9.3	9.7	9.4
Yield on Investment (%)	6.2	5.0	5.0	5.0
Cost of Funds (%)	4.7	4.7	4.3	4.3
Cost of Deposits (%)	4.4	4.1	3.2	3.1
NIM (%)	3.4	3.7	3.8	3.7
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	2.0	2.1	1.9	1.8
Cost-Income Ratio (%)	45.0	44.6	41.6	41.2

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E March	FY19	FY20P	FY21E	FY22E
Loan Growth (%)	14.5	10.0	6.9	10.6
Deposit Growth (%)	16.4	18.1	10.1	10.9
C/D Ratio (%)	89.8	83.7	81.3	81.0
Equity/Assets (%)	11.2	10.6	10.6	10.7
Equity/Advances (%)	18.5	18.1	18.3	18.2
CASA (%)	49.6	45.1	42.7	40.6
Total Capital Adequacy Ratio	16.9	16.1	15.6	15.6
Tier I CAR	15.1	14.7	14.4	14.5
ASSET QUALITY				
Gross NPLs	46,290.0	41,406.0	41,951.0	40,364.7
Net NPLs	12,937.7	10,114.0	9,836.9	9,160.5
Gross NPLs (%)	6.7	5.5	6.1	5.3
Net NPLs (%)	2.1	1.6	1.4	1.2
Coverage Ratio (%)	72.1	75.6	76.6	77.3
Provision/Avg. Loans (%)	3.1	2.3	2.0	1.7
ROAA TREE				
Net Interest Income	2.93%	3.23%	3.38%	3.30%
Non Interest Income	1.57%	1.59%	1.27%	1.27%
Treasury Income	0.15%	0.13%	0.11%	0.10%
Operating Cost	1.96%	2.10%	1.89%	1.84%
Provisions	2.13%	1.36%	1.18%	0.98%
Provisions for NPAs	1.82%	1.36%	1.17%	0.96%
Tax	0.04%	0.59%	0.39%	0.44%
ROAA	0.36%	0.77%	1.18%	1.31%
Leverage (x)	8.63	9.17	9.41	9.38
ROAE	3.15%	7.05%	11.14%	12.30%

Source: Company, Axis Research

Mannapuram Finance (MNFL.NS) – Continue to shine

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

Industry view

Underweight

CMP
151

Target Price
173

Upside
14%

Key Rationale

- For MGFL, online gold loan now make up 48% of the total gold book, which is a positive as collections/repayments would be insulated from the complete branch-shutdown to a large extent. OGL platform is expected to increase to ~70% by FY21. Extending the same facility to offline gold loan customers should also augur well from an asset quality standpoint. Also, only ~5% of customers have opted for moratorium.
- Opex to AUM at the end of FY20 improved to 7.2% vs 8.3% in FY19. From a liquidity perspective, the balance sheet position is comfortable as of now. Quantum of undrawn bank lines stands at ~Rs1000cr. Besides this, the company has raised resources from various avenues, including offshore markets, NCDs, banks and financial institutions. Share of CPs stands at 15%.
- **Key risks:** Near term asset quality risk in MFI portfolio, Business slowdown in non-gold portfolio due to Covid-19

Key Rationale

- **High ROE business:** We believe MGFL can sustain its performance in critical business environment which has been tough for most NBFCs due to its well matched ALM profile, strong liquidity, cost controls, stable asset quality and tailwind from high gold prices. Even during the ongoing uncertain environment, it has been able to raise funds at competitive rates. Concerns on non-gold business especially MFI is getting lesser as collections pick up in rural areas.

Valuation: We expect moderate loan growth and higher provisioning over FY21/22E cushioned by improvement in cost ratios. Pressure on the non- gold portfolio is easing off as collections improve in rural areas. Gold lending will remain an attractive option for customers looking for credit as banks will be more risk averse. We expect MGFL to maintain ROAE of ~24% over FY21/FY22. We remain positive on the stock and revise our target price upwards to Rs 173 (1.7x FY22E ABV)

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	NII (Rs)	PPOP (Rs)	PAT (Rs)	EPS (Rs)	ABV (Rs)	NNPA (%)	P/ABV (x)	RoAA (%)
2019	2,693	1,474	930	11.0	52.2	0.7	3.0	5.0
2020P	3,385	2,245	1,480	17.6	66.9	0.4	2.3	6.0
2021E	3,689	2,443	1,557	18.5	80.6	1.2	1.9	5.0
2022E	4,384	3,057	2,092	24.8	102.0	0.6	1.5	5.7

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY19	FY20P	FY21E	FY22E
Interest Earned	4,012	5,217	5,895	6,780
Interest Expended	1,319	1,832	2,206	2,395
Net Interest Income	2,693	3,385	3,689	4,384
Other Income	167	334	294	312
Total Income	2,860	3,719	3,984	4,696
Total Operating Exp	1,386	1,474	1,541	1,640
Employee Expense	720	830	871	931
Other Operating Expense	666	644	670	709
PPOP	1,474	2,245	2,443	3,057
Provisions & Contingencies	46	238	381	268
PBT	1,427	2,007	2,062	2,789
Provision for Tax	498	527	505	697
PAT	930	1,480	1,557	2,092

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY19	FY20P	FY21E	FY22E
Sources of Funds				
Share Capital	169	169	169	169
Reserves	4,356	5,577	6,855	8,561
Shareholder's Funds	4,525	5,746	7,023	8,730
Borrowings	15,297	21,817	22,362	25,605
Other Liabilities & Provisions	586	1,330	1,710	1,835
Total Liabilities	20,454	28,951	31,237	36,305
Application of Funds				
Cash & Bank Balance	1,164	3,646	3,882	4,532
Investments	174	90	90	90
Advances	17,812	23,189	24,770	28,900
Fixed Assets	367	387	445	512
Other Assets	937	1,639	2,050	2,271
Total Assets	20,454	28,951	31,237	36,305

Source: Company, Axis Research

Valuation ratios (%)

Y/E March	FY19	FY20P	FY21E	FY22E
EPS	11.0	17.6	18.5	24.8
Earnings growth (%)	37.5	59.6	5.1	34.4
BVPS	53.7	68.0	83.3	103.6
Adj. BVPS	52.2	66.9	80.6	102.0
ROAA (%)	5.00	6.00	5.00	5.70
ROAE (%)	22.3	28.8	23.7	24.4
P/E (x)	14.2	8.9	8.4	6.3
P/ABV (x)	3.0	2.3	1.9	1.5
PROFITABILITY				
Yield on Advances (%)	24.3	25.4	24.5	24.6
Cost of Funds (%)	9.5	9.9	10.0	10.0
NIM (%)	16.3	16.5	15.4	15.5
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	8.4	7.2	6.5	6.1
Cost-Income Ratio (%)	48.5	39.6	39.1	36.6

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E March	FY19	FY20P	FY21E	FY22E
Loan Growth (%)	16.8	30.2	6.8	16.7
Total Capital Adequacy Ratio	23.7	23.4	23.3	22.9
Tier I CAR	23.3	22.9	22.7	22.5
ASSET QUALITY				
Gross NPLs (%)	1.2	0.9	2.5	1.5
Net NPLs (%)	0.7	0.4	1.2	0.6
Coverage Ratio (%)	40.8	55.1	55.0	60.4
Credit Cost (%)	0.3	1.2	1.6	1.0

Source: Company, Axis Research

VARUN BEVERAGES LTD (VARB NS) – VALUATIONS ATTRACTIVE

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

Industry view

Equal weight

CMP
681

Target Price
804

Upside
18%

Key Rationale

- Low per capita soft drink consumption in India of 44 bottles as of 2016 as compared to 271 bottles in China, 1,496 bottles in USA and 1,489 bottles in Mexico offers immense scope for growth from deeper penetration of soft drinks in India.
- Strong association with PepsiCo of over 28 years. VBL now a critical partner in PepsiCo India's growth aspirations as it now has 80% share in PepsiCo's India volumes from 45% in CY15.
- Is one of the leading players in the Indian CSD market owing to its end-to-end execution capabilities and presence across entire beverages value chain.
- COVID-19 to impact Q2CY20 performance given higher drag from OOH business, we believe there still are multiple medium term growth catalysts 1) sustained gains from consolidation of South and West territories, 2) portfolio diversification with increased contribution from NCB (juices/water) portfolio also aided by rising focus on health and immunity, 3) margin tailwinds from new Pathankot facility and benign input costs (crude and sugar prices).

