Why do some investors prefer concentrated portfolio?

- Need to track few stocks only
- Concentrated bets could lead to higher returns and wealth building if bets are right,
- Often adding more stocks to a portfolio solely for the sake of diversification tends to water down returns,
- The relationship between diversification and volatility may have been over-stated for years

However in a concentrated portfolio:

- Risks are also concentrated, when your stocks underperform over a period,
- You feel left out when other set of stocks may be performing,
- Concentrated bets require a good deal of tracking, know-how, skill, and experience,
- Concentrated bets should not be positively correlated among themselves otherwise the risk of sharp moves in portfolio value rises even further
- Concentrated bets sometimes lead to more emotional and professional stress, which can cause in turn cause bad investment decisions.

While both concentrated and diversified portfolios have their own merits and demerits, we have prepared a list of largecap (and a few midcap) stocks which can be used by investors who seek to go for some diversification in their concentrated portfolios.

However, markets have risen quite sharply from March lows on the back of liquidity and hopes of early restoration of normalcy from Covid-19 pandemic. Some of the stocks suggested have corrected upwards even more. Hence staggered buying is recommended to benefit from any future falls and have better margin of safety.

Sr No	Company	Industry	Equity Latest	FV	CMP July 08, 2020	Mkt cap	Book Value latest	Net Sales FY20	Change in sales y-o-y	PAT FY20	Change in PAT y-o-y	EPS TTM	P/E TTM	P/BV	Last Div %.	Dividend Yield
1	Ambuja Cements	Cement	397.1	2	195.6	38829	121.3	27103.6	4.1%	2095.0	-9.9%	10.8	18.0	1.6	75	0.8%
2	Atul	Dyes And Pigments	29.7	10	4619.6	13702	1063.7	4093.1	1.4%	666.5	54.2%	224.7	20.6	4.3	275	0.6%
3	Bharti Airtel	Telecommunications	2727.8	5	561.3	306221	141.4	87539.0	8.4%	5822.1	666.0%	11.6	48.6	4.0	40	0.4%
4	Cholaman.Inv.&Fn	Finance - Large	163.92	2	205.3	16826	100.1	8712.0	22.9%	1053.7	-12.0%	12.9	16.0	2.1	85	0.8%
5	Coromandel Inter	Fertilizers - Nitrogenous	29.3	1	745.8	21859	147.3	13136.7	-0.7%	1065.0	44.7%	36.3	20.5	5.1	1200	1.6%
6	Dr Reddy's Labs	Pharmaceuticals - Indian	83.1	5	3886.7	64613	938.4	17460.0	13.5%	2026.0	3.9%	121.9	31.9	4.1	500	0.6%
7	Hero Motocorp	Automobiles - Motorcycles	40.0	2	2719.2	54316	721.3	29254.0	-13.9%	3121.9	-9.4%	160.0	17.0	3.8	4500	3.3%
8	ICICI Bank	Banks - Private Sector	1295.2	2	369.0	238932	185.1	84835.8	17.9%	9566.3	124.9%	14.8	25.0	2.0	0	0.0%
9	Infosys	Computers - Software	2129.6	5	774.7	329957	144.1	90791.0	9.8%	16594.0	7.7%	38.9	19.9	5.4	350	2.3%
10	ITC	Cigarettes	1229.2	1	196.3	241296	53.1	50968.5	3.3%	15406.4	22.3%	12.5	15.7	3.7	1015	5.2%
11	Kotak Mah. Bank	Banks	989.4	5	1352.8	267682	374.4	33474.2	12.2%	9058.7	42.2%	45.3	29.8	3.6	0	0.0%
12	Larsen & Toubro	Engineering	280.8	2	941.3	132152	475.2	145452.4	7.6%	9549.0	9.7%	68.5	13.7	2.0	900	1.9%
13	M & M	Automobiles	621.6	5	551.3	68531	322.1	95179.1	-9.1%	-659.8	-112.8%	7.1	77.1	1.7	47	0.4%
14	Reliance Industries	Refineries	6339.4	10	1798.0	1139824	715.1	596743.0	4.8%	42660.1	7.8%	67.1	26.8	2.5	65	0.4%
15	SBI Life Insurance*	Life Insurance	1000.0	10	850.8	85078	87.4	40324.0	22.6%	1422.2	7.2%	14.2	59.8	9.7	0	0.0%
16	Sun Pharma.Inds.	Pharmaceuticals - Indian	239.9	1	482.5	115766	188.7	32325.2	12.7%	3982.8	8.0%	16.6	29.0	2.6	400	0.8%
17	United Spirits	Distilleries	145.3	2	613.0	44540	51.3	9325.4	-0.2%	623.3	-10.8%	8.8	69.5	11.9	0	0.0%

Source: Capitaline Database, *= Standalone no, All figures are in Rs except for Equity, Sales FY20 and PAT FY20 which are in Rs Cr, EPS is adjusted for extraordinary items. Past dividend yield may not necessarily sustain in the future. For Bank Net Sales represent Interest Earned.

A brief write-up on the 17 stocks is given below:

Ambuja Cement Ltd.

