

VALUE INVEST

MID CAP STOCKS



VALUE INVEST

Company Name	NSE Symbol	Sector	Market Cap (Rs. Bn)	CMP* (Rs.)	Target Price (Rs.)	Upside (%)
Cyient Ltd	CYIENT	Information Technology	51	458	637	39
HG Infra Engineering Ltd	HGINFRA	Industrials	13	198	300	52
KEC International Ltd	KEC	Industrials	73	282	364	29
KNR Construction Ltd	KNRCON	Industrials	32	227	290	28
KRBL Ltd	KRBL	Consumer Staples	50	213	290	36
LT Foods Ltd	DAAWAT	Consumer Staples	8	24	40	67
Mphasis Ltd	MPHASIS	Information Technology	169	905	1239	37
Sobha Ltd	SOBHA	Real Estate	41	442	632	43
Triveni Turbine Ltd	TRITURBINE	Industrials	33	100	116	16
Varun Beverages Ltd	VBL	Consumer Staples	184	621	754	21

*As on 14 Oct, 2019

Numbers to improve despite current softness

Cyient reported a soft quarter (Q1FY20) with consolidated revenue at USD 156.6 Mn (down by 5.2% sequentially and -2.6% on yearly basis). In INR terms, overall revenue stood at Rs. 10,890 Mn, a flat yearly growth of 0.8% with a sequential de-growth of 6.4%. The softness was due to client situation in telecom and A&D verticals (60% of revenues). Given order conversion rate of 80% and expectation of strong order intake in H2FY20, we expect revenue growth will pick up.

DLM business revenue to grow further: Revenue from Services stood at USD 137.9 Mn, down by 6.1% on QoQ basis (-5.7% in cc terms). DLM (Design-led Manufacturing) revenue was at USD 18.7 Mn, increase by 2.2% on quarterly basis. DLM business had a deferment of USD 5.5 Mn in Q4FY19 which got realized in Q1FY20 thus its revenue grew. We expect DLM revenue to improve further on higher order conversion. Services revenue growth is expected to turnaround after client specific issues get resolved.

Margins to improve after cost optimization program: Consolidated EBIT was at Rs. 1004 Mn in Q1FY20, a decrease of 33% over previous quarter. EBIT margin stood at 9.2% down by 358 bps on a quarterly basis. EBIT was negatively impacted by certain headwinds such as one time impact of lower efficiencies, lower SG&A absorption and increased investments. We expect the margins to improve further after the cost optimization program gets completed.

New Business Accelerator Program: This initiative was created to facilitate innovations within Cyient by building a portfolio of IPs and to focus on developing new products, services and solutions. Company is seeing customer level traction in the products/solutions being developed, specifically in the areas of IoT, bots, augmented reality and smart cities. The current NBA initiatives are likely to accelerate Cyient's EPS growth by 1.5%-3.0% from FY21 onwards. Company has decided to invest 1% of EBITDA in this program.

Valuation and Risks: We recommend **"BUY"** on Cyient with a target price of Rs. 637, an upside potential of 39%, based on the 3-year historical average FY21E PE of 13.5x.

KEY FINANCIALS (Rs. Mn)

YE Mar	FY17	FY18	FY19	FY20E	FY21E
Net Sales	36065	39175	46175	47628	51271
EBITDA	4772	5354	6328	6887	7414
EBITDA Margin (%)	13.2	13.7	13.7	14.5	14.5
Adj. Net Profit	3396	4031	4771	5060	5326
EPS (Rs.)	30.6	36.0	42.4	44.8	47.1
RoE (%)	17.3	17.7	19.4	18.7	17.7
PE (x)*	15.6	19.3	15.3	10.2	9.7

Source: Bloomberg, Karvy Research. *Represents multiples for FY17 - FY19 are based on historic market price

RECOMMENDATION (Rs.)

CMP (as on 14 Oct, 2019)	458
Target Price	637
Upside(%)	39

STOCK INFORMATION

Mkt Cap (Rs.Bn/US\$ Bn)	50.58 / 0.71
52-wk High/Low (Rs.)	695 / 414
3M Avg.daily value (Rs. Mn)	98.5
Beta (x)	0.5
Sensex/Nifty	38214 / 11341
O/S Shares(mn)	110.0
Face Value (Rs.)	5.0

SHAREHOLDING PATTERN (%)

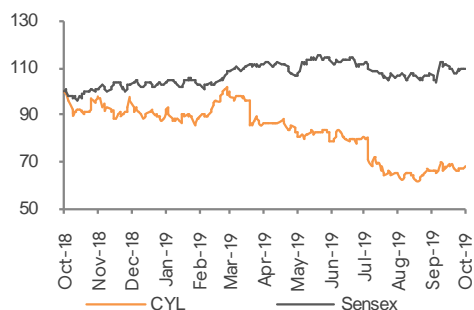
Promoters	22.7
FIIs	45.6
DIIIs	20.2
Others	11.5

STOCK PERFORMANCE (%)

	1M	3M	6M	12M
Absolute	3	(16)	(21)	(32)
Relative to Sensex	0	(14)	(20)	(38)

Source: Bloomberg

RELATIVE PERFORMANCE*



Source: Bloomberg; *Index 100

Company Background

Cyient Limited provides geospatial, engineering design, information technology (IT) solutions and data analytic services in India and internationally. Thus, it has Services business and Design-led Manufacturing business (DLM). It serves aerospace and defence, communications, rail transportation, medical technology and healthcare, utilities, navigation, heavy equipment and industrial, power generation, oil and gas, semiconductor, mining and infrastructure industries. The company was formerly known as Infotech Enterprises Limited and changed its name to Cyient Limited in May 2014. Cyient was founded in 1991 and is headquartered in Hyderabad, India.

CYIENT: Technical View



Cyient is currently placed below all the major moving averages on daily charts indicating inherent weakness in the counter in the near term. However, in a larger time frame, the stock has seen a breathtaking rally from 11.36 levels to its all time highs around 856.88 levels after giving a breakout from its multi-year consolidation. The stock has then corrected from its all time highs and found support near 432 levels, which is the 50.0% Fibonacci retracement levels of the said rally, where value buying emerged in the counter. The said levels also coincided with the 200 period moving average for the stock on the monthly charts as the price found support on the said average. Therefore, at current levels, the stock provides a decent upside with limited risk on the downside. Technically, the stock is placed below its parabolic SAR on the monthly charts which suggests weakness in the stock in the near term. On the momentum oscillator front, the 14 period RSI has given a bullish crossover to its 9 period RSI on the daily & weekly charts. The stock is showing early indications of building a base, as most of the technical indicators have cooled off, indicating that the stock is about to reverse from the oversold region. The stock has good support seen around 380-400 levels, and the next meaningful support for the stock are placed around 310-320 levels. On the upside, if the stock decisively takes out its immediate resistance at around 500 levels, then it may trigger a fresh round of buying which may take the stock towards its next resistance around 650-680 levels.

HG INFRA ENGINEERING LTD

Bloomberg Code: HGINFRA IN

Robust Order Book Aiding Consistent Growth

Going ahead, earnings are expected to grow at 20.6% CAGR during FY19-FY21E aided by healthy order book and robust execution capabilities. The current outstanding order book provides a comfortable cushion at 2.8x to its FY19 revenue. We expect the order awarding from NHAI to pick up from Q3FY20 and expect HG to bag orders worth Rs. 40 Bn for FY20E. While the management is keen on bagging EPC orders, HG may take small HAM orders as well. We expect the revenue to grow at 15.8% CAGR during FY19-21E while EBITDA to grow at 15% CAGR. EBITDA margin is expected to stabilize around 15% levels by FY21E

OB growth, Revenue Visibility: HG infra has witnessed a healthy order inflow. Between FY15-19, OB has grown at 55% CAGR with an average order inflow of more than Rs. 17 Bn/ annum. While the ordering activity by the authorities has been lull so far this year, we expect the same to pick up post monsoon. The current OB of Rs. 50 Bn (2.8x to FY19 revenue) coupled with anticipated order inflow of Rs. 80-85 Bn in next 2 years is providing a healthy revenue outlook.