Key Rationale

- **Outlook**: We believe Q2CY20 would be impacted owing to lockdown. However, VBL has multiple long term growth drivers 1) lower product ticket size to aid quicker recovery in volumes compared to other discretionary items, 2) highly underpenetrated soft drinks, juices category in in rural areas, 3) no major capex going ahead and focus on working capital efficiency and cost rationalization shall aid VBL in sailing through the current challenging conditions.
- **Valuation**. We expect VBL to register Revenues/Earnings CAGR of 10%/28% respectively over CY19-21E. This growth will be driven by 1) consolidation in newly acquired territories, 2) distribution led market share gains, 3) cost efficiencies and 4) margin tailwinds. VBL's EBITDA Margin stood at 16.2% in Q1CY20 and with benign RM prices it is likely to sustain in CY20E. The stock trades at 10.5x EV/EBITDA on CY21E basis versus its 3 year mean of 14x EV/EBITDA.
- **Key risks:** seasonality, change in concentrate pricing, lockdown extension to hurt peak season sales (50% OOH* consumption).

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	Net Sales	EBIDTA (Rs C)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
CY18	5,105	1,007	300	10.7	49.1	11.8	4.8	15.9
CY19	7,130	1,448	472	16.8	42.1	15.9	6.1	17.6
CY20	6,895	1,400	440	15.3	40.8	14.5	4.8	12.4
CY21E	8,684	1,850	771	26.7	23.3	10.5	4.1	18.9

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

Profit & Loss (Rs Cr)

Y/E DEC	CY18	CY19	CY20	CY21E
Total Net Sales	**5,105**	**7,130**	**6,895**	**8,684**
Total Raw material Consumption	2,244	3,219	3,020	3,786
Staff costs	583	811	848	1,025
Other Expenditure	1,272	1,652	1,627	2,023
Total Expenditure	4,099	5,682	5,495	6,834
EBITDA	**1,007**	**1,448**	**1,400**	**1,850**
Depreciation	385.1	488.6	546.0	574.2
EBIT	622	959	854	1,276
Interest	213	310	277	244
Other Income	22	43	31	35
PBT	434	696	612	1,070
Tax	134	224	171	300
APAT	**300**	**472**	**440**	**771**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E DEC	CY18	CY19	CY20	CY21E
Share Capital	**183**	**289**	**289**	**289**
Reserves & Surplus	1,816	3,040	3,423	4,086
Net Worth	2,006	3,359	3,742	4,405
Total Loan funds	2,358	2,823	2,523	2,223
Deferred Tax Liability	192	283	283	283
Long Term Provisions	105	170	160	200
Capital Employed	**4,668**	**6,635**	**6,708**	**7,111**
Net Block	3,860	5,893	5,837	5,742
Investments	32	45	44	55
Sundry Debtors	128	173	246	262
Cash & Bank Bal	93	171	187	734
Inventory	578	882	662	830
Other Current Assets	199	440	425	536
Total Current Assets	**1,141**	**1,672**	**1,527**	**2,368**
Curr Liab & Prov	1,363	1,753	1,571	1,962
Net Current Assets	(222)	(81)	(44)	407
Total Assets	**4,668**	**6,635**	**6,708**	**7,111**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	CY18	FY19	CY20	CY21E
PBT	434	696	612	1,070
Depreciation & Amortization	385	489	546	574
Provision for Taxes	199	295	277	244
Chg in Deferred tax	109	35	-	-
Chg in Working cap	(50)	(85)	(31)	126
Diret tax paid	(73)	(120)	(171)	(300)
Cash flow from operations	**1,003**	**1,310**	**1,233**	**1,715**
Chg in Gross Block	(859)	(754)	(583)	(515)
Chg in Investments	(49)	(1,625)	-	-
Chg in WIP	34	68	-	-
Cash flow from investing	**(873)**	**(2,311)**	**(583)**	**(515)**
Proceeds / (Repayment) of Short Term Borrowings (Net)	1,400	560	-	-
Repayment of Long Term Borrowings	(1,246)	46	-	-
Loans Repayment	-	-	(300)	(300)
Finance Cost paid	(189)	(301)	(277)	(244)
Dividends paid	(46)	(69)	(57)	(108)
Dividend Distribution Tax paid	(5)	(9)	-	-
Cash flow from financing	**(84)**	**1,110**	**(635)**	**(652)**
Chg in cash	**45**	**100**	**16**	**547**
Cash at start	1	42	171	187
Cash at end	46	142	187	734

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY18	CY19	CY20	CY21E
Growth (%)				
Net Sales	27.5%	39.7%	-3.3%	25.9%
EBITDA	20.4%	43.8%	-3.3%	32.1%
APAT	39.9%	57.5%	-6.7%	75.0%
Per Share Data (Rs.)				
Adj. EPS	10.7	16.8	15.3	26.7
BVPS	109.8	116.4	129.6	152.6
Profitability (%)				
EBITDA Margin	19.7%	20.3%	20.3%	21.3%
Adj. PAT Margin	5.9%	6.6%	6.4%	8.9%
ROCE	14.3%	17.0%	12.8%	18.5%
ROE	15.9%	17.6%	12.4%	18.9%
Valuations (X)				
PER	49.1	42.1	40.3	23.0
P/BV	4.8	6.1	4.7	4.0
EV / EBITDA	11.8	15.9	14.4	10.4
EV / Net Sales	2.3	3.2	2.9	2.2
Turnover Days				
Asset Turnover	0.9	1.0	0.8	1.0
Inventory days	82.7	82.8	93.3	71.9
Debtors days	9.9	7.7	11.1	10.7
Creditors days	41.3	45.0	51.4	40.4
Working Capital Days	51.4	45.4	53.0	42.1
Gearing Ratio				
Debt: Equity (x)	1.2	0.8	0.7	0.5
Net Debt to Equity	1.1	0.8	0.6	0.3

Source: Company, Axis Research

CCL PRODUCTS (CCLP) – HEALTHY DEMAND OUTLOOK AMID UNCERTAINTY

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

Industry view

Equal weight

CMP
235

Target Price
267

Upside
14%

Key Rationale

- CCLP's EBITDA Margins at 25% in FY20 were the highest over the last 5 years led by improved product mix (rising share of freeze dried coffee (FDC)). We expect margin expansionto sustain driven by 1) ramp up in FDC unit utilization (~50% in FY20), 2) small packs gaining traction (focused on selling to brand owners vsrepackers earlier).
- CCLP'sCapex plans includes1) 3,500 tonnes capacity addition in Vietnam by Q3FY21, 2) set up of agglomeration& packing capacity by FY22 that augurs well for its long term growth outlook driven by higher volumes and improved realizations.
- With in-home consumption of instant coffee rising across the globe due to lockdown caused by the pandemic, CCLP is tracking a healthy order book especially from USA and EU (~40-45% of revenue). This is backed by client addition in US and surge in demand from supermarkets in EU.
- CCLP's branded coffee business in India has shown healthy traction with 40% YoY growth in revenue during FY20.Management targets to achieve Rs 80 Crs revenues in FY21 from the branded India business driven by increase in direct reach coverage.

Key Rationale

- **Outlook:**We believeCCLP is well placed to capture the growing In-Home consumption of Instant coffee driven by 1) expertise in customized blends & cost efficient business model, 2) largest manufacturer &exporter of instant coffee in India,3) long standing client relationships (~50% revenue contribution from brand owners),4) presence in Vietnam- world's largest robusta growing country, 5) capacity additions in valueadded products (FDC & small packs)and 6) steadily improving branded retail business.
- **Valuation:** We expect CCLP to post Revenue/EBITDA/PAT CAGR of 9%/11%/12% respectively over FY20-22E driven by product mix improvement and 3,500MT expansion atVietnam plant.Our estimates are also supported by CCLP's guidance of Volume/EBITDA growth of 10-15% in FY21 along with sustaining its high margins, despite COVID-19 led challenges.
- **Key risks:** Surge in COVID-19 cases in key markets impacting dispatches, abrupt weather changes impacting green coffee yield, uncertainty on lockdown relaxation guidelines in India.