- Ambuja Cements Ltd, now a part of the global conglomerate LafargeHolcim was founded in 1983 by Narotam Sekhsaria and Suresh Neotia. In January 2006, Holcim Ltd (Holcim) acquired 14.8% of Ambuja Cements' equity shares. Following an open offer in April 2006, Holcim assumed management control of the company. Globally, Holcim and Lafarge SA announced their merger in April 2014. Completed in July 2015, the merged entity was renamed LafargeHolcim. Post the proposed restructuring between ACC and Ambuja Cements becoming effective from August 12, 2016, ACC has become a subsidiary of Ambuja Cements.
- LafargeHolcim is the second-largest cement producing company in the world.
- Ambuja Cement has a cement capacity of 29.65 million tonnes with five integrated cement manufacturing plants and eight cement grinding units across the country. Its capacity spread across North and Central (40%), West and South (37%), and East (23%) India.
- Combined entity (ACC + Ambuja) has a 14% market share in the Indian cement industry which is second largest after Ultratech cement.
- Ambuja Cement has strong and stable EBIDTA margin of 19.1% in CY20E. It has strong cash conversion cycle of -95 days in CY20E. The company does not have an interest burden due to debt-free balance sheet which also helpful during a tough time.
- Decline in coal and petcoke prices due to the sharp fall in crude oil prices will lead to a moderation in power, fuel and logistics costs which together form over 50% of the total cost. Hence despite fall in volumes, Ambuja Cement has maintained its profitability margin. Strong prices will improve realization and soft costs will help to improve the EBIDTA margin.
- Ambuja's clinker/grinding expansions in the north by 18/6% to 21/31mn MT is expected to be operational by 1QCY21E. We expect that the company will post 12% volume CAGR during CY20-22E post this expansion.
- Among concerns, it is expected that cement demand will fall in Q1FY21E by up to ~45% and will experience only lower single-digit growth in Q2FY21E. A decline in cement demand in FY21 will bring down capacity utilization of cement companies. Growth in the housing segment, that forms 60%-65% of cement demand, is likely to be affected given the impact of the slowdown in economic growth on income growth and income cuts will result on lower discretionary spending over the next year. Post lockdown, June-20 has witnessed early monsoon in few parts of the country, this has negated expectation of improvement in cement demand in June-20. On Infra front, Govt is facing revenue shortfall to a large extent and hence non priority Infra works can get postponed to Q4FY21 and beyond.

Atul Ltd

- Atul Ltd is a seven-decade old diversified chemical company, engaged in manufacturing of about 900 products and 450 formulations across six business divisions i.e. Aromatics, Bulk Chemicals and Intermediates, Colors, Crop Protection, Floras, Pharmaceuticals and Polymers. Atul has an established track record and strong market position in the chemical industry with diversified product portfolio. It is the global market leader in some of its high-value products and the only supplier in India. Atul earns a higher margin profile and delivers healthy return ratios. Moreover, factors such as the growth of the textile industry in India, increasing titanium dioxide production capacity, accelerating paper production, rising plastic consumption and rapid urbanization are expected to drive its market as a whole.
- Atul has operations across the world touching over 85 countries, where it owns 114 retail brands and serves to more than 30 industries with ~6000 customers. End products are supplied to various industries like agriculture, animal feed, Automobile, Composites, construction, cosmetics, defence, paints and coatings, pharmaceuticals, plastic, horticulture, textile, FMCG etc. This vast reach of the company, will be fruitful, once the situation is back to normalcy. Connections from various parts of the world will be restored, and demand would pour in, leading to profitability.
- Despite large CAPEX requirements it has been able to maintain a lower debt level in its balance sheet over the last few years due to its strong cash flows. Its margins have also improved (OPM 21% in FY20 vs 19% in FY19; PATM 16.4% in FY20 vs 10.9% in FY19) sharply owing to ease in costs, and are likely to sustain in the coming years. Wide distribution network will help the company retain its track once the lockdown is lifted.

- Although, it's consolidated Q4FY20 revenue saw a dip, its full year revenue was up by 2.2% from Rs 4004.8cr to Rs 4093.1cr, impacted due to sudden lockdown, EBITDA during FY20 grew by 18% from Rs 766.8cr to Rs 902cr, and PAT grew by 54% from Rs 436cr to Rs 670.9cr. The company reported a sales growth at a CAGR of 9% for six years. Atul declared interim dividend twice (Rs 12.5 & Rs 15 per share) during the year FY20, which is an attraction point for the invstors. The company is likely to derive growth from its improved utilisation levels of enhanced capacities, which it has achieved without relying on external borrowing. Commissioning of capacities and debottlenecking are expected to drive volumes higher, which will fuel growth; positive pricing tailwinds, and operating leverage will also enhance margin profile. Rupee depreciation could also benefit, as the company derives a considerable portion of its revenue (48%, as of FY20) from the export market.
- The spread of Corona Virus beyond China is causing a concern for the global economic environment as supplies from China (accounts for more than 45% of the global share in chemical raw material supply) received a major blow. China has gradually started production, as they have contained the cases. But, this has resulted in inching up of chemical prices, which will be beneficial for Indian chemical players as global agro and specialty chemical companies are eyeing towards India as a reliable partner. This opportunity can be well utilized by companies like Atul in acquiring global clients, and building long-term relationships. Opportunities are available for players in South Asia as innovators seek a reliable partner for assured sourcing. Also, due to less stringent environmental norms and availability of experienced manpower at a lower wage rate, chemical manufacturers across India enjoy low cost of production advantage compared to its European peers.
- Among concerns, there will be a delay of between six to 12 months in completing the projects already under implementation resulting from the closure of plants owing to the pandemic. Any further delay can impact the growth in top-line in the coming quarters. The problem of shortage of drivers for both inbound and outbound transport is being faced by the business at this time. The company expects to reach near-normal operations from the third quarter of FY21. Atul has geographically diversified sales with around 48% share in exports in its total operating income(TOI) thereby exposing it to foreign exchange rate fluctuations. However, it enjoys benefit of partial natural hedge with imports of around 31% of its raw material requirement.