Comfortable financials: We expect HG Infra to witness healthy return ratios due to strong PAT growth, efficiently managed balance sheet, comfortable working capital (60 days) and healthy asset turnover (5x). D/E eased off to 0.7x from 1.1x during FY18 due to Rs. 3 Bn IPO. Gross debt includes interest free promoter loan of Rs. 640 Mn and we expect further reduction in debt going ahead.

Valuation and Risks: HG Infra is trading at 7.2x PE to its FY21E EPS. In view of the robust outstanding order book coupled with its execution capabilities, we are of the positive view about the company's future performance. However, excessive order book concentration and dependence on subcontracting remain key things to watch for. We assign a conservative 10x to its FY21E EPS for its core operations. We factor the expected equity infusion in to HAM projects at 1x BV and arrive at a SoTP based target price of Rs. 300 with a "BUY" rating.

KEY FINANCIALS (Rs. Mn)

YE Mar	FY17	FY18	FY19	FY20E	FY21E
Net Sales	10560	13927	20098	22921	26960
EBITDA	1244	2081	3032	3384	3989
EBITDA Margin (%)	11.8	14.9	15.1	14.8	14.8
Adj. Net Profit	534	843	1236	1425	1796
EPS (Rs.)	8.2	12.9	19.0	21.9	27.6
RoE (%)	30.3	15.6	18.7	17.9	18.5
PE (x)*	NA	23.2	14.9	9.0	7.2

Source: Bloomberg, Karvy Research. *Represents multiples for FY17 - FY19 are based on historic market price

RECOMMENDATION (Rs.)

CMP (as on 14 Oct, 2019)	198
Target Price	300
Upside(%)	52

STOCK INFORMATION

Mkt Cap (Rs.Bn/US\$ Bn)	13.21 / 0.18
52-wk High/Low (Rs.)	308 / 170
3M Avg.daily value (Rs. Mn)	10.5
Beta (x)	-
Sensex/Nifty	38214 / 11341
O/S Shares(mn)	65.2
Face Value (Rs.)	10.0

SHAREHOLDING PATTERN (%)

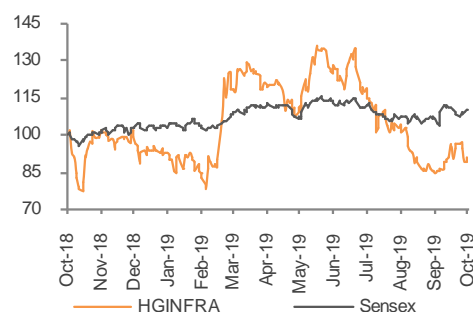
Promoters	73.7
FIIs	1.7
DIIs	17.5
Others	7.1

STOCK PERFORMANCE (%)

	1M	3M	6M	12M
Absolute	6	(23)	(24)	(9)
Relative to Sensex	3	(22)	(23)	(17)

Source: Bloomberg

RELATIVE PERFORMANCE*



Source: Bloomberg; *Index 100

Company Background

H.G. Infra Engineering Limited (HGIEL) is primarily engaged in the construction of infrastructure projects like highways, roads and bridges. Over the years, the company has evolved into one of the leading road infrastructure development companies in India. The Company also executes civil construction projects like extension and grading of runways, railways and land development. The Company diversified into water pipeline projects in the last few years, strengthening its positioning as a Company dedicated to the creation of robust national infrastructure. The Company was founded in 2003 by Mr. Hodal Singh who has more than 40 years of experience in the construction sector. Although most of the projects are based in Rajasthan, the company has begun de-risking by exploring more opportunities in different states. The company addresses projects from NHAH and MoRTH as well as private players like Tata Projects and IRB. It is pre-qualified to bid independently on an annual basis for EPC bids by NHAH and MoRTH.

HGINFRA: Technical View



Since its inception from the IPO, HGINFRA mostly traded in a wide range of 169 to 350 levels. On its first look, the stock seems to be strongly supported at 169 levels and is bouncing off strong whenever it touches this level. Currently, the stock has seen a sharp fall from its swing high of 307 levels which has dragged the stock to the low of 180 levels. The recent rise in the stock has placed the stock around the medium term moving averages indicating consolidation in the price coupled with a bullish divergence in the momentum indicators. Recent bounce in the stock from the support of 170 to 180 levels indicate that the historical support zone around 169 levels is still relevant to the stock with a strong defence. The recent price volume action in the stock also reflects that any meaningful rise in the stock above 220 levels may attract market participants which will help the stock rally northward. The immediate support is placed around 180 levels and below that is 169 levels whereas the resistance is placed around 220 and above that at 300 levels.

KEC INTERNATIONAL LTD

Bloomberg Code: KECI IN

Revival in T&D Business...

Strong order book: The current order book of Rs. 190160 Mn standing at 1.8x of FY19 revenues has grown by 5% YoY whereas order inflows were down by 60% with major decline in order inflows of cables and railways. Currently, non T&D order book contributes 30% of total order book. The management is expecting the ratio to surge upon pick up in order inflows of Railways and Civil from Q3FY20. Management expects the order inflows to grow by 15-20% in the T&D segment factoring in the higher base of GEC orders. Further company has L1 status in around Rs. 3500 Cr of orders.

T&D business to revive: For Q1FY20, T&D business grew by 25% whereas non T&D business has shown a growth of 4% in revenues which led overall performance to grow by 15%. The T&D business has picked up execution and grown by 25% YoY supported by domestic T&D growth of 28.5% and T&D SAE growth of 13%. The growth in SAE business was due to pick up in execution of 1 large EPC project which was pending for clearances from long time. Management is guiding a growth of 15% in T&D business on the base of strong order book of Rs. 16000 Cr. We expect the momentum of execution to sustain and T&D revenues to grow at 9% CAGR during FY19-21E.

Humongous growth in non T&D business to sustain: The non T&D business reported a flattish performance with a growth of 4% YoY with major growth in Railways (67%) offset by decline in Civil (-45%) and Solar (-79%). Civil segment had a decline of 45% in revenues with a slowdown in order inflows which declined by 56% YoY. Due to slowdown in civil business the management has cut down its civil business growth expectations to 60-70%. The management is optimistic for railways business and civil order inflows to pick up from Q3. Management expects railways business to grow by 30% for FY20.

Valuation and Risks: We expect the existing strong order book to boost revenues at 14% CAGR during FY19-21E. The non T&D business segments are expected to grow at 21% CAGR during FY19-21E. We value KEC on 14x to FY21 EPS for a target price of Rs. 364 reiterating our **"BUY"** rating for an upside potential of 29%.

KEY FINANCIALS (Rs. Mn)

YE Mar	FY17	FY18	FY19	FY20E	FY21E
Net Sales	87550	100964	110005	128178	143551
EBITDA	8468	10466	11725	13539	15274
EBITDA Margin (%)	9.7	10.4	10.7	10.6	10.6
Adj. Net Profit	3048	4604	4864	5833	6682
EPS (Rs.)	11.9	17.9	18.9	22.7	26.0
RoE (%)	19.2	23.0	20.0	20.2	19.1
PE (x)*	17.6	21.8	15.0	12.4	10.8

Source: Bloomberg, Karvy Research. *Represents multiples for FY17 - FY19 are based on historic market price

RECOMMENDATION (Rs.)