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
FY19	1,081	245	155	11.6	24.5	16.6	4.5	19.6
FY20	1,139	286	166	12.5	14.4	9.6	2.6	18.8
FY21E	1,179	301	173	13.0	17.9	11.0	3.0	17.6
FY22E	1,361	351	209	15.7	14.8	9.4	2.7	19.1

Source: Company, Axis Securities

Income Statement (Consolidated) (Rs Cr)

Income statement	FY19	FY20	FY21E	FY22E
Total Net Sales	**1,081**	**1,139**	**1,179**	**1,361**
% Change	-4.9%	5.3%	3.5%	15.5%
Total Raw material Consumption	597	559	575	662
Staff costs	59	70	73	84
Other Expenditure	180	224	230	264
Total Expenditure	836	853	878	1,010
EBITDA	**245**	**286**	**301**	**351**
% Change	2.9%	16.5%	5.1%	16.8%
EBITDA Margin %	**22.7%**	**25.1%**	**25.5%**	**25.8%**
Depreciation	31.7	47.1	58.5	63.8
EBIT	214	239	242	287
% Change	4.5%	11.8%	1.4%	18.7%
EBIT Margin %	19.8%	21.0%	20.5%	21.1%
Interest	8	18	14	12
Other Income	3	4	2	3
(as % of PBT)	2%	2%	1%	1%
PBT	209	225	230	278
Tax	54	59	58	70
Tax Rate %	*25.8%*	*26.4%*	*25.0%*	*25.0%*
APAT	**155**	**166**	**173**	**209**
% Change	4.8%	7.2%	4.1%	20.8%

Source: Company, Axis Research

Balance Sheet (Consolidated) (Rs Cr)

Balance Sheet	**FY19**	**FY20**	**FY21E**	**FY22E**
Share Capital	**27**	**27**	**27**	**27**
Reserves & Surplus	812	902	1,005	1,120
Net Worth	839	928	1,032	1,147
Total Loan funds	376	392	316	240
Deferred Tax Liability	43	46	46	46
Long Term Provisions	0	0	0	0
Other Long Term Liability	0	9	6	7
Capital Employed	**1,258**	**1,376**	**1,401**	**1,440**
Gross Block	483	801	901	991
Less: Depreciation	100	77	136	199
Net Block	383	724	765	792
Investments	5	7	5	5
Sundry Debtors	235	268	258	298
Cash & Bank Bal	97	39	97	12
Loans & Advances	0	0	0	0
Inventory	202	260	221	263
Other Current Assets	37	69	71	82
Total Current Assets	**571**	**636**	**647**	**655**
CurrLiab&Prov	164	134	149	145
Net Current Assets	407	503	498	511
Total Assets	**1,258**	**1,376**	**1,401**	**1,440**

Source: Company, Axis Research

Cash Flow(Consolidated) (Rs Cr)

Cash Flow	FY19	FY20	FY21E	FY22E
PBT	209	225	230	278
Depreciation & Amortization	32	47	58	64
Provision for Taxes	0	0	14	12
Chg in Deferred tax	15	19	0	0
Chg in Working cap	-36	-147	62	-98
Diret tax paid	-57	-53	-58	-70
Cash flow from operations	**162**	**91**	**308**	**187**
Chg in Gross Block	-241	-64	-90	-90
Chg in Investments	0	0	0	0
Chg in WIP	9	-12	0	0
Cash flow from investing	**-233**	**-76**	**-90**	**-90**
Proceeds / (Repayment) of Short Term Borrowings (Net)	57	93	0	0
Repayment of Long Term Borrowings	49	-41	0	0
Loans	0	0	-76	-76
Finance Cost paid	0	0	-14	-12
Dividends paid	-33	-90	-69	-94
Dividend Distribution Tax paid	-7	0	0	0
Cash flow from financing	**66**	**-37**	**-159**	**-182**
Chg in cash	**53**	**-35**	**58**	**-85**

Source: Company, Axis Research

RatiosAnalysis(Consolidated) (%)

Key Ratios	FY19	FY20	FY21E	FY22E
Growth (%)				
Net Sales	-4.9%	5.3%	3.5%	15.5%
EBITDA	2.9%	16.5%	5.1%	16.8%
APAT	4.8%	7.2%	4.1%	20.8%
Per Share Data (Rs.)				
Adj. EPS	11.6	12.5	13.0	15.7
BVPS	63.1	69.8	77.6	86.2
Profitability (%)				
EBITDA Margin	22.7%	25.1%	25.5%	25.8%
Adj. PAT Margin	14.3%	14.6%	14.7%	15.3%
ROCE	17.0%	17.4%	17.3%	20.0%
ROE	19.6%	18.8%	17.6%	19.1%
ROIC	18.5%	18.0%	18.6%	20.2%
Valuations (X)				
PER	24.5	14.4	17.9	14.8
P/BV	4.5	2.6	3.0	2.7
EV / EBITDA	16.6	9.6	11.0	9.4
EV / Net Sales	3.8	2.4	2.8	2.4
Turnover Days				
Asset Turnover	0.8	0.8	0.7	0.9
Inventory days	117.6	150.8	152.6	133.4
Debtors days	70.4	80.6	81.5	74.6
Creditors days	20.6	26.7	22.3	25.1
Working Capital Days	167.5	204.8	211.8	182.9
Gearing Ratio				
Total Debt to Equity	0.3	0.4	0.2	0.2

Source: Company, Axis Research

MINDA INDUSTRIES LTD (MNDA.NS) – BEST PLAY FOR INDUSTRY REVIVAL

Minda Industrues (MNDA) is the largest supplier of switches, acoustics and alloy wheels (PV segment) and is a top 2 player in lighting and safety air-bags in the automotive Industry. MNDA has 62 manufacturing plants and 8 R&D centres across the globe. Group is headquartered in Manesar, Haryana, India.

Industry view

Underweight

CMP
274

Target Price
318

Upside
16%

Key Rationale

- New product lines to aid margin and growth. Increasing contributions from high margin, new product lines like sensors & controllers, air bags, telematics and alloy wheels will fare well and ride on the premiumization trend that both the 2W and PV segment has been witnessing for the past few years
- Strategic,inorganic acquisition to enhance offering. Recent acquisition at an attractive 12X FY19 P/E of Harita Seatingis a strategic fit for MNDA as it enhances its product offering while at the same time helping it to make inroads into Harita's clientele. WhileDelvis acquisition gives a much needed expertise in LEDhead light technology to make inroads in new PV models of leading OEMs
- **Key risks:** Subdued demand for PV and 2W, rising interest burden and elongated global supply chain disruption

Key Rationale

- **Long-term industry outperformance to continue.** We are bullish on MNDA's ability to comprehensively beat industry performance by1) leveraging the broader vehicular trends of industry like EV, premiumization, automation2) strategic inorganic acquisition to enhance product offering and gain market share 3) maintaining balance sheet discipline and maintain optimal leverage,4) investing In R&D to bring technological change 5) tap on its deep rooted relationship with OEM's to increase kit value
- **Valuation.** We expect annual revenue to grow at14.5% CAGR over FY20E-22E. Expect EPS to grow robustly at 35% y/y and 32% y/y for FY21E and FY22E. The company trades at 23.8x FY22E P/E multiples and will continue to command premium valuation due to an unmatched product offering among auto ancillaries and long history of superior growth

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
2019	5908	752	285	10.9	25.8	10.4	4.3	19.7
2020	5468	619	174	6.6	42.2	12.8	4.0	10.5
2021E	6274	720	234	8.9	31.4	10.8	3.7	13.0
2022E	7179	861	309	11.8	23.8	8.9	3.3	15.4