Bharti Airtel

- Bharti Airtel is enjoying healthy subscriber base and revenue market share with a pan-India network. The total subscriber base stood at 284 million, as on March 31, 2020, vs. 283 million, as on March 31, 2019. Company has consistently maintained its revenue market share of ~31% vs. 35% of market share by its nearest competitor, Reliance Jio. Company continue to gain subscribers as well as market share at an encouraging pace going forward.
- Bharti Airtel has selected Ericsson's 5G-ready Cloud Packet Core to boost network performance. Introduction of 5G network could bring growth in its ARPU (Average revenue per user) going forward, albeit with an increase in license/spectrum fees and Capex.
- Airtel absorbed Tata's mobile phone operations across the country in 19 circles out of which 17 under Tata Teleservices and two under Tata Teleservices (Maharashtra) Ltd. Airtel's spectrum footprint and 4G coverage were expanded after the acquisition. The deal also empowered Airtel to use part of the existing fibre network of the Tata companies.
- US-based Carlyle Group plans to invest US$ 235 million (Rs 1,774.25 cr) for 25 per cent stake in Bharti Airtel's data centre business, Nxtra Data. Nxtra will use the proceeds from deal to continue to scale up its infrastructure and offerings across the country. Rapid digitisation could open up a massive growth opportunity for data centres in India.
- Bharti Airtel's ARPU has risen sequentially for the third straight quarter, helped by higher data usage and tariff hikes. An increase in ARPU may lead to a significant upgrade in EBITDA as the tariff hike may change subscriber addition dynamics and elasticity of demand. ARPU stood at Rs 154 in Q4FY20 vs. Rs 123 in Q4FY19, Rs 136 in FY20 vs. 116 in FY19, which is highest Mobile India ARPU in the industry. We expect to see ARPU at a range of Rs 157-162 in FY21E and Rs 172- 175 in FY22E.
- Key concerns include uncertainty on payment of Adjusted Gross Revenue (AGR), competitive intensity by the new player (R-Jio) and regulatory risks.

Cholamandalam Investment & Finance

- Over the past 40 years, Chola has emerged as a comprehensive financial services provider offering vehicle finance (VF), home loans, home equity loans (HE), SME loans etc. VF and HE are the largest contributing lending segments in its diversified product portfolio. Chola is one of the leaders in the commercial vehicle segment. Chola also has fairly diversified geographical presence. It has around 1000 branches with focus on rural and semi-urban markets. No single region constitutes more than 30% of its overall branch network. Chola has been deliberately opening new branches in rural and semi-urban markets to avoid competition from banks and new NBFCs having stronghold in metros.
- During the last five years, the company has established a credible operational and financial track record as manifested by superior AUM growth at 18% CAGR and a growth of 27% CAGR in EPS. Despite the industry facing many challenges in past couple of years, Chola has been able to maintain stable asset quality. It has the lowest non-performing assets ratio in the industry. ROAA (Return on Average Assets) of the company stands at ~2.3%. Recently the company undertook a QIP placement of 28.12mn shares at Rs.320 per share thereby raising Rs.9 bn. It also raised Rs.300 cr by making a preferential allotment to its promoters at Rs.321 per share. Hence, company has sufficient amount of capital to tackle collection efficiency issues arising from the current lock-down and for any growth opportunities too.
- Company has done significant investments to digitize all the activities throughout the lifecycle of the loan. Customer facing app with customer service module “i-Loads” and “GaadiBazaar” are few examples of company’s digital advancement strategy. This will help company in tackling current situation i.e. social distancing.
- The lockdown had immediately impacted truck operators choking their cash flows, thereby creating asset quality challenges for the lenders. But after gradual re-opening of the economy post the lock down, the transportation of goods has started to recover fast. Chola has more than 80% of branches in rural & semi urban areas, which gives them a clear advantage to capitalize on the rebound in rural demand.
- Key concerns include the prospects of Commercial Vehicle industry are largely linked to economic activity, so any prolonged slowdown in the economy will impact the sale of Commercial Vehicles and ultimately to the vehicle financing companies both in terms of loan growth and asset quality. Chola has reported weakening in asset quality (mostly from the vehicle finance segment) over the past few quarters. Amid weakness in freight volumes, collections have deteriorated in M&HCV segments. Delinquencies will likely remain high over the next few quarters, though the company has ramped up focus on collections. The slowdown in heavy commercial vehicles (HCVs) will put pressure on Chola’s near-term AUM growth, though traction in other segments will provide some boost.

Coromandel International

- Coromandel International (Coromandel) is the flagship company of the Murugappa Group, which owns ~60% of Coromandel through sister company E.I.D. Parry (India).
- Coromandel is the second largest phosphatic fertilizer companies in India (after IFFCO) and has ~15% market share. Company is the largest player in SSP with market share of 13%.
- On all-India basis, it has 15-16% market share while in its home markets of Andhra Pradesh, Telangana and other adjacent states, it holds > 50% share.
- Higher raw material prices have prompted farmers to replace DAP (di-ammonium phosphate) fertiliser with complex or NPK (nitrogen, phosphorus, potassium) fertilisers. NPK is priced lower as it has lower phosphorus content and can be manufactured in higher volume as compared to DAP for any given quantity of phosphoric acid.
- Company along with its wholly owned subsidiary CFL Mauritius, holds 14% equity stake in Foskor Pty Limited, South Africa, and 15% equity stake in TIFERT, strategic investments of the Company to secure supply of Phosphoric acid.
- Company has recently expanded its production capacity of phosphoric acid, the most important input for phosphate fertiliser, from 0.2mtpa to 0.3mtpa. With this, Coromandel now captively produces ~50% of its acid requirement. This expansion should help the company boost fertiliser EBITDA/tone further. The company sees more room to expand in acid production.