CMP (as on 28 Jun, 2019)	282
Target Price	364
Upside(%)	29

STOCK INFORMATION

Mkt Cap (Rs.Bn/US\$ Bn)	72.79 / 1.02
52-wk High/Low (Rs.)	341 / 230
3M Avg.daily value (Rs. Mn)	88.8
Beta (x)	1.2
Sensex/Nifty	38214 / 11341
O/S Shares(mn)	257.1
Face Value (Rs.)	2.0

SHAREHOLDING PATTERN (%)

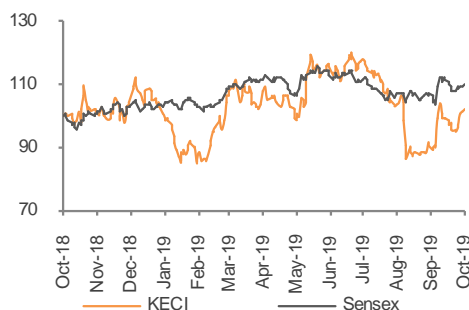
Promoters	51.4
FIIs	6.6
DIIs	24.5
Others	17.5

STOCK PERFORMANCE (%)

	1M	3M	6M	12M
Absolute	13	(14)	(5)	2
Relative to Sensex	10	(12)	(4)	(7)

Source: Bloomberg

RELATIVE PERFORMANCE*



Source: Bloomberg; *Index 100

Company Background

KEC International Limited is the flagship company of RPG group having presence in India and overseas. It's Power Transmission and Distribution business includes providing end-to-end solutions in power transmission and distribution. Its Cables service offerings include extra-high voltage (EHV) cabling solutions provided through Cable Selection and Cabling System, and manufacturing of a range of power cables (high tension and EHV cables), control, telecommunication and instrumentation cables. It offers services in all the functional segments of railways infrastructure including construction of civil infrastructure, including bridges, tunnels, platforms, station buildings, along with workshop modernization. Its water services include waste water treatment, including treatment of sewage and industrial effluent, and water resource management, including building of canals, construction of dams and water system, and civil works related to thermal power projects. The company has over seven decades of experience in transmission EPC and has executed projects in over 60 countries across geographies including South Asia, the Middle East, Africa, Central Asia, the Americas and Southeast Asia.

KEC: Technical View



KEC clocked an all time high of 443 in the mid of Apr'18, post which it entered into a correction mode, and continued to drift lower till Jan'19, almost a 8 month long price correction, wherein prices retraced significant move from the highs, post which it entered into a consolidation mode in last few months. After Nov'16, stock gained significant price move, entered into an uptrend, with intermittent price correction, and this rally continued till Apr'18. On projecting Fibonacci Retracement from the swing low of 108 to an all time high of 443, prices retraced till Golden Fibonacci Ratio 61.8%, where it found support and eventually entered into a price consolidation. Technically, prices are hovering below its major 200-DEMA which is currently placed near 289 levels, and holding above its 21 & 50-DEMA, placed near 271 & 274 levels. In the recent past, stock price found support near 230 levels, where it formed a double bottom kind of formation and witnessed a pullback. On the weekly momentum setup, 14-pd RSI after testing oversold territory, attempting to claw back in bullish territory, and it is also reflected on daily chart where indicator managed to float above 50-levels from last few sessions, regaining underlying strength in the counter. Going forward, stock has an important support near 230, followed by 200 levels. On the higher-side, stock is likely to find immediate resistance near 300 levels, followed by 340-350 moving above which stock may attempt to retest its life-time high.

KNR CONSTRUCTION LTD

Bloomberg Code: KNRC IN

Order Book, Asset Monetization & Lean Balance Sheet

Keeping in view of FY19's high earnings base, we expect the earnings to normalize during FY19-21E with a revenue growth of 19.6% CAGR coupled with EBITDA margin of around 16.5%. Current OB of Rs. 43 Bn combined with anticipated order inflow of around Rs. 65 Bn in next 2 years provides revenue visibility. In view of the opportunity and KNR's ability to maintain healthy profitability levels during lean period, we remain positive on the stock.

OB & Revenue Outlook: A total OB of Rs. 46 Bn, out of which top 5 constitute ~Rs. 30 Bn. Current OB (2.2x to TTM revenue) cushions for the revenue outlook. In view of the NHA's announcement of awarding 6000 km of projects for the FY20, we expect KNR to witness an order inflow of Rs. 25 Bn and Rs. 40 Bn for FY20 & FY21 respectively with revenue CAGR of 19.6% for FY19-21E.

Healthy Margins & Financial Position: KNR has an impressive margin profile with around 15% EBITDAM. It has consistently reported RoE and RoCE at >15%. We expect the trend to continue in future. Historically, KNR has always maintained a strong balance sheet with D/E < 0.2x levels. Standalone liability stands at Rs. 3.4 Bn (promoter loan of Rs. 2.1 Bn). KNR has always maintained a lean WC cycle (42 days as of Q1FY20), especially a control on receivables. KNR also witnessed a consistent improvement in ATR (Asset Turnover Ratio) from FY14 to reach 5.8x (FY19) Vs 2.4x. Going forward, we expect the ATR to stabilize at current levels of 5x.

Asset Monetization: KNR is in the process of monetizing its stake in various projects. As a part of the strategy, KNR entered into a SPA with Cube Highways and Infrastructure for 3 of its SPVs at an expected return of 1.8x.

Valuation and Risks: At CMP of Rs. 225, KNR Construction is trading at 11.7x to FY21E standalone EPS. Considering the order book and execution rates, we value the EPC business at 12.5x to its FY21E EPS to arrive at the value of Rs. 240 per share. We also value the BOT assets at 1x BV & HAM opportunity at 1x BV of the equity investment and arriving at a value of Rs. 290.

KEY FINANCIALS (Rs. Mn)

YE Mar	FY17	FY18	FY19	FY20E	FY21E
Net Sales	15411	19317	21373	25772	30588
EBITDA	2296	3862	4270	4217	5006
EBITDA Margin (%)	14.9	20.0	20.0	16.4	16.4
Adj. Net Profit	1573	2721	2633	2139	2703
EPS (Rs.)	11.2	19.4	18.7	15.2	19.2
RoE (%)	17.6	23.5	18.6	13.1	14.2
PE (x)*	35.0	12.0	13.9	14.9	11.8

Source: Bloomberg, Karvy Research. *Represents multiples for FY17 - FY19 are based on historic market price

RECOMMENDATION (RS.)

CMP (as on 14 Oct, 2019)	227
Target Price	290
Upside(%)	28

STOCK INFORMATION

Mkt Cap (Rs.Bn/US\$ Bn)	31.81 / 0.45
52-wk High/Low (Rs.)	303 / 170
3M Avg.daily value (Rs. Mn)	27.6
Beta (x)	1.3
Sensex/Nifty	38214 / 11341
O/S Shares(mn)	140.6
Face Value (Rs.)	2.0

SHAREHOLDING PATTERN (%)

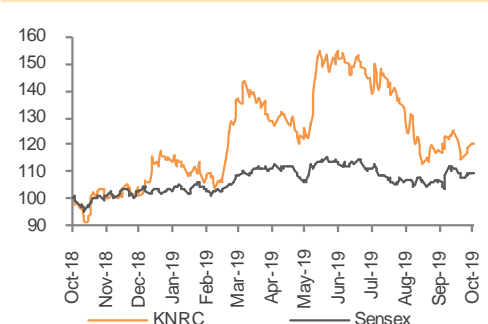
Promoters	55.2
FIIs	3.2
DIIIs	30.2
Others	11.4

STOCK PERFORMANCE (%)

	1M	3M	6M	12M
Absolute	2	(13)	(7)	20
Relative to Sensex	0	(12)	(5)	9

Source: Bloomberg

RELATIVE PERFORMANCE*



Source: Bloomberg; *Index 100

Company Background

KNR Construction Ltd (KNRCL) is a multi domain infrastructure project development company providing engineering, procurement and construction (EPC) services across various fast growing sectors namely roads & highways, irrigation and urban water infrastructure management. Its project execution strength primarily is in road transportation engineering projects namely construction and maintenance of roads, highways, flyovers and bridges.