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Net sales	**5,908**	**5,468**	**6,274**	**7,179**
Other operating income	27	27	31	36
Net Revenue	5,935	5,495	6,305	7,215
Cost of goods sold	4,952	4,648	5,340	6,074
Contribution (%)	*16.2%*	*15.0%*	*14.9%*	*15.4%*
Other operating costs	230.7	228.0	244.7	280.0
EBITDA	**752**	**619**	**720**	**861**
Other income	0	0	0	0
PBIDT	**752**	**619**	**720**	**861**
Depreciation	234	309	321	361
Interest & Fin Chg.	63	87	95	99
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**455**	**223**	**305**	**402**
Tax provision	134	51	76	100
(-) Minority Interests	54	12	16	21
Associates	19	12	18	24
Adjusted PAT	**286**	**172**	**231**	**304**
Other Comprehensive Income	(1)	3	3	5
Reported PAT	**285**	**174**	**234**	**309**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Total assets	**3,102**	**3,404**	**3,701**	**4,026**
Net Block	1,861.2	2,127.3	2,206.5	2,245.7
CWIP	150.1	172.5	120.0	120.0
Investments	386.5	386.5	386.5	386.5
Wkg. cap. (excl cash)	572	463	535	626
Cash / Bank balance	132.1	254.6	452.4	648.0
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	**3,102**	**3,404**	**3,701**	**4,026**
Equity capital	52.4	52.4	52.4	52.4
Reserves	1,652	1,771	1,942	2,186
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	266.7	278.8	295.1	316.5
Borrowings	1,131	1,301	1,411	1,471
Def tax Liabilities	0.6	0.8	0.9	1.0

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Sources	**1,036**	**610**	**618**	**686**
Cash profit	618	567	644	761
(-) Dividends	67	52	58	58
Retained earnings	551	515	586	703
Issue of equity	35.0	0.0	0.0	0.0
Change in Oth. Reserves	80.1	12.1	16.3	21.5
Borrowings	413	170	110	60
Others	(43)	(87)	(95)	(99)
Applications	**1,036**	**610**	**618**	**686**
Capital expenditure	694.3	597.4	347.5	400.0
Investments	199.9	0.0	0.0	0.0
Net current assets	187.0	(109.5)	72.6	90.5
Change in cash	(45.3)	122.5	197.8	195.5

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY19	FY20	FY21E	FY22E
Sales growth	**29.9**	**(7.5)**	**14.7**	**14.4**
OPM	**12.7**	**11.3**	**11.4**	**11.9**
Oper. profit growth	32.6	(17.8)	16.4	19.6
COGS / Net sales	83.8	85.0	85.1	84.6
Overheads/Net sales	3.9	4.2	3.9	3.9
Depreciation / G. block	10.5	11.0	10.0	10.0
Effective interest rate	8.4	8.3	8.0	7.8
Net wkg.cap / Net sales	0.06	0.08	0.06	0.07
Net sales / Gr block (x)	2.6	1.9	2.0	2.0
RoCE	**21.8**	**10.6**	**12.3**	**14.1**
Debt / equity (x)	0.61	0.67	0.67	0.62
Effective tax rate	29.5	23.0	25.0	25.0
RoE	**19.7**	**10.5**	**13.0**	**15.4**
Payout ratio (Div/NP)	23.7	30.1	24.7	18.7
EPS (Rs.)	**10.9**	**6.6**	**8.9**	**11.8**
EPS Growth	(9.5)	(38.9)	34.3	31.9
CEPS (Rs.)	19.8	18.4	21.2	25.5
DPS (Rs.)	2.2	2.0	2.2	2.2

Source: Company, Axis Research

ITC LTD (ITC) – COMPELLING VALUATIONS

ITC is one of India's leading private sector Company with diversified presence in FMCG, Hotels, Paperboards & Papers, Packaging, Agri-Business, and Information Technology. ITC is a market leader in traditional businesses of Cigarettes, Hotels, Paperboards, Packaging and Agri-Exports and is rapidly gaining share in the FMCG segment. In the Cigarettes (Gold Flake, Classic) segment has a market share of 80% while it mastered in creating FMCG brands like Sunfeast (Biscuits), Bingo (Chips), Yippee (Noodles), and Aashirvaad (Flour) from scratch.

Industry view

Equal weight

CMP
195

Target Price
230

Upside
18%

Key Rationale

- Cigarette biz Q4FY20 Revenue/EBIT declined 7%/12% resp led by 10% volume de-growth. We note the faster than expected recovery in cigarette volumes to nearly normal levels on exit basis and possible market share gain opportunities (competitor plants continue to remain shut) could support earnings momentum over FY21E. ITC introduced new variants and offered aggressive promotional offers to its trade channels for new launches in KSFT/RSFT segment.
- FMCG segment Revenue on adjusted basis reported 5% growth better than some of the FMCG peers while EBIT Margins improved 63bps YoY to 4.6% (0.7% in March 2017 end). ITC's FMCG business remains resilient in challenging times as COVID-19 given strong traction seen across its FMCG portfolio. We remain positive of the segment's revenue/margin performance from a near to medium term perspective as in-home consumption increases.
- Hotels, business will continue to be impacted in FY21E given restrictions on travel and tourism and decline in tourist visits. Its Agri, Paper & Paper board business to improve gradually going forward as demand progressively normalizes.
- **Key risks:** SUUTI stake sale overhang, uncertainty of lockdown restrictions, aggressive competition and adverse government regulations / compensation cess.

Key Rationale

- Balance sheet and cash flows for FY20 remained strong aided by favorable working capital movement at 54 days as of March 2020 from 65 days in March 2019. Further, the company has a healthy cash balance of Rs. 300bn would enable it to sail through challenging times posed by COVID-19 outbreak.
- **Outlook:** Clearly, Q1FY21 performance will be severely impacted owing to COVID-19 led disruptions leading us to revise our estimates downwards for FY21/22. However, progressive normalization of operations across segments, share gain possibilities in core cigarette biz, quicker recovery in FMCG sales given increased in-home consumption and consumers' preference towards trusted brands could support an quicker recovery in earnings.
- **Valuation:** Increase in dividend payout (81% in FY20 vs 56% in FY19) and can sustain going ahead in our view. At CMP stock trades at 15.5x FY22E EPS providing enough valuation comfort and high dividend yield +5%, with steady return ratios and likely market share gains in core cigarette business supported by inorganic acquisitions.

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
FY19	48,353	18,406	12,824	10.5	18.7	12.8	4.1	21.7
FY20	49,404	19,260	15,717	12.8	15.3	12.3	4.0	26.3
FY21E	47,132	16,595	13,296	10.8	18.1	14.4	4.0	21.9
FY22E	51,081	19,257	15,569	12.7	15.5	12.4	4.0	25.5

Source: Company, Axis Securities

Income Statement (Consolidated) (Rs Cr)

Y/E March	FY19	FY20E	FY21E	FY22E
Net sales	**48,353**	**49,404**	**47,132**	**51,081**
Growth, %	11.3	2.2	-4.6	8.4
Other income	0	0	0	0
Total income	48,353	49,404	47,132	51,081
Raw material expenses	-17,420	-17,345	-17,119	-17,945
Employee expenses	-4,178	-4,296	-4,254	-4,466
Other Operating expenses	-8,348	-8,503	-9,165	-9,413
EBITDA (Core)	**18,406**	**19,260**	**16,595**	**19,257**
Growth, %	11.7	4.6	-13.8	16.0
Margin, %	38.1	39.0	35.2	37.7
Depreciation	-1,397	-1,645	-1,674	-1,644
EBIT	**17,010**	**17,615**	**14,921**	**17,613**
Growth, %	11.6	3.6	-15.3	18.0
Margin, %	35.2	35.7	31.7	34.5
Interest paid	-45	-55	-56	-57
Other Non-Operating Income	2,174	2,598	2,910	3,259
Pre-tax profit	**19,138**	**20,158**	**17,775**	**20,815**
Tax provided	-6,314	-4,442	-4,479	-5,245
Profit after tax	12,824	15,717	13,296	15,569
Net Profit	**12,824**	**15,717**	**13,296**	**15,569**
Growth, %	15.8	22.6	-15.4	17.1