- Mana Gromor is a one stop solution for the farmers. It provides an entire range of Multi-Brand Farming Solution. Coromandel Retail operates around 800 stores in Andhra Pradesh, Telangana, Karnataka and Maharashtra, offers the entire range of agri-input products and services.
- Company derives ~13% of its revenues from Crop Protection which contributes to 19% of PBIT. By 2022-23, around 26 Crop Protection molecules are going off patent. This provides a tremendous opportunity to generic manufacturers, who can now introduce new products and boost their revenues.
- Coromandel's asset-light business model permits strong return ratios and valuations remain reasonable. The stock trades at ~16x FY22E earnings.
- Key Concerns: The farm related sectors are widely believed to be insulated from the supply chain and demand disruption due to COVID-19 or the economic slowdown. There could be operational issues and delay in pick-up in consumption in Nutrient and Crop Protection segments due to liquidity constraints and supply chain/distribution bottlenecks. Intensification of competition, soft global agrochem market and continued long delays in subsidy disbursals remain the concern as well. Failure of the monsoon (and / or adverse climatic conditions) coming on top of the COVID-19 related setback could put pressure on demand for farm inputs. Increase in working capital and delay in release of DBT related subsidies are added worries.

Dr. Reddy's Lab

- Dr Reddy's Laboratories (DRL) is one of India's well known and largest players having a firm footing in the US and other export markets with deep rooted products portfolio and presence across therapies. The manufacturing facilities have been approved by various agencies such as the US FDA, WHO-Geneva, UK MHRA, TGA-Australia, DMA Denmark, Brazil Anvisa, among others. Company has also strong presence in Russia and CIS region.
- Dr Reddy's ranks no. 14 in IPM with ~2.4% market share. The key therapeutic areas in the domestic market are Gastro (GI), Dermatology, Respiratory, Cardiac, Anti-Diabetic and others. Company derives almost 40% of the domestic revenues from chronic segment while 60% from acute.
- Over FY20-22E, the company will see change in its business mix with high margin domestic formulation (~18% of FY20 revenues) contribution to increase post Wockhardt portfolio acquisition. Dr. Reddy's India business has ramped up well over the last few quarters. The measures undertaken to revive growth (focus on core brands, MR productivity, differentiated launches) have yielded fruits. India business is expected to grow at 15% CAGR over FY20-22E led by improvement in MR productivity, focus on core therapies, key brands and the acquired brands from Wockhardt.
- Company filed eight ANDAs during FY20 and it had 99 ANDAs pending for approval as on Mar-2020. It has a rich pipeline of products for the US market, approval and launch timeline for key products - gNuvaring and gCopaxone remain elusive.
- Earlier, the company had faced regulatory issues from US FDA which had impacted US performance. Now, all the facilities are US FDA compliant and this bodes well for the US piece.
- We estimate Dr. Reddy's revenues and PAT to grow at 12% and 21% CAGR in FY20-22E driven by healthy growth across markets. We forecast the US business to register 14% CAGR over the same period driven by two key opportunities gNuvaring and gCopaxone. We believe that high value launches and cost control measures would drive margins over the next two-three years. Strong growth, healthy return ratios and balance sheet support our positive view on the stock. Currently, the stock trades at ~24x FY21E and ~21x FY22E EPS.
- Key Concerns include while the compliance track record with the FDA has been cleared now but still it remains a key risk for a pharma player. In the last 3-4 quarters, US FDA has given clean cheat to all the Dr. Reddy's plants, which augurs well. Adverse outcome on drug price fixing lawsuit in US; delay in approvals/launches may impact the US business and addition of key drugs in the National List of Essential Medicines (NLEM) are some other concerns faced by the company.

Hero Motocorp

- Hero MotoCorp Limited is the largest domestic focussed two-wheeler manufacturer. The Company manufactures and sells motorized two wheelers up to 350 cubic centimeters (cc) engine capacity, spare parts and related services. Its products include Karizma ZMR, Karizma, Xtreme Sports, Xtreme, Hunk, Impulse, Achiever, Ignitor, Glamour Programmed FI, Glamour, Super Splendor, Passion XPRO, iSmart 110, Passion PRO, Passion PRO TR, Splendor iSmart, Splendor PRO Classic, Splendor PRO, Splendor+, HF Deluxe ECO, HF Deluxe, HF Dawn, Duet, Maestro Edge, Maestro and Pleasure.

- It offers over 20 products comprising 100 cubic centimeters (CC), 110CC, 125CC, 150CC, 225CC and scooter category. Its manufacturing plants are located in Dharuhera, Haryana; Gurgaon, Haryana; Haridwar, Uttarakhand; Neemrana, Rajasthan, and Villa Rica, Colombia. Its research and development center is located in Jaipur, Rajasthan. It has a Global Parts Centre for manufacturing and supplying the parts at local and global markets at Neemrana, Rajasthan. It has capex plans of Rs 10,000cr in the next 5-7 years, coupled with its Centre of Innovative Technology (CIT) in Jaipur (India) and Hero Tech Centre in Germany.
- Premiumisation, and new launches are going to help the company gain market share. On this context the company is all set to launch Xtreme160R, which will be a step towards this direction. Along with premiumisation, and new launches, the company is also focusing on entering into areas like Battery charging/swapping, which will intensify its offerings.
- Post the lockdown being relaxed, a positive uptick is seen pan-India expect in COVID affected states like Maharashtra and Gujarat. Early retails trends are encouraging at ~70% of pre-COVID levels. Given healthy agricultural activities such as a good crop, expectation of normal monsoons and reforms rolled out by the government, rural and semi-urban areas are expected to do better. Hero derives ~50% of sales from the rural segment and will benefit from its well spread service network. Downtrading and personal transport would drive sales of entry level bikes.
- The company has rationalized capex spends for FY21 by nearly half to Rs 600cr and has doubled its target under the Leap-II program (cost optimization) to 100bps. Commodities prices are expected to remain soft, which will be supportive of margins.
- Key concerns include extended impact on sales due to COVID, increase in competitive intensity and lower than expected uptick in rural spend could all impact the company adversely.