KNRCL was incorporated in 1995 by professionals having experience in the field of infrastructure development. In 1997, KNRCL acquired at their book values the assets and liabilities of M/s K. Narasimha Reddy & Co. ("partnership firm") started by Shri K.Narasimha Reddy who is a promoter of KNRCL, this partnership firm was engaged in the business of undertaking civil and mechanical contract works since 1979.

KNRCON: Technical View



The stock has seen a stellar rally from the low of 14 in October 2014 to the life time highs of 349 levels in December 2017. Thereafter, the stock entered into corrective phase and made a low of 165 levels in the month of October last year. Technically, the stock is placed above its leading indicator parabolic SAR on the monthly charts which suggests medium term trend is up and adds to our bullish view. There has been a notable increase in trading volumes of the stock which suggests strong hands may be accumulating the counter and any major dip can be used as a buying opportunity for investors. The stock is currently placed near and above all major moving averages on weekly charts. The stock is rebounding after touching its 200 period moving on the monthly charts which is placed around 200 levels. On the oscillators front, the 14 period RSI is pointing northwards with a positive crossover on weekly and monthly charts. Major support for the stock may be assumed at 180-200 levels followed by 150-160 levels. On the upside, resistance may be assumed at 280-300 levels, followed by all time high zone of 350-360 levels, beyond it the stock may witness fresh round of buying which shall take the stock into uncharted territory. Hence, we recommend investors with a longer time horizon to accumulate into portfolio.

Track Record of Robust Performance

KRBL Limited has posted robust consolidated operating performances in FY19 on the back of strong sales and realization in domestic and export markets. During FY19, domestic market rice sales at 352829 Mts increased by 13% in volume and sales value at Rs. 19490 Mn grew by 17% whereas price realization in domestic market sales at Rs. 55244 per Mts grew by 3.6% over FY18. Export market sales at 218320 Mts in FY19 grew by 29% in volume and export value at Rs. 18420 Mn grew by 42% over FY18. Export realization at Rs. 84369 per Mts has increased by 9.6%.

The company continued with strong showing having posted a revenue growth of 63.8%, EBITDA growth of 30.8% and PAT growth of 36.1% during Q1FY20. During the quarter, domestic sales grew by 31.7% in value terms while export value grew by 131.9%.

Export Prospects: Export market mainly Middle East market is doing very well. There has been no impact of economic sanction on basmati export to Iran. Iran has imported about 1.542 Mn tonnes of basmati rice during FY19. Post imposition of economic sanction, the rupee payment mechanism has been introduced enabling trade. With Saudi Arabia, business is going on smoothly. Besides, Iran and Saudi Arabia, Yemen too has witnessed significant growth in basmati rice demand. Iraq has been little slow because of the payment problem.

As regards European market, pesticide issue remains the concern affecting export to the region. Measures are being adopted to address the concerns.

Valuation and Risks: Given the backdrop of favorable demand environment for basmati rice, KRBL Limited with the largest domestic market share of around 36% and being the largest exporter in the world, is well positioned to capitalize on emerging opportunities. However, there have been several setbacks such as issuing of demand notice by Income tax department and figuring of one of the ex-independent director's name in money laundering which have affected the valuation of stock. We have valued the stock at PE 12x of FY21E EPS (giving discount to 5 years average PEx of 14.8) and have arrived at the TP of Rs. 290 with 36% potential upside. Key risks to valuation are growing concerns on pesticide residue issue and US economic sanctions on Iran.

KEY FINANCIALS (Rs. Mn)

YE Mar	FY17	FY18	FY19	FY20E	FY21E
Net Sales	31476	32457	41205	44524	47129
EBITDA	6435	7739	8499	9037	9548
EBITDA Margin (%)	20.4	23.8	20.6	20.3	20.3
Adj. Net Profit	3994	4344	5030	5371	5694
EPS (Rs.)	17.0	18.5	21.4	22.8	24.2
RoE (%)	23.5	20.7	20.1	18.1	16.5
PE (x)*	13.1	12.1	10.4	9.3	8.8

Source: Bloomberg, Karvy Research. *Represents multiples for FY17 - FY19 are based on historic market price

RECOMMENDATION (Rs.)

CMP (as on 14 Oct, 2019)	213
Target Price	290
Upside(%)	36

STOCK INFORMATION

Mkt Cap (Rs.Bn/US\$ Bn)	49.97 / 0.70
52-wk High/Low (Rs.)	391 / 197
3M Avg.daily value (Rs. Mn)	38.8
Beta (x)	1.2
Sensex/Nifty	38214 / 11341
O/S Shares(mn)	235.4
Face Value (Rs.)	1.0

SHAREHOLDING PATTERN (%)

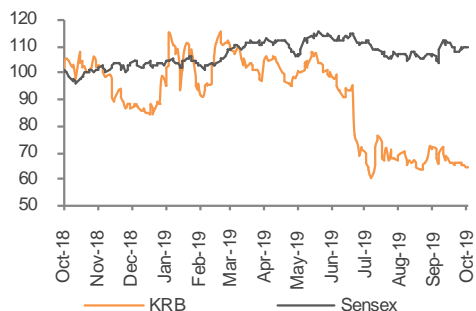
Promoters	58.8
FII's	6.9
DII's	3.6
Others	30.6

STOCK PERFORMANCE (%)

	1M	3M	6M	12M
Absolute	(11)	(8)	(39)	(36)
Relative to Sensex	(13)	(6)	(38)	(42)

Source: Bloomberg

RELATIVE PERFORMANCE*



Source: Bloomberg; *Index 100

Company Background

Founded in 1889 in Faisalabad, Pakistan and incorporated in 1993, KRBL Limited is world's largest Basmati Rice exporting company having multi-brand presence both in domestic as well as overseas markets. Being an integrated player, the company also deals in value added by-products like Bran Oil, De-oiled Cakes. It has got Energy business vertical as well comprising of Bio-Mass (17.55 MW), Solar (15 MW) and Wind energy (87.05).

Its milling capacity of 195 MT/hour is the largest in the world. The company milling and packing units are located in Ghaziabad (U. P.) having milling capacity of 45 MTPH, Dhuri, (Punjab) with capacity of 150 MTPH, Alipur (Delhi), Gandhidham (Kandla) and Dhulia (Maharashtra).

The company produces products like Rice Bran Oil, Fufural and De-oiled Cakes. The husk is utilized to extract Furfural and the Bran which is used to produce Rice Bran. It has a total Bran Oil capacity of 42 MTPD and Furfural of 10 MTPD.