Source: Company, Axis Research

Balance Sheet (Consolidated) (Rs Cr)

As at 31st Mar	FY19	FY20E	FY21E	FY22E
Cash & bank	4,152	3,110	2,769	1,389
Debtors	4,035	2,301	2,195	2,379
Inventory	7,860	7,128	7,035	7,375
Loans & advances	7,197	5,181	5,181	5,181
Total current assets	23,152	17,629	17,089	16,232
Investments	25,043	25,043	25,043	25,043
Gross fixed assets	23,888	26,888	29,888	32,888
Less: Depreciation	-4,716	-6,361	-8,035	-9,679
Add: Capital WIP	4,136	3,730	3,730	3,730
Net fixed assets	23,308	24,257	25,583	26,939
Total assets	**71,504**	**66,929**	**67,715**	**68,214**
Current liabilities	9,990	4,736	4,675	4,899
Provisions	51	51	51	51
Total current liabilities	10,042	4,788	4,726	4,950
Non-current liabilities	2,304	2,304	2,304	2,304
Total liabilities	12,346	7,092	7,030	7,254
Paid-up capital	1,226	1,229	1,229	1,229
Reserves & surplus	57,915	58,590	59,438	59,713
Shareholders' equity	59,158	59,837	60,685	60,960
Total equity & liabilities	**71,504**	**66,929**	**67,715**	**68,214**

Source: Company, Axis Research

Cash Flow (Consolidated) (Rs Cr)

Y/E March	FY19	FY20E	FY21E	FY22E
Pre-tax profit	19,138	20,158	17,775	20,815
Depreciation	1,397	1,645	1,674	1,644
Chg in working capital	-1,056	-956	137	-299
Total tax paid	-6,185	-4,442	-4,479	-5,245
Cash flow from operating activities	**13,175**	**17,539**	**15,224**	**16,914**
Capital expenditure	-2,875	-2,593	-3,000	-3,000
Chg in investments	-2,991	0	0	0
Cash flow from investing activities	**-5,866**	**-2,593**	**-3,000**	**-3,000**
Free cash flow	7,309	14,945	12,224	13,914
Equity raised/(repaid)	6,648	679	848	275
Dividend (incl. tax)	-8,498	-15,041	-12,448	-15,295
Cash flow from financing activities	**4,412**	**-11,497**	**-10,310**	**-15,020**
Net chg in cash	11,721	3,448	1,915	-1,106

Source: Company, Axis Research

Ratios Analysis (Consolidated) (%)

Key Ratios	FY19	FY20	FY21E	FY22E
Per Share data				
EPS (INR)	10.5	12.8	10.8	12.7
Growth, %	13.6	22.2	(15.4)	17.1
Book NAV/share (INR)	48.3	48.7	49.4	49.6
FDEPS (INR)	10.5	12.8	10.8	12.7
CEPS (INR)	11.6	14.1	12.2	14.0
DPS (INR)	5.8	10.2	8.4	10.5
Return ratios				
Return on equity (%)	21.7	26.3	21.9	25.5
Return on capital employed (%)	22.1	25.5	21.3	24.7
Turnover ratios				
Asset turnover (x)	1.6	1.5	1.4	1.4
Sales/Total assets (x)	0.7	0.7	0.7	0.8
Sales/Net FA (x)	2.1	2.1	1.9	1.9
Working capital days	68.0	72.3	74.7	71.1
Liquidity ratios				
Current ratio (x)	2.3	3.7	3.7	3.3
Quick ratio (x)	1.5	2.2	2.2	1.8
Dividend cover (x)	1.8	1.3	1.3	1.2
Valuation				
PER (x)	18.7	15.3	18.1	15.5
Price/Book (x)	4.1	4.0	4.0	4.0
Yield (%)	2.9	5.2	4.3	5.4
EV/Net sales (x)	4.9	4.8	5.1	4.7
EV/EBITDA (x)	12.8	12.3	14.4	12.4
EV/EBIT (x)	13.9	13.5	16.0	13.6

Source: Company, Axis Research

MINDTREE LTD (MINT.NS) – STRONG DEAL WINS, BETTER EXECUTION

Mindtree Ltd.(MTCL.IN) is Indian IT services company headquartered in Banglore. Mindtree provides specialized IT solutions, ER&D services to various industries like Hi-Tech, Manufacturing, BFSI, Travel and Hospitality. Mindtree also specialized in providing digital transformation services and solutions.

Industry view

Overweight

CMP
926

Target Price
1088

Upside
18%

Key Rationale

- Mindtree is going through transition post its management change. The new management has key focus to aligning its execution, its operations and its business portfolios. The management 's key focus on new deal wins, digital transformation business to attain the desired operating margins with high top line growth momentum.
- Mindtree has successfully managed to get higher deal wins even in unprecedented event i.e. COVID 19 outbreak. The order book for Q4 FY20 remained all time high at $393 mn. The new deal wins also demonstrated robust growth (137% QoQ). This also reflects the company's new strategy to focus on the long term annuity base business model. The new management has well transitioned the top clients and has accelerated its growth. Offerings within top clients remain well-diversified. Company reiterated its focus on key customers and planned rationalization of smaller accounts.
- Solid execution and well defined strategies help to gain healthy operating margins even in the unhealthy conditions.

Key Rationale

- For Q4 FY20 operating margins stood at 12.5% up 45 bps. However adjusted operating margins stood at 14.8% gaining 175 bps QoQ. Management has initiated strong cost control measures like reducing the subcontractors, better service mix and higher execution which will help to gain long term sustainable operating margins.
- The company management is confident in gaining the momentum and has worked efficiently with zero productivity loss. While traction is expected in Capital good and Digital initiatives remained strong, Hi-Tech and automation is expected to gain pace post Covid-19. However sees some near-term challenge in terms of softness in revenue growth and pressure on Q1 operating margin.
- **Valuation**. We expect annual revenue to grow by 11% y/y and 11% y/y in FY21E and FY22E, respectively. EPS is expected to grow at healthy 16% y/y and 15% y/y for FY21E and FY22E, respectively.
  We recommend **BUY** and assign 21x P/E multiple to its FY22E earnings of Rs. 50.6 which gives a TP of Rs. 1088 per share, an upside of 19%.

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr	EBIDTA (Rs Cr)	Net Profit	FDEPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	RoE (%)
FY19	7,022	1,065	754	46	16	11	4	25
FY20	7,746	1,090	546	38	24	12	3	16
FY21E	8,628	1,235	730	44	21	9	3	19
FY22E	9,606	1,415	832	51	18	8	3	20

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Net sales	**7,022**	**7,746**	**8,628**	**9,606**
Employee Expenses	4,421	5,340	5,698	6,331
Other Expenses	1,536	1,610	1,694	1,861
EBITDA	**1,065**	**1,090**	**1,235**	**1,415**
Margin	*15.16%*	*14.07%*	*14.32%*	*14.73%*
Depreciation	164	275	310	345
EBIT	**900**	**814**	**926**	**1,070**
Margin	13%	11%	11%	11%
Other income	89	67	130	136
	0	0	0	0
EBIT	**99**	**88**	**106**	**121**
	0	0	0	0
Interest & Fin Chg.	2	52.9	53.6	56
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**987**	**829**	**1,000**	**1,156**
Tax provision	233	198	270	324
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Reported PAT	**754**	**631**	**730**	**832**
Adjusted PAT	**754**	**631**	**730**	**832**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Total assets	**4,179**	**4,497**	**4,949**	**5,406**
Net Block	376	248	89	-15
CWIP	29.7	29.7	29.7	29.7
Investments & Other Assets	120	125	125	125
Wkg. cap. (excl cash)	1,912	2,349	2,842	3,285
Cash / Bank balance	256	490	813	1,060
Misc. Assets	189	189	189	189
Capital employed	**4,179**	**4,497**	**4,949**	**5,406**
Equity capital	164.2	164.6	164.6	164.6
Reserves	3,142	3,451	3,786	4,124
Long term debt	19	676	676	676
Provisions	140	56	93	117
Others	17.4	17.4	17.4	17.4