ICICI Bank

- ICICI Bank has transformed itself from a corporate focused bank to a retail bank in the last 5 years. The focus of the management has shifted to lower risk retail loans to increase granularity in the lending book. Along with expansion of the physical presence the bank is leveraging technology to expand its customer base and improve services. The bank implemented a number of initiatives focused on increasing its retail clientele to deepen the penetration of products and services, thus further strengthening the franchise. This has led to has led to a significant moderation in gross slippages and helped company in improving CASA Ratio and NIMs.
- Focus towards portfolio quality and strengthening of underwriting credit processes could restore the prudent growth path for the Bank and result in better long-term value creation. The top management's focus is mainly on achieving superior RoEs via strong core operating performance. Effective utilization of strong customer franchise, deepening penetration, and digital technology are envisaged to drive retail asset growth. With a large part of the stress pool being identified and crystallized, management is looking to increase coverage of the same. Effective utilization of a strong customer franchise, deepening penetration and digital technology could drive retail asset growth.
- The events at YES and various other Co-operative Banks have impacted depositor sentiments, causing them to become more risk-averse. This will lead to deposit polarization towards large private banks and PSBs. ICICI Bank with established brand name and widespread branch network will be at benefit. This was also evident in the Q4 results where, deposits registered a ~18% YoY rise, with faster term deposit growth at 29%. (Even though, the bank offers one of the lowest rates among the private sector banks.) ICICI Bank has one of the best in class CASA at 45.1%. Moreover, this is also helping the bank in improving margin.
- Bank remains well capitalized with Tier 1 Capital of 14.7% and CAR of 16.1%. This will act as a cushion against further asset quality shocks and lower CASA growth if any.
- The bank has very strong retail loan book composition (~50% mortgages) and Provision coverage ratio is also at industry best level of 75.6%. This indicates that ICICI Bank is better placed than peers to deal with the anticipated stress due to COVID-19. It also plans to raise funds worth Rs.15,000 cr as a cushion to offset asset quality risks and create opportunity for growth whenever the situation turns for the better.

- Key concerns include ~30% of borrowers (by value) have availed of the moratorium as at Apr-20. Retail segments saw a higher proportion of customers availing of the moratorium and a higher proportion of rural, CV and 2-wheeler customers opted for the moratorium. This brings asset quality deterioration risk. Credit growth remains subdued and raising funds at the current juncture could be return dilutive. In case the IBC and other modes of recovery do not prove to be effective, the NPA situation could turn worse due to stress in the economy.

Infosys Ltd

- Infosys is a leading company in the Indian IT services space, with established position across verticals and service lines, enabling clients in 46 countries to create and execute strategies for their digital transformation. The company offers business, technology and software consulting services, product engineering, customized software development, maintenance of information systems and outsourcing services to corporations in India and overseas.
- Infosys sees opportunities around vendor consolidation and large re-badging deals. Over the medium term, the company sees an accelerated shift to digital at clients in areas of core modernisation, cloud migration, network virtualisation and cyber security. Its large deals team is focused on engaging with clients to take on their entire IT landscape and facilitate the shift to digital by cost savings in offshoring, automation and analytics.
- Infosys is looking to improve liquidity and cash management with a rigorous focus on working capital cycles, including collections, receivables and any other blocked cash. Company is also accelerating operational cost optimization initiatives such as automation, employee pyramid rationalization, controlling onsite-offshore ratios, optimizing subcontractor and travel costs, deferring employee compensation revisions and promotions, delaying hiring of new employees.
- Infosys financial profile has been robust led by debt free balance sheet and healthy cash generating ability over the past, cash and cash equivalent stood at Rs 27,276 cr as on 31st March 2020. Liquidity will remain robust supported by sufficient funds to finance working capital and capital expenditure requirement over the medium term. Shareholder payouts in terms of dividend and buybacks would continue to be large. Its robust balance sheet, steady growth momentum, digital systems, and executive team, unified in their focus on strategy execution, are key advantages.
- Key concerns include INR appreciation against the USD, pricing pressure, strict immigration norms as well as ban on US H-1B and L1 visa, and adverse observations or findings from the ongoing investigations by US regulators and government agencies into the whistle-blower complaints.

ITC Ltd.

- The annual per capita adult cigarette consumption in India is ~1/9th of the world average. Out of the 42% of adult Indian males that consume tobacco, only 7% smoke cigarettes as compared to 14% who smoke bidis and 30% who use smokeless tobacco. While all forms of tobacco consumption are harmful, cigarette smoking is least harmful when compared to chewing tobacco or smoking bidis. As such, the government has intended to discourage the use of other more harmful forms of tobacco consumption. This should be positive for ITC which has the largest market share in legal cigarettes in India (>80%).
- India is the 4th largest market for illegal cigarettes in the world, causing a Revenue loss of over 13,000cr. p.a. to the Exchequer. This is a major loss of revenue for both the public and private parties involved. However with increased crackdowns on the smuggled goods by the government and with higher regulations, the legal cigarettes market may regain a higher share in the future.
- ITC was not as severely impacted by lockdown as some of the peers and saw net revenue decline of only 6% YoY in Q4FY20. While cigarette revenues declined by 6% YoY with ~10% volume dip, FMCG segment grew by 5% YoY beating most peers and the industry average. The company is already operating at close to 100% of normal levels and recovery in the cigarettes and FMCG businesses has been encouraging in second half of Q1FY21. ITC has not witnessed any downtrading of products and at the same time the packaged food and personal care divisions have seen pantry loading. This augurs well for the company.
- ITC has a very well diversified portfolio with exposure to cigarettes, packaged goods, hotels, paper, and agriculture sectors. The company is the market leader in most of the segments it is present in. However, the cigarettes business contributes close to 85% to the profits of the company. As a result of this, it is trading at 15x FY22E EPS (rest of the peers average ~47x) and does not get the fair valuation enjoyed by the industry. The management has increased their focus to grow non cigarette

businesses with continuous strategic acquisitions like Sunrise Foods, B-Naturals, Savlon, Nimyle, etc. in recent times. Going forward, as the reliance on the cigarettes business reduces, the company will receive higher valuations.