KRBL: Technical View



KRBL is trading in broader range of 200 to 260 over last four months. The stock has corrected around 70% from its all time highs and is trading with a cut of around 25% for the year of 2019. With the said correction, the stock has slipped towards major long term support zone of 180 to 240, and holding on to the same will trigger medium term pullback rally which may take towards 400 zone over couple of quarters. From a short term perspective, all major indicators are pointing towards down to sideways move. However, from a long term perspective, KRBL Ltd clocked an all time high of 675 in the month of Nov'17, post which it entered into a corrective phase and continued to drift lower over the last two years, where prices have retraced significantly from the highs. On the weekly momentum setup, 14-pd RSI after testing oversold territory is now trying to claw back into bullish territory and it is also regaining strength on daily charts. Going forward, the stock has major supports around 175-200 levels, followed by 140-150 levels. On the higher-side, the stock is likely to face resistance around 260-270 levels, followed by 300-325 moving above which the stock may attempt to move towards major decline point of 500.

Integrated Operations Across the Supply Chain

LT Foods Limited is one of the most integrated companies across the supply chain which has helped the company to maintain quality of products. This has enabled it to reduce costs and increase sales across domestic and international markets. The company's sales have grown at a CAGR of 15% and PAT at CAGR of 22% over FY11-19 on the back of strong sales and higher realization. The company's consolidated sales grew 17% on YoY basis on the back of strong volume and value growth across domestic and export markets during Q1FY20.

We believe that the company would be able to maintain growth momentum on the back of strong brand value, strong geographical reach and addition of popular brands in its product portfolios. We believe that sales of the company will grow at a CAGR of 5% whereas PAT to benefit from reduced corporate tax growing at a CAGR of 28% over FY18-21E.

Strategies of Organic and Inorganic Growth: The company has been focused on enhancing its reach by way of increasing its offerings and acquiring brands and opening subsidiaries in overseas markets. Along with established brands like Daawat and Royal, brands like Devaaya and EColife are witnessing fast acceptance across the markets. The company acquired top US Company Kusha Inc., Acquisition of iconic brand 817 Elephant in UK and HUL's brands like Rozana and Gold Seal Indus Valley which have helped strengthen its presence in US, Europe and Middle East. The company has opened plant in Rotterdam and has launched Daawat Rozana Gold Plus.

Launching of Product: The company has been launching new products keeping in view the preferences of growing population from time-to-time. It has recently entered into JV with Japanese Kameda Seika to manufacture and market rice based snacks in India.

Valuation and Risks: We value the stock on the basis of historical 5 Yr average PE of 6.8x on FY21E EPS with a target price of Rs. 40 an upside potential of 67%.

KEY FINANCIALS (Rs. Mn)

YE Mar	FY17	FY18	FY19	FY20E	FY21E
Net Sales	32448	36137	38904	40850	42892
EBITDA	3582	3780	3972	5062	5232
EBITDA Margin (%)	11.0	10.5	10.2	12.4	12.2
Adj. Net Profit	1293	1444	1265	1723	1856
EPS (Rs.)	4.8	4.5	4.0	5.4	5.8
RoE (%)	21.5	15.7	10.1	12.2	11.7
PE (x)*	13.6	19.0	9.9	4.4	4.1

Source: Bloomberg, Karvy Research, *Represents multiples for FY17 - FY19 are based on historic market price

RECOMMENDATION (RS.)

CMP (as on 14 Oct, 2019)	24
Target Price	40
Upside(%)	67

STOCK INFORMATION

Mkt Cap (Rs.Bn/US\$ Bn)	7.66 / 0.11
52-wk High/Low (Rs.)	48 / 18
3M Avg.daily value (Rs. Mn)	17.6
Beta (x)	1.4
Sensex/Nifty	38214 / 11341
O/S Shares(mn)	319.8
Face Value (Rs.)	1.0

SHAREHOLDING PATTERN (%)

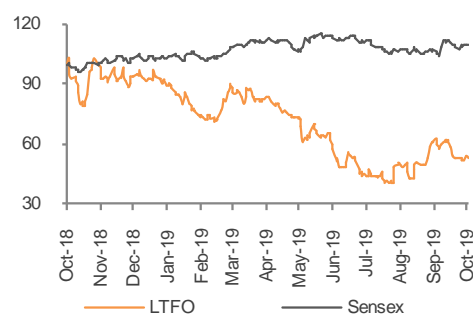
Promoters	56.2
FIIs	1.4
DIIIs	9.4
Others	33.1

STOCK PERFORMANCE (%)

	1M	3M	6M	12M
Absolute	(14)	19	(37)	(47)
Relative to Sensex	(16)	21	(36)	(52)

Source: Bloomberg

RELATIVE PERFORMANCE*



Source: Bloomberg; *Index 100

Company Background

Incorporated in October 1990 as a private limited company and got converted into public limited in May 1994, LT Foods Limited is one of the leading processors and exporters of packaged basmati and non-basmati rice. The company enjoys market share of 14% in the branded basmati segment, with flagship brand of Daawat which is the second largest basmati rice brand in India whereas Royal is No.1 basmati rice brand in USA with more than 40% of market share. Organic brand Ecolife is witnessing faster acceptance across the world. The company has five manufacturing facilities with combined rice milling capacity of 82 Tones per Hour (TPH). The company has been known for being a quality based procurer, state-of-the art milling plants, product quality, brands and customer focused. The company has strong distribution network in major cities and has tied up with all major retailers. It adheres to global best practice for safety, hygiene, quality and exports to more than 65 countries across the globe.

DAAWAT: Technical View



LTFOODS/DAAWAT has bounced well after finding support around 17.90 levels. The primary trend in the stock reflects lower lows and lower highs on daily charts. During the move, the stock has seen a sharp fall from its swing high of 68 levels which has dragged the stock to the low of 18 levels. The recent rise in the stock has placed the stock around the medium term moving averages indicating consolidation in the price coupled with a bullish divergence in the momentum indicators. The recent bounce in the stock from the support of 18 levels and sustainability above 23 levels will be a fresh trigger for the stock which indicates near term bottom in the stock is placed and the stock is expected to resume its up move in the medium term. The recent price volume action in the stock also reflects that any meaningful dip in the stock may attract market participants which will help the stock resume its upward movement. On technical setup, the 14 periods RSI is taking the support of 40 levels after entering into the overbought zone indicating the shift in momentum towards the bullish side. The immediate support is placed around 22 and below that is 18 whereas the resistance is placed around 30 and above that at 42.

New deal wins to drive growth

Tepid Q1, New Deal Wins to Drive Revenues Ahead: In Q1FY20, consolidated gross revenues grew 0.7% sequentially (Rs. 2060 Mn). In constant currency terms (CC), revenues were up 2.0% QoQ. In Q1FY20, new deals with TCV of USD 151 Mn vs. USD 146 Mn in Q4FY19 Mn were won in Direct International segment. Out of the total deal wins, 80% were in New-Gen Services. On the back of such strong momentum in new deal wins, we expect the revenue to grow at a CAGR of 23% over the period of FY19-21E.

Direct core business delivered consistent strong growth: Direct Core revenue grew 1.3% sequentially to Rs.11832 Mn. It had a strong YoY cc growth of 17.2% in Q1FY20. In cc terms, new client acquisition grew 104% YoY and Blackstone accounts grew 55% YoY in this quarter. Direct Core constitutes 84% of the Direct International business. 80% of new deal wins in Direct Core were related to New Gen Services, whose revenue grew 35% on yearly basis. As of now, New-Gen Services contribute 51% to Direct Core revenue.

Digital Risk business stabilized: Digital Risk business has stabilized due to stable interest environment in US. Its revenue grew 1% QoQ in cc terms due to ramp up in its capability through the quarter to service the demand generated from the turnaround in mortgages volumes. As more deals get converted into revenue over the coming quarters, Mphasis will be able to bring the Digital Risk business near to the stated revenue band of USD 28-30 Mn.