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Pre-tax profit	987	745	1,000	1,156
Depreciation	164	282	310	345
Chg in working capital	-236	-203	-171	-196
Total tax paid	-23	-20	-27	-32
Cash flow from operating activities	**886**	**825**	**1,139**	**1,305**
Capital expenditure	171	154	151	240
Cash flow from investing activities	**-193**	**-154**	**-151**	**-240**
Free cash flow	72	67	99	106
Dividend (incl. tax)	591	237	395	494
Cash flow from financing activities	**0**	**0**	**0**	**0**
Net chg in cash	-73	234	323	247

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY19	FY20	FY21E	FY22E
Per Share data				
EPS (INR)	45.9	38.3	44.4	50.6
Growth, %	14%	-16%	16%	14%
Book NAV/share (INR)	201.4	220.2	240.6	261.2
FDEPS (INR)	35	39	42	46
CEPS (INR)	55.9	50.4	63.3	71.7
CFPS (INR)	28.1	36.5	43.8	42.8
DPS (INR)	33.0	13.0	13.0	15.0
Return ratios				
Return on assets (%)	18%	12%	15%	15%
Return on equity (%)	25%	16%	19%	20%
Return on capital employed (%)	23%	15%	18%	19%
Turnover ratios				
Asset turnover (x)	18.7	31.1	96.8	(629.7)
Receivables Days	5.3	5.1	5.0	4.9
Inventory turnover	1.0	1.0	1.0	1.0
Cash conversion cycle	34	36	35	35
Liquidity ratios				
Current ratio (x)	3.2	3.7	3.9	4.0
Quick Ratio	1.7	2.0	2.1	2.2
Net debt/Equity (%)	(0.1)	(0.1)	(0.2)	(0.2)
Valuation				
PER (x)	16.2	24	21.3	18.3
Price/Book (x)	3.7	3.4	3.1	2.8
EV/Net sales (x)	3.6	3.4	3.1	2.9
EV/EBITDA (x)	11.5	12.2	9.4	8.1
Dividend Yeild	4.2	1.7	1.7	1.9

Source: Company, Axis Research

Biocon Ltd (BION.NS) – Biosimilars to drive growth

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

Industry view

Overweight

CMP
390

Target Price
474

Upside
22%

Key Rationale

- Biocon has received the USFDA's approval for its Insulin Glargine (Semglee) which paves way for the launch in US market currently controlled by Eli Lily and Sanofi; company is planning for the launch in H2FY20. Company has already launched Semglee (insulin glargine) in EU, Ogivir (Trastuzumab) and Hulio (adalimumab) are gaining market share in EU while Fulphila and Ogivir (market size $2.9bn) are being ramped up in US. Driven by market share gains and new launches in these high margin biosimilars, the Biologics segment is expected to post robust revenue growth (approx. in mid-twenties) over next 2/3 years; Biocon management has set an ambitious target to cross $1 bn revenues for Biologics over next couple of years (from around $300 plus mn in FY20).
- Other new product launch includes a) Humira (adalimumab) (market size $18 bn with 9 competitors) is undergoing phase 3 trials in US, tentatively planned for launch in FY23. Biocon is also in advanced stage of development for Avastin (Bevacizumab), Enbrel (Etanercept) and NovoLog (Insulin Aspart) expected to launch over the next 3-5 years.

Key Rationale

- The contract research segment (Syngene) is expected to post revenue growth in low teens while the branded formulations business is expected to grow at low single digit driven by additional capacity and entry into newer markets.
- Biocon is expected to invest aggressively thereby ploughing back substantial capital over next couple of years to build its product portfolio, conduct trials and support it with adequate manufacturing capacities which would limit free cash flow generation.
- Valuation. We expect annual revenue to grow by 25% CAGR over FY20-22E, EBIDTA to expand by 35% CAGR and PAT by 47% CAGR over the same period. The EBIDTA margins are expected to expand from ~27% in FY20 to 29% by FY22E driven by increased contribution from high margin Biologics segment. Given the prospects of earnings growth over next couple of years, we value the company at 35x FY22 earnings to arrive at target of Rs 474
- **Key risks:** aggressive competition to protect market share, tepid response for key molecules planned for launch

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales	EBIDTA	Net Profit	FDEPS (Rs)	Change (%)	PER (x)	RoE (%)	RoCE (%)
FY19	5,514	1,394	905	7.5	143.1	41.1	14.8	9.2
FY20P	6,367	1,603	748	6.2	(17.4)	56.8	11.2	8.6
FY21E	8,302	2,328	1246	10.4	66.6	34.2	15.7	12.0
FY22E	9,970	2,917	1,626	13.6	30.5	26.2	17.0	14.4

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY19	FY20P	FY21E	FY22E
Net sales	**5,514**	**6,367**	**8,302**	**9,970**
Other operating income	0	0	0	0
Total income	5,514	6,367	8,302	9,970
COGS	1,897	2,052	2,796	3,284
Employee Exp.	1,165	1,459	1,704	2,039
Other Expenses	1,059	1,253	1,474	1,730
EBIDTA	**1,394**	**1,603**	**2,328**	**2,917**
Other income	144	161	125	110
PBIDT	**1,538**	**1,765**	**2,453**	**3,027**
Depreciation	448	552	620	697
Interest & Fin Chg.	71	65	63	51
Pre-tax profit	**1,019**	**1,147**	**1,770**	**2,280**
Tax provision	212	315	407	523
PAT	807	832	1,364	1,756
(-) Minority Interests	(97)	(123)	(118)	(131)
Associates	1	(29)	1	1
Adjusted PAT	**711**	**681**	**1,247**	**1,627**
Extraordinary adj.	(195)	(68)	0	0
Reported PAT	905	748	1,247	1,627

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY19	FY20P	FY21E	FY22E
Total assets	**9,155**	**10,436**	**10,656**	**11,928**
Net Block	4,445	5,816	5,747	6,247
CWIP	1,899	2,196	1,899	1,899
Wkg. cap. (excl cash)	(714)	(1,348)	(908)	(557)
Cash / Bank balance	2,499	2,665	2,812	3,234
Other LT assets incl. Goodwill	1,026	1,106	1,106	1,106
Capital employed	**9,155**	**10,436**	**10,656**	**11,928**
Equity capital	300	600	600	600
Reserves	5,798	6,106	7,352	8,979
Borrowings	3,057	3,730	2,703	2,350

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY19	FY20P	FY21E	FY22E
Sources	**2202**	**2251**	**546**	**1574**
Issue of equity	0	300	0	0
Change in Oth. Reserves	917	308	1246	1626
Borrowings	390	673	(1027)	(353)
Others	896	970	326	301
Applications	**2202**	**2251**	**546**	**1574**
Capital expenditure	1368	1669	(367)	500
Investments	161	80	0	0
Net current assets	674	502	913	1074

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY19	FY20P	FY21E	FY22E
Sales growth	**33.7**	**15.5**	**30.4**	**20.1**
EBIDTA Margins	**25.3**	**25.2**	**28.0**	**29.3**
EBIDTA growth	68.1	15.0	45.2	25.3
COGS / Net sales	34.4	32.2	33.7	32.9
Overheads/Net sales	19.2	19.7	17.8	17.4
Depreciation / G. block	6.2	6.0	6.4	6.4
Effective interest rate	7.5	6.8	6.9	7.0
Net wkg.cap / Net sales	0.20	0.20	0.21	0.21
Net sales / Gr block (x)	0.8	0.7	0.9	0.9
RoCE	**9.2**	**8.6**	**12.0**	**14.4**
Debt / equity (x)	0.30	0.30	0.23	0.16
Effective tax rate	20.8	27.5	23.0	23.0
RoE	**14.8**	**11.2**	**15.7**	**17.0**
FDEPS (Rs.)	**7.5**	**6.2**	**10.4**	**13.6**
EPS Growth	143.1	(17.4)	66.6	30.5
BV	101.6	55.9	66.3	79.8
EV/EBIDTA	14.2	27.7	18.6	14.7