- ITC is debt free and has cash and equivalents of ~Rs.34000 Cr. It has a cash EPS of 13.7 and a dividend yield of 5.2%. The cigarette business is a cash cow as a result of which the company can reinvest in other business and diversify its risk.
- Key concerns include with high taxation and growing black market In the last two decades taxes on cigarettes have gone up by upwards of over 1000% over the last few years. At the same time, the taxes on competitive products like bidi have not increased in a long time. This also gives a boost to the already prevalent black market (India is the 4th largest market for illegal cigarettes in the world). ITC's market share PAN India is untouchable, however the company has been losing market share to smaller players, especially in the southern states. Peers like Godfrey Phillips and VST have outgrown ITC by 100-150bps in the last 4 quarters by entering newer markets. The hotels industry has been hit the worst due to the pandemic. As a result of which, this capital-intensive business will remain under pressure in the near term. New FMCG business is taking very long to generate good margins.

Kotak Bank

- Across the credit cycles Kotak Bank has remained consistent performer both in terms of growth and maintaining asset quality. It has created best in class return ratios & margin profile for its investors.
- The Bank is an integrated financial services conglomerate with a diversified business model, which helps in hedging against downturns in specific segments and access multiple growth avenues. Over the years, bank has expanded access to low cost liabilities and focus on retail banking by growing distribution network, optimizing digital channels and offering differentiated products. Despite robust growth history the bank has managed to maintain asset quality even in the challenging environment by superior underwriting practices. It provides risk adjusted returns by continuously identifying, assessing and managing risks well in time to allocate capital amongst businesses appropriately.
- The events at YES and various other Co-operative Banks have impacted depositor sentiments, causing them to become more risk-averse. This will lead to deposit polarization towards large private banks and PSBs. Kotak Bank with established brand name, management quality and widespread branch network will be at benefit. This was also evident in the Q4 results where, deposits registered a ~16.4% YoY rise, driven by 24.5% CASA growth. Consequently, the CASA ratio rose 367 bps YoY to 56.2%. Kotak Bank has the highest CASA in the industry.
- The Bank has strong capital base with Tier 1 Capital of 17.3% and CAR of 16.1%. This will act as a cushion against further asset quality shocks and lower CASA growth if any.
- Because of the quality and consistence performance the stock has commanded higher valuation compared to peers.
- Key concerns include ~26% of the borrowers (by value) have availed moratorium until Apr-20, and the quantum has increased since. A greater proportion of retail loans under moratorium bring asset quality deterioration risk. Significantly slower than expected loan growth arising from an extended and broad-based disruption in economic activity is another key concern.

Larsen & Toubro

- Larsen & Toubro (L&T) is the foremost player in Infrastructure and Engineering space in India and company has interests in technology and financial services as well. L&T has presence globally in over 30 countries around the world. L&T addresses critical needs in key sectors such as Hydrocarbon, Infrastructure, Power, Process Industries and Defence.
- L&T reported its Q4FY20 numbers largely in line with expectations with no guidance for FY21 (on expected lines). Amidst the lockdown, company has won a flurry of orders which will give cushion in turbulent times. The company has a robust order book of Rs 3,03,900 crore with 25% share of International orders and from remaining 75% of domestic orders. 80% of orders are immune from any execution risk.

- Schneider deal (sale of electricals business to them by L&T) is on track and is likely to close by early Q2FY21, deal proceeds may partly get utilized towards rightsizing L&T Hyderabad Metro's capital structure.
- The company expects that the initial quarters of FY21 are expected to be adversely affected by the current upheaval, and expects growth revival in the later part of the financial year assuming things get better from here. Amidst the lockdown company has won a flurry of orders which will give cushion in turbulent times.
- The Government's humongous Rs 111 lakh crore National Infrastructure Pipeline (NIP) initiative, in accordance with the Government's vision to make India a US$5 trillion economy by 2024-25 provides a tremendous opportunity for the company in coming years.
- Key concerns include Larsen & Toubro may face risks in order execution as unprecedented event of COVID-19 has halted activities across the nation and infrastructure spending might take a hit. Even in Govt. backed projects we may witness some execution delay due to lack of materials, men or funds. Fall in crude oil prices could impact fresh orders from the Gulf region. Capital allocation policies have not been most efficient in the past resulting in return ratios being subdued. Return ratios (esp. RoCE) of L&T may remain low for some more time even as it grapples with rising working capital requirements and low OPM of its core E&C business. Demerger of key businesses and listing them separately could unlock value for shareholders.