EBITDA margin impacted by one-offs: EBITDA increased by 1.6% sequentially and 5.2% on yearly basis in Q1FY20 to Rs. 5344 Mn (vs. Rs. 5258 Mn in Q4FY19). EBITDA margin remained flat on QoQ basis and declined by 200 bps on YoY basis to 25.9%. EBITDA was impacted by mid-cycle salary increments, one-time client specific provision for receivables and transition impact of certain large deals.

Valuation and Risks: We recommend a “BUY” rating with target price of Rs. 1239, an upside potential of 37% based on its 3 year historical average target PE of 18.2x to its FY21E EPS of Rs. 68.1.

KEY FINANCIALS (Rs. Mn)

YE Mar	FY17	FY18	FY19	FY20E	FY21E
Net Sales	60764	65458	77310	86750	98864
EBITDA	9687	10623	13238	14661	16807
EBITDA Margin (%)	15.9	16.2	17.1	16.9	17.0
Adj. Net Profit	7915	8374	10734	11284	12686
EPS (Rs.)	37.7	42.7	56.1	60.6	68.1
RoE (%)	13.2	14.4	20.0	20.6	21.2
PE (x)*	15.3	19.8	17.6	14.9	13.3

Source: Bloomberg, Karvy Research. *Represents multiples for FY17 - FY19 are based on historic market price

RECOMMENDATION (RS.)

CMP (as on 14 Oct, 2019)	905
Target Price	1239
Upside(%)	37

STOCK INFORMATION

Mkt Cap (Rs.Bn/US\$ Bn)	169.17 / 2.37
52-wk High/Low (Rs.)	1145 / 855
3M Avg.daily value (Rs. Mn)	197.4
Beta (x)	0.6
Sensex/Nifty	38214 / 11341
O/S Shares(mn)	186.4
Face Value (Rs.)	10.0

SHAREHOLDING PATTERN (%)

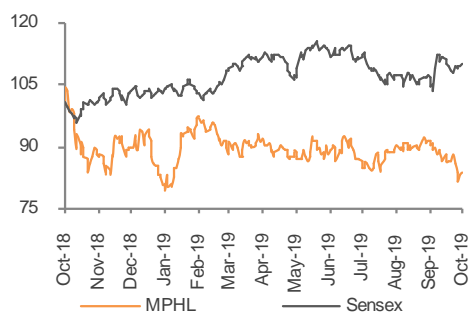
Promoters	52.2
FIIs	29.9
DIIs	8.0
Others	9.9

STOCK PERFORMANCE (%)

	1M	3M	6M	12M
Absolute	(8)	(3)	(9)	(16)
Relative to Sensex	(11)	(2)	(7)	(24)

Source: Bloomberg

RELATIVE PERFORMANCE*



Source: Bloomberg; *Index 100

Company Background

Mphasis Limited is an IT solution provider in cloud and cognitive services. The Company's segments include Banking and Capital Market, Insurance, Information Technology, Communication and Entertainment and Emerging Industries. The geographical segments include the US, India, Asia Pacific and Europe, Middle East and Africa. It offers cloud computing, cognitive solutions, digital services, securing businesses, application services and infrastructure services. The Company serves various industries such as banking and capital market which includes retail banking, credit cards and payments, wealth management and brokerage, corporate banking solutions and investment banking technology. Its insurance industry includes property and casualty, life and retirement and health. Its other industries consist of communications, energy and utilities, healthcare, life science, logistics, manufacturing and travel and transportation.

MPHASIS: Technical View



Mphasis stock price clocked an all time high of 1241 in the end of Aug'18, post which it entered into a correction mode, and continued to drift lower till Jan'19, almost a five month long price correction, wherein prices retraced move from the highs, post which it entered into a long consolidation mode from last couple of months. After Jan'15, the stock gained significant price move, entered into an structural uptrend, with intermittent price correction and this rally continued till Aug'18. On projecting Fibonacci Retracement from the swing low of 282 to an all time high of 1241, prices retraced just 38.2% Fibonacci Ratio, where it found support and eventually entered in to a price consolidation. Technically, prices are holding below its major 200-DEMA which is currently placed near 951 levels, and holding below its 21 & 50-DEMA, placed near 940 & 950 levels. In the recent past, stock price found support near 890 levels, where it formed a triple bottom kind of formation and witnessed a pullback. On the weekly momentum setup, 14-pd RSI found support in bullish territory, and now attempting to claw back higher, and on daily chart where the indicator dipped into oversold territory and is regaining strength. Going forward, stock has an important support near 880, followed by 800-820 levels. On the higher side, stock is likely to find immediate resistance near 1000-1020 levels, followed by 1100, moving above which stock may attempt to retest its life-time high.

Pre-sales Picking Up

Stable pre-sales with strong performance in Bengaluru: During Q2FY20, the company reported pre-sales of 1.04msf (flat YoY, down 3% QoQ). Volume growth was healthy in Bengaluru (up 11% YoY, 5% QoQ), Chennai (up 43% YoY, 17% QoQ) and Thrissur (up 54% YoY, 15% QoQ) but declined in Mysore (down 76% YoY, 70% QoQ) and Gurugram (down 73% YoY, 46% QoQ). Average Q2FY20 realization was ~Rs. 5,400/sft. (down 9% YoY, 13% QoQ), largely due to higher contribution from low ticket size projects like Dream series.

Strong launch pipeline: During Q2FY20, the company has launched SOBHA Blossom, a plotted development project in Chennai. This project is spread over 6.96 acres of land with saleable area of 0.18 msft. In total, it has launched 0.79 msft of projects during H120 of this financial year. Additionally, the company aims to launch around 10 msft in next 4-5 quarters.

Expanding its footprint: During Q1FY20, the company acquired 143 acres of land for Rs. 1.56 Bn across different cities including Bengaluru, Grugram, Hosur and Thiruvananthapuram. Sobha also acquired a land parcel in Hyderabad and is set to launch its first project in the city in next 2-3 quarters. As a result of these acquisitions and delay in collection in few projects on account of delay in executing agreements with customers, the debt increased and the net D/E stood at 1.19. However, the management has indicated that net D/E will decrease to 1.1 by the end of FY20.

Valuation and Outlook: We expect players like Sobha to be a major beneficiary of Post RERA scenario which has resulted in consolidation in real estate industry wherein reputed players backed by execution track record stand to gain market share from unorganized players. The current liquidity crisis has expedited the consolidation and it will strengthen the position of large players. However, we remain cautious of rising debt in Sobha Ltd. We retain **“BUY”** rating on the stock with an NAV based target price of Rs. 632.

KEY FINANCIALS (Rs. Mn)

YE Mar	FY17	FY18	FY19	FY20E	FY21E
Net Sales	22461	27870	34421	42507	48391
EBITDA	4582	5693	7468	9171	10335
EBITDA Margin (%)	20.4	20.4	21.7	21.6	21.4
Adj. Net Profit	1477	2169	2971	4052	4744
EPS (Rs.)	15.7	23.0	31.5	43.0	50.3
RoE (%)	5.6	7.8	13.3	15.4	15.3
PE (x)*	33.0	37.8	17.3	10.3	8.8

Source: Bloomberg, Karvy Research, *Represents multiples for FY17 - FY19 are based on historic market price

RECOMMENDATION (Rs.)