Source: Company, Axis Research

BHARTI AIRTEL (BRTI.NS) – AHEAD OF MARKET OPERATING PERFROMANCE

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

Industry view

Overweight

CMP
560

Target Price
650

Upside
16%

Key Rationale

- Bharti Airtel reported a stellar Q4FY20 beating consensus estimates both on financial and operating parameters. The India wireless business was the star segment registering an ARPU increase of 14% qoq which was significantly higher than expectations. India wireless revenues exceeded expectations by 4%. Data consumption has continued register very strong growth.
- It is notable that Jio's ARPU improvement and wireless revenue growth for the quarter significantly lagged Bharti's and now it is quite clear that Bharti's quality of subscriber base is significantly ahead of market average.
- The margins for the quarter were quite robust with 78bps qoq improvement but the India business margins improved even more by 155bps.
- The Africa business continues to perform well and it has been adding significant value in terms of consistent growth in operating profits and cash flows.
- Capex for the quarter was significantly higher than the past average as demand increased significantly and Airtel stepped up capex. The management indicated that capex intensity in the forthcoming quarters will decline.
- Indian telecom market has seen a major round of tariff hikes in the month of December with all the telecom operators taking tariff hikes. The full impact of tariff hikes was seen Q4FY20 revenues. Bharti management indicated that there most of tariff hike impact is now reflected in the ARPU for the quarter. However, considering the industry structure further tariff hikes cannot be ruled out in the forthcoming quarters which will lead to consistent EBIDTA improvement.

Key Rationale

- Regulatory challenges are well known and Bharti Airtel is well capitalized to deal with the payouts as it has raised enough capital (Rs 450bn equity in FY20) and has access to debt as there are no major business solvency risks associated with it.
- We raise our ARPU assumptions based on the quarterly beat and forecast 13%/17% CAGR for Revenue/EBIDTA over the period FY20-23E. Profit growth will be even more significant considering FY20E was a loss for the company. Our forecast is based on significant ARPU improvement from current Rs 153/subs/month (Q4FY20) to Rs 208/subs/month by end of Q4FY23. While the ARPU improvement seems significant but our FY23 ARPU forecast is similar to Q4FY15. Thus, our estimates are conservative considering the concentrated industry structure and far greater level of value provided to the customer.
- Jio has raised Rs 785 bn at an EV of Rs 5.1 trillion through a mix of strategic and PE deals. Jio's valuation is significantly higher than Bharti Airtel's current valuation (Rs 4.1 trillion) which has more lines of services, significantly higher revenues and geographies of operation.
- Valuation: We value the company based on SOTP valuation at Rs 650. The value could increase by a further Rs 40/share if Vodafone-Idea shuts down. Our SOTP valuation implies an EV/EBIDTA of 9.5x on FY22E EBIDTA.

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)	Debt/Equity (%)
FY19	81,068	25,819	-2,330	(5.8)	(90.9)	11.0	3.0	(3.3)	122.2
FY20	86,776	36,279	-27,243	(49.9)	(10.6)	9.9	3.2	(29.9)	118.0
FY21E	101,203	44,796	2,733	5.0	105.8	7.8	3.1	2.9	107.8
FY22E	113,361	51,528	8,609	15.8	33.6	6.7	2.8	8.4	93.0

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Net sales	**81,068**	**86,776**	**102,819**	**115,236**
Growth, %	-2	7	18	12
Total income	**81,068**	**86,776**	**102,819**	**115,236**
Raw material expenses	-9,352	-10,734	-11,225	-12,130
Employee expenses	-3,798	-3,807	-4,314	-4,668
Other Operating expenses	-53,934	-49,043	-55,546	-60,938
EBITDA (Core)	**25,819**	**36,279**	**45,719**	**52,618**
Growth, %	(14.2)	40.5	26.0	15.1
Margin, %	31.8	41.8	44.5	45.7
Depreciation	-21,348	-27,652	-27,760	-26,269
EBIT	**4,471**	**8,627**	**17,959**	**26,349**
Growth, %	(58.7)	92.9	108.2	46.7
Margin, %	5.5	9.9	17.5	22.9
Interest paid	-9,589	-11,947	-10,540	-9,291
Other Non-Operating Income	291	288	289	289
Non-recurring Items	-189	-33,343	0	0
Pre-tax profit	**-4,661**	**-35,627**	**8,283**	**17,784**
Tax provided	3,419	10,076	-2,899	-6,224
Profit after tax	**-1,241**	**-25,551**	**5,384**	**11,560**
Others (Minorities, Associates)	-1,278	-1,691	-2,041	-2,192
Net Profit	**-2,519**	**-27,243**	**3,343**	**9,367**
Growth, %	(222.2)	1,069.3	(112.3)	180.2
Net Profit (adjusted)	**(2,330)**	**(27,243)**	**3,343**	**9,367**
Unadj. shares (bn)	399.7	545.7	545.7	545.7
Wtd avg shares (bn)	399.7	545.7	545.7	545.7

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Cash & bank	14,923	39,203	40,514	42,091
Marketable securities at cost	0	0	0	0
Debtors	0	0	0	0
Inventory	0	0	0	0
Loans & advances	0	0	0	0
Other current assets	20,177	60,957	60,227	60,097
Total current assets	35,100	100,160	100,741	102,188
Investments	0	0	0	0
Gross fixed assets	219,359	239,088	234,883	233,554
Less: Depreciation	0	0	0	0
Add: Capital WIP	0	0	0	0
Net fixed assets	219,359	239,088	234,883	233,554
Non-current assets	20,738	35,396	37,568	38,131
Total assets	**275,198**	**375,860**	**374,407**	**380,222**
Current liabilities	93,055	144,889	142,860	141,285
Provisions	0	0	0	0
Total current liabilities	93,055	144,889	142,860	141,285
Non-current liabilities	97,195	117,277	112,470	108,300
Total liabilities	190,250	262,166	255,330	249,585
Paid-up capital	1,999	2,729	2,729	2,729
Reserves & surplus	69,424	88,241	91,584	100,951
Shareholders' equity	84,948	113,694	119,077	130,637
Total equity & liabilities	**275,198**	**375,860**	**374,407**	**380,222**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Pre-tax profit	-4,661	-35,627	8,283	17,784
Depreciation	21,348	27,652	27,760	26,269
Chg in working capital	-9,261	-51,087	-209	1,087
Total tax paid	3,488	9,798	-2,715	-6,001
Other operating activities	0	0	0	0
Cash flow from operating activities	**10,890**	**-53,343**	**33,191**	**39,152**
Capital expenditure	-35,071	-26,033	-23,554	-24,940
Chg in investments	0	0	0	0
Chg in marketable securities	-246	-40,780	730	130
Other investing activities	18,867	28,523	-2,603	-6,560
Cash flow from investing activities	**-15,849**	**3,238**	**-25,584**	**-31,063**
Free cash flow	-4,960	-50,105	7,608	8,089
Equity raised/(repaid)	0	46,790	0	0
Debt raised/(repaid)	2,303	20,089	-6,297	-5,927
Dividend (incl. tax)	0	0	0	0
Other financing activities	0	0	0	0
Cash flow from financing activities	**5,737**	**74,385**	**-6,297**	**-5,927**
Net chg in cash	778	24,280	1,311	2,161
Opening cash balance	14,145	14,923	39,203	40,514
Closing cash balance	14,923	39,203	40,514	42,091