Mahindra & Mahindra

- Mahindra & Mahindra Ltd., a mobility products and farm solutions provider, is the flagship company of the Mahindra Group. Since assembling its first vehicle in 1947, it has grown rapidly. Today, it offers a wide range of products and solutions ranging from SUVs to electric vehicles, pickups, commercial vehicles, tractors, two-wheelers and construction equipment.
- The company has a leadership position in the domestic tractor industry in all major regions, and has maintained a market share of over 40% in the last decade, aided by its superior channel reach and understanding of market dynamics. It also has a strong presence in LCVs. Its tractor division was the only segment to show positive growth for the month of Jun-20 and with forecast of a normal monsoon we could witness strong tractor sales going ahead.
- M&M is willing to cede control of the loss making South Korean unit SsangYong and is looking at potential investors. It is also looking to exit businesses with no clear path to profitability or strategic importance.
- The Agri reforms (APMC, essential commodities act, etc) introduced by the government will result in significant improvement in farmer incomes over the next 3-5 years. Mahindra is well positioned to benefit from this opportunity and expects the market for mechanized equipment to evolve favorably (harvesters, rice transplanters).
- M&M has re-worked its exports strategy which includes setting up of local offices and assembly plants in several countries, as it aims to increase the contribution from exports to over 20% in the next five years, from around 8% now. The company had set up a local assembly plant in South Africa ~2years ago and in Sri Lanka a year back. Future plans include setting up of assembly units in North Africa, South East Asia, East Africa and Central America.
- The company will launch new models including Project K2 – 4 platforms for 4 geographies – from 13HP-70HP tractors, along with Mitsubishi. For autos, two new models W601, Z101 will come by early FY22.
- M&M is focusing on conserving cash and has scaled down capex guidance by 25% to Rs 9000cr over next 3 years. It will work closely with Ford for new projects.
- Key concerns include exposure to cyclicality in automotive and tractors segments and risks pertaining to acquisitions, and investments in subsidiaries and JVs. Dependence on rural economy is high for the company and hence any factor that results in reduction in rural incomes could impact the company (including irregular monsoon). Capital allocation policies have not been most efficient in the past resulting in return ratios being subdued. M&M has said it would subscribe to the rights issue of M&M Finance which is looking to raise ~Rs 3500cr. Demerger of key businesses and listing them separately could unlock value for shareholders.

Reliance Industries Ltd

- Reliance Industries Ltd is one of the leading global petrochemical manufacturers and it is the largest producer of Paraxylene, second largest for polyester fibre, fourth largest producer of Purified Terephthalic Acid (PTA) and the fifth largest for Polypropylene. Reliance contributes nearly half of the total domestic cracker (ethylene) capacity, and has a production share of more than 50% in the polymers (PE, PP and PVC) market in India. It has strong market position and operates its petrochemical plants at full capacity.
- Reliance Jio has emerged as the country's biggest telecom player, with a subscriber base of 38.75 cr, as on 31st March 2020 vs 30.67cr as on 31st March 2019 and 18.66 cr as on 31st March 2018. Numbers of Reliance Retail store stood at 11784, as on 31st March 2020 vs 10415 as on 31st March 2019 and 7573 as on 31st March 2018. Reliance is expected to spin-off Jio and Retail over the coming few years and in the process likely to raise more additional fund through IPO of the Jio and Retail business segments.
- Reliance has raised fund to Rs 117,588cr from global marquee investors for its digital services subsidiary Jio Platforms, as on 3rd July 2020. Company sold its minority stakes in Reliance Jio to Facebook, Silver Lake, Vista Equity Partners, General Atlantic, KKR, Mubadala, ADIA, TPG, L Catterton, Saudi's Public Investment Fund (PIF) and Intel Corporation since April 22, 2020. Its Jio Platforms diluted 25.1 per cent of its equity though 12 back to back deal in less than two and half months.
- Reliance Industries plans to expand its fuel retail business in a joint venture with British energy major BP under the brand 'Jio-BP' to a network of 5,500 petrol pumps in the next five years from 1,400 as on Dec-2019. The new venture will include an India-wide fuels retail service station network and aviation fuel marketing business.
- Company's high utilization of the refineries helps to maintain strong operating efficiency and healthy profitability. Company enjoys logistical advantage and it helps to control transportation cost in procuring crude and exporting refined products. Though its gross refining margins (GRMs) have been subdued in the recent past in line with the industry, they have consistently been better than the benchmark Singapore GRM.
- Slowdown in refining as well as petrochemicals businesses due to COVID-19 pandemic, adverse regulatory developments in the Telecom sector, volatility in crude oil prices, OPEC policy and low spending in consumer discretionary are key concerns for the company in near to medium term.

SBI Life Insurance

- SBI Life has been the leader in terms of new business premium generated with a market share of 8.7% in the industry as of May 2020. 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 favourable 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 (24k+ branches). Management stated that relatively newer tie-ups such as ALBK, Syndicate, Repco, P&S Bank continue to do better than expectations. It expects contribution from these banks to touch 10% in new business sales as early as FY22E.
- Management has indicated that their endeavour will be towards improving margins by 1) increasing share of protection and other high margin business, 2) increasing proportion of single premium policy sales, 3) launch and sale of immediate annuity products and 4) they have a strong balance sheet with an excellent capital positioning.
- Key concerns include **r**ising competition especially via digital disruptors and regulatory risks.