CMP (as on 14 Oct, 2019)	442
Target Price	632
Upside(%)	43

STOCK INFORMATION

Mkt Cap (Rs.Bn/US\$ Bn)	41.00 / 0.57
52-wk High/Low (Rs.)	588 / 405
3M Avg.daily value (Rs. Mn)	104.2
Beta (x)	1.0
Sensex/Nifty	38214 / 11341
O/S Shares(mn)	94.8
Face Value (Rs.)	10.0

STOCK INFORMATION

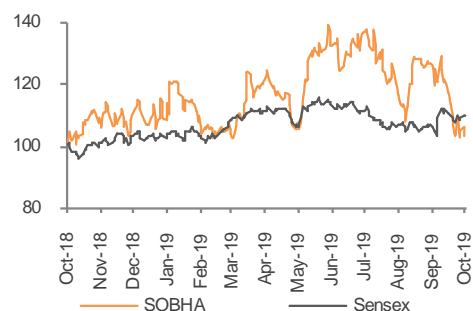
Promoters	51.7
FIIs	26.9
DIIs	17.0
Others	4.2

SHAREHOLDING PATTERN (%)

	1M	3M	6M	12M
Absolute	(18)	(24)	(16)	4
Relative to Sensex	(20)	(23)	(15)	(6)

Source: Bloomberg

RELATIVE PERFORMANCE*



Source: Bloomberg; *Index 100

Company Background

Sobha has a track record of 23 years in the Bengaluru real estate market. The company has strong in-house project execution capabilities demonstrated through completion of 135 real estate projects, which measure 52.5 Mn sq.ft., and 301 contractual projects, which measure 47.79 Mn sq.ft. Sobha's in-house project execution and backward integration capability provides better control over cost, quality and timelines. It currently has 25.76 Mn sq.ft of ongoing residential projects and the company expects to realize net cashflow of Rs. 66.5 Bn from current set of ongoing projects.

Sobha aims to grow its business (volumes) by 2.5 times over a period of next 5 years. The company is aggressively looking to expand its portfolios across segments. In the residential space, it is focusing on the affordable housing segment and plans to launch new projects under this segment in Bengaluru and other cities in India.

SOBHA : Technical View



Sobha Ltd clocked a swing high of 669 in the start of Jan'18, post which it entered into a correction mode and continued to drift lower till Oct'18, almost a ten month long price correction, wherein prices retraced significant move from the highs, post which it witnessed gradual up move and clocked a swing high of 588 in the month of August 2019. Post Nov'16, stock gained significant price move, entered into an uptrend, with intermittent price correction and this rally continued till Jan'18. On projecting Fibonacci Retracement from the swing low of 206 to a swing high of 669, prices retraced till Golden Fibonacci Ratio 61.8%, where it found support and rallied till 588 levels and finally entered in to a price consolidation. Technically, prices are holding well above its major 200-weekly EMA which is currently placed near 432 levels and trading below its 21 & 50-weekly EMA, placed near 494-490 levels respectively. In the recent past, stock price found support near 430 levels, where its 200 weekly moving average is currently placed. On the daily and weekly momentum setup, 14-pd RSI on weekly charts is hovering around 40 levels and is below its 9 pd EMA. On the daily charts, 14 pd RSI is trading in oversold zone with a divergence indicating reversal possibilities in the medium term weakness which started from the recent swing high of 545 level . Going forward, stock has important support near 400 -380 levels followed by 325-330 levels. On the higher side, stock is likely to find resistance near 475 followed by 550-560 levels.

TRIVENI TURBINE LTD

Bloomberg Code: TRIV IN

Robust Portfolio to Sustain Market Leadership

Triveni offers products and services for stream turbines under 30MW in which it has a market share of 60% in domestic and 22% in international market. Triveni is able to convert a quarter of enquiries (5-6/month) into order book. Outstanding order book at end of Q1 stood at Rs. 7.2 Bn and could be better in the coming quarters.

Ethanol blending improves visibility for domestic business: Biofuels policy targets 20% & 5% blending of ethanol in petrol & diesel respectively by 2030. There are ~100 proposals for new ethanol plants awaiting GoI approval. As a rule of thumb, a 160 kld ethanol facility requires 10-12 MW of captive power to be viable.

Domestic order backlog stood at Rs. 3.7 Bn spread across sectors like molasses-based distilleries, sugar co-generation, food and beverages, pharma, pulp & paper and waste heat recovery in cement industry.

Large international opportunity opening up: Triveni has developed American Petroleum Institute (API) compliant turbines for use in petroleum sector which opens up a large market. Despite economic downturn in the crude oil economies, we expect Triveni to gain market share by maintaining cost leadership. This apart, we expect strong traction for refurbishment business which accounts for 16% of order backlog and also carries better margin profile than any other product or service line. Overall exports backlog stood at Rs. 3.5 Bn driven by sectors such as renewable energy, palm oil, combined cycle power plants and process co-generation.

Valuation and Risks: We expect earnings for Triveni to grow by CAGR of 24% to Rs. 4.7, RoCE to average over 25% and cumulative FCF of Rs. 1.60 Bn during FY20-21E. Hence, we maintain our **'BUY'** rating on Triveni by valuing it at 24.6x FY21E earnings for a target of Rs. 116. Key downside risk is order inflows particularly in the international segment.

KEY FINANCIALS (Rs. Mn)

YE Mar	FY17	FY18	FY19	FY20E	FY21E
Net Sales	7446	7511	8400	9475	10849
EBITDA	1670	1578	1513	1905	2257
EBITDA Margin (%)	22.4	21.0	18.0	20.1	20.8
Adj. Net Profit	1235	960	1002	1264	1511
EPS (Rs.)	3.7	2.9	3.1	3.9	4.7
RoE (%)	35.1	22.4	22.6	26.5	26.6
PE (x)*	38.7	34.5	35.5	25.6	21.3

Source: Bloomberg, Karvy Research. *Represents multiples for FY17 - FY19 are based on historic market price

RECOMMENDATION (Rs.)

CMP (as on 14 Oct, 2019)	100
Target Price	116
Upside(%)	16

STOCK INFORMATION

Mkt Cap (Rs.Bn/US\$ Bn)	32.59 / 0.46
52-wk High/Low (Rs.)	126 / 81
3M Avg.daily value (Rs. Mn)	17.2
Beta (x)	0.8
Sensex/Nifty	38214 / 11341
O/S Shares(mn)	323.3
Face Value (Rs.)	1.0

SHAREHOLDING PATTERN (%)

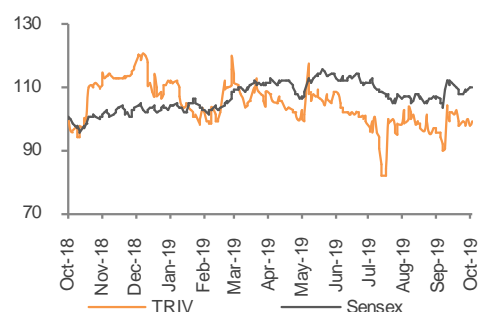
Promoters	67.8
FIIs	11.5
DIIs	16.1
Others	4.6

STOCK PERFORMANCE (%)

	1M	3M	6M	12M
Absolute	3	2	(8)	(1)
Relative to Sensex	1	3	(7)	(10)

Source: Bloomberg

RELATIVE PERFORMANCE*



Source: Bloomberg; *Index 100

Company Background

Triveni Turbine Ltd is India's largest industrial steam turbine manufacturer with a market share of over 60% in the upto 30MW steam turbine segment. Turbines business between 30-100MW ranges is handled by General Electric- Triveni Turbine Ltd JV, GE Triveni Limited (GETL). TTL manufactures steam turbines, back pressure steam turbines which find its application in process co-generation industry and condensing steam turbines are used in power generation and co-generation. User industries range from Sugar, Paper & paper products, Chemicals, Petroleum products, Cement, Steel, Aluminium, etc. TTL apart from building strong products portfolio is also building robust aftermarket services business composing of erection and commissioning, operation and maintenance, refurbishments and sale of spare parts to turbines of all kinds. TTL has over 2,500 installations across 50 countries like Europe, Africa, Central and Latin America, South East Asia and neighbouring countries.