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY19	FY20	FY21E	FY22E
Per Share data				
EPS (INR)	(5.8)	(49.9)	6.1	17.2
Growth, %	(222.2)	756.5	(112.3)	180.2
Book NAV/share (INR)	178.7	166.7	172.8	190.0
FDEPS (INR)	(5.8)	(49.9)	6.1	17.2
CEPS (INR)	48.0	0.7	57.0	65.3
CFPS (INR)	87.4		59.5	68.6
DPS (INR)	-	-	-	-
Return ratios				
Return on assets (%)	1.8	(5.7)	3.1	4.5
Return on equity (%)	(3.3)	(29.9)	3.5	9.0
Return on capital employed (%)	2.6	(8.9)	5.0	7.2
Turnover ratios				
Asset turnover (x)	0.6	0.6	0.7	0.8
Sales/Total assets (x)	0.3	0.3	0.3	0.3
Sales/Net FA (x)	0.4	0.4	0.4	0.5
Working capital/Sales (x)	(0.9)	(1.0)	(0.8)	(0.7)
Fixed capital/Sales (x)	2.6	2.6	2.2	1.9
Working capital days	(328.1)	(353.0)	(293.3)	(257.2)
Liquidity ratios				
Current ratio (x)	0.4	0.7	0.7	0.7
Quick ratio (x)	0.4	0.7	0.7	0.7
Interest cover (x)	0.5	0.7	1.7	2.8
Total debt/Equity (%)	122.2	118.0	107.1	91.7
Net debt/Equity (%)	101.3	74.9	64.2	51.1
Valuation				
PER (x)	(94.9)	(11.1)	90.3	32.2
Price/Book (x)	3.1	3.3	3.2	2.9
EV/Net sales (x)	3.6	4.3	3.5	3.1
EV/EBITDA (x)	11.4	10.2	7.9	6.7
EV/EBIT (x)	65.6	42.9	20.2	13.5

Source: Company, Axis Research

HCL Technologies (HCLT.IN) – Better product mix, Strong execution

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

Industry view

Overweight

CMP
557

Target Price
653

Upside
17%

Key Rationale

- **Robust business structure in global uncertainties:** HCL Technologies may see short term impact of COVID 19 outbreak but the company can efficiently manage from remote systems to ensure timely delivery of the outsourced business. Management has indicated that 90% of the onsite employees and 72% of offshore employees are working efficiently from home. The COVID impact has been seen majorly on consulting business while outsourcing business and ER&D business still remain robust. HCL tech also has strong product business structure with high profit margins. We believe that large transformational deal wins and ramp up in large deals will help HCL tech to generate more sustainable revenues as compared to its peers even in uncertain times.
- **Digital transformation business is intact for HCL tech even in global lockdown:** IT service provider's engagement with its partner network has expanded beyond certifications into setup of co-innovation centers, building industry solutions, ISV partnerships and joint sourcing of deals. These partnerships play a significant role in implementation, rollouts & upgrades, validation and support services.

Key Rationale

- Recent deal trend continues to be healthy for HCL tech and is reflective of traction in Retail & CPG, Manufacturing and BFSI verticals. HCL Tech has received various digital transformational deals worth more than $2.4bn in Q3 FY20. We believe that COVID outbreak will create huge opportunity across geographies for HCL Tech to post strong organic growth over different verticals.
- **Healthy growth aided by Product and Platform business:** HCL Tech had reported better than expected Q3FY20 numbers on both margin and revenue front. Strong revenue growth in Mode 3 business (72% YoY) helps HCL Tech to achieve higher growth momentum on longer term with more advance technologies. Better business matrix will help to generate higher operating business even if there is pricing pressure across verticals. We believe better business matrix and large long term contracts makes HCL Tech a promising investment as compared to its Indian peers.
- **Valuations** We believe HCLT has a resilient business structure from a long term perspective. We recommend **BUY** and assign 13x P/E multiple to its FY22E earnings of Rs. 50.3, which gives a TP of Rs. **653** per share

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
2019	60,427	13,966	10,122	36.8	15	11	4	23
2020	69,779	15,524	10,346	39.4	13	9	3	19
2021E	77,781	17,306	11,694	45.0	12	8	3	19
2022E	85,994	19,079	12,888	50.3	10	8	3	19

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Net sales	**60,427**	**69,779**	**77,781**	**85,994**
Growth, %	8.5	15%	11%	11%
Other income	895	925	1,165	1,156
Total income	6,132	7,070	7,895	8,715
Employee expenses	39,268	45,707	51,141	56,166
Other Operating expenses	7,193	8,548	9,334	10,749
EBITDA	**13,966**	**15,524**	**17,306**	**19,079**
Growth, %	7%	11%	11%	10%
Margin, %	23%	22%	22%	22%
Depreciation	2,147	2,517	2,693	2,876
EBIT	1,182	1,301	1,578	1,736
Growth, %	8%	10%	21%	10%
Margin, %	2%	2%	2%	2%
Interest paid	90	290	262	148
Pre-tax profit	12,624	13,641	15,517	17,212
Tax provided	**2,481**	**3,274**	**3,802**	**4,303**
Profit after tax	10,143	10,367	11,715	12,909
Net Profit	**10,122**	**10,346**	**11,694**	**12,888**
Growth, %	**8%**	**2%**	**13%**	**10%**
Net Profit (adjusted)	10,122	10,346	11,694	12,888

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Cash & bank	9,171	16,501	12,690	9,405
Debtors	11,706	13,727	15,939	18,092
Other current assets	3,716	3,716	3,716	3,716
Total current assets	**29,717**	**39,977**	**39,240**	**39,306**
Goodwill and Intangible Assets	0	0	0	0
Net fixed assets	5,270	4,846	4,098	3,372
CWIP	531	531	531	531
Other Noncurrent assets	355	355	355	355
Total Non Current Assets	**2,623**	**2,946**	**2,998**	**3,080**
	0	0	0	0
Total assets	**58,897**	**74,421**	**78,623**	**83,651**
	0	0	0	0
Creditors	1,803	1,927	1,983	2,011
Provisions	3,316	8,000	7,500	7,500
Total current liabilities	**11,149**	**19,754**	**19,237**	**19,157**
Other liabilities	1,538	1,538	1,538	1,538
Paid-up capital	542	542	542	542
Reserves & surplus	41,495	47,014	52,271	57,918
Total equity & liabilities	**58,897**	**74,421**	**78,623**	**83,651**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Pre-tax profit	12,624	13,643	15,518	17,214
Depreciation	2,147	2,517	2,693	2,876
Chg in working capital	-2,177	5,675	-3,591	-3,431
Total tax paid	248	327	380	430
Cash flow from operating activities	**12,594**	**18,939**	**15,397**	**17,436**
Capital expenditure	2,763	2,093	1,945	2,150
Cash flow from investing activities	**-4,158**	**-7,781**	**-7,632**	**-7,837**
Free cash flow	567	906	582	745
Dividend (incl. tax)	5,100	4,828	6,437	7,241
Cash flow from financing activities	**4,769**	**4,274**	**-1,339**	**-1,339**
Net chg in cash	5,624	7,330	-3,812	-3,285

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY19	FY20	FY21E	FY22E
Per Share data				
EPS (INR)	36.8	39.4	45	50.3
Growth, %	14%	2%	13%	10%
Book NAV/share (INR)	303.6	343.7	381.9	423
FDEPS (INR)	35	39	42	46
CEPS (INR)	88.6	92.9	104	114
CFPS (INR)	28.1	36.5	43.8	42.8
DPS (INR)	21.5	23	25	27
Return ratios				
Return on assets (%)	26%	23%	23%	23%
Return on equity (%)	23%	19%	19%	19%
Return on capital employed (%)	17%	14%	15%	15%
Turnover ratios				
Asset turnover (x)	1	0.9	1	1
Sales/Total assets (x)	1.1	1.2	1.2	1.3
Receivables Days	70.4	70.4	70.4	70.4
Cash conversion cycle	34	36	35	35
Liquidity ratios				
Current ratio (x)	3.1	2.4	2.6	2.8
Interest cover (x)	0	0	112	132
Net debt/Equity (%)	-0.15	-0.2	-0.13	-0.08
Valuation				
PER (x)	15.4	13.2	11.5	10.3
Price/Book (x)	3.7	3.3	3	2.7
EV/Net sales (x)	3.6	3.4	3.1	2.9
EV/EBITDA (x)	10.7	9.2	8.4	7.8
Dividend Yeild	3.3	4.3	4.3	4.3

Source: Company, Axis Research

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