Sun Pharmaceutical Industries

- Sun Pharmaceuticals is the largest Indian pharma company with ~8% market share in IPM. Company is ranked no.1 in India while it is the 9th largest player in US generic space. Sun Pharma is the largest Indian pharma company in USA.
- Various acquisitions in the US and India augment Sun's pipeline with differentiated products. It derives ~32% revenues from US and ~30% from India. The rest of the world – mainly Europe, Canada, Australia and Japan - contributed 14% to its revenues and Emerging Markets (Russia, Brazil, Mexico, South Africa and Asia) revenues contribution stood at 17% while the balance from the API segment.
- For FY20, the company has filed 18 ANDAs and received 31 approvals. Cumulative approved ANDAs are 483 while 98 are pending approval (including 20 tentative approvals). Company's specialty product sales were US$ 126mn in Q4FY20 while it was at ~US$ 400mn for FY20. Company deployed ~24% of its R&D expenditure towards this segment.
- Sun's strong growth was driven by Ilumya, Cequa and Yonsa despite seasonal decline in Absorica and Odomzo. Ilumya ramp-up has been healthy with annual sales of US$ 94mn for FY20.
- The specialty business is expected to report strong growth driven by the ramping up of Ilumya and Cequa. However, higher investments in R&D and promotional spend on specialty will drag margins in the near term.
- Company derives > 60% of domestic revenues from chronic segment. The key therapeutic areas include Cardiac, CNS, Gastro Intestinal, Anti-diabetic, Anti-Infectives, Pain/Analgesics and Dermatology. Sun's sales force has one of the highest productivity metrics among peers in the domestic market. It has 29 brands amongst top 300 pharmaceutical brands in India.
- We believe that in the next 2-3 years there will be a gradual comeback for large-cap pharma companies, driven by (1) actual and likely regulatory resolutions, (2) moderating price erosion in the US and (3) several product launches across generic and specialty categories in the medium term.
- Key Concerns include slower ramp up in specialty portfolio, delay in US FDA resolution of Halol 483s and higher price erosion in the US, lower growth in the domestic market, adverse outcome on SEBI's probe on whistle-blower complaint and drug price fixing lawsuits in the US, regulatory issues in India and abroad.

United Spirits Ltd (UNSP).

- India's alcohol industry is the third largest in the world with a value of $35 billion which is approximately 2% of the global market. However, per capita consumption is very low compared to global peers. India is the largest consumer of whiskey in the world and it constitutes about 60% of the IMFL market. Whiskey sales comprise ~73% of the value of liquor sold in India in 2019 clearly revealing that premium prices attached to whiskey don't dampen Indian consumer's appreciation of this liquor.
- India still has a large country liquor market. Considering the health and tax revenue challenges, most states are in favour of shifting consumer behaviour towards a better alternative such as IMFL. UNSP has a fairly large portfolio of mass and mid-priced IMFL brands such as Bagpiper, DSP Black and McDowell which can help in bringing in consumers from these categories and in turn deliver healthy growth in top-line and profitability for the company.
- UNSP accounts for almost 40% of Diageo sales volume and 9% of net sales. Scotch accounts for just 1% of the Indian spirits market, and yet as a country India is the third-biggest importer of Scotch by volume. This shows the magnitude of the market potential in India.
- ENA makes roughly 40% of the RM costs. The ENA prices had shot up in H1FY20, leading to margin pressures on the industry. In spite of this, it seems the management has upped its game as the margin expanded in the 9M due to cost cutting and other operational measures along with supply chain efficiency. In Q4, ENA saw a ~4% fall from its peak in Oct/Nov 2019, which eased the pressure on liquor companies. ENA inflation is expected to remain benign in 1HFY21 which will bode well for the company. While gross margins declined in Q4FY20 by 433bps, aggressive cost control (Employee/A&P/other expenses down by 35/33/18% yoy) led to an expansion in reported EBITDA margin by 101 bps to 13.6%.

- Net debt for the company reduced by ~1200 Cr in FY20. Currently, more than 2/3rd of liquor retail stores have opened Pan India and the company is functioning at >75% capacity utilizations. With further relaxations and opening up of the economy, sales are expected to increase for the company. Home delivery and premium liquor in malls can be structural changes for the industry and ease in buying can be a key driver for adding consumer base along with higher share of premium segment. Being the undisputed market leader, these factors place the company as a preferred pick in the sector.
- Key concerns include the Alcobev industry is highly regulated by the state governments and since most of the distribution is handled by the authorities, the industry is prone to changes in regulations and policies. Roughly a quarter of the state revenues are derived from the sale of alcohol. States like Goa, and West Bengal have announced an increase in the taxes, while Maharashtra and Karnataka (two of the largest markets) had tax hikes in FY20. At the same time, UNSP cannot pass on the tax hike entirely to the consumer due to regional competition. The industry also tends to be sensitive to political events like central and state elections.

Stock	Analyst	Educational Qualification	Holding
Ambuja Cements	Jimit Zaveri	MBA	No
Atul Ltd	Debanjana Chatterjee	Msc (Economics), MBA	No
Bharti Airtel	Abdul Karim	MBA	No
Chola Financial	Nisha Sankhala	MBA	No
Coromandel Inter	Kushal Rughani	MBA	No
Dr Reddy's Labs	Kushal Rughani	MBA	No
Hero Motocorp	Atul Karwa	MMS Finance	No
ICICI Bank	Nisha Sankhala	MBA	No
Infosys	Abdul Karim	MBA	No
ITC	Karan Shah	BBA	No
Kotak Mah. Bank	Nisha Sankhala	MBA	No
Larsen & Toubro	Manthan Jhaveri	CA	No
M & M	Atul Karwa	MMS Finance	No
Reliance Industr	Abdul Karim	MBA	No
SBI Life Insurance	Nisha Sankhala	MBA	No
Sun Pharma.Inds.	Kushal Rughani	MBA	No
United Spirits	Karan Shah	BBA	No

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) 3075 3450 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

SEBI Registration No.: INZ000186937 (NSE, BSE, MSEI, MCX) |NSE Trading Member Code: 11094 | BSE Clearing Number: 393 | MSEI Trading Member Code: 30000 | MCX Member Code: 56015 | AMFI Reg No. ARN -13549, PFRDA Reg. No - POP 04102015, IRDA Corporate Agent Licence No.-HDF2806925/HDF C000222657 , Research Analyst Reg. No. INH000002475, CIN-U67120MH2000PLC152193.