TRITURBINE: Technical View



The stock is currently placed above 21 & 50 DEMA on all time frames (daily, weekly and monthly charts) which suggest accumulation in the counter. The stock had rallied from the lows of around 80 levels in August 2019 and clocked a high of 110 odd levels last month giving a return of 38% in 2 months. The stock has then corrected from the recent highs and found support near 99-100 levels. On the longer run, the counter took the strong support at 85-90 levels creating a strong base for further bounce back. The said levels also coincided with the 100 period moving averages for the stock on the monthly chart. During the said rally, the 100 period moving average on the weekly chart had given a bullish crossover to its medium to long term moving averages which suggest strong buying traction in the counter. Technically, based on buying interest, the stock is placed above its parabolic SAR on the daily and weekly basis in near term. On the momentum oscillator front, the 14 period RSI is placed above its 9 period RSI on the weekly chart which suggests the stock is likely to trade with positive bias in near term. The stock might act as a value investment as one can see decent upside from current levels with a favorable risk-reward ratio. The immediate support for the stock is placed near its recent swing low around 90-95 levels, below which the next meaningful supports are around the 200 period moving average on the monthly chart placed at 75-80 levels. On the upside, if the stock decisively takes out its immediate resistance at around 105-110 levels, then it may trigger a fresh round of buying which may take the stock towards its next resistance around 145 levels.

VARUN BEVERAGES LTD

Bloomberg Code: VBL IN

Gangbuster Revenue Growth at a CAGR of 17.5% in Last 6 Years

Varun Beverages Ltd. sales volume has grown at a CAGR of 17.2% to 340 Mn cases in the past 5 yrs owing to increasing market share in India as well as overseas through acquiring franchisee rights in lower penetrated areas and increasing focus on unseasonal products. Recently, VBL has setup an in-house production capacity at Pathankot for Tropicana products with net capex of Rs. 23,500 Mn. We foresee a robust volume growth of 26% in the business and expect the volume to reach 542 Mn cases in CY20 from 340 Mn in CY18.

Ameliorating RoCE: Currently, VBL is operating at 60% of capacity utilization and has no further plans to look at any major capital expansion for at least next two years. The company is aiming at better capacity utilization for next few years which could definitely enhance the return on capital employed (RoCE) for the group company and we expect a healthy growth in the return ratios and also a significant increase of ~360 bps for CY20.

Wiping out seasonal upshots: In cyclical or seasonal businesses, revenues are not consistent as they differ quarter to quarter. However, VBL has partially eroded the seasonal upshots by acquiring less seasonal territory in west and south and to support revenues in unseasonal market they have acquired franchisee rights in Zambia and Zimbabwe where the preferred season is opposite to the rest of the territories.

Valuation and Risks: We reckon sufficient growth levers in favor of VBL mainly robust volume growth aided by acquisition of highly under penetrated territory and innovation of new products which are less seasonal in nature and expect Varun Beverages to report revenue and EBITDA CAGR growth at 31% and 36% respectively. We value the stock at a P/E of 27.1x on CY20E EPS and recommend **“BUY”** with a target price of Rs. 754.

Key risks to the call are growing health consciousness and gaining traction towards organic products.

KEY FINANCIALS (Rs. Mn)

YE Dec	CY16	CY17	CY18	CY19E	CY20E
Net Sales	38612	40035	51053	70507	87992
EBITDA	7960	8359	10066	14947	18742
EBITDA Margin (%)	20.6	20.9	19.7	21.2	21.3
Adj. Net Profit	474	2141	2999	5237	8038
EPS (Rs.)	3.3	11.7	16.4	18.1	27.8
RoE (%)	2.8	12.1	15.0	15.7	19.8
PE (x)*	118.3	55.5	48.1	34.3	22.3

Source: Bloomberg, Karvy Research. *Represents multiples for CY16 - CY18 are based on historic market price

RECOMMENDATION (RS.)

CMP (as on 14 Oct, 2019)	621
Target Price	754
Upside(%)	21

STOCK INFORMATION

Mkt Cap (Rs.Bn/US\$ Bn)	183.62 / 2.58
52-wk High/Low (Rs.)	683 / 455
3M Avg.daily value (Rs. Mn)	145.2
Beta (x)	0.8
Sensex/Nifty	38214 / 11341
O/S Shares(mn)	288.7
Face Value (Rs.)	10.0

SHAREHOLDING PATTERN (%)

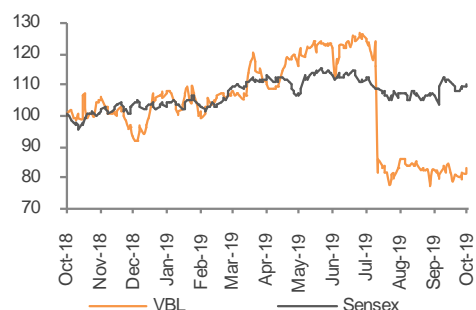
Promoters	68.4
FIIs	19.1
DIIIs	6.4
Others	6.1

STOCK PERFORMANCE (%)

	1M	3M	6M	12M
Absolute	1	(0)	13	25
Relative to Sensex	(1)	2	15	14

Source: Bloomberg

RELATIVE PERFORMANCE*



Source: Bloomberg; *Index 100

Company Background

Varun Beverages Ltd is the second largest PepsiCo's global franchisee (outside the US) engaged in producing and distributing a wide range of CSD (Carbonated Soft Drink) and NCD (Non-carbonated Drink) including packaged drinking water. The state of the art facility constitutes 36 manufacturing facility with 90 plus well managed depots, 2500+ owned vehicle and 750,000 visi-coolers having widespread domestic presence in 5 countries, 27 Indian states and 7 UT(except J&K and Andhra Pradesh) along with 5 international territories (Nepal, Sri Lanka, Morocco, Zambia and Zimbabwe).

PepsiCo CSD brands served by Varun Beverages include Pepsi, Diet Pepsi, Seven-Up, Mirinda Orange, Mirinda Lemon, Mountain Dew, Seven-Up Nimbooz Masala Soda, Evervess Soda, Duke's Soda and Sting. PepsiCo NCB brands include Tropicana (100%, Essentials & Delight), Tropicana Slice, Tropicana Frutz, Seven-Up Nimbooz, Gatorade and Quaker Oat Milk as well as packaged drinking water under the brand Aquafina.

VBL: Technical View



Varun Beverages Limited has witnessed a stellar rally since its inception and is trading with bullish bias on all the time frames, even it is in the cycle of higher highs and higher lows. At current juncture the stock is trading in a range of 600-650 levels, nearing its all time high of 674 which it made in the month of August this year. In the medium term time frame, analyzing the price volume action, the stock seems to move higher towards the higher band of the mentioned range of 650 levels and breaching which fresh round of accumulation is expected in the counter. The stock is also trading above the cluster of long term moving averages with technical indicator 14 day RSI showing reading in the comfortable zone, clearly indicating the bullish trend is likely to remain intact in the counter. On the Bollinger Band (20, 2), the price has touched its mean and is expected to move towards the upper band as the band is getting narrower and near term burst could be seen in the counter in coming future. On technical set up, the overall structure of the stock seems to be positive with medium term support around 600-580 levels followed by 550 levels while resistance is placed at 660 levels followed by the all time highs. On the other hand, the stock is expected to remain bullish from a medium term perspective till the stock is trading above 580 levels on the lower side. Any dips towards the recent support levels of 600 may be utilized to add more in to the stock. Going forward, with the market scenario the stock is placed at good levels to accumulate from medium to long term investment purpose.

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